Q3 2024 COMMENTARY

NEXPOINT

NexPoint Event Driven

PERFORMANCE REVIEW

The NexPoint Event Driven Fund (the "Fund") (Class Z shares) returned 1.39% in the third quarter of 2024. Comparatively, the S&P Merger Arbitrage Index returned 5.60%, the S&P 500 increased 5.89%, and the Bloomberg Barclays Aggregate Bond Index returned 5.20% over the same period. Year-to-date the NexPoint Event Driven Fund (the "Fund") (Class Z shares) returned 6.30% through September 2024. Comparatively, the S&P Merger Arbitrage Index returned 7.38%, the S&P 500 increased 22.08%, and the Bloomberg Barclays Aggregate Bond Index returned 4.45% over the same period.

MANAGER'S DISCUSSION

The third quarter of 2024 has been marked by increased volatility and uncertainty across global stock markets, influenced by countervailing economic indicators, central bank policies, and geopolitical tensions that have shaped investor sentiment. The S&P 500 exhibited significant fluctuations, experiencing both 5% gains and losses throughout the period. Ultimately, the index closed the quarter up 5.89%, reflecting investor optimism that the Federal Reserve is beginning a rate-cutting cycle that will lead to lower interest rates and a more robust economy in 2025. In contrast, the Nasdaq, heavily weighted with technology stocks, experienced more pronounced volatility due to investor concerns surrounding AI-linked stock performance. Inflationary pressures and the pace of rate cuts have raised apprehensions about stock valuations, contributing to the Nasdaq 100 underperforming the S&P 500 in the quarter.

The Federal Reserve's monetary policy stance was a key driver of market sentiment during the quarter. In the September FOMC meeting, the Fed announced a 0.50% interest rate cut, the first since March 2020, and signaled the possibility of additional rate cuts if inflation continues to trend downward and the job market remains soft. Surprisingly, the bond market reacted negatively to this news with rising yields, as the 10-year Treasury yield increased to approximately 3.8%, up from 3.6% before the cut.

Geopolitical events, including the ongoing conflict in Ukraine and Israel, tensions in the South China Sea, and uncertainties surrounding global trade policies, continued to impact market dynamics. Investors remain cautious about potential supply chain disruptions and their implications for global economic growth. The U.S.-China trade relationship has been a source of unease for sectors with significant exposure to China, such as semiconductors and industrials.

Looking ahead, we believe the U.S. economy is transitioning from a mild slowdown to a recovery phase, supported by a more accommodative interest rate policy, substantial fiscal stimulus, and a favorable profit environment. We anticipate that the next phase for equities will primarily be driven by a broadening "melt-up" in cyclical sectors, rather than a "melt-down" in the dominance of mega-cap technology stocks. Although we have concerns about the overall market earnings multiple, currently at historically high levels, this perspective reinforces our preference for cyclically oriented segments, particularly as we anticipate a "soft landing."

Small-cap stocks represent a more direct play on the U.S. business cycle. As our outlook for a soft landing evolves into a growth recovery, these stocks are well-positioned to benefit from an acceleration in economic activity. Investors will likely begin pricing in this shift before it fully materializes, with evidence already seen in the Russell 2000's outperformance compared to the S&P 500 in the third quarter.

M&A UPDATE:

The momentum in North American and European M&A activity observed in the first half of 2024 has continued into the third quarter, showcasing a robust market environment. North America has surpassed $1.5[1] trillion in M&A volume through the first nine months of 2024, marking a 23% year-over-year increase—the highest year-to-date volume in the post-SPAC era (post-2021). Global M&A crossed the $2.5[1] trillion mark and was up 20% year-over-year. While volume in the rest of the world saw a significant pickup versus the second quarter of 2024, North America still dominates global volume with a 60% share. North American M&A activity exceeded $500 billion[1] in the third quarter alone, representing a 17% rise compared to the third quarter of 2023. While transactions in the $1 billion to $5 billion range led the volume, mega-deals made a significant comeback, doubling their share to 26% from 13% in the second quarter of 2024. This resurgence reflects broad sector participation, with six out of nine sectors recording year-over-year volume growth in 2024. Notably, eight of the top ten announced deals in North America this year span various sectors, with industrials, consumer, and power experiencing significant increases in $1 billion+ announcements. Meanwhile, technology and energy continue to dominate transactions valued at over $5 billion, doubling from 2023 levels.

Sponsor-led M&A volume remained steady at $174 billion in the third quarter of 2024, with the number of deals exceeding $500 million surging to 80, the highest since the first quarter of 2022. There has been a year-over-year increase in sponsor exits, rising from 69 such deals in 2023 to 93 in 2024, although these figures still lag historical averages. The recent interest rate cuts and market sentiment trends are expected to stimulate sponsor activity further. Notably, take-private transactions for deals exceeding $1 billion have reached a 17-year high in North America, indicating strong sponsor interest in the public markets.

M&A bankers remain optimistic about sustained momentum throughout the rest of the year and into 2025. Historically, declines in M&A activity, such as those seen in 2022 and 2023, are typically followed by a surge in deal-making driven by pent-up demand. The current economic outlook is significantly more favorable than a year ago, shifting from recessionary fears to a more optimistic assessment of economic stability. CEOs and boards are increasingly confident in forecasting lower interest rates, enhancing their willingness to pursue strategic transactions. The high-yield leverage loan and bond markets remain accessible, facilitating a surge in private equity deals. Additionally, with the S&P 500 reaching record highs, companies are utilizing their stock to acquire other firms. The increased involvement of activist shareholders is prompting strategic reviews and potential divestitures, further contributing to a favorable landscape for M&A activity in the coming quarters.

REGULATORY UPDATE:

The third quarter saw several high-profile deals clear, alongside one termination. The Federal Trade Commission (FTC) approved Expand Energy's (formerly Chesapeake Energy) $12 billion acquisition of Southwestern Energy in September, with the merger set to close in early October. This marks the fourth oil & gas deal since January 2023 that underwent a second request but ultimately received clearance with no remedies. When will the FTC recognize that energy companies do not control oil and gas prices and stop scrutinizing them merely for political headlines?

[1]Source: Citi

In another high-profile deal, the Department of Justice (DOJ) approved the merger between Alaska Airlines and Hawaiian Airlines after an extensive review, albeit with several notable concessions aimed at "protecting" consumers and maintaining competition. Key provisions from the DOJ's approval include preserving loyalty programs, safeguarding critical inter-island flight routes, ensuring competitive airport access, and guaranteeing adjacent seating for children under 13 without additional fees. While these measures are essential consumer protections, the airlines had agreed to them months before the DOJ approval. While we fully support thorough merger investigations to uncover potential anti-competitive behavior, we question when these investigations shift from legitimate oversight to political posturing aimed at gaining votes or enhancing legal careers.

This brings us to Nippon's acquisition of United States Steel Corporation. On December 18, 2023, United States Steel, identified by its ticker "X," agreed to be acquired by Nippon Steel Corporation for $14.9 billion, representing a 150% premium to its undistributed price in June 2023. The political drama began on December 21, 2023, when Lael Brainard, Director of the National Economic Council, remarked that President Biden believed the deal warranted "serious scrutiny" due to potential national security impacts. Adding fuel to the controversy, the United Steelworkers (USW) union, a significant Biden supporter, publicly opposed the acquisition. In March 2024, USW President David McCall criticized the deal, emphasizing the union's preference for a different buyer, Cleveland-Cliffs, and raising concerns about union representation in negotiations. This matter was later resolved through arbitration in the company's favor.

Former President Donald Trump also voiced his opposition on January 31, 2024, during a meeting with the Teamsters union, asserting he would "block it instantaneously" to protect American jobs and industries from foreign ownership. Following suit, on March 14, 2024, Biden explicitly declared that U.S. Steel should remain American-owned, citing national security risks from the proposed acquisition. On September 4th, several media outlets reported that Biden was planning to block the deal based on national security, despite no clear evidence suggesting Nippon Steel threatens national security. Over the period, US Steel's stock declined from over $48 in March to under $35, a 27% decline. The deal is reportedly in the final stages of review by the Committee on Foreign Investment in the United States (CFIUS), an executive-branch, interagency panel that scrutinizes proposed transactions involving U.S. and foreign businesses to see whether they raise national security concerns.

If Nippon's ownership of U.S. Steel is a national security concern, one might question why the Ship Repair Council Japan—a collaboration involving the U.S. Navy, the Japan Maritime Self-Defense Force, and private shipbuilders for the repair and maintenance of U.S. warships in the Pacific fleet—was established in January 2024. Additionally, why is the USS George Washington, a Nimitz-class nuclear-powered aircraft carrier, currently docked in Yokosuka, Japan? The merger's fate seems to rest less with shareholders, employees, or regulators and more with political influences stemming from politicians' desires to secure union votes at the expense of reason.

On a less contentious note, WillScot Holdings's acquisition of McGrath RentCorp was mutually terminated on September 18, 2024, as we predicted. Both companies concluded there was no commercially reasonable path to meeting regulatory requirements for the transaction. Despite extensive discussions with the FTC, it became evident that obtaining regulatory approval would be overly burdensome and could detract from WillScot's ongoing business initiatives. We agree with the FTC's decision that the combined companies would command significant market share, giving them the ability and incentive to raise prices, ultimately harming customers.

Lastly, the trial regarding the proposed merger between Tapestry, Inc. and Capri Holdings commenced on September 9, 2024. The FTC aims to block this $8.5 billion acquisition due to concerns it could create a dominant player in the accessible luxury handbag market, potentially reducing competition and harming consumers. This merger would combine Capri's Michael Kors brand with Tapestry's Coach and Kate Spade, undermining critical price competition and innovation. However, if the FTC loses this case, which appears likely given the stock price performance during the trial, it may stem from their approach of trying to define a broad accessible luxury market rather than focusing on an outlets-only market, which would have provided clearer definitions and economic analyses. If blocked, this high-risk, high-reward legal strategy could have significant implications for future merger approvals. The judge is expected to rule on the preliminary injunction sometime in October or November.

SOFT CATALYST[2] UPDATE:

The third quarter of 2024 proved to be a dynamic period for the event-driven and soft catalyst sectors, even amid the typical seasonal slowdown across capital markets. As we approached Labor Day Weekend, activity in the event-driven space remained robust, with 28 activism campaigns, 15 strategic reviews, 31 M&A rumors, 14 formal M&A proposals, and 6 announced spinoffs. Notably, of the 31 M&A rumors reported, only 2 led to definitive merger agreements (DMAs) within the quarter, with an additional 2 rumors transitioning to DMAs early in the fourth quarter. Consequently, market participants have concentrated their efforts on potential M&A opportunities and the recent surge in shareholder activism campaigns.

While the conversion rate of rumors to DMAs was lower in 3Q24 compared to 2Q24, we attribute this not only to the seasonality inherent in announced M&A activity but also to the prevailing uncertainty surrounding the upcoming presidential election. Nevertheless, we anticipate a significant uptick in corporate M&A and private equity deals as we move into the fourth quarter of 2024 and throughout 2025, as sponsors seek to deploy record levels of dry powder amid a monetary easing cycle. M&A activity is increasingly skewed towards software companies, representing nearly 30% of the M&A rumors in the third quarter. We expect this trend to continue while also identifying opportunities across cyclical sectors, including consumer, industrials, and energy. As we look ahead to 2025, we foresee heightened M&A activity among European-listed companies due to favorable valuation disparities compared to U.S. counterparts. Additionally, there are potential M&A opportunities in previously underperforming spinoffs that struggled to attract buyers during the challenging 2022-2023 M&A environment.

Shareholder activism surged during the quarter with 28 new campaigns launched against boards and management teams. Notably, these activism efforts have spanned a wide range of market capitalizations, targeting everything from large multinational corporations to smaller, single-product companies. High-profile campaigns include Elliott Management's push for changes at Starbucks, Southwest Airlines, and SoftBank, as well as Starboard Value's campaign against Rupert Murdoch's News Corp. Activists are increasingly highlighting governance issues, particularly concerning dual share class structures, entrenched boards, misaligned management teams, and stock-based compensation. We are also witnessing a growing trend where activists demand strategic reviews of business units or entire companies, often with an eye toward initiating a sale process. We believe this trend could serve as a catalyst for M&A activity in 2025. Consequently, we are optimistic about the prospects for activism as we approach year-end, viewing these campaigns as potential avenues for alpha generation, particularly in favorable operating environments with clear value creation pathways.

[2]A hard catalyst is an event that has a defined outcome. A soft catalyst is an anticipated event.

We are seeing additional value-creation opportunities arising from business unit divestitures and spinoffs. Our analysis indicates that spinoff performance has been mixed over the past two years, largely due to the separation of underperforming business units that struggled to attract buyers in traditional M&A processes. With the Federal Reserve now initiating a cycle of interest rate cuts, we foresee an increase in asset sales compared to spinoffs. Our assessment suggests that we will find compelling value primarily in spinoffs that are either too substantial to sell outright or are part of a two-step merger transaction, such as Reverse Morris Trust structures.

Looking towards the end of the year, we maintain an incrementally bullish outlook on M&A prospects, driven by both sponsors and strategic players, alongside further corporate monetization activities anticipated in 2025. We expect shareholder activism to persist as a significant driver of value, particularly as underperforming stocks attract the attention of activist investors. Additionally, we foresee a material uptick in capital market activity, with IPOs expected to be a key contributor to volume in the fourth quarter and throughout 2025.

Returns Since Strategy Inception January 20, 2022 (As of 09/30/2024)

Share Class/Index	Incept. **	YTD	1-Year	3-Year	5-Year	10-Year	ITD
Class A	1.20.22	6.08	6.25	N/A	N/A	N/A	4.91
Class A (w/load)	1.20.22	0.26	0.41	N/A	N/A	N/A	2.99
Class C	1.20.22	5.54	5.52	N/A	N/A	N/A	4.21
Class C (w/load)	1.20.22	4.54	4.54	N/A	N/A	N/A	4.21
Class Z[3]	1.20.22	6.30	6.60	N/A	N/A	N/A	5.26

Annualized Returns (%) as of 09/30/2024

Share Class/Index	Incept.**	YTD	1-Year	3-Year	5-Year	10-Year	Since Incept.
Class A	5.5.08	6.08	6.25	2.50	3.52	1.34	4.50
Class A (w/load)	5.5.08	0.26	0.41	0.58	2.35	0.76	4.14
Class C	5.5.08	5.54	5.52	1.83	2.85	0.70	3.86
Class C (w/load)	5.5.08	4.54	4.54	1.83	2.85	0.70	3.86
Class Z[3]	5.5.08	6.30	6.60	2.85	3.88	1.71	4.87

The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please call 877-665-1287.

*Returns are from January 20, 2022, to December, 2023. In 2022 the fund was renamed to NexPoint Event Driven. Prior to January 20, 2022, the Fund was managed pursuant to a different investment strategy.

**Prior to January 20, 2022, the Fund was managed pursuant to a different investment strategy. As a result of the difference in investment strategy, the performance information presented for periods prior to January 20, 2022 reflects management of the Fund consistent with investment strategies in effect during those periods and might have differed materially if the Fund's investments had been managed under its current investment strategies.

Fees & Expenses

The Net Expense Ratio excluding Investment Related Expenses is 1.50%. Investment Related expenses include acquired fund fees of 0.03% and dividend expense on short sales and other excluded expenses of 0.20%. Expenses stated as of the fund's most recent prospectus. The difference between gross and net expense ratios are due to contractual and/or voluntary waivers, if applicable. The Expense Cap will continue through at least October 31, 2024, and may not be terminated prior to this date without the action or consent of the Fund's Board of Trustees. Performance results reflect the contractual waivers and /or reimbursements of fund expenses by the Advisor. Absent this information, performance results would have been lower.The net expense ratio would be applicable to investors.

	Gross	Net
Class A	3.20	2.33
Class C	3.85	2.98
Class Z[3]	2.85	1.98

[3]Only eligible investors may purchase Class Z Shares. Please refer to the prospectus for information and conditions.

SALES CHARGES
Class A Max Sales Charge: 5.50%. Class C Contingent Deferred Sales Charge ("CDSC") is 1% within the first year from each purchase.

Before investing in the Fund, you should carefully consider the Fund's investment objectives, risks, charges and expense. For a copy of a prospectus or summary prospectus, which contains this and other information, please visit our website at nexpoint.com or call 1-877-665-1287.Please read the fund prospectus carefully before investing.

RISK CONSIDERATIONS

Derivatives Risk. Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. **Industry Concentration Risk.** Because the Fund normally invests at least 80% of the value of its assets in healthcare companies, the Fund's performance largely depends on the overall condition of the healthcare industry and the Fund is susceptible to economic, political and regulatory risks or other occurrences associated with the healthcare industry. **Leverage Risk.** Leverage may increase the risk of loss, cause fluctuations in the market value of the Fund's portfolio to have disproportionately large effects or cause the NAV of the Fund generally to decline faster than it would otherwise. Micro, Small and Mid-Cap **Securities Risk.** Investments in securities of companies with micro, small or medium capitalizations involve certain risks that may differ from, or be greater than, those for larger companies, such as higher volatility, lower trading volume, fewer business lines and lack of public information. **Non-U.S. Securities Risk.** Investments in securities of non-U.S. issuers involve certain risks not involved in domestic investments (for example, expropriation or political or economic instability). **Portfolio Turnover Risk.** High portfolio turnover will increase the Fund's transaction costs and may result in increased realization of net short-term capital gains, higher taxable distributions and lower after-tax performance. **Short Sales Risk.** The risk of short sales theoretically involves unlimited loss potential since the market price of securities sold short may continuously increase. **Hedging Risk.** Hedging is a strategy for reducing exposure to investment risk. An investor can hedge the risk of one investment by taking an offsetting position in another investment. The values of the offsetting investments should be inversely correlated. There is no assurance that hedging strategies will be successful. **Merger Arbitrage and Event-Driven Risk** is the risk that the Adviser's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that the Fund's return on the investment will be negative. Even if the Adviser's judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause the Fund to lose money. The Fund's expected gain on an individual arbitrage investment is normally considerably smaller than the possible loss should the transaction be unexpectedly terminated. **Special Purpose Acquisition Companies Risk** is the risk that the Fund may invest in stock of, warrants to purchase stock of, and other interests in special purpose acquisition companies or similar special purpose entities that pool funds to seek potential acquisition opportunities (collectively, "SPACs"). Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition.

Index Definitions: Index returns assume reinvestment of all dividends and distributions, if any. Indices are unmanaged, have no fees or costs and are not available for investment. The performance of the indices may be materially different from the Fund's performance. In addition, the Fund's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent an appropriate benchmark to compare a fund's performance, but rather are disclosed to allow for comparison of the Fund's performance to that of certain well-known and widely recognized indices. It is not possible to invest directly in an index. **S&P 500 Total Return Index** is an index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. The total return index series reflects both ordinary and special dividends. Investors cannot invest directly into an index. **S&P Merger Arbitrage Index.** The S&P Merger Arbitrage Index seeks to provide a risk arbitrage strategy that exploits commonly observed price changes associated with a global selection of publicly announced mergers, acquisitions and other corporate reorganizations. Historically, the index has exhibited market neutral characteristics, lower volatility compared to the S&P 500, and a low correlation to S&P 500 returns. Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. **Bloomberg US Aggregate Index.** The Bloomberg US Agg Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The advisor to the Fund is NexPoint Asset Management L.P., (Advisor). The Advisor and NexPoint Securities, Inc. are affiliated.

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