NexPoint Merger Arbitrage Fund

NEXPOINT

PERFORMANCE REVIEW

The NexPoint Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 1.79% 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 Merger Arbitrage Fund (the "Fund") (Class Z shares) returned 5.10% 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.

TOP CONTRIBUTOR

Endeavor Group (EDR) / Silver Lake Management LLC (Private Equity)[1]: In April 2024, Endeavor – a global sports and entertainment company – agreed to be acquired by Silver Lake, its largest shareholder, for ~$10.0 billion.

TOP DETRACTOR

Hess Corporation (HES) / Chevron Corporation (CVX)[1]: In October 2023, Hess – a global independent oil producer – agreed to be acquired by Chevron for ~$59.4 billion.

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 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 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 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.

[1]As of 09/30/2024, EDR was 4.22% of the Fund and HES was 2.75% of the Fund.

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?

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.

The Fund maintains a high level of confidence in its investment strategy, designed to deliver investors low-volatility returns that are uncorrelated with broader fixed-income and equity markets. By prioritizing deals with appealing spreads, regulatory obstacles that can be managed effectively, and shorter expected closing timelines, the Fund strives to provide investors with a favorable risk-reward profile. We want to express our sincere appreciation to our shareholders for their ongoing support.

RETURNS (AS OF 09/30/2024)					
SHARE CLASS/ INDEX	YTD	1-YR	3-YR	5-YR	Since Incept.*
Class A	4.81	6.09	3.96	5.15	5.85
Class A (w/load)	-0.96	0.25	2.02	3.96	5.24
Class C	4.28	5.36	3.27	4.45	5.22
Class C (w/load)	3.28	4.36	3.27	4.45	5.22
Class Z	5.10	6.45	4.32	5.51	6.14

*Inception Date: 1/19/2015

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 833-697-7253.

FEES AND EXPENSES

Gross: Class A: 2.39%, Class C: 3.04%, Class Z: 2.04%; Net: Class A: 2.25%, Class C: 2.90%, Class Z: 1.90%

Class A Max Sales Charge: 5.50%. Class C Contingent Deferred Sales Charge ("CDSC") is 1% within the first year from each purchase. Performance results reflect the contractual waivers and/or reimbursements of fund expenses by the Advisor. Absent this limitation, performance results would have been lower. 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.

RISK CONSIDERATIONS

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 1-833-697-7253. Please read the fund prospectus carefully before investing.

On May 12, 2016, the Predecessor Fund transferred its assets to the Fund in exchange for the Fund's Class Z shares. The investment policies, objectives, guidelines and restrictions of the Fund are in all material respects equivalent to those of the Predecessor Fund. In addition, the Predecessor Fund's portfolio manager is the current portfolio manager of the Fund. As a mutual fund registered under the 1940 Act, the Fund is subject to certain restrictions under the 1940 Act and the Internal Revenue Code of 1986, as amended (the "Code") to which the Predecessor Fund was not subject. Had the Predecessor Fund been registered under the 1940 Act and been subject to the provisions of the 1940 Act and the Code, its investment performance could have been adversely affected, but these restrictions are not expected to have a material effect on the Fund's investment program.

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. **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-Diversification Risk.** As a non-diversified fund, the Fund may invest a larger portion of its assets in the securities of one or a few issuers than a diversified fund. A non-diversified fund's investment in fewer issuers may result in the fund's shares being more sensitive to the economic results of those issuers. An investment in the Fund could fluctuate in value more than an investment in a diversified fund. **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). **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.** Although intended to limit or reduce investment risk, hedging strategies may also limit or reduce the potential for profit. There is no assurance that hedging strategies will be successful.

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. **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). **S&P 500 Index.** S&P 500 Index is an index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. Criteria for inclusion: U.S. Company, market capitalization must be in excess of US$ 3 billion, public float of at least 50%, financial viability, adequate liquidity and reasonable price, sector balance, and company type. Ordinary cash dividends are applied on the ex-date in calculating the total return series. "Special dividends" are those dividends that are outside of the normal payment pattern established historically by the issuing corporation. The total return index series reflect both ordinary and special dividends. **HFRI Merger Arbitrage Index.** The HFRI Merger Arbitrage Index consists of strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations which pre-, post-date or situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross border, collared and international transactions which incorporate multiple geographic regulatory institutions, with typically involve minimal exposure to corporate credits. Merger arbitrage strategies typically have over 75% of positions in announced transactions over a given market cycle. **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. **iShares High Yield ETF Index (HYG).** The iShares High Yield Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds. **Consumer Price Index.** The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a representative basket of consumer goods and services. The CPI measures inflation as experienced by consumers in their day-to-day living expenses.
This information was prepared by the Adviser based on its experience in the industry and on assumptions of fact and opinion as to future events which the Adviser believed to be reasonable when made. There can be no assurance that the Adviser and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

This market commentary contains information about prior investments made by the Adviser of the Fund. This information was prepared by the Adviser based on its experience in the industry and on assumptions of fact and opinion as to future events which the Adviser believed to be reasonable when made. There can be no assurance that the Adviser and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

Only eligible investors may purchase Class Z Shares. Please refer to the prospectus for information and conditions. The advisor to the Fund is NexPoint Asset Management, L.P. (“Advisor”). The Advisor and NexPoint Securities, Inc. are affiliated.

Sharpe Ratio: Sharpe Ratio indicates the reward per unit of risk by using standard deviation and excess return. The higher the Sharpe ratio, the better the fund’s historical risk-adjusted performance.

Prepared by NexPoint Securities, Inc., Member FINRA/SIPC.