HIGHLAND CAPITAL MANAGEMENT

Hedged Equity

The Opportunity in Today's Market

Now may be an ideal time to invest in a hedged equity strategy in order to:

- *Take advantage of a market environment that currently favors individual stock selection*
- *Reduce market exposure at a time when the current bull market may be nearing maturity*

HEDGED EQUITY STRATEGIES

Hedged equity or "long/short" strategies are one of several alternative investment strategies that investors can use to diversify a balanced portfolio of stocks and bonds with the goal of enhancing overall returns. In order to achieve the desired diversification with enhanced returns, an effective alternative investment strategy may provide better returns on a risk-adjusted basis with lower correlation to traditional equity and bond investments.

A long/short portfolio manager has more tools at their disposal than a long-only manager. A long-only equity manager tries to select winning stocks for their portfolio and avoid selecting the losing stocks, whereas a long/short manager selects winning stocks for their long portfolio and losing stocks for their short portfolio. This allows the long/short portfolio to benefit from the ability to select winners and losers, making stock selection particularly important.

Reducing Market Exposure and Volatility

Traditional long-only investment strategies are generally fully invested in the equity markets at all times and their returns are often highly correlated to equity market returns.

Long/short equity strategies on the other hand, reduce market exposure by having a long portfolio with high positive correlation to the market return and a short portfolio with high negative correlation to the market return. The combination results in less overall market exposure. As a rule of thumb, a long/short fund that has 50% net long exposure should capture roughly half the upside in a rising market and roughly half the downside in a falling one. This combination can also reduce the volatility experienced by the client, providing for a smoother ride and greater likelihood of staying invested for the long term.

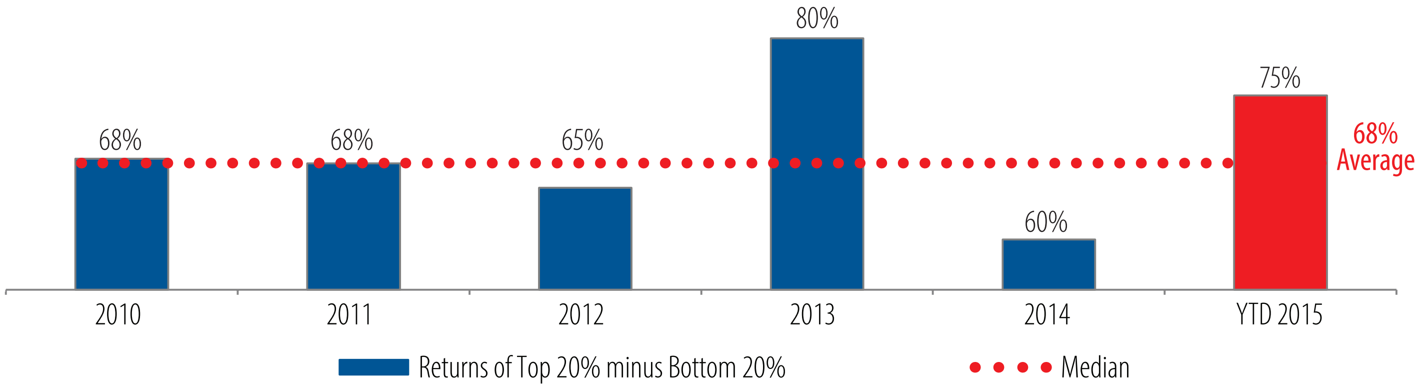
THE OPPORTUNITY TODAY

Today may be an ideal time to consider allocating capital towards long/short equity investment strategies. In particular, as this current bull market approaches maturity the fundamental environment should set up favorably for individual stock selection. Further, as general market volatility is on the rise, long/short strategies can offer downside protection in difficult markets.

Favorable Environment for Stock Selection

Fundamental stock selection is highly effective in markets where business fundamentals are changing because it creates both winners and losers across industries and sectors. Lower energy prices, for instance, are a tailwind for companies who serve the consumer but negatively impacts oil companies and their suppliers. A strong dollar is a headwind for industrial companies who export, yet it helps companies who import. Figure 1 below illustrates how the best performing stocks in the market are outperforming the worst by a larger margin than they have historically. The larger the dispersion, the more favorable the environment is for individual stock selection.

Figure 1: Return Dispersion for S&P 500 Components*



Bull Market Maturing

The U.S. economy is generally on solid footing but there is a lot of uncertainty around the overall direction of the markets going forward as the world has changed in many ways over the past few quarters. Commodity prices have collapsed, the dollar has strengthened, and events in Europe and China have caused a variety of disruptions in economies and markets. The overall impact of these events is hard to predict with certainty but given we are in the seventh year of the current bull market it may make sense to allocate capital towards strategies that are generally less reliant on broader market movements to generate returns.

Figure 2: Duration of Select Bull Markets for the S&P 500*

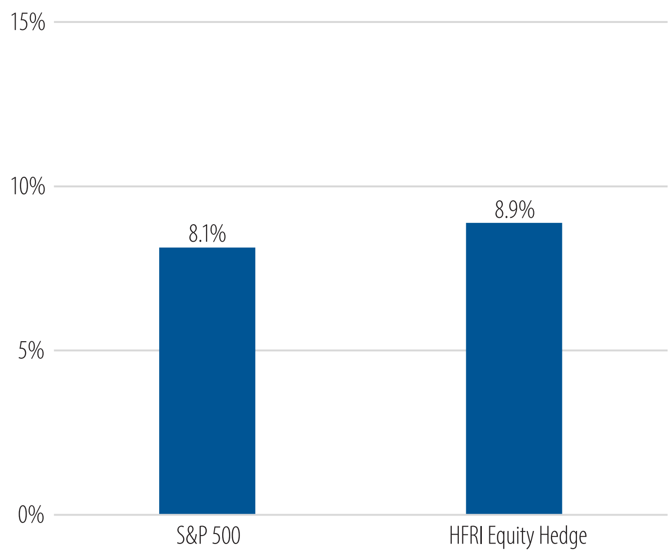
Select Bull Markets	Duration (months)	S&P 500 (% change)
1987-2000	148	582%
1949-1956	86	267%
2009-2015	**79**	**184%**
1974-1980	74	126%
1982-1987	60	229%
2002-2007	60	101%
1957-1961	50	86%
1942-1946	49	158%
1962-1966	43	80%
1970-1973	32	74%
1966-1968	26	48%
1947-1948	13	24%
Average	***60***	***163%***

*Source: Figures 1-2, Highland Capital Management and Bloomberg as of 9/30/2015

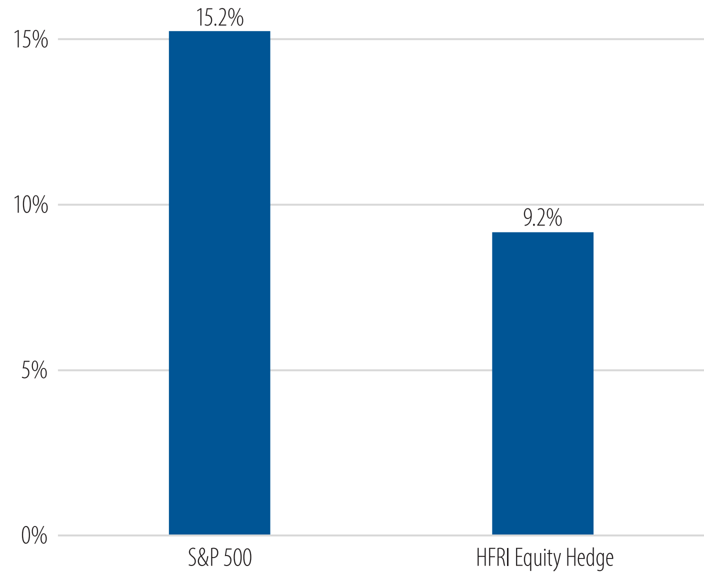
WHAT TO LOOK FOR IN A LONG/SHORT STRATEGY

To diversify your portfolio, it's important to utilize a strategy that provides a return profile independent of the market. Three critical factors to look at are absolute return, correlation to the market and downside protection. The charts below show the risk/return benefits that including a long/short strategy can provide over a full market cycle. As illustrated below, long/short strategies have provided a higher annualized return with lower volatility/risk versus the S&P 500 Index over the past 20 years.*

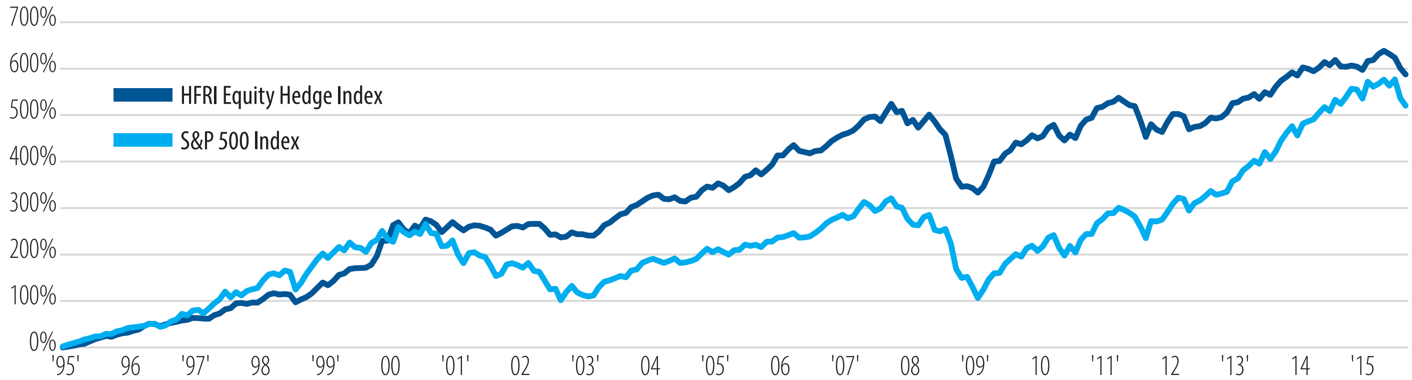
Long/Short Equity Hedge Fund Index vs. S&P 500
*Annualized Returns Over a 20 Year Period**



Long/Short Equity Hedge Fund Index vs. S&P 500
*Volatility Over a 20 Year Period**



Long/Short Equity Hedge Fund Index vs. S&P 500
*Comparing Periods of Market Volatility Over a 20 Year Period**



CONCLUSION

Long/short equity strategies can be a useful tool for diversifying an investor's portfolio. Now may be an ideal time to allocate capital towards this strategy as the environment for fundamental stock selection appears favorable and the current bull market in equities moves closer to maturity. Highland's expertise and dedicated alternatives platform can provide your clients with an effective hedged equity solution that participates in the market while focusing on preserving investor capital.

*Source: HFRI and Bloomberg. Annualized returns and standard deviation (volatility) calculated for the 20 year period from September 1995 through September 2015.

RISK CONSIDERATIONS

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

Annualized Return: The annualized return is the geometric mean of the returns with respect to one year.

Correlation: A statistical measure of how two securities move in relation to each other.

Downside Protection: The use of an option or other hedging instrument in order to limit or reduce losses in the case of a decline in the value of the underlying security. Downside protection often involves the purchase of an option to hedge a long position. Other methods of downside protection include using stop losses or purchasing assets that are negatively correlated to the asset you are trying to hedge.

Standard Deviation: Standard deviation of returns measures the average a return series deviates from its mean. It is often used as a measure of risk. Higher standard deviation represents higher volatility.

HFRI Equity Hedge Index: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities.

S&P 500 Index: An index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market.

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