

**HIGHLAND CAPITAL**  
**M A N A G E M E N T**

# Highland/iBoxx Senior Loan ETF

---

**Annual Report**  
**June 30, 2017**

---

# Highland/iBoxx Senior Loan ETF

## TABLE OF CONTENTS

Portfolio Manager Commentary .....	1
Fund Profile .....	3
Financial Statements .....	4
Investment Portfolio .....	5
Statement of Assets and Liabilities .....	9
Statement of Operations .....	10
Statements of Changes in Net Assets .....	11
Financial Highlights .....	12
Notes to Financial Statements .....	13
Report of Independent Registered Public Accounting Firm .....	22
Additional Information .....	23
Disclosure of Fund Expenses .....	24
Important Information About This Report .....	31

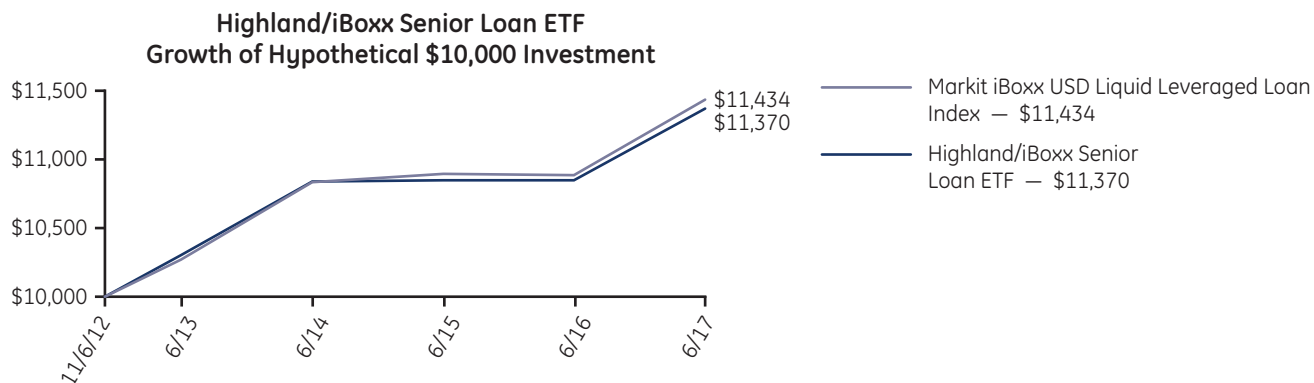
Economic and market conditions change frequently.  
There is no assurance that the trends described in this report will continue or commence.

**A prospectus must precede or accompany this report. Please read the prospectus carefully before you invest.**

# PORTFOLIO MANAGER COMMENTARY (unaudited)

June 30, 2017

Highland/iBoxx Senior Loan ETF



All dividends and capital gains are reinvested. The index is unmanaged and does not take into account fees, expenses or other costs.

Returns shown in the chart and table do not reflect taxes that a shareholder would pay on Fund distributions or on the sale of the Fund shares.

The Fund is non-diversified and may invest a larger portion of its assets in the securities of fewer issuers than if the Fund were diversified. Senior loans are subject to risk of non-payment of scheduled interest and/or principal. Please refer to the financial statement's Note 7, Disclosure of Significant Risks and Contingencies, for more information.

	Average Annual Total Returns		
	1 Year	3 Year	Since Inception*
Highland/iBoxx Senior Loan ETF	4.78%	1.61%	2.80%
Markit iBoxx USD Liquid Leveraged Loan Index	5.04%	1.81%	2.92%

\* Since November 6, 2012, returns have been annualized.

The performance data quoted represents past performance and is no guarantee of future results. Investment return 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 visit our web site at [www.highlandfunds.com](http://www.highlandfunds.com).

The Fund's Investment Adviser has voluntarily agreed to waive a portion of its advisory fee or reimburse expenses. Such waivers and reimbursements may be terminated at any time. The performance quoted would have been lower if these waivers had not been in effect.

The total annual operating expenses as reported in the Fund's most recent Prospectus is 0.77%. The Fund's Investment Adviser has contractually agreed to limit the total annual operating expenses (exclusive of taxes, brokerage commissions and other transaction costs, acquired fund fees and expenses and extraordinary expenses) of the Fund to 0.55% of average daily net assets of the Fund (the "Expense Cap"). The Expense Cap will continue through at least October 31, 2017, and may not be terminated prior to this date without the action or consent of the Fund's Board of Trustees.

# PORTFOLIO MANAGER COMMENTARY (unaudited) (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

## Performance Overview

As an index fund, the Highland/iBoxx Senior Loan ETF (the "Fund") is passively managed and attempts to track the risk and return profile of the underlying index. The Fund seeks to provide investment results that correspond (before fees and expenses) to the price and yield of the Markit iBoxx USD Liquid Leveraged Loan Index (the "Index"). For the twelve month period ended June 30, 2017, the Fund's net asset value returned 4.78% while the market price returned 4.78%. Over the same period, the Fund's benchmark, the Markit iBoxx USD Liquid Leveraged Loan Index, returned 5.04%. As of June 30, 2017, the Fund was invested in 112 holdings, with a weighted average maturity of 5.24 years, a Yield to Maturity of 4.94% and a 30-day SEC Yield of 4.87%. Increased capital activity and increased issuer refinancings resulted in a portfolio turnover rate for the Fund that was higher compared to prior fiscal years.

## Manager's Discussion

The twelve months ending June 30, 2017 were mostly positive with respect to the performance of the leveraged loan universe as the underlying index experienced positive monthly performance in ten of the twelve monthly periods and returned 5.0% over the twelve month period. We believe that as concerns regarding global growth, commodity price volatility, and uncertainty around Federal Reserve policy receded, leveraged loans and risk assets performed well in the first three months of the period. The U.S. election introduced a significant amount of uncertainty for most asset classes which pressured performance in the weeks before the election. We believe the Republican sweep of both Houses of Congress as well as the Presidency led to a significant spike in interest rates and expectations for pro-growth fiscal and regulatory reforms. The move to higher interest rates was a significant positive for leveraged loans as investors sought the expected benefit of higher returning credit with minimal duration sensitivity. The flows into the asset class did not go unnoticed by issuers as the market experienced a significant amount of repricing and refinancing activity that has led to a decrease in the average margin paid by issuers above LIBOR. The loan default rate by principal declined year-over-year to 1.50% from 1.97% in the prior year while remaining low versus a historical average of 3.00%. Energy related credits drove default activity in the first half of the period, but were supplanted by the retail and technology sectors in the second half of the year. The Index has below average exposure to Metals and Mining and Energy when compared to broader loan indices such as the Credit Suisse Leveraged Loan Index. We believe the timing of the next default spike will coincide with an economic downturn. Away from unforeseen exogenous shocks, we would expect to see continued modest domestic GDP growth which should be enough to sustain revenue and cash flow growth at portfolio companies. This, combined with anticipated low borrowing costs and a relatively benign default environment, should, in our opinion, provide on-going support for credit into the foreseeable future. Should the Federal Reserve begin to unwind its balance sheet, we would expect interest rates to be biased higher. We believe this would provide additional support for floating rate assets such as leveraged loans. Moreover, we believe loans remain attractive versus other credit alternatives given their seniority and security, and as such should be a long term allocation to any diversified fixed income portfolio.

The Markit iBoxx USD Liquid Leveraged Loan Index has been licensed for use by Highland Capital Management, L.P. The Highland/iBoxx Senior Loan ETF is not sponsored, endorsed, issued, sold, or promoted by the Markit iBoxx USD Liquid Leveraged Loan Index, nor does this company make any representations regarding the advisability of investing in the Highland/iBoxx Senior Loan ETF.

Credit-Suisse Leveraged Loan Index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

*This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice.*

*The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For most recent performance figures, please call a representative at 1-855-799-4757 or visit our website at [www.highlandfunds.com](http://www.highlandfunds.com).*

*In June 2017, Mark Okada and Allan Smallwood replaced Chris Mawn as the portfolio managers for the Fund.*

# FUND PROFILE (unaudited)

June 30, 2017

Highland/iBoxx Senior Loan ETF

## Objective

Highland/iBoxx Senior Loan ETF seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Markit iBoxx USD Liquid Leveraged Loan Index.

## Net Assets as of June 30, 2017

\$562.5 million

## Portfolio Data as of June 30, 2017

The information below provides a snapshot of the Highland/iBoxx Senior Loan ETF at the end of the reporting period.

### Quality Breakdown as of 6/30/2017 (%)\*

BBB	1.0
BB	27.9
B	61.4
CCC	5.2
CC	2.6
Not Rated	1.9

### Top 5 Sectors as of 6/30/17 (%)\*

Media/Telecommunications	15.5
Retail	10.3
Information Technology	9.7
Healthcare	9.3
Service	8.2

### Top 10 Holdings as of 6/30/17 (%)\*

Change Healthcare (Term Loan B)	2.0
Sprint Communications (Term Loan B)	2.0
Univision Communications (Initial Term Loan)	1.9
iHeartCommunications (Extended Term Loan D)	1.9
Formula One (Term Loan B-3)	1.8
Virgin Media Bristol LLC (Term Loan I)	1.8
Intelsat (Term Loan B-2)	1.7
Grifols (Term Loan B)	1.5
TransDigm (Term Loan F)	1.5
Kronos (Term Loan B)	1.5

The Fund is non-diversified and may invest a larger portion of its assets in the securities of fewer issuers than if the Fund were diversified.

Please refer to the financial statement's Note 7, Disclosure of Significant Risks and Contingencies, for more information.

\* Quality is calculated as a percentage of total senior loans. Sectors and holdings are calculated as a percentage of total net assets. The quality ratings reflected were issued by Standard & Poor's, a nationally recognized statistical rating organization. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Quality ratings reflect the credit quality of the underlying bonds in the Fund's portfolio and not that of the Fund itself. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change, including daily. The ratings assigned by credit rating agencies are but one of the considerations that the Fund's investment adviser incorporates into its credit analysis process, along with such other issuer-specific factors as cash flows, capital structure and leverage ratios, ability to deleverage through free cash flow, quality of management, market positioning and access to capital, as well as such security-specific factors as the terms of the security (e.g., interest rate, and time to maturity) and the amount of any collateral. Quality Ratings are subject to change.

## A guide to understanding the Fund's financial statements

### Investment Portfolio

The Investment Portfolio details the Fund's holdings and their market value as of the last day of the reporting period. Portfolio holdings are organized by type of asset and industry to demonstrate areas of concentration and diversification.

### Statement of Assets and Liabilities

This statement details the Fund's assets, liabilities, net assets and share price for each share class as of the last day of the reporting period. Net assets are calculated by subtracting all of a Fund's liabilities (including any unpaid expenses) from the total of the Fund's investment and non-investment assets. The net asset value per share for each class is calculated by dividing net assets allocated to that share class by the number of shares outstanding in that class as of the last day of the reporting period.

### Statement of Operations

This statement reports income earned by the Fund and the expenses incurred by the Fund during the reporting period. The Statement of Operations also shows any net gain or loss the Fund realized on the sales of its holdings during the period as well as any unrealized gains or losses recognized over the period. The total of these results represents the Fund's net increase or decrease in net assets from operations.

### Statement of Changes in Net Assets

This statement details how the Fund's net assets were affected by its operating results, distributions to shareholders and shareholder transactions (e.g., subscriptions, redemptions and distribution reinvestments) during the reporting period. The Statement of Changes in Net Assets also details changes in the number of shares outstanding.

### Financial Highlights

The Financial Highlights demonstrate how the Fund's net asset value per share was affected by the Fund's operating results. The Financial Highlights also disclose the class' performance and certain key ratios (e.g., net expenses and net investment income as a percentage of average net assets).

### Notes to Financial Statements

These notes disclose the organizational background of the Fund, certain of their significant accounting policies (including those surrounding security valuation, income recognition and distributions to shareholders), federal tax information, fees and compensation paid to affiliates and significant risks and contingencies.

# INVESTMENT PORTFOLIO

June 30, 2017

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (a) - 88.9%</b>	
<b>AEROSPACE - 4.6%</b>	
American Airlines Replacement Term Loan B, 2,970,000 3.659%, 04/28/23 .....	2,975,985
American Airlines Term Loan B, 3,000,000 3.724%, 12/14/23 .....	3,005,865
TransDigm Term Loan C, 3,906,581 4.284%, 02/28/20 (b) .....	3,911,835
TransDigm Term Loan D, 2,958,360 4.292%, 06/04/21 (b) .....	2,960,401
TransDigm Term Loan E, 4,441,261 4.249%, 05/16/22 (b) .....	4,440,439
TransDigm Term Loan F, 8,478,589 4.226%, 06/09/23 (b) .....	8,474,732
	<u>25,769,257</u>
<b>AUTOMOTIVE - 0.8%</b>	
Federal-Mogul Term Loan C, 4,711,741 4.927%, 04/15/21 .....	4,731,365
<b>BROADCASTING - 5.8%</b>	
Charter Communications Operating LLC Term Loan E, 2,992,208 3.230%, 07/01/20 .....	3,004,371
Charter Communications Operating LLC Term Loan F, 3,490,909 3.230%, 01/03/21 (b) .....	3,504,733
Charter Communications Operating LLC Term Loan H, 2,984,887 3.230%, 01/15/22 .....	2,995,722
Charter Communications Operating LLC Term Loan I, 7,468,498 3.476%, 01/15/24 (b) .....	7,502,704
Cumulus Media Term Loan B, 2,000,000 4.480%, 12/23/20 (b) .....	1,624,000
iHeartCommunications Extended Term Loan D, 12,800,000 7.976%, 01/30/19 (b) .....	10,504,000
iHeartCommunications Term Loan E, 4,000,000 8.726%, 07/30/19 .....	3,280,000
	<u>32,415,530</u>
<b>BUILDING MATERIALS - 1.4%</b>	
Quikrete Holdings Term Loan B, 7,979,950 3.976%, 11/15/23 (b) .....	7,971,118

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>CHEMICALS - 1.6%</b>	
Kraton Polymers Term Loan B, 2,500,000 5.226%, 01/06/22 (b) .....	2,527,275
Univar USA Term Loan B, 6,433,772 3.976%, 07/01/22 (b) .....	6,448,344
	<u>8,975,619</u>
<b>CONSUMER PRODUCTS - 2.1%</b>	
Pinnacle Foods Term Loan B, 6,972,481 3.076%, 02/02/24 (b) .....	7,004,590
Revlon Term Loan B, 4,964,987 4.726%, 09/07/23 .....	4,645,987
	<u>11,650,577</u>
<b>ENERGY - 1.8%</b>	
Energy Transfer Equity Term Loan, 6,000,000 3.826%, 02/02/24 (b) .....	5,980,530
Murray Energy Term Loan B-2, 4,464,962 8.546%, 04/16/20 (b) .....	4,377,516
	<u>10,358,046</u>
<b>FINANCIAL - 4.1%</b>	
Avolon Term Loan B-2, 5,000,000 3.962%, 03/21/22 .....	5,038,325
Cushman & Wakefield Term Loan B, 7,445,557 4.447%, 11/04/21 .....	7,445,110
Hub International Term Loan B, 6,170,022 4.422%, 10/02/20 .....	6,194,579
Tempo Acquisition Term Loan B, 4.227%, 05/01/24 (b) .....	4,515,817
	<u>23,193,831</u>
<b>FOOD &amp; DRUG - 2.8%</b>	
Albertson's Term Loan B-4, 6,447,626 3.992%, 08/25/21 .....	6,360,777
Albertson's Term Loan B-5, 3,990,000 3.982%, 12/21/22 .....	3,951,756
Albertson's Term Loan B-6, 4,987,500 4.450%, 06/22/23 .....	4,939,371
Supervalu Delayed Term Loan B, 203,061 4.726%, 06/02/24 .....	197,308
Supervalu Term Loan B, 338,435 4.726%, 06/02/24 .....	328,847
	<u>15,778,059</u>

# INVESTMENT PORTFOLIO (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (continued)</b>	
<b>FOREST PRODUCTS/CONTAINERS - 1.0%</b>	
Berlin Packaging LLC Term Loan B, 2,475,966 4.550%, 10/01/21 .....	2,485,053
SIG Combibloc Holdings S.C.A. Initial Dollar Term Loan, 2,873,139 4.226%, 03/11/22 .....	2,897,029
	<u>5,382,082</u>
<b>GAMING/LEISURE - 2.6%</b>	
Las Vegas Sands LLC Term Loan B, 5,432,308 3.230%, 03/29/24 .....	5,446,242
MGM Growth Properties Operating Partnership LP Term Loan B, 3,969,849 3.476%, 04/25/23 .....	3,981,520
Station Casinos LLC Term Loan B, 5,237,975 3.710%, 06/08/23 .....	5,237,085
	<u>14,664,847</u>
<b>HEALTHCARE - 9.0%</b>	
Change Healthcare Term Loan B, 11,221,875 3.976%, 03/01/24 (b) .....	11,237,417
CHS/Community Health Systems Term Loan G, 4,697,667 3.952%, 12/31/19 (b) .....	4,695,858
CHS/Community Health Systems Term Loan H, 8,336,379 4.202%, 01/27/21 (b) .....	8,330,293
Endo International Term Loan B, 5,581,395 5.500%, 04/29/24 .....	5,642,456
Grifols Term Loan B, 8,478,750 3.436%, 01/31/25 (b) .....	8,497,912
inVentiv Health Term Loan B, 4,975,000 4.952%, 11/09/23 .....	4,991,592
Mallinckrodt International Finance Term Loan B, 4,987,500 4.046%, 09/24/24 (b) .....	4,981,266
Quorum Health Initial Term Loan, 2,500,000 7.976%, 04/29/22 (b) .....	2,517,350
	<u>50,894,144</u>
<b>HOME FURNISHINGS - 1.1%</b>	
Serta Simmons Holdings LLC Initial Term Loan, 5,977,500 4.586%, 11/08/23 (b) .....	5,981,266
<b>INFORMATION TECHNOLOGY - 9.7%</b>	
Avaya Term Loan B-3, 2,000,000 5.670%, 10/26/17 .....	1,598,610

Principal Amount (\$)	Value (\$)
<b>INFORMATION TECHNOLOGY (continued)</b>	
Avaya Term Loan B-6, 1,500,000 6.667%, 03/31/18 .....	1,199,820
Avaya Term Loan B-7, 5,519,764 6.417%, 05/29/20 .....	4,430,990
Cengage Learning Term Loan B, 4,886,141 5.339%, 06/07/23 .....	4,629,619
Infor US Term Loan B-6, 5,989,820 3.897%, 02/01/22 (b) .....	5,959,362
Informatica LLC Term Loan B, 4,962,009 4.647%, 08/06/22 .....	4,965,557
Kronos Term Loan B, 8,333,177 4.560%, 11/01/23 .....	8,399,718
Misys Limited Term Loan B, 2,186,589 4.736%, 06/13/24 .....	2,189,442
Riverbed Technology Term Loan B, 4,422,480 4.480%, 04/25/22 .....	4,364,987
Scientific Games Term Loan B-3, 6,483,750 5.108%, 10/01/21 (b) .....	6,555,363
Solera LLC Term Loan B, 4,987,374 4.476%, 03/03/23 .....	5,010,141
Veritas US Term Loan B-1, 4,975,693 6.772%, 01/27/23 .....	4,991,242
	<u>54,294,851</u>
<b>MANUFACTURING - 1.6%</b>	
Accudyne Industries Refinancing Term Loan, 4,500,000 4.226%, 12/13/19 (b) .....	4,472,213
Gardner Denver Initial Dollar Term Loan, 4,445,674 4.546%, 07/30/20 .....	4,457,588
	<u>8,929,801</u>
<b>MEDIA/TELECOMMUNICATIONS - 12.9%</b>	
Formula One Term Loan B-3, 10,000,000 4.504%, 02/21/24 .....	10,018,750
Getty Images Term Loan B, 4,935,119 4.796%, 10/18/19 .....	4,561,925
Level 3 Term Loan B, 7,500,000 3.479%, 02/22/24 (b) .....	7,526,363
Sprint Communications Term Loan B, 10,972,500 3.750%, 02/02/24 (b) .....	10,987,368
UFC Holdings LLC Term Loan B, 3,982,450 4.470%, 08/18/23 .....	3,995,253



# INVESTMENT PORTFOLIO (continued)

June 30, 2017

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (continued)</b>	
<b>MEDIA/TELECOMMUNICATIONS (continued)</b>	
	Univision Communications
	Initial Term Loan,
10,891,991	3.976%, 03/15/24 (b) .....
	10,696,807
	Virgin Media Bristol LLC
	Term Loan I,
10,000,000	3.909%, 01/31/25 (b) .....
	10,015,000
	WideOpenWest Finance LLC
	Term Loan B,
5,969,925	4.702%, 08/18/23 .....
	5,971,984
	Zayo
	Term Loan B-2,
2,000,000	3.716%, 01/19/24 .....
	2,005,630
	Ziggo Secured Finance Partnership
	Term Loan E,
7,000,000	3.659%, 04/15/25 (b) .....
	6,986,490
	<u>72,765,570</u>
<b>PRINTING &amp; PUBLISHING - 0.7%</b>	
	McGraw-Hill Global Education Holdings
	LLC
	Term Loan B,
3,979,899	5.226%, 05/04/22 .....
	<u>3,922,987</u>
<b>RETAIL - 10.3%</b>	
	Academy Sports
	Term Loan B,
5,744,742	5.226%, 07/01/22 (b) .....
	4,480,899
	American Builders & Contractors Supply
	Term Loan B-1,
2,992,500	3.734%, 10/31/23 (b) .....
	3,003,542
	Bass Pro Group LLC
	Term Loan B,
8,000,000	6.296%, 12/15/23 (b) .....
	7,791,520
	Belk
	Term Loan B,
3,721,792	5.905%, 12/12/22 .....
	3,178,410
	BJ's Wholesale Club
	Term Loan B,
6,000,000	4.968%, 02/03/24 (b) .....
	5,829,990
	Harbor Freight Tools USA Initial
	Term Loan,
7,719,284	4.476%, 08/18/23 (b) .....
	7,725,575
	Michaels Stores
	Term Loan B-1,
6,741,727	3.938%, 01/27/23 (b) .....
	6,733,738
	Neiman Marcus Group
	Other Term Loan,
7,175,517	4.339%, 10/25/20 .....
	5,417,516
	Petco
	Term Loan B-1,
5,959,774	4.172%, 01/26/23 .....
	5,399,555
	PetSmart
	Term Loan B,
8,949,303	4.220%, 03/11/22 (b) .....
	8,355,159
	<u>57,915,904</u>

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>SERVICE - 8.2%</b>	
	ADS Waste
	Term Loan B,
3,649,219	3.939%, 11/10/23 .....
	3,666,498
	Advantage Solutions
	Term Loan B,
5,297,158	4.546%, 07/25/21 .....
	5,098,541
	Alliant Insurance
	Initial Term Loan,
5,009,214	4.417%, 08/14/22 .....
	5,010,641
	Asurion
	Term Loan B-4,
6,982,188	4.476%, 08/04/22 .....
	7,023,627
	Brickman Group Holdings
	Initial Term Loan,
3,170,517	4.217%, 12/18/20 .....
	3,177,698
	First Data
	Initial Term Loan,
3,642,857	3.466%, 07/08/22 (b) .....
	3,640,872
	First Data
	Term Loan C,
4,500,000	3.716%, 04/26/24 .....
	4,504,815
	Trans Union LLC
	Term Loan B-2,
4,936,281	3.726%, 04/09/23 (b) .....
	4,974,611
	Weight Watchers
	Term Loan B-2,
7,280,964	4.377%, 04/02/20 (b) .....
	7,027,987
	WEX Term
	Loan B,
1,994,962	4.726%, 06/30/23 .....
	2,008,269
	<u>46,133,559</u>
<b>TECHNOLOGY - HARDWARE - 0.3%</b>	
	Zebra Technologies
	Term Loan B,
1,825,581	3.723%, 10/27/21 .....
	<u>1,835,166</u>
<b>TRANSPORTATION - 0.4%</b>	
	Hertz
	Term Loan B-1,
1,984,962	3.976%, 06/30/23 .....
	<u>1,980,208</u>
<b>UTILITY - 6.1%</b>	
	Calpine
	Term Loan B-5,
4,937,065	4.405%, 01/15/24 .....
	4,935,658
	Dynegy
	Term Loan C-1,
6,982,500	4.439%, 02/07/24 (b) .....
	6,992,965
	Lightstone Holdco LLC
	Term Loan B,
2,797,676	5.726%, 01/30/24 (b) .....
	2,732,182
	Lightstone Holdco LLC
	Term Loan C,
174,324	5.726%, 01/30/24 (b) .....
	170,243
	NRG Energy
	Term Loan B,
5,984,887	3.546%, 06/30/23 (b) .....
	5,984,139

# INVESTMENT PORTFOLIO (concluded)

June 30, 2017

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (continued)</b>	
<b>UTILITY (continued)</b>	
	Texas Competitive Electric Holdings Company LLC Escrow Loan, (Extending) (c) .....
21,000,000	52,500
	Texas Competitive Electric Holdings Company LLC Escrow Loan, (Non-Extending) (c) .....
5,000,000	12,500
	Vistra Operations Company LLC Term Loan B, 3.976%, 08/04/23 (b) .....
8,321,637	8,259,266
	Vistra Operations Company LLC Term Loan C, 3.976%, 08/04/23 (b) .....
1,907,454	1,893,158
	Vistra Operations Company LLC Term Loan B-2, 4.467%, 12/14/23 (b) .....
3,502,149	3,506,317
	<u>34,538,928</u>
	Total US Senior Loans (Cost \$504,983,048) .....
	<u><b>500,082,715</b></u>
<b>Foreign Domiciled Senior Loans (a) - 5.0%</b>	
<b>CANADA - 1.0%</b>	
<b>USD</b>	
	Concordia Healthcare Initial Dollar Term Loan, 5.501%, 10/21/21 .....
2,447,709	1,835,782
	Husky International Term Loan B, 4.476%, 06/30/21 .....
3,658,464	3,678,824
	<u>5,514,606</u>
<b>FRANCE - 0.9%</b>	
<b>USD</b>	
	Numericable Term Loan B-10, 4.422%, 01/14/25 (b) .....
4,989,975	4,986,707
<b>LUXEMBOURG - 1.6%</b>	
<b>USD</b>	
	Intelsat Term Loan B-2, 4.000%, 06/30/19 .....
9,500,000	9,433,215
<b>MARSHALL ISLANDS - 0.8%</b>	
<b>USD</b>	
	Seadrill Partners Term Loan B, 4.296%, 02/21/21 (b) .....
6,966,488	4,472,485
<b>NETHERLANDS - 0.7%</b>	
<b>USD</b>	
	Tronox Pigments Term Loan B, 4.796%, 03/19/20 .....
4,005,177	4,032,713
	Total Foreign Domiciled Senior Loans (Cost \$29,048,712) .....
	<u><b>28,439,726</b></u>

Number of Rights	Value (\$)
<b>Rights - 0.1%</b>	
<b>UNITED STATES - 0.1%</b>	
	Texas Competitive Electric Holdings Company LLC (d)* .....
431,587	510,783
	Total Rights (Cost \$1,178,330) .....
	<u>510,783</u>
<b>Total Investments - 94.0%</b> .....	<b>529,033,224</b>
	(Cost \$535,210,090)
<b>Other Assets &amp; Liabilities, Net - 6.0%</b> .....	<b>33,476,636</b>
<b>Net Assets - 100.0%</b> .....	<b>562,509,860</b>

- (a) Senior loans (also called bank loans, leveraged loans, or floating rate loans) in which the Highland/iBoxx Senior Loan ETF (the "Fund") invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread. (Unless otherwise denoted as a fixed rate loan, all senior loans carry a variable interest rate.) These base lending rates are generally (i) the Prime Rate offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Inter-Bank Offered Rate ("LIBOR") or (iii) the Certificate of Deposit rate. The rate shown represents the weighted average rate at June 30, 2017. Senior loans, while exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy less than the stated maturity shown.
- (b) All or a portion of this position has not settled. Full contract rates do not take effect until settlement date.
- (c) The issuer is, or is in danger of being, in default of its payment obligation. Full income is not being accrued, although adequate protection payments are being made in certain cases.
- (d) No expiration date.
- \* Non-income producing security.

LLC — Limited Liability Company  
 LP — Limited Partnership  
 USD — United States Dollars

Foreign Domiciled Senior Loans Industry Concentration Table: (% of Net Assets)	
Chemicals	0.7%
Energy	0.8%
Healthcare	0.3%
Manufacturing	0.6%
Media/Telecommunications	2.6%
	<u>5.0%</u>

# STATEMENT OF ASSETS AND LIABILITIES

As of June 30, 2017

Highland/iBoxx Senior Loan ETF

	(\$)
<b>Assets:</b>	
Total Investments, at value (cost \$535,210,090).....	529,033,224
Cash .....	50,246,703
Receivable for:.....	
Fund shares sold .....	62,514,001
Investments sold .....	42,672,957
Dividends and interest .....	1,524,456
Investment adviser (Note 4).....	16,569
Prepaid expenses .....	18,541
Total assets .....	<u>686,026,451</u>
<b>Liabilities:</b>	
Payable for:	
Investments purchased .....	123,325,335
Administration fees (Note 4) .....	31,398
Audit fees .....	23,554
Transfer agent fees .....	3,888
Trustees' fees (Note 4).....	704
Accrued expenses and other liabilities .....	131,712
Total liabilities .....	<u>123,516,591</u>
<b>Net Assets</b> .....	<u><b>562,509,860</b></u>
<b>Composition of Net Assets:</b>	
Paid-in capital .....	588,739,418
Accumulated net realized loss on investments.....	(20,052,692)
Net unrealized depreciation on investments .....	(6,176,866)
<b>Net Assets</b> .....	<u><b>562,509,860</b></u>
Shares outstanding (unlimited authorization — no par value) .....	30,600,000
Net asset value, per share (Net assets/shares outstanding) .....	18.38

# STATEMENT OF OPERATIONS

For the year ended June 30, 2017

Highland/iBoxx Senior Loan ETF

	(\$)
<b>Investment Income:</b>	
Interest income .....	23,184,043
Dividend income .....	116,044
Total investment income .....	<u>23,300,087</u>
<b>Expenses:</b>	
Investment advisory fees (Note 4) .....	2,025,394
Administration fees (Note 4) .....	342,488
Trustees' fees (Note 4) .....	89,404
Legal fees .....	224,431
Licensing fees .....	168,193
Printing fees .....	109,458
Pricing fees .....	88,010
Custodian fees .....	86,656
Audit fees .....	30,733
Transfer agent fees .....	19,020
Registration fees .....	15,074
Other .....	143,563
Total operating expenses .....	<u>3,342,424</u>
Fees and expenses waived by Investment Adviser (Note 4) .....	(866,942)
Net operating expenses .....	<u>2,475,482</u>
Net investment income .....	<u>20,824,605</u>
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	
Net realized loss on investments .....	(9,495,227)
Net change in unrealized appreciation (depreciation) on investments .....	8,135,532
Net realized and unrealized loss on investments .....	<u>(1,359,695)</u>
Net increase in net assets resulting from operations .....	<u>19,464,910</u>

# STATEMENTS OF CHANGES IN NET ASSETS

## Highland/iBoxx Senior Loan ETF

	Year Ended June 30, 2017 (\$)	Year Ended June 30, 2016 (\$)
<b>Increase/(Decrease) in Net Assets:</b>		
<b>From Operations</b>		
Net investment income .....	20,824,605	13,564,585
Net realized loss on investments .....	(9,495,227)	(7,208,438)
Net change in unrealized appreciation/(depreciation) on investments .....	8,135,532	(7,209,329)
Net increase (decrease) in net assets resulting from operations .....	<u>19,464,910</u>	<u>(853,182)</u>
<b>Distributions Declared to Shareholders</b>		
From net investment income .....	(20,889,862)	(13,499,328)
From return capital .....	(13,013)	—
Total distributions declared to shareholders .....	<u>(20,902,875)</u>	<u>(13,499,328)</u>
<b>Share Transactions</b>		
Subscriptions .....	506,752,943	123,447,748
Redemptions .....	(334,098,429)	(42,172,777)
Net increase from share transactions .....	<u>172,654,514</u>	<u>81,274,971</u>
Total increase in net assets .....	<u>171,216,549</u>	<u>66,922,461</u>
<b>Net Assets:</b>		
Beginning of year .....	<u>391,293,311</u>	<u>324,370,850</u>
End of year .....	<u>562,509,860</u>	<u>391,293,311</u>
Undistributed net investment income .....	—	<u>65,257</u>
<b>Changes in Shares</b>		
Subscriptions .....	27,300,000	6,700,000
Redemptions .....	(18,000,000)	(2,300,000)
Net increase .....	<u>9,300,000</u>	<u>4,400,000</u>

Amount designated as “—” is \$0.

# FINANCIAL HIGHLIGHTS

## Highland/iBoxx Senior Loan ETF

Selected data for a share outstanding throughout each period is as follows:

	For the Year Ended 06/30/17	For the Year Ended 06/30/16	For the Year Ended 06/30/15	For the Year Ended 06/30/14	For the Period Ended 06/30/13 <sup>(a)</sup>
<b>Net Asset Value, Beginning of Year/Period</b>	\$ 18.37	\$ 19.19	\$ 19.94	\$ 19.93	\$ 20.00
<b>Income from Investment Operations:</b>					
Net investment income <sup>(b)</sup>	0.86	0.81	0.76	0.93	0.73
Net realized and unrealized gain (loss)	<u>0.01</u>	<u>(0.82)</u>	<u>(0.75)</u>	<u>0.08</u>	<u>(0.13)</u>
Total from investment operations	0.87	(0.01)	0.01	1.01	0.60
<b>Less Distributions Declared to Shareholders:</b>					
From net investment income	(0.86)	(0.81)	(0.76)	(0.93)	(0.67)
From net realized gains	—	—	—	(0.06)	—
From return of capital	<u>(0.00)<sup>(h)</sup></u>	<u>—</u>	<u>(0.00)<sup>(h)</sup></u>	<u>(0.01)</u>	<u>—</u>
Total distributions declared to shareholders	(0.86)	(0.81)	(0.76)	(1.00)	(0.67)
<b>Net Asset Value, End of Year/Period</b>	\$ 18.38	\$ 18.37	\$ 19.19	\$ 19.94	\$ 19.93
Market Price, End of Year/Period	\$ 18.39	\$ 18.38 <sup>(i)</sup>	\$ 19.23 <sup>(i)</sup>	\$ 19.93 <sup>(i)</sup>	\$ 19.96 <sup>(i)</sup>
Total return <sup>(c)</sup>	4.78%	0.02%	0.09%	5.19%	3.04% <sup>(g)</sup>
<b>Ratios to Average Net Assets/Supplemental Data:</b>					
Net assets, end of year/period (000s)	\$ 562,510	\$391,293	\$324,371	\$199,367	\$89,672
Gross operating expenses <sup>(f)</sup>	0.74%	0.77%	0.73%	0.92%	1.62% <sup>(d)</sup>
Net investment income	4.62%	4.39%	3.90%	4.68%	5.60% <sup>(d)</sup>
Portfolio turnover rate	115%	51%	9%	35%	38% <sup>(e)</sup>

(a) The Highland/iBoxx Senior Loan ETF commenced operations on November 6, 2012.

(b) Per share data was calculated using average shares outstanding for the period.

(c) Total return is at net asset value assuming all distributions are reinvested. For periods with waivers/reimbursements, had the Fund's Investment Adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Annualized.

(e) Not annualized.

(f) Supplemental expense ratios are shown below.

	For the Year Ended 06/30/17	For the Year Ended 06/30/16	For the Year Ended 06/30/15	For the Year Ended 06/30/14	For the Period Ended 06/30/13 <sup>(a)</sup>
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.55%	0.55%	0.55%	0.55%	0.55% <sup>(d)</sup>

(g) Total return is for the period indicated and is not annualized.

(h) Amount represents less than \$0.01 per share.

(i) The Market Price has not been previously audited.

Amounts designated as "—" are \$0.

## Note 1. Organization

Highland Funds I (the "Trust") was organized as a Delaware statutory trust on February 28, 2006. The Trust is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company with six portfolios, each of which is non-diversified. The financial statements herein are those of the Highland/iBoxx Senior Loan ETF (the "Fund"). The Fund is a non-diversified exchange-traded fund ("ETF"). The financial statements of the remaining funds of the Trust are presented separately.

## Investment Objective

The investment objective of the Fund is to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Markit iBoxx USD Liquid Leveraged Loan Index (the "Underlying Index").

## Fund Shares

Shares of the Fund are listed and traded on National Association of Securities Dealers Automatic Quotation System, Inc. ("NASDAQ"). Market prices for the shares of the Fund may be different from their net asset value ("NAV"). The Fund issues and redeems shares on a continuous basis at NAV only to authorized participants who have entered into agreements with the Fund's distributor ("Authorized Participants") in exchange for the deposit or delivery of a basket of assets (securities and/or cash) in large blocks, known as Creation Units, each of which comprises 100,000 shares for the Fund. Once created, shares will trade in a secondary market at market prices that change throughout the day in amounts less than a Creation Unit.

## Note 2. Significant Accounting Policies

The following summarizes the significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

## Use of Estimates

The Fund is an investment company that follows the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies. The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Changes in the economic environment, financial markets and any other parameters used in

determining these estimates could cause actual results to differ materially.

## Valuation of Investments

In computing the Fund's net assets attributable to shares, securities with readily available market quotations on the New York Stock Exchange, NASDAQ or other nationally recognized exchange use the closing quotations on the respective exchange for valuation of those securities. Securities for which there are no readily available market quotation will be valued pursuant to policies adopted by the Fund's Board of Trustees (the "Board"). Typically, such securities will be valued at the mean between the most recently quoted bid and ask prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day may be priced by an independent pricing service. Investments in mutual funds are valued at their respective net asset values as determined by those mutual funds each business day. Generally, the Fund's loan and bond positions are not traded on exchanges and consequently are valued based on a mean of the bid and ask price from the third-party pricing services or broker-dealer sources that Highland Capital Management Fund Advisors, L.P. (the "Investment Adviser") has determined generally have the capability to provide appropriate pricing services and have been approved by the Board.

Securities for which market quotations are not readily available and for which the Fund has determined the price received from a pricing service or broker-dealer is "stale" or otherwise does not represent fair value (such as when events materially affecting the value of securities occur between the time when market price is determined and calculation of the Fund's NAV), will be valued by the Fund at fair value, as determined by the Board or its designee in good faith in accordance with procedures approved by the Board, taking into account factors reasonably determined to be relevant, including, among other things: (i) the fundamental analytical data relating to the investment; (ii) the nature and duration of restrictions on disposition of the securities; and (iii) an evaluation of the forces that influence the market in which these securities are purchased and sold. In these cases, the Fund's NAV will reflect the affected portfolio securities' fair value as determined in the judgment of the Board or its designee instead of being determined by the market. Using a fair value pricing methodology to value securities may result in a value that is different from a security's most recent sale price and from the prices used by other investment companies to calculate their net asset values. Determination of fair value

June 30, 2017

Highland/iBoxx Senior Loan ETF

is uncertain because it involves subjective judgments and estimates.

There can be no assurance that the Fund's valuation of a security will not differ from the amount that it realizes upon the sale of such security. Those differences could have a material impact on the Fund.

The NAV shown in the Fund's financial statements may vary from the NAV published by the Fund as of the end of the reporting period because portfolio securities transactions are accounted for on the trade date (rather than the day following the trade date) for financial statement purposes.

### Fair Value Measurements

The Fund has performed an analysis of all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

*Level 1* — Quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement;

*Level 2* — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active, but are valued based on executed trades; broker quotations that constitute an executable price; and alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 inputs are either directly or indirectly observable for the asset in connection with market data at the measurement date; and

*Level 3* — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. In certain cases, investments classified within Level 3 may include securities for which the Fund has obtained indicative quotes from broker-dealers that do not necessarily represent prices the broker may be willing to trade on, as such quotes can be subject to material management judgment. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The Investment Adviser has established policies and procedures, as described above and approved by the Board, to ensure that valuation methodologies for investments and financial instruments that are categorized within all levels of the fair value hierarchy are fair and consistent. A Pricing Committee has been established to provide oversight of the valuation policies, processes and procedures, and is comprised of personnel from the Investment Adviser. The Pricing Committee meets monthly to review the proposed valuations for investments and financial instruments and is responsible for evaluating the overall fairness and consistent application of established policies.

As of June 30, 2017, the Fund's investments consisted of senior loans and rights. The fair value of the Fund's loans is generally based on quotes received from brokers or independent pricing services. Loans with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Loans that are priced using quotes derived from implied values, indicative bids, or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

At the end of each calendar quarter, management evaluates the Level 2 and 3 assets and liabilities for changes in liquidity, including but not limited to: whether a broker is willing to execute at the quoted price, the depth and consistency of prices from third party services, and the existence of contemporaneous, observable trades in the market. Additionally, management evaluates the Level 1 and 2 assets and liabilities on a quarterly basis for changes in listings or delistings on national exchanges.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Fund's investments may fluctuate from period to period. Additionally, the fair value of investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values the Fund may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities.



# NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of the levels are recognized at the value of the security at the end of the period. A summary of the levels of inputs used to value the Fund's assets as of June 30, 2017 is as follows:

	Total Market Value at 06/30/17	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Highland/iBoxx Senior Loan ETF</b>				
<b>Assets</b>				
US Senior Loans*	\$500,082,715	\$ —	\$500,082,715	\$ —
Foreign Domiciled Senior Loans*	28,439,726	—	28,439,726	—
Rights*	510,783	510,783	—	—
<b>Total</b>	<b>\$529,033,224</b>	<b>\$510,783</b>	<b>\$528,522,441</b>	<b>\$ —</b>

\* Please refer to the Investment Portfolio for industry/country breakout.

Amounts designated as “—” are \$0

For the year ended June 30, 2017, there were no transfers within the Fund between Level 1, Level 2 or Level 3. At June 30, 2017, and during the year then ended, there were no Level 3 investments.

## Security Transactions

Security transactions are accounted for on the trade date. Realized gains/(losses) on investments sold are recorded on the basis of the specific identification method for both financial statement and U.S. federal income tax purposes taking into account any foreign taxes withheld.

## Cash and Cash Equivalents

The Fund considers liquid assets deposited with a bank, and certain short term debt instruments with original maturities of 3 months or less to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay Fund expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value. The value of cash equivalents denominated in foreign currencies is determined by converting to U.S. dollars on the date of the Statement of Assets and Liabilities.

## Foreign Currency

Accounting records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rates using the current 4:00 PM London Time Spot Rate. Fluctuations in the value of the foreign currencies and other assets and liabilities resulting from changes in exchange rates, between trade and settlement dates on securities transactions and between the accrual and payment dates on dividends, interest income and foreign withholding taxes, are

recorded as unrealized foreign currency gains/(losses). Realized gains/(losses) and unrealized appreciation/(depreciation) on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated in the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

## Creation Units

Except when aggregated in Creation Units, shares are not redeemable securities of the Fund. Creation Units of the Fund may only be purchased or redeemed directly from the Fund by Authorized Participants. An Authorized Participant is either (i) a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation or (ii) a Depository Trust Company (“DTC”) participant and, in each case, must have executed an Authorized Participant Agreement with the Fund's distributor. Most retail investors will not qualify as Authorized Participants or have the resources to buy and sell whole Creation Units. Therefore, they will be unable to purchase or redeem the shares directly from the Fund. Rather, most retail investors will purchase shares in the secondary market with the assistance of a broker and will be subject to customary brokerage commissions or fees.

## Income Recognition

Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums of debt instruments.

# NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

## U.S. Federal Income Tax Status

The Fund intends to continue to qualify each year as a “regulated investment company” under Subchapter M of the Internal Revenue Code of 1986, as amended, and will distribute substantially all of its taxable income and gains, if any, for the tax year, and as such will not be subject to U.S. federal income taxes. In addition, the Fund intends to distribute, in each calendar year, all of its net investment income, capital gains and certain other amounts, if any, such that it should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded.

Management has analyzed the Fund’s tax positions taken on federal income tax returns for all open tax years (current and prior tax year), and has concluded that no provision for federal income tax is required in the Fund’s financial statements. The Fund’s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

## Distributions to Shareholders

The Fund intends to pay distributions from net investment income, if any, on a monthly basis. The Fund intends to pay net realized capital gains, if any, on an annual basis.

## Note 3. U.S. Federal Tax Information

The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. GAAP. As a result, net investment income (loss) and net realized gain/(loss) on investment transactions for a reporting period may differ significantly from distributions during such period.

Reclassifications are made to the Fund’s capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations.

For the year ended June 30, 2017, permanent differences chiefly resulting from return of capital, were identified and reclassified among the components of the Fund’s net assets as follows:

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
Highland/iBoxx Senior Loan ETF	\$13,013	\$ —	\$(13,013)

These reclassifications have no effect on net asset value per share.

The tax character of distributions paid during the prior two fiscal years ended June 30, was as follows:

	Distributions paid from:		
	Ordinary Income*	Long-Term Capital Gains	Return of Capital
Highland/iBoxx Senior Loan ETF			
2017	\$20,889,862	\$ —	\$ 13,013
2016	13,499,328	—	—

\* For tax purposes, short-term capital gains distributions, if any, are considered ordinary income distributions.

As of June 30, 2017, the Fund’s most recent tax year end, the components of distributable earnings on a tax basis were as follows:

	Capital Loss Carryforward	Net Unrealized Appreciation/ (Depreciation)	Undistributed Ordinary Income	Undistributed Long-Term Capital Gains
Highland/ iBoxx Senior Loan ETF	\$(19,237,032)	\$(6,992,526)	\$ —	\$ —

Under the Regulated Investment Company Modernization Act of 2010, Fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. Losses carried forward under these new provisions as of June 30, 2017 are as follows:

	Short-Term Loss	Long-Term Loss	Total
Highland/iBoxx Senior Loan ETF	\$11,991,166	\$7,245,866	\$19,237,032

For federal income tax purposes, the cost of securities owned at June 30, 2017, and the net realized gains or losses on securities sold for the period, were different from amounts reported for financial reporting purposes, primarily due to wash sales which cannot be used for federal income tax purposes in the current period and have been deferred for use in future periods.

Unrealized appreciation and depreciation at June 30, 2017, based on cost of investments for U.S. federal income tax purposes was:

	Gross Appreciation	Gross Depreciation	Net Depreciation	Cost
Highland/iBoxx Senior Loan ETF	\$2,198,730	\$(9,191,256)	\$(6,992,526)	\$536,025,750

# NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

## Note 4. Advisory, Administration, Service and Distribution, Trustee, and Other Fees

### Investment Advisory Fees

The Investment Adviser receives from the Fund monthly investment advisory fees, computed and accrued daily based on the Average Daily Managed Assets of the Fund, at the annual rate of 0.45%.

“Average Daily Managed Assets” of a Fund means the average daily value of the total assets of the Fund less all accrued liabilities of the Fund (other than the aggregate amount of any outstanding borrowings constituting financial leverage).

### Administration Fees

SEI Investments Global Funds Services (the “Administrator”) serves as the Fund’s Administrator pursuant to an Administration Agreement. For its services under the Administration Agreement, the Administrator receives a monthly administration fee from the Fund, calculated and assessed in arrears based on the aggregate net assets of the Fund, subject to an annual minimum fee. For the year ended June 30, 2017, the Fund paid \$342,488 for these services.

### Service and Distribution Fees

SEI Investments Distribution Co. (the “Distributor”) serves as the Fund’s underwriter and distributor of shares pursuant to a Distribution Agreement. Under the Distribution Agreement, the Distributor, as agent, receives orders to create and redeem shares in Creation Unit Aggregations and transmits such orders to the Fund’s custodian and transfer agent. The Distributor has no obligation to sell any specific quantity of Fund shares. The Distributor bears the following costs and expenses relating to the distribution of shares: (i) the costs of processing and maintaining records of creations of Creation Units; (ii) all cost of maintaining the records required of a registered broker/dealer; (iii) the expenses of maintaining its registration or qualification as a dealer or broker under Federal or state laws; (iv) filing fees; and (v) all other expenses incurred in connection with the distribution services as contemplated in the Distribution Agreement. The Distributor does not maintain any secondary market in Fund shares.

### Expense Limits and Fee Reimbursements

The Investment Adviser has contractually agreed to limit the total annual operating expenses (exclusive of taxes, brokerage commissions and other transaction costs, acquired fund fees and expenses and extraordinary expenses (collectively, the “Excluded Expenses”)) of the Fund to 0.55% of average daily net assets of the Fund (the “Expense Cap”). The Expense Cap will continue through at least October 31, 2017, and may not be terminated prior to

this date without the action or consent of the Board. Under the Expense Cap, the Investment Adviser may recoup waived and/or reimbursed amounts with respect to the Fund within thirty-six months of the date such amounts were waived or reimbursed, provided the Fund’s total annual operating expenses, including such recoupment, do not exceed the Expense Cap in effect at the time of such waiver/reimbursement.

As of June 30, 2017, pursuant to the above, fees previously waived and reimbursed by the Investment Adviser that may be subject to possible future reimbursement to the Investment Adviser were as follows:

	Expiring Fiscal Years Ended June 30,		
	2018	2019	2020
Highland/iBoxx Senior Loan ETF	\$526,374	\$662,390	\$866,942

During the year ended June 30, 2017, the Investment Adviser did not recoup any amounts previously waived or reimbursed and \$490,642 of fees previously waived and or reimbursed by the Investment Adviser that were eligible for recoupment expired.

### Fees Paid to Officers and Trustees

Each Trustee who is not an “interested person” of the Fund as defined in the 1940 Act (the “Independent Trustees”) receives an annual retainer of \$150,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund Complex based on relative net assets. The “Highland Fund Complex” consists of all of the registered investment companies and NexPoint Capital, Inc., a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act, which are each advised by the Investment Adviser or its affiliated advisers as of the date of this report. Although the Fund believes that Mr. Powell is technically no longer an “interested person” of the Fund, in light of his previous employment and the possibility that he may provide consulting services to the Investment Adviser and affiliates of the Investment Adviser, it is possible that the SEC might in the future determine Mr. Powell to be an “interested person” of the Fund. Therefore, the Fund intends to treat Mr. Powell as an “interested person” of the Fund for all purposes other than compensation and the Trust’s Code of Ethics (Mr. Powell will be compensated at the same rate as the Independent Trustees) from December 16, 2015 until December 4, 2017 (the second anniversary of his resignation). The Fund pays no compensation to its officers, all of whom are employees of the Investment Adviser.

# NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

## Expedited Settlement Agreement

On June 15, 2017, the Fund entered into an Expedited Settlement Agreement with a major dealer in the floating rate loan market, pursuant to which the Fund has the right to designate certain loans it sells to the dealer to settle on or prior to three days from the trade date in exchange for a quarterly fee (the "Expedited Settlement Agreement"). The Expedited Settlement Agreement is designed to reduce settlement times from the standard seven days to three days for eligible loans. For the year ended June 30, 2017, the Fund paid \$4,852 to the dealer as part of the Expedited Settlement Agreement.

While the Expedited Settlement Agreement is intended to provide the Fund with additional liquidity with respect to such loans, and may not represent the exclusive method of expedited settlement of such loans, no assurance can be given that the Expedited Settlement Agreement or other methods for expediting settlements will provide the Fund with sufficient liquidity in the event of abnormally large redemptions.

## Note 5. Portfolio Information

For the year ended June 30, 2017, the cost of purchases and the proceeds from sales of the Fund's portfolio securities amounted to the following:

	U.S. Government Securities*		Other Securities	
	Purchases	Sales	Purchases	Sales
Highland/iBoxx Senior Loan ETF	\$ —	\$ —	\$865,684,903	\$526,020,086

\* The Fund did not have any purchases or sales of U.S. Government Securities or other short term investments for the year ended June 30, 2017.

## Note 6. Indemnification

Under the Trust's organizational documents, the officers and Trustees have been granted certain indemnification rights against certain liabilities that may rise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated.

## Note 7. Disclosure of Significant Risks and Contingencies

### Counterparty Risk

A counterparty (the other party to a transaction or an agreement or the party with whom a Fund executes

transactions) to a transaction with a Fund may be unable or unwilling to make timely principal, interest or settlement payments, or otherwise honor its obligations.

### Credit Risk

Investments rated below investment grade are commonly referred to as "high yield securities" or "junk securities". They are regarded as predominantly speculative with respect to the issuing company's continuing ability to meet principal and interest payments. Investments in high-yield securities may result in greater NAV fluctuation than if the Fund did not make such investments.

Corporate debt obligations, including senior loans, are subject to the risk of non-payment of scheduled interest and/or principal. Non-payment would result in a reduction of income to a Fund, a reduction in the value of the corporate debt obligation experiencing non-payment and a potential decrease in the NAV of a Fund.

### Debt Securities and Leveraged Loans Risk

The market prices of debt securities generally fluctuate inversely with changes in interest rates so that the value of investments in such securities can be expected to decrease as interest rates rise and increase as interest rates fall. Such changes may be greater among debt securities with longer maturities. Leveraged loans are subject to the same risks typically associated with debt securities. In addition, leveraged loans, which typically hold a senior position in the capital structure of a borrower, are subject to the risk that a court could subordinate such loans to presently existing or future indebtedness or take other action detrimental to the holders of leveraged loans. Leveraged loans are also especially subject to the risk that the value of the collateral, if any, securing a loan may decline, be insufficient to meet the obligations of the borrower or be difficult to liquidate. Because loans are not ordinarily registered with the SEC or any state securities commission or listed on any securities exchange, there is usually less publicly available information about such instruments. In addition, loans may not be considered "securities" for purposes of the anti-fraud protections of the federal securities laws and, as a result, as a purchaser of these instruments, we may not be entitled to the anti-fraud protections of the federal securities laws. In the course of investing in such instruments, we may come into possession of material nonpublic information and, because of prohibitions on trading in securities of issuers while in possession of such information, we may be unable to enter into a transaction in a publicly-traded security of that issuer when it would otherwise be advantageous for us to do so. Alternatively, we may choose not to receive material nonpublic information about an issuer of such loans, with

June 30, 2017

Highland/iBoxx Senior Loan ETF

the result that we may have less information about such issuers than other investors who transact in such assets.

### Focused Investment Risk

The Fund's investments in senior loans arranged through private negotiations between a borrower and several financial institutions may expose the Fund to risks associated with the financial services industry. The financial services industry is subject to extensive government regulation, which can limit both the amounts and types of loans and other financial commitments financial services companies can make and the interest rates and fees they can charge. Profitability is largely dependent on the availability and cost of capital funds, and can fluctuate significantly when interest rates change. Because financial services companies are highly dependent on short-term interest rates, they can be adversely affected by downturns in the U.S. and foreign economies or changes in banking regulations. Losses resulting from financial difficulties of borrowers can negatively affect financial services companies.

### Illiquid Securities Risk

The Adviser may not be able to sell illiquid securities at the price it would like or may have to sell them at a loss. Securities of non-U.S. issuers and emerging markets securities in particular, are subject to greater liquidity risk.

### Industry Concentration Risk

Because the Fund may invest 25% or more of the value of its assets in an industry or group of industries to the extent that the Underlying Index concentrates in an industry or group of industries, the Fund's performance largely depends on the overall condition of such industry or group of industries and a Fund is susceptible to economic, political and regulatory risks or other occurrences associated with that industry or group of industries.

### Lender Liability Risk

A number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories founded upon the premise that an institutional lender has violated a duty of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Fund's investments, the Fund or the Investments Adviser could be subject to such liability.

### Non-Diversification Risk

Due to the nature of the Fund's investment strategy and its non-diversified status, it is possible that a material amount

of the Fund's portfolio could be invested in the securities of one or a few issuers. Investing a significant portion of the Fund's portfolio in any one or a few issuers may result in the Fund's shares being more sensitive to the economic results of those few issuers.

### Non-Payment Risk

Debt securities are subject to the risk of non-payment of scheduled interest and/or principal. Non-payment would result in a reduction of income to the Fund, a reduction in the value of the obligation experiencing non-payment and a potential decrease in the Fund's NAV and the market price of the Fund's shares.

### Ongoing Monitoring Risk

On behalf of the several lenders, the agent generally will be required to administer and manage the senior loans and, with respect to collateralized senior loans, to service or monitor the collateral. Financial difficulties of agents can pose a risk to the Fund. Unless, under the terms of the loan, the Fund has direct recourse against the borrower, the Fund may have to rely on the agent or other financial intermediary to apply appropriate credit remedies against a borrower.

### Regulatory Risk

To the extent that legislation or state or federal regulators impose additional requirements or restrictions with respect to the ability of financial institutions to make loans in connection with highly leveraged transactions, the availability of Senior Loan interests for investment by the Fund may be adversely affected.

### Senior Loans Risk

The Fund's investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. As with any debt instrument, Senior Loans are generally subject to the risk of price declines and to increases in interest rates, particularly long-term rates. Senior loans are also subject to the risk that, as interest rates rise, the cost of borrowing increases, which may increase the risk of default. In addition, the interest rates of floating rate loans typically only adjust to changes in short-term interest rates; long-term interest rates can vary dramatically from short-term interest rates. Therefore, Senior Loans may not mitigate price declines in a rising long-term interest rate environment. The secondary market for loans is generally less liquid than the market for higher grade debt. Less liquidity in the secondary trading market could adversely affect the price at which the Fund could sell a loan, and could adversely affect the Fund's income. The volume and frequency of secondary market trading in such loans varies significantly



June 30, 2017

Highland/iBoxx Senior Loan ETF

over time and among loans. Although Senior Loans in which the Fund will invest will often be secured by collateral, there can be no assurance that liquidation of such collateral would satisfy the Borrower's obligation in the event of a default or that such collateral could be readily liquidated.

## Note 8. Credit Agreement

Effective November 2, 2012, the Fund entered into an unsecured credit agreement (the "Credit Agreement") with State Street Bank and Trust Company. The Credit Agreement expired on March 20, 2017 and was not renewed. Prior to expiration, interest was charged at a rate equal to LIBOR plus 1.25%, with a commitment fee of 0.25% on the undrawn amount.

For the year ended June 30, 2017, the Fund did not have any outstanding borrowings.

## Note 9. New Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The amendments in this update makes improvements to the requirements for accounting for equity investments and simplifying the impairment assessment of equity investments. For public entities this update will be effective for fiscal years beginning after December 15, 2017. For all other entities, this update will be effective for fiscal years beginning after December 31, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments in this update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. For public entities this update will be effective for interim periods and fiscal years beginning after December 15, 2016. For all other entities, this update will be effective for fiscal years beginning after December 31, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

In August, 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Receipts and Cash Payments. The

amendments in this update address eight specific issues, where there has been diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. For public entities this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. For all other entities, this update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, "final rules") intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. The Investment Adviser is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on the Fund's financial statements and disclosures.

In November, 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require the statement of cash flows explain the change during the period in the total of cash, cash equivalents. Amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For public entities this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. For all other entities, this update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. In addition, Accounting Standards Updated 2016-18 must be adopted at the same time as Accounting Standards Updated 2016-15. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

In December 2016, the FASB issued Accounting Standards Update 2016-19, Technical Corrections and Improvements. The amendments in this update include an amendment to FASB ASC Topic 820, Fair Value Measurement and Disclosures to clarify the difference between a valuation approach and a valuation technique. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation

June 30, 2017

Highland/iBoxx Senior Loan ETF

technique. For public entities, this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. For all other entities, this update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this update shorten amortization period for certain callable debt securities held at premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount

continues to be amortized to maturity. For public entities this update will be effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

At this time management is evaluating the implications of these ASU's and their impact on the financial statement disclosures has not yet been determined.

### **Note 10. Subsequent Events**

Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

# REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

## The Board of Trustees and Shareholders Highland Funds I:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Highland/iBoxx Senior Loan ETF, a series of Highland Funds I, as of June 30, 2017, and the related statement of operations for the year then ended, and the statements of changes in net assets and the financial highlights for each of the years in the two-year period then ended. These financial statements and financial highlights are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The accompanying financial highlights of Highland/iBoxx Senior Loan ETF for each of the years or periods in the period from November 6, 2012 (commencement of operations) to June 30, 2015, were audited by other auditors whose report thereon, dated August 28, 2015, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 2017, by correspondence with the custodian and brokers or by other appropriate audit procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Highland/iBoxx Senior Loan ETF as of June 30, 2017, and the results of its operations for the year then ended, and the changes in its net assets and the financial highlights for each of the years in the two-year period then ended, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

Boston, Massachusetts  
August 29, 2017



## ADDITIONAL INFORMATION (unaudited)

June 30, 2017

Highland/iBoxx Senior Loan ETF

### Tax Information

For shareholders that do not have a June 30, 2017 tax year end, this notice is for informational purposes only. For shareholders with a June 30, 2017 tax year end, please consult your tax adviser as to the pertinence of this notice. For the fiscal year ended June 30, 2017, the Fund is designating the following items with regard to distributions paid during the year.

Return of Capital	Ordinary Income Distribution	Total Distributions	Qualifying for Corporate Dividends Receivable Deduction*	Qualifying Dividend Income (15% Tax Rate for QDI)**	Interest Related Dividends***
0.06%	99.94%	100.00%	0.56%	0.56%	89.15%

\* The percentage in this column represents the amount of "Qualifying for Corporate Receivable Deduction Dividends" and is reflected as a percentage of ordinary income distributions.

\*\* The percentage in this column represents the amount of "Qualifying Dividend Income" and is reflected as a percentage of "Ordinary Income Distributions." It is the intention of the Fund to designate the maximum amount permitted by law. The information reported herein may differ from the information and distributions taxable to the shareholders for the calendar year ending June 30, 2017. Complete information will be computed and reported in conjunction with your 2017 Form 1099-DIV.

\*\*\* The percentage in this column represents the amount of "Interest Related Dividends" and is reflected as a percentage of ordinary income distributions exempt from U.S. withholding tax when paid to foreign investors.

### Additional Portfolio Information

Net asset value, or "NAV," is the price per share at which the Fund issues and redeems shares. It is calculated in accordance with the standard formula for valuing mutual fund shares. The "Market Price" of the Fund generally is determined using the midpoint between the bid and the ask on the stock exchange on which the shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. The Fund's Market Price may be at, above or below its NAV. The NAV of the Fund will fluctuate with changes in the market value of its holdings. The Market Price of the Fund will fluctuate in accordance with changes in its NAV, as well as market supply and demand. Shareholders may pay more than NAV when they buy Fund shares and receive less than NAV when they sell those shares, because shares are bought and sold at current Market Prices. Premiums or discounts are the differences (expressed as a percentage) between the NAV and Market Price of the Fund on a given day, generally at the time NAV is calculated. A premium is the amount that a Fund is trading above the reported NAV, expressed as a percentage of the NAV. A discount is the amount that a Fund is trading below the reported NAV, expressed as a percentage of the NAV. Further information regarding premiums and discounts for the Fund is available on the Fund's website at [www.highlandfunds.com](http://www.highlandfunds.com). The Investment Adviser and its affiliates manage other accounts, including private funds and individual accounts. Although investment decisions for the Fund are made independently from those of such other accounts, the Investment Adviser may, consistent with applicable law, make investment recommendations to other clients or accounts that may be the same or different from those made to the Fund, including investments in different levels of the capital structure of a company, such

as equity versus senior loans, or that involve taking contradictory positions in multiple levels of the capital structure. The Investment Adviser has adopted policies and procedures that address the allocation of investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, this may create situations where a client could be disadvantaged because of the investment activities conducted by the Investment Adviser for other client accounts. When the Fund and one or more other accounts is prepared to invest in, or desires to dispose of, the same security, available investments or opportunities for each are allocated in a manner believed by the Investment Adviser to be equitable over time. The Investment Adviser may aggregate orders, which may include orders for accounts in which the Investment Adviser or its affiliates have an interest, to purchase and sell securities to obtain favorable execution or lower brokerage commissions, to the extent permitted by applicable laws and regulations. Although the Investment Adviser believes that, over time, the potential benefits of participating in volume transactions and negotiating lower transaction costs should benefit all participating accounts, in some cases these activities may adversely affect the price paid or received or the size of the position obtained by or disposed of for the Fund. Where trades are aggregated, the investments or proceeds, as well as the expenses incurred, will be allocated by the Investment Adviser in a manner designed to be equitable and consistent with the Investment Adviser's fiduciary duty to the Fund and its other clients (including its duty to seek to obtain best execution of client trades).

## ADDITIONAL INFORMATION (unaudited) (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

### Disclosure of Fund Expenses

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, and other Fund expenses. This example is intended to help you understand the ongoing costs (in dollars) of investing in your Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the six-month period January 1, 2017 through June 30, 2017, unless otherwise indicated. This table illustrates your Fund's costs in two ways:

**Actual Expenses:** The first part of the table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes:** The second part of the table provides information about hypothetical account values and hypothetical expenses based on your Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not your Fund's actual return. The actual expense ratio includes voluntary fee waivers or expense reimbursements by the Fund's investment adviser. The expense ratio would be higher had the fee waivers or expense reimbursements not been in effect. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in your Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the second part of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	Beginning Account Value 01/01/17	Ending Account Value 06/30/17	Annualized Expense Ratios	Expenses Paid During Period*
<b>Highland/iBoxx Senior Loan ETF</b>				
<i>Actual Fund Return</i>	\$1,000.00	\$1,005.20	0.55%	\$2.73
<i>Hypothetical</i>	\$1,000.00	\$1,022.07	0.55%	\$2.76

\* Expenses are equal to the Fund's annualized expense ratio multiplied by the average account value over the hypothetical six-month period, multiplied by 181/365 (to reflect the one-half year period).

## ADDITIONAL INFORMATION (unaudited) (continued)

June 30, 2017

Highland/iBoxx Senior Loan ETF

### Trustees and Officers

The Board is responsible for the overall management of the Fund, including supervision of the duties performed by the Investment Adviser. The names and birth dates of the Trustees and officers of the Fund, the year each was first elected or appointed to office, their principal business occupations during the last five years, the number of funds overseen by each Trustee and other directorships they hold are shown below. The business address for each Trustee and officer of the Fund is c/o Highland Capital Management Fund Advisors, L.P., 200 Crescent Court, Suite 700, Dallas, TX 75201.

<u>Name and Date of Birth</u>	<u>Position(s) with the Fund</u>	<u>Term of Office<sup>1</sup> and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by Trustee<sup>2</sup></u>	<u>Other Directorships/Trusteeships Held</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
<b>Independent Trustees</b>						
Timothy K. Hui (6/13/1948)	Trustee	Indefinite Term; Trustee since inception in 2006.	Dean of Educational Resources since July 2012 at Cairn University.	23	None	Significant experience on this board of directors/trustees; administrative and managerial experience; legal training and practice.
Bryan A. Ward (2/4/1955)	Trustee	Indefinite Term; Trustee since inception in 2006.	Private Investor BW Consulting LLC since 2014; Senior Manager, Accenture, LLP (a consulting firm) from 2002 until retirement in 2014.	23	Director of Equity Metrix, LLC.	Significant experience on this and/or other boards of directors/trustees; significant managerial and executive experience; significant experience as a management consultant.

## ADDITIONAL INFORMATION (unaudited) (continued)

June 30, 2017  
Trustees and Officers

Highland/iBoxx Senior Loan ETF

<u>Name and Date of Birth</u>	<u>Position(s) with the Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by Trustee</u>	<u>Other Directorships/ Trusteeships Held</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
<b>Independent Trustees</b>						
Dr. Bob Froehlich (4/28/1953)	Trustee	Indefinite Term; Trustee since December 2013.	Executive Vice President and Chief Investment Strategist, The Hartford Mutual Funds from 2009 until retirement in 2012.	23	Trustee of ARC Realty Finance Trust, Inc. (from January 2013 to May 2016); Director of KC Concessions, Inc.; Trustee of Realty Capital Income Funds Trust; Director of American Realty Capital Healthcare Trust II (from January 2013 to June 2016); Director, American Realty Capital Daily Net Asset Value Trust, Inc. (from November 2012 to July 2016); Director of American Sports Enterprise, Inc.; Director of Davidson Investment Advisors (July 2009 to July 2016); Chairman and owner, Kane County Cougars Baseball Club; Advisory Board of Directors, Internet Connectivity Group, Inc. (January 2014 to April 2016); Director of AR Capital Acquisition Corp.; Director of The Midwest League of Professional Baseball Clubs, Inc.; Director of Kane County Cougars Foundation, Inc.; Director of Galen Robotics, Inc.	Significant experience in the financial industry; significant managerial and executive experience; significant experience on other boards of directors, including as a member of several audit committees.

## ADDITIONAL INFORMATION (unaudited) (continued)

June 30, 2017  
Trustees and Officers

Highland/iBoxx Senior Loan ETF

<u>Name and Date of Birth</u>	<u>Position(s) with the Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by Trustee</u>	<u>Other Directorships/Trusteeships Held</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
<b>Independent Trustees</b>						
John Honis <sup>3</sup> (6/16/1958)	Trustee	Indefinite Term; Trustee since July 2013.	President of Rand Advisors, LLC since August 2013; Partner of Highland Capital Management, L.P. ("HCM") from February 2007 until his resignation in November 2014.	23	Manager of Turtle Bay Resort, LLC	Significant experience in the financial industry; significant managerial and executive experience, including experience as president, chief executive officer or chief restructuring officer of five telecommunication firms; experience on other boards of directors.

## ADDITIONAL INFORMATION (unaudited) (continued)

June 30, 2017  
Trustees and Officers

Highland/iBoxx Senior Loan ETF

<u>Name and Date of Birth</u>	<u>Position(s) with the Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by Trustee</u>	<u>Other Directorships/Trusteeships Held</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
<b>Interested Trustee</b>						
Ethan Powell <sup>4</sup> (6/20/1975)	Trustee; Chairman of the Board	Indefinite Term; Trustee since December 2013; Chairman of the Board since December 2013; Executive Vice President and Principal Executive Officer from June 2012 until December 2015.	President and Founder of Impact Shares LLC (a registered investment advisor dedicated to building a platform to create better socially responsible investment solutions) since December 2015; Trustee/Director of the Highland Fund Complex from June 2012 until July 2013 and since December 2013; Chief Product Strategist of Highland Capital Management Fund Advisors, L.P. ("HCMFA") from 2012 until December 2015; Senior Retail Fund Analyst of HCM from 2007 until December 2015 and HCMFA from its inception until December 2015; Secretary of NexPoint Credit Strategies Fund ("NHF") from November 2010 until June 2012; President and Principal Executive Officer of NHF from June 2012 until May 2015; Secretary of NHF from May 2015 until December 2015; Executive Vice President and Principal Executive Officer of Highland Funds I ("HFI") and Highland Funds II ("HFII") from June 2012 until December 2015; and Secretary of HFI and HFII from November 2010 to May 2015.	23	Trustee of Impact Shares Funds I Trust	Significant experience in the financial industry; significant executive experience including past service as an officer of funds in the Highland Fund Complex; significant administrative and managerial experience.

## ADDITIONAL INFORMATION (unaudited) (continued)

June 30, 2017  
Trustees and Officers

Highland/iBoxx Senior Loan ETF

<u>Name and Date of Birth</u>	<u>Position(s) with the Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
<b>Officers</b>			
J. Bradley Ross (5/13/1959)	President and Principal Executive Officer	Indefinite Term; President and Principal Executive Officer since December 2015	Principal Executive Officer of HFI and HFII since December 2015; President of Highland Capital Funds Distributor, Inc. ("HCFD") since February 2014; President of HCMFA since June 2012; Member of the Sales Force Marketing Committee of the Investment Company Institute since 2003; Executive Vice President and National Sales Director of Ivy Funds from 2003 until June 2012.
Brian Mitts (8/26/1970)	Secretary; Principal Financial Officer and Principal Accounting Officer	Indefinite Term; Secretary; Principal Financial Officer and Principal Accounting Officer since May 2015.	Chief Financial Officer, Executive Vice President and Treasurer of NexPoint Residential Trust, Inc. since 2014; Principal Financial Officer and Principal Accounting Officer of NHF since November 2010; Executive Vice President, Principal Financial Officer and Principal Accounting Officer of NHF since May 2015; Treasurer of NHF from November 2010 until May 2015; Chief Financial Officer of NexPoint Capital, Inc. from August 2014 until May 2015; Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer of NexPoint Capital, Inc. since May 2015; Principal Financial Officer and Principal Accounting Officer of NexPoint Real Estate Strategies Fund since March 2016; Chief Operating Officer of HCFD since November 2013; Chief Operations Officer of HCMFA since 2012; Secretary of NexPoint Advisors, L.P. from August 2012 until May 2015; Executive Vice President of NexPoint Advisors, L.P. since May 2015; Senior Retail Fund Analyst of HCM since 2007 and HCMFA since its inception; Secretary, Principal Financial Officer and Principal Accounting Officer of HFI and HFII since May 2015; Principal Financial Officer and Principal Accounting Officer of HFI since November 2010 and of HFII since February 2011; Treasurer of HFI from November 2010 until May 2015 and of HFII from February 2011 until May 2015 and Financial and Operations Principal of NexBank Securities, Inc. since 2014.
Frank Waterhouse (4/14/1971)	Treasurer	Indefinite Term; Treasurer since May 2015.	Treasurer of Acis Capital Management, L.P. since February 2012; Treasurer of HCM since April 2012; Assistant Treasurer of HCMFA from December 2011 until October 2012; Treasurer of HCMFA since October 2012; Treasurer of NexPoint Advisors, L.P. since March 2012 and Treasurer of NexPoint Capital, Inc., NHF, HFI, HFII, and NexPoint Real Estate Advisors, L.P. since May 2015 and Treasurer of NexPoint Real Estate Strategies Fund since March 2016.
Clifford Stoops (11/17/1970)	Assistant Treasurer	Indefinite Term; Assistant Treasurer since March 2017.	Assistant Treasurer of HFI, HFII, NHF, NexPoint Capital, Inc. and NexPoint Real Estate Strategies Fund since March 2017; Chief Accounting Officer at HCM since December 2011.

## ADDITIONAL INFORMATION (unaudited) (concluded)

June 30, 2017  
Trustees and Officers

Highland/iBoxx Senior Loan ETF

<u>Name and Date of Birth</u>	<u>Position(s) with the Fund</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past Five Years</u>
Dustin Norris (1/6/1984)	Assistant Secretary	Indefinite Term; Assistant Secretary since March 2017.	Chief Product Strategist at HCMFA since September 2015, Director of Product Strategy at HCMFA from May 2014 to September 2015; Secretary of NHF since December 2015; Assistant Secretary of Highland Funds I since March 2017; Assistant Treasurer of Highland Funds I and Highland Funds II from November 2012 to March 2017; Assistant Treasurer of NHF from November 2012 to December 2015; Secretary of NexPoint Capital, Inc. since 2014; Secretary of NexPoint Real Estate Strategies Fund since March 2016; Senior Accounting Manager at HCMFA from August 2012 to May 2014; and Fund Accountant at HCM from June 2010 to August 2012.

- On an annual basis, as a matter of Board policy, the Governance Committee reviews each Trustee's performance and determines whether to extend each such Trustee's service for another year. Effective June 2013, the Board adopted a retirement policy wherein the Governance Committee shall not recommend the continued service as a Trustee of a Board member who is older than 80 years of age at the time the Governance Committee reports its findings to the Board.
- The "Highland Fund Complex" consists of NHF, each series of HFI, each series of HFII, NexPoint Merger Arbitrage Fund, NexPoint Latin American Opportunities Fund, NexPoint Real Estate Strategies Fund, NexPoint Opportunistic Credit Fund, NexPoint Energy and Materials Opportunities Fund, NexPoint Discount Yield Fund, NexPoint Healthcare Opportunities Fund, and NexPoint Capital, Inc., a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act.
- Since May 1, 2015, Mr. Honis has been treated as an Independent Trustee of the Trust. Prior to that date, Mr. Honis was treated as an Interested Trustee because he was a partner of an investment adviser affiliated with the Adviser until his resignation in November 2014. As of May 31, 2017, Mr. Honis was entitled to receive aggregate severance and/or deferred compensation payments of approximately \$1.0 million from another affiliate of the Adviser. Mr. Honis also serves as a director of a portfolio company affiliated with the Adviser. During the Trust's last two fiscal years, Mr. Honis' aggregate compensation from this portfolio company for his services as a director was approximately \$50,000.  
In addition, Mr. Honis serves as a trustee of a trust that owns substantially all of the economic interest in an investment adviser affiliated with the Adviser. Mr. Honis indirectly receives an asset-based fee in respect of such interest, which is projected to range from \$100,000-\$150,000 annually. In light of these relationships between Mr. Honis and affiliates of the Adviser, it is possible that the SEC might in the future determine Mr. Honis to be an interested person of the Trust.
- Effective December 4, 2015, Mr. Powell resigned from his position with the Adviser. Although the Trust believes that Mr. Powell is technically no longer an interested person of the Trust, in light of his previous employment and the possibility that he may provide consulting services to the Adviser and affiliates of the Adviser, it is possible that the SEC might in the future determine Mr. Powell to be an interested person of the Trust. Therefore, the Trust treats Mr. Powell as an Interested Trustee of the Trust for all purposes other than compensation and the Fund's code of ethics (Mr. Powell will be compensated at the same rate as the Independent Trustees) from December 16, 2015 until at least December 4, 2017 (the second anniversary of his resignation).



## IMPORTANT INFORMATION ABOUT THIS REPORT

### **Investment Adviser**

Highland Capital Management Fund Advisors, L.P.  
200 Crescent Court, Suite 700  
Dallas, TX 75201

### **Transfer Agent**

State Street Bank and Trust Company  
One Heritage Drive, 1<sup>st</sup> Floor  
Quincy, MA 02171

### **Distributor**

SEI Investments Distribution Co.  
One Freedom Valley Drive  
Oaks, PA 19456

### **Custodian**

State Street Bank and Trust Company  
One Lincoln Street  
Boston, MA 02111

### **Independent Registered Public Accounting Firm**

KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

### **Fund Counsel**

Ropes & Gray LLP  
Prudential Tower  
800 Boylston Street  
Boston, MA 02199

This report has been prepared for shareholders of the Highland/iBoxx Senior Loan ETF (the "Fund"). The Fund mails one shareholder report to each shareholder address. If you would like more than one report, please call shareholder services at 1-855-799-4757 to request that additional reports be sent to you.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities, and the Fund's proxy voting records for the most recent 12-month period ended June 30th are available (i) without charge, upon request, by calling 1-855-799-4757 and (ii) on the U.S. Securities and Exchange Commission's website at <http://www.sec.gov>.

The Fund files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission (the "Commission") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the Commission's website at <http://www.sec.gov> and also may be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the Public Reference Room may be obtained by calling 1-800-SEC-0330. Shareholders may also obtain the Form N-Q, upon request and without charge, by visiting the Fund's website at [www.highlandfunds.com](http://www.highlandfunds.com) or by calling 1-855-799-4757.

The Statement of Additional Information includes additional information about the Fund's Trustees and is available upon request without charge by calling 1-855-799-4757.

**THIS PAGE LEFT BLANK INTENTIONALLY**





One Heritage Drive, 1st Floor  
North Quincy, MA 02171

Highland/iBoxx Senior Loan ETF

Annual Report June 30, 2017