ENERGY MLP FUND

Q4 2017 MARKET REVIEW

PERFORMANCE SUMMARY

During the fourth quarter of 2017 the Highland Energy MLP Fund (the "Fund") (Class Y Shares) had a negative return of 1.3%. This underperformed the Alerian MLP Index return of -1.0%.

PERFORMANCE CONTRIBUTORS

The largest positive contributors to fund performance during the quarter were NGL Energy Partners (NGL), SemGroup Corp. (SEMG), and Targa Resources (TRGP) (contributed +1.2%, +0.5% and +0.3%, respectively).[1] Both SEMG and TRGP were top contributors in the prior quarter as well.

NGL returned +25.9% during the quarter.[1] After cutting guidance twice in 2017, NGL rebounded from oversold levels. During the quarter the partnership announced the $200mm sale of a retail propane asset and the $300mm sale of NGL's 50% interest in Glass Mountain. These transactions provided meaningful leverage improvement. With headwinds abating and NGL returning to a path of leverage improvement and discounted cash flow (DCF) enhancement through more fee-based revenues, we remain constructive on NGL.

SEMG returned +7.1% during the quarter.[1] SemGroup agreed to sell its 50% interest in Glass Mountain for $300mm, which reduces the company's capital needs for the recently announced HOTCO acquisition.[1] We continue to believe SEMG has an attractive potential given its limited direct commodity exposure and access to attractive growth opportunities.

TRGP returned +4.6% during the quarter.[1] TRGP posted a strong quarter, which beat street expectations. The beat was driven by strong Permian G&P volumes that were up 27% sequentially, with Midland basin volumes up 36%.[1] TRGP represents one of our high conviction ideas, as we believe it will benefit from improving Permian fundamentals and positive NGL demand trends. We continue to believe that TRGP represents a potential buyout target.

PERFORMANCE ANALYSIS (%) AVG. ANNUAL TOTAL RETURNS

AS OF 12/31/17

Share Class	Incept	YTD	1-YR	3-YR	5-YR	Since Incept
Class A	12.1.11	-17.64	-17.64	-22.87	-10.34	-7.18
Class A (w/load)	12.1.11	-22.30	-22.30	-24.39	-11.41	-8.08
Class C	12.1.11	-18.31	-18.31	-23.47	-11.00	-7.85
Class C (w/load)	12.1.11	-19.05	-19.05	-23.47	-11.00	-7.85
Class Y	12.1.11	-17.32	-17.32	-22.85	-10.23	-6.99
S&P 500 TR		21.83	21.83	11.41	15.79	15.79
Alerian MLP		-6.52	-6.52	-9.33	-0.06	1.65

TOP 5 HOLDINGS (% OF PORTFOLIO)

Targa Resources Corp	**8.1**
Energy Transfer Equity	**8.0**
Enterprise Products Partners	**7.4**
Energy Transfer Partners	**7.4**
SEMGROUP Corp	**7.1**

As of 12/31/17

FEES AND EXPENSES: Gross: Class A 10.23, Class C 10.98, Class Y 9.98 Net: Class A 8.40, Class C 9.15, Class Y 8.15. Deferred Income Tax Expense: 6.22%
Class A Max Sales Charge: 5.75%. Class C Contingent Deferred Sales Charge ("CDSC") is 1% within the first year from each purchase. Performance results reflect the contractual waivers and/or reimbursements of fund expenses by the Advisor. Absent this limitation, performance results would have been lower.

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

The largest negative contributors to fund performance during the quarter were Western Gas Equity Partners LP (WGP) (contributed -0.9%), ENLK (contributed -0.6%), and ANDX (contributed -0.6%).[2]

WGP returned -8.5% during the quarter, but performance was in line with expectations.[1] Anadarko Petroleum (APC) continues to be active securing commitments on new takeaway capacity which should benefit WGP as it adds to APC's drop-down inventory and WGP's long term growth. During the quarter Western Gas provided 2018 EBITDA and distribution growth outlooks which were in line with expectations. WGP has traded higher in the new year and through 1/11 has recouped its 4Q17 loss.

EnLink Midstream Partners, LP (ENLK) returned -6.0% during the quarter.[1] The partnership posted a beat in the quarter due to higher than expected volumes across its Oklahoma assets. EnLink announced additional processing capacity expansion in the STACK and Delaware basins of 200 mmcf/d each. Management reiterated its 2017 and 4Q run-rate adjusted EBITDA guidance of $840-880mm and $925-950mm, respectively.[3] The higher exit rate demonstrates the progress of production and development on its STACK and Permian asset base. While cash flow at ENLK is expected to ramp up, we expect distributions to remain flat through 2019 in order to build additional distribution coverage.

Andeavor Logistics LP (ANDX) returned -5.7% during the quarter but posted a solid 3Q which beat expectations due to strong terminalling and transportation volumes and higher margins.[1] The company also announced a dropdown and reiterated guidance of $1.2-1.3bn of EBITDA for 2018.[3] During the quarter ANDX also hosted an investor day, which included initiated 2020 EBITDA guidance of $1.4-1.5bn.[3] Furthermore, the company has identified $1.6bn of organic projects generating EBITDA at 5-8x, of which $1.0bn are in the Permian.[3] ANDX has performed well so far in 2018, more than making up its 4Q17 loss as of 1/11.

INVESTMENT OUTLOOK

The fourth quarter was a bit of a head scratcher for many MLP investors. The price of WTI crude rose from the low $50 per barrel range up to over $60. The S&P 500 Index posted a 6.6% total return, and many energy-related equity sectors also experienced positive returns.[1] However, the Alerian MLP Index was down nearly 1.0% during the quarter. We believe the weakness was broadly attributable to three primary factors: end of year tax loss selling, uncertainty over tax reform, and increased producer capital discipline. Although it is always difficult to quantify the impact of tax loss selling, activity within the MLP sector was likely heightened this year given the relative underperformance of the asset class versus the broader equity market. Concurrently, we also experienced increased traction on tax reform initiatives that many investors believed would not occur in earnest until 2018. Although the impact of tax reform was ultimately consistent with our long-standing thesis of not negatively affecting MLPs (in fact, it could be considered a positive given the inclusion of the pass-through income deduction), the uncertainty and speed at which the process unfolded introduced additional volatility. The evolving approach to capital discipline amongst Exploration & Production companies (E&Ps), those involved in the high-risk/high-reward area of exploration and production focus on finding, augmenting, producing and merchandising different types of oil and gas, might have been the most critical factor driving underperformance, however. As we discussed in the previous quarterly commentary, investors are increasingly demanding E&Ps to live within cash flow, encouraging a more rational environment for production growth. We continue to believe that this will improve both E&P and MLP valuations over time by instilling more long-term certainty, but as this mantra has gained traction, there has been consternation amongst some MLP investors about the near-term trajectory for production growth. To reiterate, though, producer capital discipline should be a positive development for both the E&P and MLP sectors as we move forward.

As we think about the 2018 outlook for MLPs, we are the most optimistic we have been since the beginning of the energy downturn. Given the continually improving commodity price backdrop, we believe that production volume growth will be sufficient to absorb a large portion of the excess capacity despite producers pledging to be more capital disciplined. Although rig counts have steadied recently, the number of drilled-but-uncompleted wells (DUCs) remain at record levels and are increasing. This is primarily the result of a shortage of completion service capacity that is beginning to reverse as providers invest in new equipment. The DUC backlog is likely to remain elevated in the near-term, but we should begin to see levels decrease, which should contribute further to production growth this year. In addition to improving fundamentals, we believe that 2018 may finally witness the long-awaited increase in M&A activity, given improving valuations and the majority of IDR (incentive distribution right) restructures and corporate simplifications now being behind us. Sector consolidation should serve as an additional impetus for rising valuations as investor fears over continued excess capacity are further eased. Aside from the attractive fundamental backdrop, we believe there are three primary factors that will differentiate MLP performance this year: balance sheet discipline, expansion projects with attractive returns on invested capital, and limited IDR exposure. We believe that we have positioned the portfolio to capitalize on all of these criteria, which should allow the Fund to provide an attractive opportunity, especially as the market potentially embraces energy-related equities more broadly.

RISK CONSIDERATIONS

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

The Advisor has contractually agreed to limit the total annual operating expenses (exclusive of distribution and/or service (12b-1) fees, taxes, such as deferred tax expenses, dividend expenses on short sales, interest payments, brokerage commissions and other transaction costs, acquired fund fees and expenses and extraordinary expenses (collectively, the "Excluded Expenses")) of the Fund (the "Expense Cap"). The Expense Cap will continue through at least January 31, 2018.

The Fund accrues deferred income tax asset or liability for its future tax asset or liability associated with the capital appreciation or depreciation of its investments, the distributions received by the Fund on equity securities of master limited partnerships ("MLPs") considered to be return of capital and for any net operating gains. The Fund's accrued deferred tax asset or liability, if any, is reflected each day in the Fund's net asset value per share. The Fund's deferred tax asset or liability, if any, depends upon the Fund's net investment gains and losses and realized and unrealized gains and losses on investments and may vary greatly from year to year depending on the nature of the Fund's investments, the performance of those investments and general market conditions. Therefore, any estimate of deferred tax asset or liability cannot be reliably predicted from year to year. See "Net Asset Value" in the Fund's prospectus.

The information herein contains forward-looking statements. These forward-looking statements are based on our current expectations and assumptions regarding the fund's portfolio and performance, the economy and other future conditions and forecasts of future events, circumstances and results. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances. The fund's actual results may vary materially from those expressed or implied in its forward-looking statements.

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. Each Fund's investments are concentrated in the energy infrastructure industry with an emphasis on securities issued by MLPs, which may increase price fluctuation. Energy infrastructure companies are subject to risks specific to the industry such as fluctuations in commodity prices, reduced volumes of natural gas or other energy commodities, environmental hazards, changes in the macroeconomic or the regulatory environment or extreme weather. MLPs may trade less frequently than larger companies due to their smaller capitalizations which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment including the risk that an MLP could lose its tax status as a partnership which could reduce or eliminate distributions paid by MLPs to the Fund. Additional management fees and other expenses are associated with investing in MLP funds. The Fund is subject to certain MLP tax risks and risks associated with accounting for its deferred tax liability which could materially reduce the net asset value. An investment in the Fund does not offer tax benefits of a direct investment in an MLP. Please consult a tax adviser to fully assess any potential impact to holding the Fund as an investment.

The Fund is organized as a Subchapter "C" Corporation which means that it will pay federal, state and local income taxes at a corporate rate (currently as high as 35%) based on its taxable income. The potential benefit of investing in MLPs generally is the treatment of them as partnerships for federal income purposes. The Fund invests in MLPs, however, since the Fund is a corporation, it will be taxed at the Fund level which in turn will reduce the amount of cash available for distribution which would result in the reduction of the Fund's net asset value. A significant portion of the Fund's distribution may be tax deferred return of capital (ROC) which reduces a shareholder's cost basis in the investment and is taxable when the shares are sold.

Deferred Income Tax Liability: The Fund accrues deferred income tax liability for its future tax liability associated with the capital appreciation of its investments, the distributions received by the Fund on equity securities of master limited partnerships ("MLPs") considered to be return of capital and for any net operating gains. The Fund's accrued deferred tax liability, if any, is reflected each day in the Fund's net asset value per share. The Fund's deferred tax liability, if any, depends upon the Fund's net investment gains and losses and realized and unrealized gains and losses on investments and may vary greatly from year to year depending on the nature of the Fund's investments, the performance of those investments and general market conditions. Therefore, any estimate of deferred tax liability cannot be reliably predicted from year to year. See "Net Asset Value" in the Fund's prospectus. See "Net Asset Value" in the Fund's prospectus. Total annual Fund operating expenses/(benefit) including deferred taxes (after expense reimbursement) were (8.23)%, (7.48)% and (8.48)% for Class A, Class C and Class Y shares, respectively.

Short Sales Risk is the risk of loss associated with any appreciation on the price of a security borrowed in connection with a short sale. **Derivatives Risk** is the risk that an investment in derivatives, such as swaps, options and futures, may not correlate completely to the performance of the underlying securities or index and may be volatile, and may result in a loss greater than the principal amount invested. **Exchange-Traded Funds Risk** is the risk that the ETFs in which the Fund invests will not be able to replicate exactly the performance of the indices they track and may result in a loss.

Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

S&P 500 Total Return Index is a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. The total return index series reflects both ordinary and special dividends.

Only eligible investors may purchase Class Y Shares. Please refer to the prospectus for information and conditions.

Sources:
1. Bloomberg, Highland Capital Management, L.P.
2. Highland Capital Management, L.P.
3. Company, Bloomberg

Source: State Street Bank and Trust Company. Prepared by Highland Capital Funds Distributor, Member FINRA.

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