HIGHLAND CAPITAL MANAGEMENT

FLOATING RATE OPPORTUNITIES FUND

Q4 2017 MARKET REVIEW

PERFORMANCE REVIEW

The Highland Floating Rate Opportunities Fund (HFRO, the "Fund") had a total return of 1.01% since the conversion of the Fund into a closed-end fund on November 3, 2017. This compares to a gross return of 0.48% for the Credit Suisse Leveraged Loan Index (the "Loan Index") during the same period. Positive contributions to performance were attributable to investments in equity positions as well as debt positions within the Building Materials, Retail, and Healthcare sectors where performance in certain issuers has steadied and begun to improve. Detractors to performance were primarily related to certain higher conviction positions in distressed Retail that we believe have an even more attractive risk-adjusted return at current levels. Versus other fixed income funds, we believe that the Fund offers a differentiated investment approach with a portfolio construction consisting of loans, bonds, CLO debt, and special situations that provides both an attractive level of current income and the opportunity for capital appreciation. Like much of 2017, the strength of the overall loan market persisted into the fourth quarter. However, the Fund remains disciplined in its overall investment approach, participating only selectively in the primary market and prudently increasing exposure to certain higher conviction opportunities. When combined with the sizeable, diverse base of higher quality issues, we believe that this investment philosophy positions the Fund to capitalize on any potential market turbulence.

MARKET ENVIRONMENT

Due to the attractive yield differential between leveraged loans and high yield to start the quarter, the fourth quarter witnessed three consecutive months of leveraged loan

PERFORMANCE ANALYSIS (%) AVG. ANNUAL TOTAL RETURNS*

AS OF 12/31/17

	Incept	YTD	1-YR	3-YR	5-YR	10-YR	Since Incept
HFRO NAV	1.13.00	5.45	5.45	2.99	5.28	1.60	4.10
HFRO Market Price		8.10	8.10	3.85	5.81	1.86	4.24
CS Leveraged Loan		4.25	4.25	4.50	4.33	4.57	4.17

**Returns shown are net of fees and expenses.*

Effective June 13, 2011, the Highland Floating Rate Fund and Highland Floating Rate Advantage Fund merged to form the Highland Floating Rate Opportunities Fund. The performance data presented above reflects that of Highland Floating Rate Advantage Fund, the Predecessor Fund, for periods prior to June 13, 2011.

Effective shortly after close of business on November 3, 2017, the Highland Floating Rate Fund converted from an open-end fund to a closed-end fund, and began trading on the NYSE under the symbol HFRO on November 6, 2017. The performance data presented above reflects that of Class Z shares of the Fund when it was an open-end fund, HFRZX. The closed-end Fund pursues the same investment objective and strategy as it did before its conversion.

A significant portion of the fund's performance for the period was attributable to the performance of the Fund's equity investments. No assurance can be given that the Fund's equity investments will perform similarly in the future.

FEES AND EXPENSES

Net expense ratio: 1.47%. Performance results reflect the contractual waivers and/or reimbursements of fund expenses by the Advisor. Absent this limitation, performance results would have been lower. The expense ratio is reported in the Fund's Semi-annual Report dated December 31, 2017.

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.

outperformance. In concert with the improvement in the broader markets, leveraged loan issuance also strengthened during the quarter. The fourth quarter witnessed $241 billion of new leveraged loan issuance, which was inline with the second quarter level of $246 billion but still below the $331 billion in the first quarter.[1] Repricing and refinancing activity continued to comprise a significant portion of the volume, and the pace increased a bit from the third quarter. Of the $974 billion issued during 2017, $440 billion (about 45%) related to repricings and refinancings.[1] The fourth quarter experienced consistent month-to-month outflows from leveraged loan funds that totaled almost $4 billion.[1] We believe that this was primarily the result of market skepticism over the Fed continuing to raise interest rates and the rotation of some investor capital into the strengthening equity markets. Despite this softness, CLO activity remained robust, with $71 billion of issuance during the fourth quarter alone (October, November, and December represented the 4th, 7th, and 9th highest quarters of issuance ever, respectively.[1] This contributed to a continued increase in the average price of the Loan Index to 97.63 from 97.34 at the end of the third quarter.[1] As a result, the average 3-year discount margin decreased to 416 bps from 432 bps, but the current yield benefitted from rising interest rates, increasing slightly to 5.15% from 5.09%. Although there was an increase in default activity during the fourth quarter, the default environment remains benign, with default rates on a lagging 12-month basis at 1.84% as of year-end.[1]

OUTLOOK

Although the current credit cycle is not young, we remain constructive on the outlook for leveraged loans in 2018. Despite the outperformance that we witnessed in the fourth quarter, we believe leveraged loans remain attractive versus high yield on a YTW/YTM basis, a differential that becomes even more appealing when one considers the structural advantages of the asset class. From a more macro perspective, domestic and global growth appear to be stable, if not strengthening, helping to suppress default rates. With the favorable domestic growth backdrop, we also expect another three Fed rate hikes this year, which should provide further support for the leveraged loan asset class in addition to a CLO issuance calendar that appears robust.

Domestically, we believe that the potential benefits of tax reform have yet to be fully appreciated and absorbed by the economy, which could provide the impetus for a more sustained expansion. There has been some consternation of the reform's impact on high yield issuers due to interest deduction limitations. However, with the exception of higher levered capital structures (e.g., leverage greater than 6x and interest coverage less than 2x), the changes should be a net positive, as the deduction limits will be more than offset by the lower tax rate. Looking further down the road, the limitations may shape how much leverage companies employ, perhaps lengthening credit cycles and reducing the severity of their downturns.

The outlook for risk assets broadly remains solid during the near-term, but there always remains the possibility of encountering bouts of volatility. We continue to believe the Fund and the loan asset class are well suited to withstand and capitalize on these situations should they arise. Although it continues to hold a higher conviction portfolio of credits, the Fund remains well diversified with a number of higher quality credits that will presumably be less impacted by this potential market volatility and could serve as rotation candidates as we optimize the portfolio to enhance its risk-adjusted return profile. In addition to the construction of the Fund's loan portfolio, we believe that its continued allocation to CLO debt and certain catalyst-driven special situations provide further opportunities to outperform the Loan Index over time.

1. Source: JPM Credit Strategy Weekly Update, January 2018

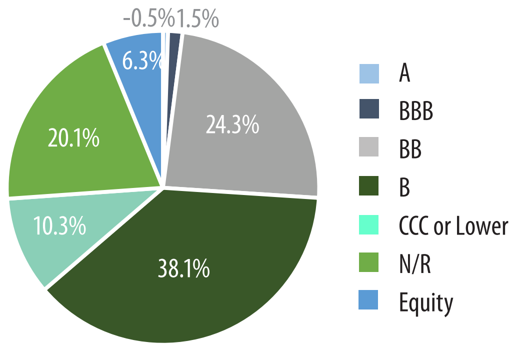
KEY FACTS & RISK STATISTICS[1]

Total Assets (M)	$1.1B	LIBOR Spread (wtd. avg. %)	4.23
NAV 12/29/17 (	$15.12	All-In Rate (Avg base + spread %)	5.72
30-Day SEC Yield (%)	5.30	Days to Reset (wtd. avg.)	47
Fund Standard Deviation	5.01	Issuer Size (wtd. avg. %)	0.93
Loan Index Standard Deviation	2.34	Number of Borrowers	107
Loan Price (wtd. avg.)	97.72	CLO Price (wtd. avg.)	99.18

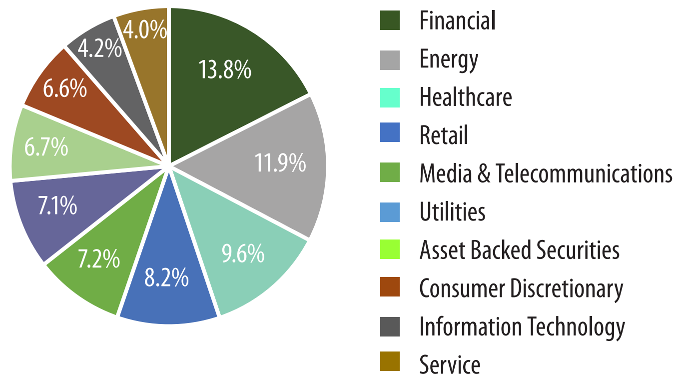
TOP 5 HOLDINGS[2] (% OF PORTFOLIO)

MGM	7.5
CCS Medical	3.9
Vistra Energy Corp.	3.0
Enterprise Products Partners, L.P.	2.9
Intelsat Jackson Holdings SA	2.5

CREDIT RATINGS[3] (% OF PORTFOLIO)



TOP 10 INDUSTRY COMPOSITION (% OF PORTFOLIO)



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 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.

Credit Risk. The risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty of a derivatives contract or repurchase agreement, is unable or unwilling (or is perceived to be unable or unwilling) to make a timely payment of principal and/or interest, or to otherwise honor its obligations. **Currency Risk.** The risk that the values of foreign investments may be affected by changes in the currency rates or exchange control regulations. **Debt Securities Risk.** The Fund's ability to invest in high-yield debt securities generally subjects the Fund to greater risk than securities with higher ratings. **Derivatives Risk.** Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. **Liquidity Risk.** The risk that, due to low trading volume, lack of a market maker, large position size, or legal restrictions (including daily price fluctuation limits or "circuit breakers"), the Fund may not be able to sell particular securities or unwinding derivative positions at desirable prices. Because loan transactions often take longer to settle than transactions in other securities, the Fund may not receive the proceeds from the sale of a loan for a significant period of time. No assurance can be given that the Fund will have sufficient liquidity in the event of abnormally large redemptions. **Non-Diversifcation Risk.** As a non-diversifed fund, the Fund may invest a larger portion of its assets in the securities of one or a few issuers than a diversifed fund. **Non-Payment Risk.** Senior Loans, like other corporate debt obligations, 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 Senior Loan experiencing non-payment and a potential decrease in the NAV of the Fund. **Senior Loans Risk.** The risks associated with senior loans are similar to the risks of below investment grade securities and are considered speculative. Senior loans and other debt securities are also subject to the risk of price declines and to increases in prevailing interest rates. Some of these companies likely will have significantly leveraged capital structures, making them highly sensitive to declines in revenues and to increases in expenses and interest rates. **Short Sales Risk.** The risk of short sales theoretically involves unlimited loss potential since the market price of securities sold short may continuously increase.

Please refer to the prospectus for information and conditions.

1. **Risk Statistics:** Standard Deviation risk statistics are based on monthly returns for the 5-year period through the date of this fact sheet. Benchmark risk measures are calculated in relation to the Credit Suisse Leveraged Loan Index. Standard Deviation measures the volatility of the Fund's returns. Higher standard deviation represents higher volatility. Fund Characteristics: LIBOR Spread is a component of interest earned on floating rate investments and represents the additional interest earned over the base rate. Typically, senior bank loans use the London Interbank Offer Rate, or LIBOR, as the base rate. All-In Rate = Avg. Base Rate % + Avg. Spread %. Number of Borrowers: For the purposes of number of borrowers, CLO positions are counted as one. Loan Price excludes defaulted.
2. Top Holdings: MGM is an equity position received through prior debt holdings, is non-income producing, and may be deemed an affiliate of Highland Capital Management Fund Advisors, L.P. Current and future portfolio holdings are subject to change and risk.
3. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). The rating categories reflected are issued by Standards and Poor's, a Nationally Recognized Statistical Rating Organization ("NRSRO"). The ratings used were those for the specific position or debt issuer held in the Fund as of the date of this fact sheet. Quality ratings reflect the credit quality of the underlying positions in the fund portfolio and not the fund itself. A fund's portfolio and composition is subject to change

30 Day SEC Yield: A standard yield calculation developed by the Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds.
Credit Suisse Leveraged Loan Index: Designed to mirror the investable universe of the $US-denominated leveraged loan market.
Morningstar Bank Loan Category: includes funds that invest primarily in floating-rate bank loans instead of bonds. In exchange for their credit risk, they offer high interest payments that typically float above a common short-term benchmark.
Morningstar High Yield Bond Category: These portfolios primarily invest in U.S. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.