HIGHLAND CAPITAL MANAGEMENT

GLOBAL ALLOCATION FUND

Q4 MARKET REVIEW

PERFORMANCE SUMMARY

During the fourth quarter, the Highland Global Allocation Fund returned 2.50%, underperforming the Morningstar World Allocation category and the S&P 500, which returned 3.21% and 6.64%, respectively[1].

Given the Fund's' high conviction investment style, its largest themes and positions are generally responsible for driving performance. During the quarter, many of the Fund's highest conviction investments were positive contributors to performance. For example, the Fund's largest investment theme, Energy MLPs, was a positive contributor to performance despite the Alerian MLP Index returning -0.95% during the quarter[2]. The Fund's +10% allocation to Argentine equity and debt and approximately 5% position in Collateralized Loan Obligations (CLOs) continued to provide positive performance for the portfolio. The exception was the Fund's single largest investment, Vistra Energy (Ticker: VST), which fell 1.98% during the quarter[2]. Vistra remains a young public company, having completed only its second full quarter as a public company after listing on the NYSE in early May 2017. And after being rumored since its early days as a public company,

TOTAL RETURN ANALYSIS (%)

AS OF 12/31/2017

Share Class	Incept	YTD	1-YR	3-YR	5-YR	10-YR	Since Incept
Class A	9.8.93	-0.59	-0.59	-0.73	7.89	4.27	7.89
Class A (w/load)	9.8.93	-6.33	-6.33	-2.68	6.63	3.65	7.62
Class C	9.30.99	-1.32	-1.32	-1.44	7.10	3.50	3.83
Class C (w/load)	9.30.99	-2.25	-2.25	-1.44	7.10	3.50	3.83
Class Y	1.5.98	-0.28	-0.28	-0.46	8.15	4.53	5.97
Morningstar Category*		14.79	14.79	5.18	5.90	4.22	5.82
FTSE All World		24.62	24.62	10.01	11.46	5.31	6.77

RISK STATISTICS[1]

Fund Standard Deviation	14.23
Index Standard Deviation	10.01
Alpha	0.23
Beta	0.94

TOP 5 HOLDINGS (% OF PORTFOLIO)

Vistra Energy Corp	19.6
TerreStar Corp	13.3
TerreStar Corp Term Loan	6.7
Republic of Argentina	6.4
Enterprise Products Partners	2.8

As of 12/31/17

**Comparison of fund returns to the Morningstar World Allocation Category may not be meaningful prior to the investment strategy change on April 9, 2013.*

FEES AND EXPENSES

Gross: Class A 1.44, Class C 2.19, Class Y 1.19 Net: Class A 1.44, Class C 2.19, Class Y 1.19

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 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 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.

Vistra officially announced their plans to acquire competitor Dynegy in late October. While we continue to believe that its acquisition of Dynegy, in addition to other opportunities, will create meaningful value for shareholders, its equity remains largely underappreciated by the broader market.

Outside of these and other top themes, there were several other positions/themes in the portfolio of consequential size that impacted performance during the quarter, both positively and negatively. For instance, the Fund's positions in American Airlines and Twitter, which returned 9.80% and 42.32% during the quarter, were positive contributors to performance. However, with equity markets continuing to march higher, several of the Fund's selective short positions, including Netflix, were a drag on performance.

Moving forward, we remain confident in these high conviction investments. Let's review some of these larger themes that impacted performance during the quarter.

ARGENTINA

Our investments in Argentine sovereign bonds and equities were top performers during the third quarter. Among our equity positions, allocations to financials, utilities and technology proved to be the largest contributors to performance. We maintain our bullish view on the country given President Macri and his administration's Cambiemos coalition continuing to strive for comprehensive, impactful political and economic reforms. This view was again reaffirmed during the quarter following the country's October midterm elections in which Cambiemos candidates saw sweeping results. The elections were a chance for Macri to gain congressional support, which could increase the party's negotiating power and political sway as the group works to advance its pro-growth agenda.

The midterm results could also be viewed as a proxy for the country's overall opinion of Macri's leadership and his administration's progress to date on enacting economic reforms. Based on the midterm results, it appears Argentina's electorate is behind Macri and approve his work thus far. This indicates that the low- and middle-income population is beginning to feel the benefits of Macri's economic and political reforms, a fundamental shift in Argentina's society. Perhaps the most noteworthy takeaway from the election results was former president Cristina Kirchner's defeat in her home province of Buenos Aires by Cambiemos candidate Esteban Bullrich. Not only is this is personal blow to her political worth, but the province represents approximately 40% of the country's voting population.

Argentina's economy has seen steady improvement since Macri took office. These economic trends reinforce the positive political outlook, serving as key wins that the current administration can point to as evidence that their pro-growth policies are working. For example, the country saw third quarter GDP growth of 4.2% compared to the same period last year[3]. This strong figure provides evidence to validate the current administration's approach. A significant contributor to this growth has been coming from the manufacturing sector. Construction activity for the whole year 2017 increased 12.7% compared to whole year 20163. Economic activity growth extended well beyond manufacturing and construction; other key sectors that experienced meaningful growth were tourism, energy and commerce.

Market activity has also picked up since the primaries in August and the most recent midterm elections. This suggests that these election results are providing confidence and validation for companies to pursue financing activity. For example, there have been two notable equity offerings in recent months that have been well absorbed by the market and seen strong performance to date.

Grupo Supervielle (SUPV), one of the largest banks in Argentina, sold $500 million in an offering. The stock returned 18.75% during the quarter. Grupo Financiero Galicia (GGAL), a financial services holding company, also completed an equity offering to the tune of $550 million. The deal priced at the very end of September and the stock returned 27.76% during the quarter[2].

We believe the midterms were the beginning of the next chapter in Argentina's economic recovery story. Progress on reforms is already noteworthy, evident in the economic growth and increased market activity seen all year. But with support further building for the current administration, the economic normalization process can accelerate now that the political uncertainty that comes with any election resides. We expect trends around economic growth to continue, the inflation outlook to improve and market activity to surge.

VISTRA ENERGY (FKA "TXU")

To refresh, Vistra Energy is the reorganized equity that listed on the NYSE in May 2017. Although largely overlooked by the broader market, we believe that the company is uniquely positioned in the power market, and as a result, Vistra remains a high conviction allocation within the Fund and across the firm's investment platform.

Despite reporting strong third quarter earnings and announcing, what we believe to be, a very positive and accretive long-term acquisition of competitor Dynegy in late October, the company's equity returned -1.98%% during the quarter[2]. We think that the strategic rationale behind the deal is compelling. With this transaction, Vistra management could create a combined company that would be the largest power generator in the country with an integrated footprint, a Texas focus and a prudent amount of leverage. In addition to the optimized capital structure, Vistra shareholders should benefit from both the combined synergies and the upgrades to the company's ERCOT portfolio. The ERCOT upgrades would make Vistra better positioned to control the supply dynamics amid coal plant shutdowns, which is already underway. Before the announcement of the deal in late October, the company announced plans to retire three legacy coal plants with total generation capacity of 4,167 MW. This will tighten supply within ERCOT enabling the company to focus on profitable power generation.

While the M&A prospects are exciting, the value we see in Vistra comes from the fact that the potential merger is only one of the distinct catalysts on the horizon, each with the potential to independently affect share price. In other words, this is not a binary event-driven trade, and if merger talks between Vistra and Dynegy fall apart, we still see opportunity both in Vistra's current valuation and in the company's position within the industry and ERCOT market.

With Vistra's stronghold in Texas, a growing, business-friendly state with a warm climate – all characteristics that benefit electricity demand and power operations – the company is well positioned to capitalize on trends both within its market and within the industry as a whole. We believe this industry is bottoming, and post-bankruptcy, Vistra has the balance sheet and the potential market advantage to rise above its peers over the course of a recovery in the power business. Further, the composition of Vistra's assets, as well as those of ERCOT, gives the company significant control over the supply dynamic in the state. As such, we think Vistra will be able to shape the reserve margin outlook in its favor going forward.

All that being said, if neither the industry and market opportunities nor the merger prospects come to fruition, we still see potential upside from a valuation standpoint alone. Vistra has attractive free cash flow and low leverage, yet is trading below industry comps. We believe this is, at least in part, due to the lack of familiarity with the company within the broader market. Therefore, we believe the valuation normalization alone could provide potential upside for shareholders as the market begins to fully appreciate Vistra's story.

ENERGY MLPS

While we maintain our view that midstream MLPs present an opportunity for future positive returns, they continue to be volatile. The portfolio's exposure to MLPs contributed positively to its quarterly performance whereas last quarter they were a leading detractor to performance. Despite the Alerian MLP Index falling 0.95% during the quarter, several of the Fund's top individual midstream positions showed strong performance, including Targa Resources Corp. (TRGP), SemGroup Corp (SEMG) and Enterprise Product Partners (EPD)[2]. Here is brief commentary on a couple of these companies followed by a commodity and asset class outlook.

TRGP returned 4.61% during the quarter2. 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%[2]. 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.

SEMG returned 7.14% during the quarter[2]. SemGroup agreed to sell its 50% interest in Glass Mountain for $300mm, which reduces the company's capital needs for the recently announced HOTCO acquisition2. We continue to believe SEMG has an attractive potential given its limited direct commodity exposure and access to attractive growth opportunities.

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 6.64% total return, and many energy-related equity sectors also experienced positive returns[2]. However, as previously stated, the Alerian MLP Index was down 0.95% during the

quarter[2]. 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. 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 may differentiate MLP performance this year: balance sheet discipline, expansion projects with attractive returns on invested capital, and limited IDR exposure.

OUTLOOK

Given the portfolio's high conviction approach and focus on identifying undervalued investments, its objective is to generate meaningful alpha over the long term. Remember, this type of capital appreciation oriented investing often requires a longer-term investment outlook. Not all market environments are conducive for this investment style. As such, investors should be comfortable taking a longer-term view amid short-term periods of volatility or relative underperformance. The Fund's high conviction approach and emphasis on investing in differentiated, undervalued securities results in its return being uncorrelated to financial markets and its peers. Having lower correlation can result in lagging performance, as the Fund may not be fully participating in the performance of financial markets. During the quarter, the rise in domestic markets and asset prices did not seem to be slowing down. However, as we finish out 2017 and look ahead to 2018, we believe our highest conviction investment theses remain intact and that the market environment will be more accommodative to the Fund's investment approach.

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.

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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.

1) Source: Morningstar Direct as of 12/31/2017
2) Source: Bloomberg as of 12/31/2017
3) Source: INDEC as of 12/31/2017

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. **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. **Foreign and Emerging Markets Risk.** The Fund may invest in foreign and emerging market securities which involves certain risks such as currency volatility, political and social instability and reduced market liquidity. **Growth Investing Risk.** The risk of investing in growth stocks that may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing companies growth potential. **Leverage Risk.** The risk associated with the use of leverage for investment purposes to create opportunities for greater total returns. Any investment income or gains earned with respect to the amounts borrowed that are in excess of the interest that is due on the borrowing will augment the Fund's income. Conversely, if the investment performance with respect to the amounts borrowed fails to cover the interest on such borrowings, the value of the Fund's shares may decrease more quickly than would otherwise be the case. Interest payments and fees incurred in connection with such borrowings will reduce the amount of net income available for payment to Fund shareholders. **Value Investing Risk.** The risk of investing in undervalued stocks that may not realize their perceived value for extended periods of time or may never realize their perceived value.

Alerian MLP Index (AMZ) 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 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.

EBITA (earnings before interest) refers to a company's earnings before the deduction of interest, taxes, and amortization expenses.

FCF (free cash flow) is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures.

Bonds are represented by the Barclays US Aggregate Total Return Bond Index.

FTSE All-World Index Series is the Large/Mid Cap aggregate of 2,800 stocks from the FTSE Global Equity Index Series. It covers 90-95% of the investable market capitalization.

Morningstar World-Allocation Category consists of portfolios seeking to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

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