

HIGHLAND CAPITAL
MANAGEMENT

Highland/iBoxx Senior Loan ETF

Semi-Annual Report
December 31, 2017

Highland/iBoxx Senior Loan ETF

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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.

FUND PROFILE (unaudited)

December 31, 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 December 31, 2017

\$562.4 million

Portfolio Data as of December 31, 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 12/31/2017 (%)*	
BBB	7.8
BB	40.9
B	43.4
CCC	5.0
CC	2.7
D	0.2

Top 5 Sectors as of 12/31/17 (%)*	
Media/Telecommunications	19.2
Information Technology	11.2
Healthcare	10.0
Service	9.7
Financials	8.0

Top 10 Holdings as of 12/31/17 (%)*	
Univision Communications (2017 Replacement Repriced First-Lien Term Loan)	2.2
First Data (2024A New Dollar Term Loan)	2.2
Level 3 Financing (Tranche B 2024 Term Loan)	2.1
Change Healthcare Holdings (Closing Date Term Loan)	2.1
iHeartCommunications (Tranche D Term Loan)	2.1
Avolon TLB Borrower 1 (US) LLC (Initial Term Loan B-2)	2.0
Misys Limited (Dollar Term Loan)	2.0
First Data (2022D New Dollar Term Loan)	1.9
Michaels Stores (2016 New Replacement Term Loan B-1)	1.8
Intelsat Jackson Holdings S.A., (Tranche B-3 Term Loan)	1.7

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 de-leverage 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 and holdings are subject to change, and may have changed since December 31, 2017.

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 (unaudited)

December 31, 2017

Principal Amount (\$)	Value (\$)
US Senior Loans (a) - 89.7%	
AEROSPACE - 1.7%	
American Airlines	
2017 Class B Term Loan, VAR LIBOR USD 1	
3,712,500	Month+2.000%, 12/14/23
	3,712,277
American Airlines	
2017 Replacement Term Loan, VAR LIBOR USD 3	
5,500,000	Month+2.000%, 06/27/20 (b)
	5,509,735
Transdigm	
Tranche G Term Loan, VAR LIBOR USD 3	
496,201	Month+3.000%, 08/22/24
	499,131
	<u>9,721,143</u>
AUTOMOTIVE - 0.9%	
Federal-Mogul	
Tranche C Term Loan (2014), VAR LIBOR USD 1	
4,711,741	Month+3.750%, 04/15/21
	4,753,275
BROADCASTING - 0.9%	
Charter Communications Operating LLC	
Term Loan B, VAR LIBOR USD 3	
5,000,000	Month+2.000%, 04/30/25 (b)
	5,008,925
BUILDING MATERIALS - 2.0%	
Forterra Finance LLC	
Replacement Term Loan, VAR LIBOR USD 1	
3,488,649	Month+3.000%, 10/25/23
	3,273,609
Quikrete Holdings	
Initial Term Loan, VAR LIBOR USD 1	
7,711,587	Month+2.750%, 11/15/23
	7,736,572
	<u>11,010,181</u>
CHEMICALS - 1.9%	
Berry Global	
Term Loan O, VAR LIBOR USD 3	
1,500,000	Month+2.000%, 02/08/20
	1,508,197
SIG Combibloc Holdings S.C.A.	
Initial Dollar Term Loan, VAR LIBOR USD 1	
2,722,059	Month+3.000%, 03/11/22
	2,738,310
Univar USA	
Term Loan B-3, VAR LIBOR USD 1	
6,401,563	Month+2.500%, 07/01/24
	6,431,266
	<u>10,677,773</u>
CONSUMER PRODUCTS - 0.7%	
Revlon Consumer Products	
Initial Term Loan B, VAR LIBOR USD 1	
5,437,456	Month+3.500%, 09/07/23
	4,067,897

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
ENERGY - 2.1%	
Energy Transfer Equity LP	
Refinanced Loan, VAR LIBOR USD 1	
5,125,232	Month+2.000%, 02/02/24
	5,112,419
Seadrill Operating LP	
Initial Term Loan, VAR LIBOR USD 3	
5,984,416	Month+3.000%, 02/21/21 (b)
	4,847,377
Traverse Midstream Partners LLC	
Advance Term Loan, VAR LIBOR USD 3	
1,688,555	Month+4.000%, 09/27/24
	1,713,250
	<u>11,673,046</u>
FINANCIAL - 6.2%	
Avolon TLB Borrower 1 (US) LLC	
Initial Term Loan B-2, VAR LIBOR USD 1	
11,216,793	Month+2.250%, 03/21/22
	11,151,063
DTZ U.S. Borrower LLC	
2015-1 Additional Term Loan, VAR LIBOR USD 3	
7,407,569	Month+3.250%, 11/04/21
	7,322,901
Hub International Limited	
Initial Term Loan, VAR LIBOR USD 3	
7,137,620	Month+3.000%, 10/02/20
	7,177,412
Tempo Acquisition LLC	
Initial Term Loan, VAR LIBOR USD 1	
9,111,172	Month+3.000%, 05/01/24 (b)
	9,091,218
	<u>34,742,594</u>
FOOD & DRUG - 3.7%	
Pinnacle Foods Finance LLC	
Initial Term Loan, VAR LIBOR USD 1	
6,937,444	Month+2.000%, 02/02/24
	6,991,382
Supervalu	
Delayed Draw Term Loan, VAR LIBOR USD 1	
2,805,433	Month+3.500%, 06/08/24
	2,749,325
Supervalu	
Initial Term Loan, VAR LIBOR USD 1	
4,675,722	Month+3.500%, 06/08/24
	4,582,208
US Foods	
Initial Term Loan, VAR LIBOR USD 1	
6,483,544	Month+2.500%, 06/27/23
	6,528,702
	<u>20,851,617</u>
GAMING/LEISURE - 4.9%	
CityCenter Holdings LLC	
Term Loan B, VAR LIBOR USD 1	
4,378,000	Month+2.500%, 04/18/24
	4,402,911

INVESTMENT PORTFOLIO (unaudited) (continued)

December 31, 2017

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
US Senior Loans (a) (continued)	
GAMING/LEISURE - 4.9% (continued)	
	Golden Nugget
	Initial Term Loan B, VAR LIBOR USD 3
2,992,419	Month+3.250%, 10/04/23 (b)
	3,019,171
	MGM Growth Properties Operating Partnership LP
	Term Loan B, VAR LIBOR USD 1
5,944,673	Month+2.250%, 04/25/23
	5,975,436
	Scientific Games International
	Initial Term Loan B-4, VAR LIBOR USD 3
6,476,860	Month+3.250%, 08/14/24
	6,537,127
	Seaworld Parks & Entertainment
	Term Loan B-5, VAR LIBOR USD 3
2,743,090	Month+3.000%, 04/01/24 (b)
	2,717,127
	Station Casinos LLC
	Term Loan B Facility, VAR LIBOR USD 3
5,000,000	Month+2.500%, 06/08/23 (b)
	5,014,900
	<u>27,666,672</u>
HEALTHCARE - 9.1%	
	Change Healthcare Holdings
	Closing Date Term Loan, VAR LIBOR USD 1
11,913,741	Month+2.750%, 03/01/24
	11,948,767
	CHS/Community Health Systems
	Incremental 2019 Term Loan G, VAR LIBOR USD 3
3,536,244	Month+2.750%, 12/31/19
	3,433,374
	CHS/Community Health Systems
	Incremental 2021 Term Loan H, VAR LIBOR USD 3
6,271,368	Month+3.000%, 01/27/21
	5,996,086
	Endo Luxembourg Finance
	Company I S.à r.l
	Initial Term Loan, VAR LIBOR USD 1
2,743,108	Month+4.250%, 04/29/24
	2,764,545
	Grifols Worldwide Operations Limited
	Tranche B Term Loan, VAR LIBOR USD 1
8,436,250	Week+2.250%, 01/31/25
	8,461,137
	HCA
	Tranche B-8 Term Loan, VAR LIBOR USD 1
1,994,975	Month+2.250%, 02/15/24
	2,009,778
	Mallinckrodt International Finance S.A.
	2017 Term Loan B, VAR LIBOR USD 3
5,459,994	Month+2.750%, 09/24/24
	5,459,011
	MPH Acquisition Holdings LLC
	Initial Term Loan, VAR LIBOR USD 3
5,325,674	Month+3.000%, 06/07/23 (b)
	5,342,316

Principal Amount (\$)	Value (\$)
HEALTHCARE (continued)	
	Surgery Center Holdings
	Initial Term Loan, VAR LIBOR USD 1
2,992,500	Month+3.250%, 09/02/24
	2,966,316
	U.S. Renal Care
	Initial Term Loan, VAR LIBOR USD 3
2,984,772	Month+4.250%, 12/31/22
	2,947,462
	<u>51,328,792</u>
HOME FURNISHINGS - 1.1%	
	Serta Simmons Bedding LLC
	Initial Term Loan, VAR LIBOR USD 3
6,438,741	Month+3.500%, 11/08/23
	5,926,345
INFORMATION TECHNOLOGY - 9.2%	
	BMC Software Finance
	Initial Term Loan B-2, VAR LIBOR USD 3
6,467,430	Month+3.250%, 09/10/22 (b)
	6,483,211
	Cengage Learning
	2016 Refinancing Term Loan, VAR LIBOR USD 1
5,386,141	Month+4.250%, 06/07/23
	5,156,476
	Go Daddy Operating Company LLC
	Tranche B-1 Term Loan, VAR LIBOR USD 1
2,244,355	Month+2.250%, 02/15/24
	2,252,906
	Infor (US)
	Tranche B-6 Term Loan, VAR LIBOR USD 3
6,957,284	Month+2.750%, 02/01/22
	6,987,757
	Kronos
	Incremental Term Loan, VAR LIBOR USD 3
8,291,407	Month+3.500%, 11/01/23
	8,356,204
	McAfee LLC
	Closing Date USD Term Loan, VAR LIBOR USD 1
7,241,875	Month+4.500%, 09/27/24 (b)
	7,228,948
	Riverbed Technology
	First Amendment Term Loan, VAR LIBOR USD 1
5,172,480	Month+3.250%, 04/25/22
	5,102,806
	SolarWinds Holdings
	2017 Refinancing Term Loan, VAR LIBOR USD 3
4,974,874	Month+3.500%, 02/03/23 (b)
	5,000,371
	Solera LLC
	Dollar Term Loan, VAR LIBOR USD 1
4,962,121	Month+3.250%, 03/03/23
	5,000,379
	<u>51,569,058</u>
MACHINERY - 0.2%	
	Blount International
	Refinancing Term Loan, VAR LIBOR USD 1
1,000,000	Month+4.250%, 04/12/23
	1,013,125

INVESTMENT PORTFOLIO (unaudited) (continued)

December 31, 2017

Principal Amount (\$)	Value (\$)
US Senior Loans (a) (continued)	
MANUFACTURING - 0.6%	
Gardner Denver	
Tranche B-1 Dollar Term Loan, VAR LIBOR USD 1	
3,491,250	Month+2.750%, 07/30/24..... 3,507,327
MEDIA/TELECOMMUNICATIONS - 13.1%	
AMC Entertainment Holdings	
Initial Term Loan, VAR LIBOR USD 3	
2,493,639	Month+2.250%, 12/15/22 (b) 2,507,229
Cumulus Media Holdings	
Term Loan, VAR LIBOR USD 1	
4,774,475	Month+3.250%, 12/23/20..... 4,115,001
Getty Images	
Initial Term Loan, VAR LIBOR USD 3	
4,488,189	Month+3.500%, 10/18/19 (b) 4,102,698
iHeartCommunications	
Tranche D Term Loan, VAR LIBOR USD 3	
15,621,429	Month+6.750%, 01/30/19..... 11,761,608
iHeartCommunications	
Tranche E Term Loan, VAR LIBOR USD 3	
4,000,000	Month+7.500%, 07/30/19..... 3,010,000
Level 3 Financing	
Tranche B 2024 Term Loan, VAR LIBOR USD 3	
12,000,000	Month+2.250%, 02/22/24..... 12,017,160
Numericable U.S. LLC	
Term Loan B-11, VAR LIBOR USD 3	
3,980,000	Month+2.750%, 07/31/25..... 3,817,815
Radiate Holdco LLC	
Closing Date Term Loan, VAR LIBOR USD 1	
4,477,444	Month+3.000%, 02/01/24..... 4,450,668
Regal Cinemas	
New Term Loan, VAR LIBOR USD 3	
3,491,228	Month+2.000%, 04/01/22 (b) 3,497,565
UFC Holdings LLC	
Term Loan, VAR LIBOR USD 1	
3,972,418	Month+3.250%, 08/18/23..... 3,999,113
Univision Communications	
2017 Replacement Repriced First-Lien Term Loan, VAR LIBOR USD 1	
12,326,512	Month+2.750%, 03/15/24..... 12,304,263
Ziggo Secured Finance Partnership	
Term Loan E Facility, VAR LIBOR USD 1	
8,350,000	Month+2.500%, 04/15/25..... 8,294,347
	<u>73,877,467</u>

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
METALS & MINING - 0.9%	
Murray Energy	
Term Loan B-2, VAR LIBOR USD 3	
5,437,205	Month+7.250%, 04/16/20..... 4,805,130
PRINTING & PUBLISHING - 0.7%	
McGraw-Hill Global Education	
Holdings LLC	
Term Loan B, VAR LIBOR USD 1	
3,959,799	Month+4.000%, 05/04/22..... 3,958,156
RETAIL - 9.9%	
Academy	
Initial Term Loan, VAR LIBOR USD 1	
5,713,489	Month+4.000%, 07/01/22..... 4,524,369
Albertson's LLC	
2017-1 Term Loan B-4, VAR LIBOR USD 1	
9,476,190	Month+2.750%, 08/25/21 (b) 9,302,255
American Builders & Contractors	
Supply Co	
Additional Term Loan B-1, VAR LIBOR USD 1	
2,977,500	Month+2.500%, 10/31/23..... 2,993,683
Belk	
Closing Date Term Loan, VAR LIBOR USD 3	
4,199,556	Month+4.750%, 12/12/22..... 3,460,266
BJ's Wholesale Club	
Tranche B Term Loan, VAR LIBOR USD 3	
5,970,000	Month+3.500%, 02/03/24..... 5,882,331
CDW LLC	
Term Loan, VAR LIBOR USD 3	
3,979,798	Month+2.000%, 08/17/23..... 4,013,149
Michaels Stores	
2016 New Replacement Term Loan B-1, VAR LIBOR USD 1	
10,203,053	Month+2.750%, 01/27/23..... 10,216,725
Neiman Marcus Group	
Other Term Loan, VAR LIBOR USD 1	
9,133,253	Month+3.250%, 10/25/20..... 7,483,605
PetSmart	
Tranche B-2 Loan, VAR LIBOR USD 1	
8,906,111	Month+3.000%, 03/11/22..... 7,154,145
Toys 'R' US-Delaware	
Term Loan B-4, VAR LIBOR USD 3	
1,750,000	Month+7.750%, 04/24/20 (b) 866,250
	<u>55,896,778</u>

INVESTMENT PORTFOLIO (unaudited) (continued)

December 31, 2017

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
US Senior Loans (a) (continued)	
SERVICE - 12.3%	
	Acosta
	Tranche B-1 Loan, VAR LIBOR USD 1
5,661,346	Month+3.250%, 09/26/21 (b)
	Advanced Disposal Services
	Additional Term Loan, VAR LIBOR USD 1
4,488,471	Week+2.250%, 11/10/23 (b)
	Advantage Sales & Marketing
	Initial Term Loan, VAR LIBOR USD 3
4,039,932	Month+3.250%, 07/25/21.....
	AlixPartners LLP
	2017 Refinancing Term Loan, VAR LIBOR USD 3
3,482,456	Month+2.750%, 04/04/24.....
	Alliant Holdings Intermediate LLC
	Initial Term Loan, VAR LIBOR USD 1
4,983,702	Month+3.250%, 08/12/22.....
	Asurion LLC
	Amendment No. 14 Replacement Term Loan B-4, VAR LIBOR USD 1
7,695,398	Month+2.750%, 08/04/22.....
	Asurion LLC
	Replacement Term Loan B-5, VAR LIBOR USD 1
2,984,962	Month+3.000%, 11/03/23.....
	Duff & Phelps
	Restatement Term Loan, VAR LIBOR USD 3
1,010,101	Month+3.250%, 10/12/24.....
	First Data
	2022D New Dollar Term Loan, VAR LIBOR USD 3
10,500,000	Month+2.250%, 07/08/22 (b)
	First Data
	2024A New Dollar Term Loan, VAR LIBOR USD 1
12,169,806	Month+2.250%, 04/26/24.....
	Nielsen Finance LLC
	Term Loan B-4, VAR LIBOR USD 3
6,982,412	Month+2.000%, 10/04/23 (b)
	Parexel International
	Initial Term Loan, VAR LIBOR USD 1
897,032	Month+2.750%, 09/27/24.....
	Weight Watchers International
	Initial Term Loan, VAR LIBOR USD 1
5,000,000	Month+4.750%, 11/29/24.....
	<u>5,039,600</u>
	<u>69,405,245</u>

Principal Amount (\$)	Value (\$)
TRANSPORTATION - 1.1%	
	Hertz
	Tranche B-1 Term Loan, VAR LIBOR USD 3
1,989,873	Month+2.750%, 06/30/23 (b)
	XPO Logistics
	Refinance Term Loan, VAR LIBOR USD 3
4,250,000	Month+2.250%, 11/01/21.....
	<u>4,279,771</u>
	<u>6,268,401</u>
UTILITIES - 6.5%	
	Calpine
	(2016) Term Loan, VAR LIBOR USD 3
1,745,570	Month+2.500%, 05/31/23.....
	Calpine
	Term Loan, VAR LIBOR USD 3
4,911,876	Month+2.500%, 01/15/24.....
	Dynegy
	Tranche C-2 Term Loan, VAR LIBOR USD 1
5,853,004	Month+2.750%, 02/07/24.....
	Lightstone Holdco LLC
	Refinanced Term Loan B, VAR LIBOR USD 1
5,054,749	Month+4.500%, 01/30/24.....
	Lightstone Holdco LLC
	Refinanced Term Loan C, VAR LIBOR USD 1
320,962	Month+4.500%, 01/30/24.....
	NRG Energy
	Term Loan, VAR LIBOR USD 3
5,455,926	Month+2.250%, 06/30/23.....
	Texas Competitive Electric Holdings Company LLC
26,000,000	Escrow Loan (Extending) (c)
	Vistra Operations Company LLC
	2016 Incremental Term Loan, VAR LIBOR USD 1
3,484,550	Month+2.750%, 12/14/23.....
	Vistra Operations Company LLC
	Initial Term Loan, VAR LIBOR USD 1
8,279,820	Month+2.500%, 08/04/23.....
	Vistra Operations Company LLC
	Initial Term Loan C, VAR LIBOR USD 1
1,467,273	Month+2.500%, 08/04/23.....
	<u>1,476,905</u>
	<u>36,811,078</u>
	Total US Senior Loans (Cost \$513,185,507)
	<u>504,540,025</u>

INVESTMENT PORTFOLIO (unaudited) (concluded)

December 31, 2017

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
Foreign Domiciled Senior Loans (a) - 7.4%	
AUSTRALIA - 0.5%	
USD	
	Aristocrat Leisure Limited Term B-2 Loan, VAR LIBOR USD 3 Month+2.000%, 10/20/21 (b)
2,750,000	2,766,624
CANADA - 1.1%	
USD	
	Concordia International Initial Dollar Term Loan, VAR LIBOR USD 1 Month+4.250%, 10/21/21.....
3,326,167	2,741,327
	MEG Energy Initial Term Loan, VAR LIBOR USD 3 Month+3.500%, 12/31/23.....
3,482,456	3,491,406
	6,232,733
LUXEMBOURG - 3.0%	
USD	
	Intelsat Jackson Holdings S.A. Tranche B-3 Term Loan, VAR LIBOR USD 3 Month+3.750%, 11/30/23.....
10,000,000	9,812,500
	Travelport Finance S.A.r.l Term D Loan, VAR LIBOR USD 3 Month+2.750%, 09/02/21.....
6,822,797	6,829,006
	16,641,506
NETHERLANDS - 0.8%	
USD	
	Amaya Holdings B.V. Initial Term B-3 Loan, VAR LIBOR USD 3 Month+3.500%, 08/01/21 (b)
4,732,763	4,766,034
UNITED KINGDOM - 2.0%	
USD	
	Misys Limited Dollar Term Loan, VAR LIBOR USD 3 Month+3.500%, 06/13/24.....
11,058,872	11,102,223
	Total Foreign Domiciled Senior Loans (Cost \$41,600,378)
	41,509,120
Common Stock - 0.9%	
UNITED STATES - 0.9%	
Information Technology - 0.9%	
295,079	Avaya (e).....
	5,178,637
	Total Common Stock (Cost \$4,687,676)
	5,178,637

Number of Rights / Shares	Value (\$)
Rights - 0.1%	
UNITED STATES - 0.1%	
431,587	Vistra Energy (fka TCEH)* (d)
	420,797
	Total Rights (Cost \$1,178,330)
	420,797
Cash Equivalent - 12.4%	
	State Street Institutional US Government Money Market Fund, 0.850% (e) (Cost \$69,905,923)
69,905,923	69,905,923
Total Investments - 110.5%	
	621,554,502
	(Cost \$630,557,814)
Other Assets & Liabilities, Net - (10.5)%	
	(59,112,663)
Net Assets - 100.0%	
	562,441,839

- (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. As of December 31, 2017, the LIBOR USD 1 Week, LIBOR USD 1 Month and LIBOR USD 3 Month rates were 1.480%, 1.564% and 1.694%, respectively. 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 and the actual remaining maturity may be substantially 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) Represents value in escrow pending future events. No interest is being accrued.
- (d) No expiration date.
- (e) The rate shown is the 7-day effective yield as of December 31, 2017.
- * Non-income producing security.

LIBOR — London Interbank Offered Rate
 LLC — Limited Liability Company
 LP — Limited Partnership
 USD — United States Dollars
 VAR — Variable Rate

Foreign Domiciled Senior Loans Industry Concentration Table: (% of Net Assets)	
Energy	0.6%
Gaming/Leisure	0.8%
Healthcare	0.5%
Information Technology	2.0%
Manufacturing	0.5%
Media/Telecommunications	1.8%
Service	1.2%
	7.4%

STATEMENT OF ASSETS AND LIABILITIES (unaudited)

As of December 31, 2017

Highland/iBoxx Senior Loan ETF

	(\$)
Assets:	
Total Investments, at value (cost \$560,651,891).....	551,648,579
Cash Equivalent, at value (cost \$69,905,923)	69,905,923
Cash	2,894,106
Receivable for:	
Investments sold	37,800,518
Dividends and interest	1,237,789
Prepaid expenses	43,873
Total assets	<u>663,530,788</u>
Liabilities:	
Payable for:	
Investments purchased	99,002,925
Fund shares redeemed	1,820,316
Investment advisory fees (Note 4)	115,134
Administration fees (Note 4)	37,442
Trustees' fees (Note 4).....	25,820
Transfer agent fees	4,720
Accrued expenses and other liabilities	82,592
Total liabilities	<u>101,088,949</u>
Net Assets	<u>562,441,839</u>
Composition of Net Assets:	
Paid-in capital	594,260,442
Distributions in excess of net investment income	(398,283)
Accumulated net realized loss on investments	(22,417,008)
Net unrealized depreciation on investments	<u>(9,003,312)</u>
Net Assets	<u>562,441,839</u>
Shares outstanding (unlimited authorization — no par value)	30,900,000
Net asset value, per share (Net assets/shares outstanding)	18.20

STATEMENT OF OPERATIONS (unaudited)

For the six-month period ended December 31, 2017

Highland/iBoxx Senior Loan ETF

	(\$)
Investment Income:	
Interest income	13,743,133
Dividend income	479,111
Total investment income	<u>14,222,244</u>
Expenses:	
Investment advisory fees (Note 4)	1,303,793
Administration fees (Note 4)	232,011
Trustees' fees (Note 4)	53,425
Licensing fees	98,957
Legal fees	97,603
Pricing fees	56,049
Custodian fees	39,741
Printing fees	37,258
Audit fees	36,710
Transfer agent fees	7,046
Registration fees	5,527
Other	69,811
Total operating expenses	<u>2,037,931</u>
Fees and expenses waived by Investment Adviser (Note 4)	(444,721)
Net operating expenses	<u>1,593,210</u>
Net investment income	<u>12,629,034</u>
Net Realized and Unrealized Loss on Investments	
Net realized loss on investments	(2,364,316)
Net change in unrealized appreciation (depreciation) on investments	(2,826,446)
Net realized and unrealized loss on investments	(5,190,762)
Net increase in net assets resulting from operations	<u>7,438,272</u>

STATEMENTS OF CHANGES IN NET ASSETS

Highland/iBoxx Senior Loan ETF

	Six Months Ended December 31, 2017 (unaudited) (\$)	Year Ended June 30, 2017 (\$)
Increase/(Decrease) in Net Assets:		
From Operations		
Net investment income	12,629,034	20,824,605
Net realized loss on investments	(2,364,316)	(9,495,227)
Net change in unrealized appreciation/(depreciation) on investments.....	<u>(2,826,446)</u>	<u>8,135,532</u>
Net increase in net assets resulting from operations	<u>7,438,272</u>	<u>19,464,910</u>
Distributions Declared to Shareholders		
From net investment income	(13,027,317)	(20,889,862)
From return of capital	<u>—</u>	<u>(13,013)</u>
Total distributions declared to shareholders	<u>(13,027,317)</u>	<u>(20,902,875)</u>
Share Transactions		
Subscriptions	126,285,558	506,752,943
Redemptions.....	<u>(120,764,534)</u>	<u>(334,098,429)</u>
Net increase from share transactions	<u>5,521,024</u>	<u>172,654,514</u>
Total increase/(decrease) in net assets	<u>(68,021)</u>	<u>171,216,549</u>
Net Assets:		
Beginning of period/year	<u>562,509,860</u>	<u>391,293,311</u>
End of period/year	<u>562,441,839</u>	<u>562,509,860</u>
Distributions in excess of net investment income	<u>(398,283)</u>	<u>—</u>
Changes in Shares		
Subscriptions	6,900,000	27,300,000
Redemptions.....	<u>(6,600,000)</u>	<u>(18,000,000)</u>
Net increase	<u>300,000</u>	<u>9,300,000</u>

Amounts designated as “—” are \$0.

FINANCIAL HIGHLIGHTS

Highland/iBoxx Senior Loan ETF

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

	Six Months Ended 12/31/17 (unaudited)	For the Years Ended June 30,				For the Period Ended 06/30/13 ^(a)
		2017	2016	2015	2014	
Net Asset Value, Beginning of Year/Period	\$ 18.38	\$ 18.37	\$ 19.19	\$ 19.94	\$ 19.93	\$ 20.00
Income from Investment Operations:						
Net investment income ^(b)	0.40	0.86	0.81	0.76	0.93	0.73
Net realized and unrealized gain/(loss)	(0.16)	0.01	(0.82)	(0.75)	0.08	(0.13)
Total from investment operations	0.24	0.87	(0.01)	0.01	1.01	0.60
Less Distributions Declared to Shareholders:						
From net investment income	(0.42)	(0.86)	(0.81)	(0.76)	(0.93)	(0.67)
From net realized gains	—	—	—	—	(0.06)	—
From return of capital	—	— ^(c)	—	— ^(c)	(0.01)	—
Total distributions declared to shareholders	(0.42)	(0.86)	(0.81)	(0.76)	(1.00)	(0.67)
Net Asset Value, End of Year/Period	\$ 18.20	\$ 18.38	\$ 18.37	\$ 19.19	\$ 19.94	\$ 19.93
Market price, end of year/period	\$ 18.19	\$ 18.39	\$ 18.38 ⁽ⁱ⁾	\$ 19.23 ⁽ⁱ⁾	\$ 19.93 ⁽ⁱ⁾	\$ 19.96 ⁽ⁱ⁾
Total return ^(d)	1.30% ^(e)	4.78%	0.02%	0.09%	5.19%	3.04% ^(e)
Ratios to Average Net Assets/Supplemental Data:						
Net assets, end of year/period (000s)	\$562,442	\$562,510	\$391,293	\$324,371	\$199,367	\$89,672
Gross operating expenses ^(h)	0.70% ^(f)	0.74%	0.77%	0.73%	0.92%	1.62% ^(f)
Net investment income	4.36% ^(f)	4.62%	4.39%	3.90%	4.68%	5.60% ^(f)
Portfolio turnover rate	46% ^(g)	115%	51%	9%	35%	38% ^(g)

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

(d) 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.

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

(f) Annualized.

(g) Not annualized.

(h) Supplemental expense ratios are shown below:

	Six Months Ended 12/31/17 (unaudited)	For the Years Ended June 30,				For the Period Ended 06/30/13 ^(a)
		2017	2016	2015	2014	
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.55% ^(f)	0.55%	0.55%	0.55%	0.55%	0.55% ^(f)

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

Amounts designated as "—" are \$0.

December 31, 2017

Highland/iBoxx Senior Loan ETF

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 five portfolios that are currently being offered, 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 NASDAQ, Inc. 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, National Association of Securities Dealers Automatic Quotation System ("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. Determination of fair value 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.

December 31, 2017

Highland/iBoxx Senior Loan ETF

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 December 31, 2017, the Fund's investments consisted mainly of senior loans. 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 be less liquid than publicly traded securities.

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

December 31, 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 December 31, 2017 is as follows:

	Total Market Value at 12/31/17	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Highland/iBoxx Senior Loan ETF				
Assets				
US Senior Loans*	\$504,540,025	\$ —	\$504,540,025	\$ —
Foreign Domiciled Senior Loans*	41,509,120	—	41,509,120	—
Common Stock*	5,178,637	5,178,637	—	—
Rights*	420,797	—	420,797	—
Cash Equivalent*	69,905,923	69,905,923	—	—
Total	\$621,554,502	\$75,084,560	\$546,469,942	\$ —

* Please refer to the Investment Portfolio for industry/country breakout. Amounts designated as “—” are \$0

For the six-month period ended December 31, 2017, there were no transfers within the Fund between Level 1, Level 2 and/or Level 3. At December 31, 2017, and during the period 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 (unaudited) (continued)

December 31, 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.

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)	\$—	\$—

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.

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

December 31, 2017

Highland/iBoxx Senior Loan ETF

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

Unrealized appreciation and depreciation at December 31, 2017, based on cost of investments, including cash equivalents, for U.S. federal income tax purposes was:

	Gross Appreciation	Gross Depreciation	Net Depreciation	Cost
Highland/iBoxx Senior Loan ETF	\$2,378,206	\$(12,197,180)	\$(9,818,974)	\$631,373,476

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 six-month period ended December 31, 2017, the Fund paid \$232,011 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.

For federal income tax purposes, the cost of securities owned at December 31, 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.

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, 2018, 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.

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

December 31, 2017

Highland/iBoxx Senior Loan ETF

As of December 31, 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	2021
Highland/iBoxx Senior Loan ETF	\$315,962	\$662,390	\$866,942	\$444,721

During the six months ended December 31, 2017, \$210,412 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. Prior to December 8, 2017, Mr. Powell was treated as an “interested person” of the Fund for all purposes other than compensation and the Trust’s Code of Ethics. The Fund pays no compensation to its officers, all of whom are employees of the Investment Adviser.

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 six month period ended December 31, 2017, the Fund paid \$34,665 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 six-month period ended December 31, 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	\$—	\$—	\$373,527,919	\$258,254,123

* The Fund did not have any purchases or sales of U.S. Government Securities or other short term investments for the six-month period ended December 31, 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

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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 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

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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 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. New Accounting Pronouncements

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. As of August 1, 2017, management has implemented the amendments to Regulation S-X.

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 Update 2016-18 must be adopted at the same time as Accounting Standards Update 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 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.

Note 9. 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.

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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. 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

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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).

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 July 1, 2017 through December 31, 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

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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 07/01/17	Ending Account Value 12/31/17	Annualized Expense Ratios	Expenses Paid During Period*
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<i>Actual Fund Return</i>	\$1,000.00	\$1,013.00	0.55%	\$2.79
<i>Hypothetical</i>	\$1,000.00	\$1,022.43	0.55%	\$2.80

* Expenses are equal to the Fund's annualized expense ratio multiplied by the average account value over the hypothetical six-month period, multiplied by 184/365 (to reflect the one-half year period).

Approval of Highland/iBoxx Senior Loan ETF Advisory Agreement

The Fund has retained the Investment Adviser to manage the assets of the Fund pursuant to an investment advisory agreement between the Investment Adviser and the Fund (the "Advisory Agreement"). The Advisory Agreement has been approved by the Fund's Board of Trustees, including a majority of the Independent Trustees.

Following the initial two-year term, the Advisory Agreement continues in effect from year-to-year, provided that such continuance is specifically approved at least annually by the vote of holders of at least a majority of the outstanding shares of the Fund or by the Board of Trustees and, in either event, by a majority of the Independent Trustees of the Fund casting votes in person at a meeting called for such purpose.

At an in-person meeting held on August 17, 2017, the Board of Trustees gave preliminary consideration to information bearing on the continuation of the Advisory Agreement, for a one-year period commencing November 1, 2017. The primary purpose of the meeting was to ensure that the Trustees had the opportunity to consider matters they deemed relevant in evaluating the continuation of the Advisory Agreement, and to request any additional information they considered reasonably necessary for their deliberations.

At an in-person meeting held on September 14-15, 2017, the Board of Trustees, including the Independent Trustees, approved the continuance of the Advisory Agreement for a one-year period commencing November 1, 2017. As part of its review process, the Board of Trustees requested,

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through its independent legal counsel, and received from the Investment Adviser, various information and written materials in connection with meetings of the Board of Trustees held on August 17, 2017 and September 14-15, 2017, including: (1) information regarding the financial soundness of the Investment Adviser and the profitability of the Advisory Agreement to the Investment Adviser; (2) information on the advisory and compliance personnel of the Investment Adviser, including compensation arrangements for the portfolio manager of the Fund; (3) information on the internal compliance procedures of the Investment Adviser; (4) comparative information showing how the Fund's fees and operating expenses compare to those of other accounts of the adviser and other registered investment companies that follow investment strategies similar to those of the Fund; (5) information on the investment performance of the Fund, including comparisons of the Fund's performance against that of other registered investment companies and comparable funds that follow investment strategies similar to those of the Fund, and the performance of the Fund's underlying index; (6) information regarding brokerage and portfolio transactions; and (7) information on any legal proceedings or regulatory audits or investigations affecting the Investment Adviser. After the August 17, 2017 meeting, the Trustees requested that the Investment Adviser provide additional information regarding various matters. The Trustees also relied on information provided at periodic meetings of the Board of Trustees over the course of the year. In addition, the Trustees received a report from Morningstar Inc. ("Morningstar"), an independent source of investment company data, relating to the Fund's performance, volatility and expenses compared to the performance, volatility and expenses of a peer group determined by Morningstar to be comparable. The Trustees reviewed various factors discussed in independent counsel's legal memoranda regarding their responsibilities in considering the Advisory Agreement, the detailed information provided by the Investment Adviser and other relevant information and factors. The Trustees' conclusion as to the approval of the Advisory Agreement was based on a comprehensive consideration of all information provided to the Trustees without any single factor being dispositive in and of itself. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

The nature, extent, and quality of the services to be provided by the Investment Adviser

The Board of Trustees considered the portfolio management services to be provided by the Investment Adviser

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under the Advisory Agreement and the activities related to portfolio management, including use of technology, research capabilities, and investment management staff. The Board of Trustees discussed the relevant experience and qualifications of the personnel providing advisory services, including the background and experience of the members of the Fund's portfolio management team and portfolio manager compensation arrangements. The Trustees reviewed the management structure, assets under management and investment philosophies and processes of the Investment Adviser. The Trustees also reviewed and discussed information regarding the Investment Adviser's compliance policies, procedures and personnel including compensation arrangements. The Trustees concluded that the Investment Adviser had the quality and depth of personnel and investment methods essential to performing its duties under the Advisory Agreement, and that the nature and the quality of such advisory services were satisfactory.

The Investment Adviser's historical performance in managing the Fund

With respect to the Advisory Agreement, the Board of Trustees reviewed the historical performance of the Investment Adviser and the Fund's portfolio management team in managing the Fund over various time periods and reflected on previous discussions regarding matters bearing on the Investment Adviser's performance at their meetings throughout the year. With respect to the Fund, the Trustees discussed relative performance and contrasted the performance of the Fund and its portfolio management team to that of the Fund's peers, as represented by certain other registered investment companies that follow investment strategies similar to the Fund as well as the Fund's underlying index and the Fund's Morningstar peer group. The Trustees reviewed a supplemental report Morningstar provided that compares the Fund with only ETF peers that are part of the bank loan category. The Trustees also considered the quarterly tracking error reports they receive with respect to the Fund and discussed reasons for tracking error, including the fees and expenses of the Fund. Among other data relating specifically to the Fund's performance, the Board of Trustees considered that the Fund had underperformed its category median and its peer group median for the one and three year period ended June 30, 2017, and had outperformed its benchmark for the one and three year periods ended June 30, 2017. The Trustees also took into account management's discussion of the Fund's performance and the Fund's tracking error relative to its underlying index. The Trustees concluded that the Fund's performance and other relevant factors supported the renewal of the Advisory Agreement.

The costs of the services to be provided by the Investment Adviser and the profits to be realized by the Investment Adviser and its affiliates from their relationship with the Fund

The Board of Trustees also gave consideration to the fees payable under the Advisory Agreement, the expenses that the Investment Adviser incurs in providing advisory services and the profitability to the Investment Adviser of managing the Fund, including: (1) information regarding the financial condition of the Investment Adviser; (2) information regarding the total fees and payments received by the Investment Adviser for its services and whether such fees are appropriate given economies of scale and other considerations; and (3) comparative information showing (a) the fees payable under the Advisory Agreement and the actual fees paid by the Fund to the Investment Adviser versus the investment advisory fees of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund and (b) the expense ratios of the Fund relative to the expense ratios of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund. The Trustees also considered the so-called "fall-out benefits" to the Investment Adviser with respect to the Fund, such as the reputational value of serving as Investment Adviser to the Fund and the benefits of research made available to the Investment Adviser by reason of brokerage commissions (if any) generated by the Fund's securities transactions. The Board of Trustees considered that the Fund's management fee and net expense ratio were below its Morningstar peer group and its category median. The Trustees further noted that the Investment Adviser had agreed to waive fees and/or reimburse expenses to cap the total annual fund operating expense to 0.55% of the average daily net assets of the Fund through at least October 31, 2018, and that this waiver may not be terminated prior to this date without the action or consent of the Fund's Board of Trustees. After such review, the Trustees determined that the profitability to the Investment Adviser with respect to the Advisory Agreement was reasonable. The Trustees also took into consideration the amounts waived and/or reimbursed, if any, under the expense cap/fee waiver.

The extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of shareholders

The Board of Trustees considered the asset levels of the Fund, the information provided by the Investment Adviser relating to its costs and information comparing the fee rate charged by the Investment Adviser with fee rates charged

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by other unaffiliated investment advisers to their clients. The Trustees concluded that the fee structure is reasonable, and appropriately should result in a sharing of economies of scale in view of the information provided by the Investment Adviser. The Board determined to continue to review ways, and the extent to which, economies of scale might be shared between the Investment Adviser on the one hand and shareholders of the Fund on the other. The Board of Trustees also requested that the Investment Adviser consider ways in which economies of scale can be shared with Fund shareholders.

Conclusion

Throughout the process, the Board of Trustees was advised by Fund counsel and independent legal counsel, and was

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empowered to engage such other third parties or request additional information as it deemed appropriate. Following a further discussion of the factors above and the merits of the Advisory Agreement and its various provisions, it was noted that in considering the approval of the Advisory Agreement, no single factor was determinative to the decision of the Board of Trustees. Rather, after weighing all of the factors and reasons discussed above, the Trustees, including the Independent Trustees, unanimously agreed that the Advisory Agreement, including the advisory fees to be paid to the Investment Adviser, is fair and reasonable to the Fund in light of the services that the Investment Adviser provides, the expenses that it incurs and the reasonably foreseeable asset levels of the Fund.

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, 1st 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

Stradley Ronon Stevens & Young, LLP
1250 Connecticut Avenue, N.W., Suite 500
Washington, DC 20036-2652

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 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.

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www.highlandfunds.com

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