

**HIGHLAND CAPITAL**  
**MANAGEMENT**

# Highland Funds II

Highland Global Allocation Fund  
Highland Premier Growth Equity Fund  
Highland Small-Cap Equity Fund  
Highland Total Return Fund  
Highland Tax-Exempt Fund  
Highland Fixed Income Fund

---

**Semi-Annual Report**  
**March 31, 2018**

---

# Highland Funds II

Highland Global Allocation Fund  
Highland Premier Growth Equity Fund  
Highland Small-Cap Equity Fund  
Highland Total Return Fund  
Highland Tax-Exempt Fund  
Highland Fixed Income Fund

---

## TABLE OF CONTENTS

Fund Profiles.....	1
Financial Statements.....	7
Investment Portfolios.....	8
Statements of Assets and Liabilities .....	32
Statements of Operations .....	36
Statements of Changes in Net Assets .....	38
Statements of Changes in Net Assets — Capital Stock Activity — Shares .....	42
Statement of Cash Flows .....	45
Financial Highlights.....	47
Notes to Financial Statements .....	65
Additional Information .....	88
Important Information About This Report.....	90

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)

## Highland Global Allocation Fund

### Objective

Highland Global Allocation Fund seeks to provide long-term growth of capital and future income (future income means the ability to pay dividends in the future.)

### Net Assets as of March 31, 2018

\$505.5 million

### Portfolio Data as of March 31, 2018

The information below provides a snapshot of Highland Global Allocation Fund at the end of the reporting period. Highland Global Allocation Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Sector Classifications as of 03/31/2018 (%) <sup>(1)</sup>	
U.S. Equity	79.2
U.S. Master Limited Partnerships	25.5
U.S. Senior Loans	21.3
Non-U.S. Government Bonds	8.6
Non-U.S. Equity	8.4
U.S. Asset-Backed Securities	4.0
U.S. Registered Investment Companies	2.7
Non-U.S. Senior Loans	1.9
U.S. Rights	0.9
Non-U.S. Investment Companies	0.7
U.S. Corporate Bonds & Notes	0.3
U.S. Purchased Call Options	0.3
U.S. Purchased Put Options	0.1
U.S. Warrants	0.0†
Non-U.S. Warrants	0.0†
Non-U.S. Corporate Bonds & Notes	(1.0)
Common Stocks	(22.5)
Other Investments and Assets & Liabilities	(30.4)

Top 10 Holdings as of 03/31/2018 (%) <sup>(1)</sup>	
Vistra Energy Corp. (U.S. Equity)	30.0
TerreStar Corporation (U.S. Equity)	16.9
TerreStar Corporation 5.50%, 02/27/20 (U.S. Senior Loans)	9.8
Argentine Republic Government International Bond 2.50%, 12/31/38 (Non-U.S. Government Bonds)	8.2
American Airlines Group, Inc. (U.S. Equity)	7.8
Energy Transfer Equity LP (U.S. Master Limited Partnerships)	5.3
Fieldwood Energy LLC 9.00%, 09/30/20 (U.S. Senior Loans)	4.7
MPM Holdings, Inc. (U.S. Equity)	3.9
Enterprise Products Partners LP (U.S. Master Limited Partnerships)	3.5
MPLX LP (U.S. Master Limited Partnerships)	3.3

<sup>(1)</sup> Asset classifications and holdings are calculated as a percentage of total net assets and net of long and short positions.

(†) Less than 0.05%

## FUND PROFILE (unaudited)

### Highland Premier Growth Equity Fund

#### Objective

Highland Premier Growth Equity Fund seeks long-term growth of capital and future income rather than current income.

#### Net Assets as of March 31, 2018

\$152.3 million

#### Portfolio Data as of March 31, 2018

The information below provides a snapshot of Highland Premier Growth Equity Fund at the end of the reporting period. Highland Premier Growth Equity Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Industry Classifications as of 03/31/2018 (%) <sup>(1)</sup>	
Software & Services	28.5
Technology Hardware & Equipment	10.0
Semiconductors & Semiconductor Equipment	9.9
Pharmaceuticals, Biotechnology & Life Sciences	7.7
Energy	6.2
Diversified Financials	5.2
Retailing	5.1
Capital Goods	4.6
Banks	4.0
Consumer Durables & Apparel	2.6
Real Estate	2.5
Consumer Services	2.1
Transportation	2.1
Healthcare Equipment & Services	2.1
Utilities	1.9
Materials	0.4
Automobiles & Components	(0.3)
Other Investments and Assets & Liabilities	5.4

Top 10 Holdings as of 03/31/2018 (%) <sup>(1)</sup>	
Minerva Neurosciences, Inc. (Common Stocks)	3.6
Visa, Inc. (Common Stocks)	3.1
Intel Corp. (Common Stocks)	3.1
CIT Group, Inc. (Common Stocks)	3.0
Alibaba Group Holding, Ltd. (Common Stocks)	3.0
Apple, Inc. (Common Stocks)	3.0
SBA Communications Corp. (Common Stocks)	2.5
Highland Merger Arbitrage Fund (Registered Investment Companies)	2.4
Microsoft Corp. (Common Stocks)	2.4
EPAM Systems, Inc. (Common Stocks)	2.3

<sup>(1)</sup> Industries and holdings are calculated as a percentage of total net assets.

# FUND PROFILE (unaudited)

## Highland Small-Cap Equity Fund

### Objective

Highland Small-Cap Equity Fund seeks long-term growth of capital.

### Net Assets as of March 31, 2018

\$51.8 million

### Portfolio Data as of March 31, 2018

The information below provides a snapshot of Highland Small-Cap Equity Fund at the end of the reporting period. Highland Small-Cap Equity Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Industry Classifications as of 03/31/2018 (%) <sup>(1)</sup>	
Pharmaceuticals, Biotechnology & Life Sciences	20.7
Banks	16.1
Materials	15.5
Real Estate	11.1
Energy	11.1
Healthcare Equipment & Services	9.7
Retailing	8.7
Software & Services	8.2
Utilities	4.2
Transportation	3.0
Diversified Financials	2.1
Consumer Services	1.6
Capital Goods	1.2
Semiconductors & Semiconductor Equipment	1.1
Media	0.9
Consumer Durables & Apparel	0.9
Technology Hardware & Equipment	0.9
Commercial & Professional Services	0.6
Food & Staples Retailing	0.6
Automobiles & Components	0.5
Other Investments and Assets & Liabilities	(18.7)

Top 10 Holdings as of 03/31/2018 (%) <sup>(1)</sup>	
MPM Holdings, Inc. (Common Stocks)	12.9
Eurobank Ergasias SA (Common Stocks)	5.5
Alpha Bank AE (Common Stocks)	5.1
National Bank of Greece SA (Common Stocks)	4.6
Heron Therapeutics, Inc. (Common Stocks)	4.5
Community Health Systems, Inc. (Common Stocks)	3.9
Jernigan Capital, Inc. (Common Stocks)	3.7
Finish Line, Inc. (The) (Common Stocks)	2.7
NexPoint Residential Trust, Inc. (Common Stocks)	2.7
Fortinet, Inc. (Common Stocks)	2.4

<sup>(1)</sup> Industries and holdings are calculated as a percentage of total net assets.

# FUND PROFILE (unaudited)

## Highland Total Return Fund

### Objective

Highland Total Return Fund seeks maximum total return, which includes both income and capital appreciation.

### Net Assets as of March 31, 2018

\$94.9 million

### Portfolio Data as of March 31, 2018

The information below provides a snapshot of Highland Total Return Fund at the end of the reporting period. Highland Total Return Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Quality Breakdown as of 03/31/2018 (%) <sup>(1)(2)</sup>	
AAA	0.1
AA	3.4
A	24.5
BBB	54.5
BB	1.7
B	0.3
D	0.4
Not Rated	15.1

Sector Classifications as of 03/31/2018 (%) <sup>(1)</sup>	
Common Stocks	62.3
Corporate Bonds & Notes	18.8
Registered Investment Companies	7.2
Other Investments and Assets & Liabilities	4.6
U.S. Treasury Bills	1.8
Preferred Stocks	1.7
Agency Mortgage-Backed Securities	1.7
U.S. Treasuries	1.6
Foreign Corporate Bonds & Notes	0.2
Non-Agency Collateralized Mortgage-Backed Securities	0.1
Agency Collateralized Mortgage Obligations	0.0†
Asset-Backed Securities	0.0†

Top 10 Holdings as of 03/31/2018 (%) <sup>(1)(2)</sup>	
PICO Holdings, Inc. (Common Stocks)	7.5
CenturyLink, Inc. (Common Stocks)	4.1
Bollore SA (Common Stocks)	3.7
Alphabet, Inc. (Common Stocks)	3.5
British American Tobacco PLC (Common Stocks)	3.2
Liberty Media Corp-Liberty Formula One (Common Stocks)	3.2
Walgreens Boots Alliance, Inc. (Common Stocks)	3.0
Gramercy Property Trust (Common Stocks)	2.9
Financiere de L'Odet SA (Common Stocks)	2.4
Jamba, Inc. (Common Stocks)	2.3

<sup>(1)</sup> Quality is calculated as a percentage of total bonds & notes. Sectors and holdings are calculated as a percentage of total net assets. The quality ratings reflected were issued by Standard & Poors, 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. Quality Ratings are subject to change.

<sup>(2)</sup> Excludes the Fund's investments of cash collateral received in connection with securities lending in the amount of \$2,079,358 and cash equivalent investments in the amount of \$7,574,622.

(†) Less than 0.05%

# FUND PROFILE (unaudited)

## Highland Tax-Exempt Fund

### Objective

Highland Tax-Exempt Fund seeks as high a level of income exempt from federal income taxation as is consistent with the preservation of capital.

### Net Assets as of March 31, 2018

\$13.2 million

### Portfolio Data as of March 31, 2018

The information below provides a snapshot of Highland Tax-Exempt Fund at the end of the reporting period. Highland Tax-Exempt Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Quality Breakdown as of 03/31/2018 (%) <sup>(1)(2)</sup>	
AAA	6.4
AA	33.5
A	31.6
BBB	12.8
Not Rated	15.7

Sector Classifications as of 03/31/2018 (%) <sup>(1)</sup>	
Municipal Bonds & Notes	98.5
Cash Equivalents	0.3
Other Investments and Assets & Liabilities	1.2

Top 10 Holdings as of 03/31/2018 (%) <sup>(1)(2)</sup>	
Los Angeles County Public Works Financing Authority 5.00%, 12/01/27 (Municipal Bonds & Notes)	4.5
Great Lakes Water Authority Water Supply System 5.00%, 07/01/29 (Municipal Bonds & Notes)	4.3
Carol Stream Park District, GO 5.00%, 01/01/32 (Municipal Bonds & Notes)	4.3
Golden State Tobacco Securitization Corp. 5.00%, 06/01/29 (Municipal Bonds & Notes)	4.2
Regional Transportation District, CO 5.00%, 11/01/27 (Municipal Bonds & Notes)	4.2
Pennsylvania Turnpike Commission 5.00%, 12/01/32 (Municipal Bonds & Notes)	4.2
New Jersey Economic Development Authority 5.00%, 06/15/29 (Municipal Bonds & Notes)	4.2
Central Texas Turnpike System 5.00%, 08/15/31 (Municipal Bonds & Notes)	4.2
District of Columbia 5.00%, 04/01/30 (Municipal Bonds & Notes)	4.1
Town of Fairfield, CT, GO 5.00%, 01/01/21 (Municipal Bonds & Notes)	4.1

<sup>(1)</sup> Quality is calculated as a percentage of total bonds & notes. Sectors and holdings are calculated as a percentage of total net assets. The quality ratings reflected were issued by Standard & Poors, a nationally recognized statistical rating organization. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Quality ratings reflect the credit quality of the underlying bonds in the Fund's portfolio and not that of the Fund itself. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change, including daily. The ratings assigned by credit rating agencies are but one of the considerations that the Fund's investment adviser incorporates into its credit analysis process, along with such other issuer specific factors as cash flows, capital structure and leverage ratios, ability to deleverage through free cash flow, quality of management, market positioning and access to capital, as well as such security-specific factors as the terms of the security (e.g., interest rate, and time to maturity) and the amount of any collateral. Quality Ratings are subject to change. A portion of the Tax-Exempt Fund's income may be subject to state, federal and/or alternative minimum tax. Capital gains, if any, are subject to capital gains tax.

<sup>(2)</sup> Excludes the Fund's cash equivalent investments in the amount of \$31,933.

# FUND PROFILE (unaudited)

## Highland Fixed Income Fund

### Objective

Highland Fixed Income Fund seeks maximum income consistent with prudent investment management and the preservation of capital.

### Net Assets as of March 31, 2018

\$138.4 million

### Portfolio Data as of March 31, 2018

The information below provides a snapshot of Highland Fixed Income Fund at the end of the reporting period. Highland Fixed Income Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Quality Breakdown as of 03/31/2018 (%) <sup>(1)</sup>	
AAA	1.6
AA	13.7
A	11.2
BBB	35.8
BB	4.9
B	0.7
CCC	0.5
Not Rated	31.6

Sector Classifications as of 03/31/2018 (%) <sup>(1)</sup>	
Corporate Bonds & Notes	38.0
Municipal Bonds & Notes	13.1
Agency Mortgage-Backed Securities	10.3
Asset-Backed Securities	8.1
Registered Investment Companies	5.6
U.S. Treasuries	5.0
Foreign Corporate Bonds & Notes	4.7
U.S. Government Agencies	3.9
Preferred Stocks	2.3
Common Stocks	2.1
Non-Agency Collateralized Mortgage-Backed Securities	1.6
Other Investments and Assets & Liabilities <sup>(3)</sup>	5.2
Agency Collateralized Mortgage Obligations	0.1

Top 10 Holdings as of 03/31/2018 (%) <sup>(1)(2)</sup>	
Wheaton College 1.75%, 10/01/35 (Municipal Bonds & Notes)	1.4
Federal National Mortgage Assoc. 1.38%, 10/29/20 (U.S. Government Agencies)	1.4
Federal National Mortgage Assoc. 4.50%, 09/01/40 (Agency Mortgage-Backed Securities)	1.2
Federal National Mortgage Assoc. 3.00%, 06/01/43 (Agency Mortgage-Backed Securities)	1.1
New York State Housing Finance Agency 1.95%, 05/01/49 (Municipal Bonds & Notes)	1.1
City of West Memphis 1.80%, 10/01/21 (Municipal Bonds & Notes)	1.1
Federal National Mortgage Assoc. 2.00%, 06/30/21 (U.S. Government Agencies)	1.1
U.S. Treasury Notes 0.75%, 09/30/18 (U.S. Treasuries)	1.1
U.S. Treasury Notes 1.00%, 10/15/19 (U.S. Treasuries)	1.1
Federal National Mortgage Assoc. 3.00%, 05/01/43 (Agency Mortgage-Backed Securities)	1.1

<sup>(1)</sup> Quality is calculated as a percentage of total bonds & notes. Sectors and holdings are calculated as a percentage of total net assets. The quality ratings reflected were issued by Standard & Poors, a nationally recognized statistical rating organization. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Quality ratings reflect the credit quality of the underlying bonds in the Fund's portfolio and not that of the Fund itself. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change, including daily. The ratings assigned by credit rating agencies are but one of the considerations that the Fund's investment adviser incorporates into its credit analysis process, along with such other issuer specific factors as cash flows, capital structure and leverage ratios, ability to deleverage through free cash flow, quality of management, market positioning and access to capital, as well as such security-specific factors as the terms of the security (e.g., interest rate, and time to maturity) and the amount of any collateral. Quality Ratings are subject to change.

<sup>(2)</sup> Excludes the Fund's investment in an investment company purchased with cash collateral from securities lending and cash equivalent investments.

<sup>(3)</sup> Includes the Fund's investments of cash collateral received in connection with securities lending in the amount of \$5,208,268 and cash equivalent investments in the amount of \$5,944,809.



March 31, 2018

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

<b>Investment Portfolio</b>	The Investment Portfolio details each of 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.
<b>Statement of Assets and Liabilities</b>	This statement details each 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 noninvestment 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.
<b>Statement of Operations</b>	This statement reports income earned by each Fund and the expenses incurred by each Fund during the reporting period. The Statement of Operations also shows any net gain or loss a 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 a Fund's net increase or decrease in net assets from operations.
<b>Statement of Changes in Net Assets</b>	This statement details how each 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.
<b>Statement of Cash Flows</b>	This statement reports net cash and foreign currency provided or used by operating, investing and financing activities and the net effect of those flows on cash and foreign currency during the period.
<b>Financial Highlights</b>	The Financial Highlights demonstrate how each Fund's net asset value per share was affected by the Fund's operating results. The Financial Highlights also disclose the classes' performance and certain key ratios (e.g., net expenses and net investment income as a percentage of average net assets).
<b>Notes to Financial Statements</b>	These notes disclose the organizational background of the Funds, 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)

As of March 31, 2018

Principal Amount (\$)	Value (\$)
<b>U.S. Senior Loans (a)(j) - 21.3%</b>	
<b>CHEMICALS (b)(r) - 0.2%</b>	
Vertellus Holdings LLC Second Lien Term Loan, 1-month LIBOR + 12.000%, 10/31/2021.....	1,067,386
1,102,216	
<b>ENERGY (c) - 6.9%</b>	
Azure Midstream Energy LLC Term Loan B, 1-month LIBOR + 6.500%, 11/15/2018 .....	7,912,800
8,060,550	
Chief Exploration & Development LLC Second Lien Term Loan, 2-month LIBOR + 6.500%, 05/16/2021 .....	2,983,755
3,000,000	
Fieldwood Energy LLC First Lien Last Out Term Loan, 1-month LIBOR + 7.125%, 09/30/2020 .....	23,784,623
24,743,431	
	<u>34,681,178</u>
<b>FINANCIAL - 0.5%</b>	
Walter Investment Management Corp. Term Loan, 1-month LIBOR + 6.000%, 06/30/2022 .....	2,331,210
2,389,955	
<b>MANUFACTURING - 0.7%</b>	
VC GB Holdings, Inc. Second Lien Term Loan, 1-month LIBOR + 8.000%, 02/28/2025 .....	1,894,667
1,866,667	
WireCo WorldGroup, Inc. 3-month LIBOR + 9.000%, 09/30/2024 .....	1,511,111
1,481,481	
	<u>3,405,778</u>
<b>MEDIA &amp; TELECOMMUNICATIONS (g) - 0.3%</b>	
iHeartCommunications, Inc. Tranche D Term Loan .....	1,529,270
1,928,571	
<b>RETAIL - 2.1%</b>	
Academy, Ltd. Term Loan B, 3-month LIBOR + 4.000%, 07/01/2022 .....	4,158,718
5,195,150	
Toys 'R' Us-Delaware, Inc. 1-month LIBOR + 8.750%, 01/18/2019 .....	3,355,233
3,346,866	
Term Loan B-4 (g) .....	2,909,334
7,419,025	
	<u>10,423,285</u>
<b>SERVICE - 0.5%</b>	
Advantage Sales & Marketing, Inc. Second Lien Term Loan, 3-month LIBOR + 6.500%, 07/25/2022 .....	2,408,038
2,500,000	
<b>TELECOMMUNICATIONS (b)(d)(r) - 9.8%</b>	
TerreStar Corporation Term Loan A, PIK 11.000%, 02/27/2020 .....	49,329,702
49,428,559	

Highland Global Allocation Fund

Principal Amount (\$)	Value (\$)
<b>UTILITIES - 0.5%</b>	
Granite Acquisition, Inc. Second Lien Term Loan B, 3-month LIBOR + 7.250%, 12/19/2022 .....	940,770
927,721	
Texas Competitive Electric Holdings Co., LLC Non Extended Escrow Loan (e) .....	1,413,118
471,039,553	
	<u>2,353,888</u>
Total U.S. Senior Loans (Cost \$119,426,942) .....	
	<u>107,529,735</u>
<b>Non-U.S. Senior Loans (a)(c) - 1.9%</b>	
<b>HEALTHCARE (b)(r) - 0.9%</b>	
HLS Therapeutics, Inc. Term Loan, 3-month LIBOR + 9.000%, 08/03/2021 .....	4,633,605
4,675,686	
<b>INFORMATION TECHNOLOGY - 0.9%</b>	
Evergreen Skills Lux S.a.r.l. Second Lien Term Loan, 1-month LIBOR + 8.250%, 04/28/2022 .....	4,691,191
5,390,222	
<b>MANUFACTURING - 0.1%</b>	
Doncasters U.S. Finance LLC Second Lien Term Loan, 3-month LIBOR + 8.250%, 10/09/2020 .....	344,471
360,073	
Total Non-U.S. Senior Loans (Cost \$10,125,702) .....	
	<u>9,669,267</u>
<b>U.S. Corporate Bonds &amp; Notes - 0.8%</b>	
<b>AUTOMOBILES &amp; COMPONENTS (g) - 0.0%</b>	
75,000,000 DPH Holdings Corp .....	1
25,000,000 DPH Holdings Corp .....	—
30,000,000 DPH Holdings Corp .....	—
	<u>1</u>
<b>ENERGY (f) - 0.5%</b>	
Ocean Rig UDW, Inc. (b)(g)(r) .....	2,558,727
37,083,000	
Permian Resources LLC/AEPB Finance Corp. 7.38%, 11/01/2021 .....	216
290	
	<u>2,558,943</u>
<b>HEALTHCARE EQUIPMENT &amp; SERVICES - 0.1%</b>	
Quorum Health Corp. 11.63%, 04/15/2023 .....	683,730
642,000	
<b>TELECOMMUNICATION SERVICES (g)(h) - 0.0%</b>	
Avaya, Inc. ....	—
9,500,000	
<b>UTILITIES (e) - 0.1%</b>	
Texas Competitive Electric Holdings Co., LLC .....	262,829
75,094,000	
Texas Competitive Electric Holdings Co., LLC .....	32,711
9,346,000	
Texas Competitive Electric Holdings Co., LLC .....	125,000
25,000,000	
Texas Competitive Electric Holdings Co., LLC .....	178,990
51,140,000	

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Global Allocation Fund

Principal Amount (\$)	Value (\$)
<b>U.S. Corporate Bonds &amp; Notes (continued)</b>	
<b>UTILITIES (e) (continued)</b>	
3,000,000 11.50%, 10/01/2020 .....	30,000
	<u>629,530</u>
Total U.S. Corporate Bonds & Notes (Cost \$31,120,607) .....	<u>3,872,204</u>
<b>Non-U.S. Government Bonds (c)(h) - 8.6%</b>	
62,500,000 Argentine Republic Government International Bond 2.500% (i) .....	41,656,250
40,000,000 Provincia de Buenos Aires, BADLAR + 3.830% (j) .....	<u>2,061,395</u>
Total Non-U.S. Government Bonds (Cost \$32,850,876) .....	<u>43,717,645</u>
<b>Shares</b>	
<b>U.S. Equity - 79.2%</b>	
<b>BANKS - 1.0%</b>	
39,200 CIT Group, Inc. (h) .....	2,018,800
3,000 Citizens Financial Group, Inc. ....	125,940
19,556 Ditech Holding Corp. (h)(k) .....	175,809
33,318 Ditech Holding Corp. ....	16,659
26,437 Ditech Holding Corp. ....	6,609
16,054,749 Gambier Bay LLC (d)(k) .....	2,528,623
15,000 Umpqua Holdings Corp. (l) .....	321,150
	<u>5,193,590</u>
<b>CAPITAL GOODS - 0.2%</b>	
4,500 Applied Industrial Technologies, Inc. ....	328,050
5,000 Fastenal Co. (l) .....	272,950
1,700 Raytheon Co. ....	366,894
500 WW Grainger, Inc. ....	141,135
	<u>1,109,029</u>
<b>CHEMICALS (k) - 4.1%</b>	
730,484 MPM Holdings, Inc. (h) .....	19,467,399
881,773 Vertellus Specialties, Inc. (b)(r) .....	1,190,393
	<u>20,657,792</u>
<b>CONSUMER DURABLES &amp; APPAREL - 0.1%</b>	
698 Lennar Corp., Class B (h) .....	33,287
7,000 NIKE, Inc., Class B .....	465,080
	<u>498,367</u>
<b>CONSUMER SERVICES (h)(k) - 2.1%</b>	
732,928 K12, Inc. ....	<u>10,392,919</u>
<b>DIVERSIFIED FINANCIALS - 0.8%</b>	
300 BlackRock, Inc. ....	162,516
41,300 Citigroup, Inc. (h) .....	2,787,750
1,000 Goldman Sachs Group, Inc. (The) .....	251,860
1,500 S&P Global, Inc. ....	286,590
5,000 TD Ameritrade Holding Corp. ....	296,150
	<u>3,784,866</u>
<b>ENERGY - 1.0%</b>	
76,300 Continental Resources, Inc. (h)(k) .....	4,497,885

Shares	Value (\$)
<b>ENERGY (continued)</b>	
3,500 Energen Corp. (k) .....	220,010
6,000 Marathon Petroleum Corp. ....	438,660
	<u>5,156,555</u>
<b>FOOD &amp; STAPLES RETAILING (k) - 0.0%</b>	
4,000 United Natural Foods, Inc. ....	<u>171,760</u>
<b>HEALTHCARE EQUIPMENT &amp; SERVICES - 2.6%</b>	
61,625 Brookdale Senior Living, Inc. (h)(k) .....	413,504
2,000 Laboratory Corp. of America Holdings (k) .....	323,500
24,500 Molina Healthcare, Inc. (h)(k) .....	1,988,910
365,750 Patterson Cos., Inc. (h) .....	8,130,622
176,509 Quorum Health Corp. (h)(k) .....	1,443,844
3,500 ResMed, Inc. ....	344,645
15,000 Select Medical Holdings Corp. (k) .....	258,750
	<u>12,903,775</u>
<b>INSURANCE (h) - 0.3%</b>	
100,000 FGL Holdings (k) .....	1,015,000
11,110 FNF Group .....	444,622
	<u>1,459,622</u>
<b>MATERIALS - 1.6%</b>	
15,000 Freeport-McMoRan Copper & Gold, Inc. (k) .....	263,550
6,000 Schnitzer Steel Industries, Inc., Class A ....	194,100
219,800 United States Steel Corp. (h) .....	7,734,762
	<u>8,192,412</u>
<b>MEDIA (h)(k) - 0.6%</b>	
196,250 Cumulus Media, Inc., Class A .....	14,739
77,945 Loral Space & Communications, Inc. ....	3,246,409
	<u>3,261,148</u>
<b>PHARMACEUTICALS, BIOTECHNOLOGY &amp; LIFE SCIENCES (k) - 2.5%</b>	
172,418 Collegium Pharmaceutical, Inc. (h) .....	4,405,280
136,731 Heron Therapeutics, Inc. (h) .....	3,773,776
363,906 Minerva Neurosciences, Inc. (h) .....	2,274,412
122,600 TG Therapeutics, Inc. (h) .....	1,740,920
5,200 Ultragenyx Pharmaceutical, Inc. (h) .....	265,148
1,500 Vertex Pharmaceuticals, Inc. ....	244,470
	<u>12,704,006</u>
<b>REAL ESTATE - 3.6%</b>	
25,380 Macerich Co. (The), REIT (h) .....	1,421,788
1,572,908 Independence Realty Trust, Inc., REIT (h) ..	14,439,295
101,918 Jernigan Capital, Inc., REIT (h) .....	1,844,716
2,219,361 RAIT Financial Trust, REIT (h) .....	358,427
	<u>18,064,226</u>
<b>RETAIL - 0.2%</b>	
3,500 Best Buy Co., Inc. ....	244,965
2,000 Pool Corp. ....	292,440
4,000 TJX Cos., Inc. (The) .....	326,240
	<u>863,645</u>

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Global Allocation Fund

Shares	Value (\$)
<b>U.S. Equity (continued)</b>	
<b>SEMICONDUCTORS &amp; SEMICONDUCTOR EQUIPMENT - 0.6%</b>	
3,000 Applied Materials, Inc. ....	166,830
6,000 Intel Corp. ....	312,480
47,700 QUALCOMM, Inc. (h) .....	2,643,057
	<u>3,122,367</u>
<b>SOFTWARE &amp; SERVICES - 3.0%</b>	
2,000 ANSYS, Inc. (k) .....	313,380
342,391 Avaya Holdings Corp. (k) .....	7,669,558
3,406 Black Knight, Inc. (h)(k) .....	160,423
37,300 CDK Global, Inc. (h) .....	2,362,582
2,500 Cognizant Technology Solutions Corp., Class A .....	201,250
44,050 Fortinet, Inc. (h)(k) .....	2,360,199
1,800 Intuit, Inc. ....	312,030
1,500 Microsoft Corp. ....	136,905
59,998 Twitter, Inc. (h)(k) .....	1,740,542
	<u>15,256,869</u>
<b>TECHNOLOGY HARDWARE &amp; EQUIPMENT - 0.1%</b>	
1,500 Motorola Solutions, Inc. ....	157,950
7,000 Plantronics, Inc. ....	422,590
	<u>580,540</u>
<b>TELECOMMUNICATION SERVICES (b)(d)(k)(m)(r) - 16.9%</b>	
306,550 TerreStar Corporation .....	85,447,747
<b>TRANSPORTATION (h) - 7.8%</b>	
758,800 American Airlines Group, Inc. ....	39,427,248
<b>UTILITIES - 30.1%</b>	
15,000 AES Corp. ....	170,550
3,975 NRG Energy, Inc. (h) .....	121,357
3,000 Ormat Technologies, Inc. ....	169,140
7,279,243 Vistra Energy Corp. (h)(k) .....	151,626,631
	<u>152,087,678</u>
Total U.S. Equity (Cost \$513,553,350) .....	<u>400,336,161</u>
<b>Non-U.S. Equity (c) - 10.8%</b>	
<b>CONSUMER DISCRETIONARY - 0.5%</b>	
5,000 Carnival Corp. ....	327,900
156,900 Haseko Corp. (h) .....	2,382,637
10,000 Netshoes Cayman, Ltd. (h)(k) .....	59,200
	<u>2,769,737</u>
<b>CONSUMER DURABLES &amp; APPAREL (k) - 0.0%</b>	
10,000 Under Armour, Inc., Class A .....	163,500
<b>CONSUMER STAPLES - 0.1%</b>	
13,000 Coca-Cola European Partners PLC .....	541,580
<b>ENERGY - 0.3%</b>	
75 Ocean Rig UDW, Inc. (k) .....	1,892
2,500 Pioneer Natural Resources Co. ....	429,450
Transportadora de Gas del Sur SA, Class B ADR (h)(k) .....	993,508
	<u>1,424,850</u>

Shares	Value (\$)
<b>FINANCIAL - 2.4%</b>	
22,370 Banco Macro SA ADR (h) .....	2,415,289
100,000 Banco del Bajio SA (f)(k) .....	213,603
11,540 BBVA Banco Frances SA ADR (h) .....	263,227
6,029 Grupo Financiero Galicia SA ADR (h) .....	396,467
283,287 Grupo Supervielle SA ADR (h) .....	8,594,928
	<u>11,883,514</u>
<b>FOOD, BEVERAGE &amp; TOBACCO - 0.4%</b>	
230,342 Adecoagro SA (h)(k) .....	1,732,172
5,000 McCormick & Co., Inc. ....	531,950
	<u>2,264,122</u>
<b>HEALTHCARE EQUIPMENT &amp; SERVICES (k) - 0.5%</b>	
275,000 HLS Therapeutics, Inc. (r) .....	2,452,977
2,000 Edwards Lifesciences Corp. ....	279,040
	<u>2,732,017</u>
<b>INDUSTRIALS - 1.7%</b>	
380,000 Atento SA (h) .....	2,964,000
100,000 GL Events (h) .....	3,006,985
114,600 Recruit Holdings Co., Ltd. (h) .....	2,827,554
	<u>8,798,539</u>
<b>INFORMATION TECHNOLOGY - 1.2%</b>	
16,069 MercadoLibre, Inc. (h) .....	5,726,831
2,000 Skyworks Solutions, Inc. ....	200,520
	<u>5,927,351</u>
<b>MATERIALS - 0.1%</b>	
12,000 Newmont Mining Corp. ....	468,840
<b>MEDIA (h) - 0.6%</b>	
131,733 Cablevision Holdings Spon GDR (k) .....	2,963,992
38,933 Grupo Clarin SA, Class B GDR .....	235,545
	<u>3,199,537</u>
<b>PHARMACEUTICALS, BIOTECHNOLOGY &amp; LIFE SCIENCES (h) - 0.1%</b>	
5,000 Idorsia, Ltd. ....	119,674
<b>REAL ESTATE (h) - 0.1%</b>	
6,453 IRSA Propiedades Comerciales SA ADR .....	287,158
<b>RETAILING (h)(k) - 0.2%</b>	
31,000 Despegar.com Corp. ....	968,750
<b>TRANSPORTATION (h)(k) - 1.1%</b>	
445,098 Corp. America Airports SA .....	5,492,509
<b>UTILITIES - 1.5%</b>	
500,000 Central Puerto SA .....	866,779
96,250 Central Puerto SA ADR (h)(k) .....	1,636,250
684,500 Cia Energetica de Minas Gerais (h)(k) .....	1,610,540
56,500 Pampa Energia SA ADR (h)(k) .....	3,367,400
25,000 Voltalia SA (h)(k) .....	298,239
	<u>7,779,208</u>
Total Non-U.S. Equity (Cost \$56,070,137) .....	<u>54,820,886</u>

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Global Allocation Fund

Shares		Value (\$)
<b>U.S. Rights - 0.9%</b>		
<b>UTILITIES (k) - 0.9%</b>		
7,905,143	Texas Competitive Electric Holdings Co., LLC .....	4,407,117
	Total U.S. Rights (Cost \$22,366,944) .....	4,407,117
<b>U.S. Warrants - 0.0%</b>		
<b>HEALTHCARE (k) - 0.0%</b>		
38,742	Avaya Holdings Corp. ....	213,081
	Total U.S. Warrants (Cost \$54,380) .....	213,081
<b>Non-U.S. Warrants (c) - 0.0%</b>		
<b>HEALTHCARE (b)(k) - 0.0%</b>		
42,032	HLS Therapeutics, Inc. ....	157,620
	Total Non-U.S. Warrants (Cost \$-) .....	157,620
<b>U.S. Purchased Call Options (n) - 0.3%</b>		
	Total U.S. Purchased Call Options (Cost \$1,825,526) .....	1,398,650
<b>U.S. Purchased Put Options (n) - 0.1%</b>		
	Total U.S. Purchased Put Options (Cost \$1,099,403) .....	235,600
<b>U.S. Registered Investment Companies (d) - 2.7%</b>		
688,774	Highland Merger Arbitrage Fund, Class Z ..	13,844,351
664	NexPoint Strategic Opportunities Fund, Common (h) .....	15,259
	Total U.S. Registered Investment Companies (Cost \$13,936,203) .....	13,859,610
<b>U.S. Master Limited Partnerships (c) - 25.5%</b>		
<b>ENERGY - 25.5%</b>		
890,500	Boardwalk Pipeline Partners LP (h) .....	9,038,575
1,895,090	Energy Transfer Equity LP (h) .....	26,929,229
716,975	Enterprise Products Partners LP (h) .....	17,551,548
4,405,532	Highland Energy MLP Fund (d) .....	14,009,590
509,714	MPLX LP (h) .....	16,840,950
30,000	NextDecade Corp. (h)(k) .....	148,200
100,000	Plains GP Holdings LP, Class A (h) .....	2,175,000
60,000	SemGroup Corp., Class A (h) .....	1,284,000
12,000	Shell Midstream Partners LP (h) .....	252,600
337,676	Targa Resources Corp. (h) .....	14,857,744
283,255	Western Gas Equity Partners LP (h) .....	9,381,406
624,764	Williams Cos., Inc. (The) (h) .....	15,531,633
33,023	Williams Partners LP (h) .....	1,136,982
		129,137,457
	Total U.S. Master Limited Partnerships (Cost \$193,857,741) .....	129,137,457
<b>Non-U.S. Investment Companies (b)(c)(d)(r) - 0.7%</b>		
10,000	BB Votorantim Highland Infrastructure LLC, Series I .....	3,481,712
	Total Non-U.S. Investment Companies (Cost \$4,571,783) .....	3,481,712

Principal Amount (\$)		Value (\$)
<b>U.S. Asset-Backed Securities (f) - 4.0%</b>		
	Acis CLO, Ltd. (j)(o) Series 2014-3A, Class E, 3M USD LIBOR + 4.750%, 02/01/2026 .....	3,856,400
4,000,000		
	Series 2014-4A, Class E, 3M USD LIBOR + 4.800%, 05/01/2026 .....	2,475,000
2,500,000		
	Series 2014-4A, Class F, 3M USD LIBOR + 5.150%, 05/01/2026 .....	3,594,200
4,000,000		
	Series 2014-5A, Class E1, 3M USD LIBOR + 6.520%, 11/01/2026 .....	3,505,250
3,500,000		
	Figuroa CLO, Ltd. Series 2014-1A, Class F, 3M USD LIBOR + 6.500%, 01/15/2027 (j) .....	1,476,450
1,500,000		
	Highland Park CDO, Ltd. Series 2006-1A, Class A2, 3M LIBOR + 0.400%, 11/25/2051 (j)(o) .....	744,301
767,321		
	Mountain Hawk II CLO, Ltd. Series 2013-2A, Class E, 3M USD LIBOR + 4.800%, 07/22/2024 (j) .....	1,223,400
1,500,000		
	Pamco Cayman, Ltd. Series 1997-1A, Class B 7.910% (b)(o)(r) .....	320,117
466,370		
	Silver Spring CLO, Ltd. Series 2014-1A, Class F, 3M USD LIBOR + 5.200%, 10/15/2026 (j) .....	1,350,000
1,800,000		
	Westchester CLO, Ltd. Series 2007-1A, Class E, 3M USD LIBOR + 4.300%, 08/01/2022 (j)(o) .....	680,069
680,704		
	Zais CLO, Ltd. Series 2014-2A, Class E, 3M USD LIBOR + 6.500%, 07/25/2026 (j) .....	692,510
700,000		
	Total U.S. Asset-Backed Securities (Cost \$18,698,555) .....	19,917,697
	<b>Total Investments - 156.8%</b> .....	<b>792,754,442</b>
	(Cost \$1,019,558,149)	
<b>Securities Sold Short (p) - (26.4)%</b>		
<b>Common Stocks - (22.5)%</b>		
<b>TRANSPORTATION - (5.3)%</b>		
(515,000)	American Airlines Group, Inc. ....	(26,759,400)
<b>HEALTHCARE EQUIPMENT &amp; SERVICES - (7.0)%</b>		
(490,150)	Boston Scientific Corp. (q) .....	(13,390,898)
(137,000)	Stryker Corp. ....	(22,046,040)
		(35,436,938)
<b>SOFTWARE &amp; SERVICES - (10.2)%</b>		
(99,650)	Netflix, Inc. (q) .....	(29,431,628)
(80,000)	Nintendo Co., Ltd. ADR .....	(4,440,800)
(327,400)	Zillow Group, Inc., Class C (q) .....	(17,614,120)
		(51,486,548)
	Total Common Stocks (Cost \$71,514,989) .....	(113,682,886)
<b>Non-U.S. Equity (c) - (2.4)%</b>		
<b>ENERGY (q) - (0.7)%</b>		
(66,250)	Cheniere Energy, Inc. ....	(3,541,062)

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Principal Amount (\$)	Value (\$)
<b>Non-U.S. Equity (c) (continued)</b>	
<b>HEALTHCARE EQUIPMENT &amp; SERVICES - (1.7)%</b>	
(80,000) Zimmer Holdings, Inc. ....	(8,723,200)
Total Non-U.S. Equity (Cost \$9,586,153) .....	(12,264,262)
<b>U.S. Corporate Bonds &amp; Notes - (0.5)%</b>	
<b>TELECOMMUNICATIONS - (0.5)%</b>	
(2,360,000) Sprint Corp. 7.875% .....	(2,413,100)
Total U.S. Corporate Bonds & Notes (Cost \$2,416,118) .....	(2,413,100)
<b>Non-U.S. Corporate Bonds &amp; Notes (c) - (1.0)%</b>	
<b>SOFTWARE &amp; SERVICES - (1.0)%</b>	
(5,000,000) Alibaba Group Holding, Ltd. 4.500% .....	(5,198,536)
Total Non-U.S. Corporate Bonds & Notes (Cost \$4,712,980) .....	(5,198,536)
Total Securities Sold Short (Proceeds \$88,230,240) .....	(133,558,784)
<b>Other Assets &amp; Liabilities, Net - (30.4)%</b> .....	<b>(153,647,869)</b>
<b>Net Assets - 100.0%</b> .....	<b>505,547,789</b>

- (a) Senior loans (also called bank loans, leveraged loans, or floating rate loans) in which the Fund invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread (unless otherwise identified, all senior loans carry a variable rate of interest). 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 Interbank Offered Rate ("LIBOR") or (iii) the Certificate of Deposit rate. Rate shown represents the weighted average rate at March 31, 2018. 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. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.
- (b) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. Securities with a total aggregate value of \$148,187,009, or 29.3% of net assets, were fair valued under the Fund's valuation procedures as of March 31, 2018. See Note 2.
- (c) As described in the Fund's prospectus, a company is considered to be a non-U.S. issuer if the company's securities principally trade on a market outside of the United States, the company derives a majority of its revenues or profits outside of the United States, the company is not organized in the United States, or the company is significantly exposed to the economic fortunes and risks of regions outside the United States.
- (d) Affiliated issuer. Assets with a total aggregate market value of \$168,656,984, or 33.4% of net assets, were affiliated with the Fund as of March 31, 2018. See Note 10 to the financial statements.
- (e) Represents value held in escrow pending future events. No interest is being accrued.
- (f) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transaction exempt from registration to qualified institutional buyers. At March 31, 2018, these securities amounted to \$22,690,243 or 4.5% of net assets.

Highland Global Allocation Fund

- (g) The issuer is, or is in danger of being, in default of its payment obligation.
- (h) All or part of this security is pledged as collateral for short sales and written options contracts. The market value of the securities pledged as collateral was \$530,027,892.
- (i) Step coupon bond. The interest rate shown reflects the rate in effect March 31, 2018 and will reset at a future date.
- (j) Variable or floating rate security. The base lending rates are generally the lending rate offered by one or more European banks such as the LIBOR. The interest rate shown reflects the rate in effect March 31, 2018. LIBOR, otherwise known as London Interbank Offered Rate, is the benchmark interest rate that banks charge each other for short-term loans. As of March 31, 2018, LIBOR rates include 1 month which is equal to 1.88% and 3 months equal to 2.31%. The BADLAR rate as of March 31, 2018 was 22.56%.
- (k) Non-income producing security.
- (l) Securities (or a portion of securities) on loan. As of March 31, 2018, the market value of securities loaned was \$594,100. The loaned securities were secured with cash and securities collateral of \$608,750. Collateral is calculated based on prior day's prices. See Note 4.
- (m) Restricted Securities. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Fund does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under the procedures established by the Fund's Board of Trustees. Additional Information regarding such securities follows:

Restricted Security	Security Type	Acquisition Date	Cost of Security	Market Value at Period End	Percent of Net Assets
TerreStar Corporation	U.S. Equity	11/14/2014	\$87,291,270	\$85,447,747	16.9%

(n) Options are shown at market value.

(o) Securities of collateralized loan obligations where an affiliate of the Investment Adviser serves as collateral manager.

(p) As of March 31, 2018, \$41,591,052 in cash was segregated or on deposit with the brokers to cover investments sold short and is included in "Other Assets & Liabilities, Net."

(q) No dividend payable on security sold short.

(r) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.

The Fund had the following futures contracts, for which \$3,372,315 was pledged as collateral, open at March 31, 2018:

Description	Expiration Date	Number of Contracts	Notional Value	Value/Unrealized Appreciation (Depreciation)
<b>Long Future:</b>				
Natural Gas	April 2018	1,152	\$31,484,160	\$ (59,121)
<b>Short Futures:</b>				
NASDAQ 100 E-Mini Index	June 2018	150	\$19,782,000	\$1,712,910
S&P 500 Emini Index	June 2018	190	25,108,500	(102,385)
				1,610,525
				<u>\$1,551,404</u>

# INVESTMENT PORTFOLIO (unaudited) (concluded)

As of March 31, 2018

Highland Global Allocation Fund

Purchased options contracts outstanding as of March 31, 2018 were as follows:

Description	Exercise Price	Counterparty	Expiration Date	Number of Contracts	Notional Value	Premium	Value
<b>PURCHASED CALL OPTIONS:</b>							
Alcoa Corp.	\$60.00	Jefferies	April 2018	1,330	\$ 7,980,000	\$ 51,588	\$ 6,650
American Airlines Group, Inc.	50.00	Jefferies	May 2018	3,000	1,380,000	1,568,374	1,230,000
Crude Oil Future	69.00	Goldman Sachs	May 2018	200	13,800,000	205,564	162,000
						<u>1,825,526</u>	<u>1,398,650</u>
<b>PURCHASED PUT OPTIONS:</b>							
CBOE SPX Volatility Index	\$11.00	Jefferies	April 2018	14,500	15,950,000	448,493	29,000
Crude Oil Future	60.00	Goldman Sachs	June 2018	100	6,000,000	70,332	63,000
Crude Oil Future	58.00	Goldman Sachs	May 2018	500	29,000,000	51,660	45,000
Crude Oil Future	60.00	Goldman Sachs	May 2018	150	9,000,000	31,998	27,000
Crude Oil Future	62.00	Goldman Sachs	May 2018	100	6,200,000	46,332	38,000
Euro Future	1.16	Goldman Sachs	June 2018	200	25,000,000	223,182	17,500
Euro Future	1.17	Goldman Sachs	June 2018	100	12,500,000	142,661	10,000
Euro Future	1.16	Goldman Sachs	June 2018	10,000,000	11,600,000	84,745	6,100
						<u>1,099,403</u>	<u>235,600</u>
Total Purchased Options Contracts						<u>\$2,924,929</u>	<u>\$1,634,250</u>

Written options contracts outstanding as of March 31, 2018 were as follows:

Description	Exercise Price	Counterparty	Expiration Date	Number of Contracts	Notional Value	Premium	Value
<b>WRITTEN CALL OPTIONS:</b>							
Citigroup, Inc.	\$ 77.50	Jefferies	May 2018	300	\$ 2,325,000	\$ (12,513)	\$ (11,100)
Continental Resources, Inc.	65.00	Jefferies	May 2018	500	3,250,000	(68,355)	(60,000)
Crude Oil Future	75.00	Goldman Sachs	May 2018	200	1,500,000	(57,736)	(44,000)
MercadoLibre, Inc.	420.00	Jefferies	May 2018	100	4,200,000	(50,380)	(68,000)
Molina Healthcare, Inc.	85.00	Jefferies	May 2018	170	1,445,000	(24,431)	(54,400)
Plains GP Holdings L.P.	24.00	Jefferies	May 2018	700	1,680,000	(23,598)	(19,250)
QUALCOMM, Inc.	65.00	Jefferies	May 2018	300	1,950,000	(10,308)	(18,300)
Targa Resources Corp.	52.50	Jefferies	May 2018	2,300	12,075,000	(89,036)	(28,750)
TG Therapeutics, Inc.	18.00	Jefferies	May 2018	850	1,530,000	(45,654)	(19,125)
Twitter, Inc.	37.00	Jefferies	May 2018	600	2,220,000	(71,897)	(35,400)
United States Steel Corp.	46.00	Jefferies	May 2018	1,500	6,900,000	(59,076)	(60,000)
						<u>(512,984)</u>	<u>(418,325)</u>
<b>WRITTEN PUT OPTIONS:</b>							
American Airlines Group, Inc.	\$ 50.00	Jefferies	May 2018	3,000	15,000,000	(708,609)	(567,000)
Boston Scientific Corp.	24.00	Jefferies	May 2018	3,000	7,200,000	(74,135)	(57,000)
Cheniere Energy, Inc.	42.50	Jefferies	May 2018	450	1,912,500	(16,520)	(12,150)
NASDAQ 100 E-Mini Index	6,000.00	Jefferies	June 2018	15	9,000,000	(158,331)	(178,275)
Netflix, Inc.	250.00	Jefferies	May 2018	700	17,500,000	(305,406)	(469,000)
Stryker Corp.	140.00	Jefferies	May 2018	900	12,600,000	(70,839)	(72,000)
Zillow Group, Inc.	45.00	Jefferies	May 2018	1,500	6,750,000	(77,357)	(116,250)
Zimmer Biomet Holdings, Inc.	95.00	Jefferies	May 2018	560	5,320,000	(41,278)	(36,400)
						<u>(1,452,475)</u>	<u>(1,508,075)</u>
Total Written Options Contracts						<u>\$(1,965,459)</u>	<u>\$(1,926,400)</u>

# INVESTMENT PORTFOLIO (unaudited)

As of March 31, 2018

Highland Premier Growth Equity Fund

Shares	Value (\$)
<b>Common Stocks - 93.2%</b>	
<b>BANKS - 4.0%</b>	
50,000	Bank of America Corp. .... 1,499,500
90,000	CIT Group, Inc. .... 4,635,000
	<u>6,134,500</u>
<b>CAPITAL GOODS - 4.6%</b>	
60,000	Masco Corp. .... 2,426,400
12,000	Parker-Hannifin Corp. .... 2,052,360
12,000	Raytheon Co. .... 2,589,840
	<u>7,068,600</u>
<b>CONSUMER DURABLES &amp; APPAREL - 2.6%</b>	
45,000	DR Horton, Inc. .... 1,972,800
33,000	Lennar Corp., Class A ..... 1,945,020
	<u>3,917,820</u>
<b>CONSUMER SERVICES - 2.1%</b>	
90,000	Wendy's Co. (The) ..... 1,579,500
9,000	Wynn Resorts, Ltd. .... 1,641,240
	<u>3,220,740</u>
<b>DIVERSIFIED FINANCIALS - 5.2%</b>	
3,000	BlackRock, Inc. .... 1,625,160
15,000	CME Group, Inc. .... 2,426,100
42,000	E*TRADE Financial Corp. (a) ..... 2,327,220
25,000	LPL Financial Holdings, Inc. .... 1,526,750
	<u>7,905,230</u>
<b>ENERGY - 6.2%</b>	
20,000	Concho Resources, Inc. (a) ..... 3,006,600
13,000	Diamondback Energy, Inc. (a) ..... 1,644,760
16,000	EOG Resources, Inc. .... 1,684,320
18,000	Pioneer Natural Resources Co. .... 3,092,040
	<u>9,427,720</u>
<b>HEALTHCARE EQUIPMENT &amp; SERVICES - 2.1%</b>	
25,000	Abbott Laboratories ..... 1,498,000
10,000	Stryker Corp. .... 1,609,200
	<u>3,107,200</u>
<b>MATERIALS (a)(g)(h) - 0.4%</b>	
2,000	Euramax International, Inc. .... 612,560
<b>PHARMACEUTICALS, BIOTECHNOLOGY &amp; LIFE SCIENCES - 7.7%</b>	
10,000	Bio-Rad Laboratories, Inc., Class A (a) ..... 2,500,800
80,000	Canopy Growth Corp. (a) ..... 2,088,656
872,057	Minerva Neurosciences, Inc. (a) ..... 5,450,357
8,000	Thermo Fisher Scientific, Inc. .... 1,651,680
	<u>11,691,493</u>
<b>REAL ESTATE (a) - 2.5%</b>	
22,000	SBA Communications Corp., REIT ..... 3,760,240
<b>RETAILING - 5.1%</b>	
2,200	Amazon.com, Inc. (a) ..... 3,184,148
1,000	Booking Holdings, Inc. (a) ..... 2,080,390
14,000	Home Depot, Inc. (The) ..... 2,495,360
	<u>7,759,898</u>

Shares	Value (\$)
<b>SEMICONDUCTORS &amp; SEMICONDUCTOR EQUIPMENT - 9.9%</b>	
13,000	Broadcom, Ltd. .... 3,063,450
91,000	Intel Corp. .... 4,739,280
90,000	Marvell Technology Group, Ltd. .... 1,890,000
60,000	Micron Technology, Inc. (a) ..... 3,128,400
10,000	NVIDIA Corp. .... 2,315,900
	<u>15,137,030</u>
<b>SOFTWARE &amp; SERVICES - 26.8%</b>	
30,000	Activision Blizzard, Inc. .... 2,023,800
25,000	Alibaba Group Holding, Ltd. ADR (a) ..... 4,588,500
3,000	Alphabet, Inc., Class C (a) ..... 3,095,370
	Cognizant Technology Solutions Corp., Class A ..... 3,220,000
40,000	DXC Technology Co. .... 3,015,900
30,000	EPAM Systems, Inc. (a) ..... 3,435,600
14,000	Facebook, Inc., Class A (a) ..... 2,237,060
5,000	IAC/InterActiveCorp (a) ..... 781,900
15,000	LogMeIn, Inc. .... 1,733,250
40,000	Microsoft Corp. .... 3,650,800
25,000	RealPage, Inc. (a) ..... 1,287,500
13,000	salesforce.com, Inc. (a) ..... 1,511,900
23,000	Take-Two Interactive Software, Inc. (a) ..... 2,248,940
60,000	Tencent Holdings, Ltd. ADR (b) ..... 3,197,400
40,000	Visa, Inc., Class A (c) ..... 4,784,800
	<u>40,812,720</u>
<b>TECHNOLOGY HARDWARE &amp; EQUIPMENT - 10.0%</b>	
27,000	Apple, Inc. .... 4,530,060
6,000	Arista Networks, Inc. (a) ..... 1,531,800
100,000	Flextronics International, Ltd. (a) ..... 1,633,000
30,000	FLIR Systems, Inc. .... 1,500,300
45,000	Lumentum Holdings, Inc. (a)(b) ..... 2,871,000
9,000	Palo Alto Networks, Inc. (a) ..... 1,633,680
17,000	Western Digital Corp. .... 1,568,590
	<u>15,268,430</u>
<b>TRANSPORTATION (a) - 2.1%</b>	
136,000	Corp. America Airports SA ..... 1,678,240
15,000	XPO Logistics, Inc. (b) ..... 1,527,150
	<u>3,205,390</u>
<b>UTILITIES (a) - 1.9%</b>	
80,000	Central Puerto SA ADR ..... 1,360,000
77,264	Vistra Energy Corp. .... 1,609,409
	<u>2,969,409</u>
	Total Common Stocks (Cost \$142,475,220) ..... <u>141,998,980</u>
<b>Preferred Stocks - 1.7%</b>	
<b>SOFTWARE &amp; SERVICES (a)(g)(d)(h) - 1.7%</b>	
434,783	AMINO, Inc., Series C ..... 2,652,176
	Total Preferred Stocks (Cost \$2,500,002) ..... <u>2,652,176</u>



# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Shares	Value (\$)
<b>Registered Investment Companies (e) - 2.5%</b>	
185,465 Highland Merger Arbitrage Fund, Class Z ... NexPoint Strategic Opportunities Fund,	3,727,845
664 Common .....	15,259
Total Registered Investment Companies (Cost \$3,762,432) .....	3,743,104
<b>Total Investments - 97.4%</b> .....	<b>148,394,260</b>
(Cost \$148,737,654)	
<b>Securities Sold Short - (0.3)%</b>	
<b>Common Stocks - (0.3)%</b>	
<b>AUTOMOBILES &amp; COMPONENTS (f) - (0.3)%</b>	
(2,000) Tesla, Inc. ....	(532,260)
Total Common Stocks (Proceeds \$528,078) .....	(532,260)
Total Securities Sold Short (Proceeds \$528,078) .....	(532,260)
<b>Other Assets &amp; Liabilities, Net - 2.9%</b> .....	<b>4,425,556</b>
<b>Net Assets - 100.0%</b> .....	<b>152,287,556</b>

(a) Non-income producing security.

(b) Securities (or a portion of securities) on loan. As of March 31, 2018, the market value of securities loaned was \$4,504,942. The loaned securities were secured with cash and securities collateral of \$4,605,459. Collateral is calculated based on prior day's prices. See Note 4.

Swap contracts outstanding as of March 31, 2018 were as follows:

Swap Contracts Outstanding

Underlying Instrument	Financing Rate	Payment Frequency	Counter-party	Expiration Date	Currency	Notional Amount	Upfront Premiums Paid (Received)	Unrealized Appreciation/ (Depreciation)	Market Value
<b>LONG EQUITY INDEX TRS</b>									
MSHDGBH	1 Month USD LIBOR plus 0.50%	Quarterly	Morgan Stanley & Co.	January 17, 2020	USD	\$2,396,513	\$2,394	\$(190,837)	\$(188,443)
Total Return Swaps									\$(188,443)

Highland Premier Growth Equity Fund

(c) All or part of this security is pledged as collateral for short sales and written options contracts. The market value of the securities pledged as collateral was \$4,784,800.

(d) Restricted Securities. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Fund does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under the procedures established by the Fund's Board of Trustees. Additional Information regarding such securities follows:

Restricted Security	Security Type	Acquisition Date	Cost of Security	Market Value at Period End	Percent of Net Assets
AMINO, Inc.	Preferred Stocks	11/18/2016	\$2,500,002	\$2,652,176	1.7%

(e) Affiliated issuer. Assets with a total aggregate market value of \$3,743,104, or 2.5% of net assets, were affiliated with the Fund as of March 31, 2018. See Note 10 to the financial statements.

(f) No dividend payable on security sold short.

(g) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. Securities with a total aggregate value of \$3,264,736, or 2.1% of net assets, were fair valued under the Fund's valuation procedures as of March 31, 2018. See Note 2.

(h) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.

# INVESTMENT PORTFOLIO (unaudited) (concluded)

As of March 31, 2018

Highland Premier Growth Equity Fund

The following table represents the 35 largest equity basket holdings underlying the total return swap in MS (Morgan Stanley) Genomic Biotechnology as of March 31, 2018.

Security Description	Shares	Market Value as of 3/31/18	Percent of Basket's Net Assets
<b>MS Genomic Biotechnology</b>			
<b>MSHDGBH</b>			
Crispr Therapeutics AG	10,173	\$ 465,012	4.22%
G1 Therapeutics, Inc.	11,721	434,263	3.94%
Immunogen, Inc.	38,712	407,252	3.69%
Uniqure B.V.	17,201	404,213	3.67%
Spark Therapeutics	5,962	396,979	3.60%
Array Biopharma	23,772	387,954	3.52%
Dynavax Techs	19,137	379,868	3.44%
Loxo Oncology, Inc.	3,227	372,264	3.38%
Sarepta Therapeutics, Inc.	4,879	361,512	3.28%
Mirati Therapeutics	11,681	358,592	3.25%
Blueprint Medicine	3,903	357,950	3.25%
Foundation Medicine	4,531	356,841	3.24%
Avexis, Inc.	2,837	350,640	3.18%
Editas Medicine	10,149	336,451	3.05%
Intellia Therapeutics, Inc.	15,807	333,362	3.02%
RegenxBio, Inc.	11,085	330,881	3.00%
Kura Oncology, Inc.	17,487	327,885	2.97%
Cellectis ADR	10,364	326,560	2.96%
Sangamo Therapeutics, Inc.	17,167	326,165	2.96%
Ultragenyx Pharmaceutical, Inc.	6,310	321,757	2.92%
Voyager Therapeutics, Inc.	16,245	305,252	2.77%
Abeona Therapeutics, Inc.	20,841	299,067	2.71%
Bluebird Bio	1,715	292,871	2.66%
Amicus Therapeutics, Inc.	19,270	289,825	2.63%
Madrigal Pharmaceuticals, Inc.	2,478	289,404	2.62%
Genomic Health	9,137	285,911	2.59%
Myocardia, Inc.	5,752	280,694	2.55%
Spectrum Pharmaceuticals, Inc.	16,133	259,588	2.35%
Audentes Therapeutics	8,160	245,201	2.22%
Myriad Genetics, Inc.	7,930	234,334	2.12%
Glycomimetic, Inc.	12,931	209,878	1.90%
Rocket Pharmaceuticals, Inc.	10,379	194,605	1.76%
Adverum Biotechnologies, Inc.	31,710	183,917	1.67%
Dicerna Pharmaceuticals, Inc.	16,962	162,153	1.47%
CASI Pharmaceuticals	38,196	159,276	1.44%
Total	463,944	\$11,028,377	100.00%

# INVESTMENT PORTFOLIO (unaudited)

As of March 31, 2018

Highland Small-Cap Equity Fund

Shares		Value (\$)
<b>Common Stocks - 110.0%</b>		
<b>AUTOMOBILES &amp; COMPONENTS (a)(b) - 0.5%</b>		
8,200	Gentherm, Inc. ....	278,390
<b>BANKS - 16.1%</b>		
5,000,000	Alpha Bank AE ADR (b) .....	2,650,000
	Canadian Imperial Bank of	
3,094	Commerce (a) .....	273,138
6,377,500	Eurobank Ergasias SA ADR (b) .....	2,831,610
2,430	IBERIABANK Corp. (a) .....	189,540
7,440,500	National Bank of Greece SA (b) .....	2,390,163
		8,334,451
<b>CAPITAL GOODS - 1.2%</b>		
28,100	Luxfer Holdings PLC .....	359,680
1,400	Teledyne Technologies, Inc. (a)(b) .....	262,038
		621,718
<b>COMMERCIAL &amp; PROFESSIONAL SERVICES (a) - 0.6%</b>		
20,000	Resources Connection, Inc. ....	324,000
<b>CONSUMER DURABLES &amp; APPAREL (a) - 0.9%</b>		
6,000	Oxford Industries, Inc. ....	447,360
<b>CONSUMER SERVICES (a) - 1.6%</b>		
20,300	K12, Inc. (b) .....	287,854
20,350	Sonic Corp. ....	513,431
		801,285
<b>DIVERSIFIED FINANCIALS (a) - 2.1%</b>		
19,070	Cannoe Holdings, Inc. (b) .....	359,660
7,275	KKR & Co. LP .....	147,683
57,120	Oaktree Specialty Lending Corp. ....	240,475
3,835	Raymond James Financial, Inc. ....	342,887
		1,090,705
<b>ENERGY (a) - 2.4%</b>		
14,100	C&J Energy Services, Inc. (b) .....	364,062
6,420	Dril-Quip, Inc. (b) .....	287,616
10,650	Oil States International, Inc. (b) .....	279,030
15,920	SM Energy Co. ....	287,038
		1,217,746
<b>FOOD &amp; STAPLES RETAILING (a) - 0.6%</b>		
18,400	SpartanNash Co. ....	316,664
<b>HEALTHCARE EQUIPMENT &amp; SERVICES - 9.7%</b>		
513,100	Community Health Systems, Inc. (a)(b) ....	2,031,876
20,000	K2M Group Holdings, Inc. (a)(b) .....	379,000
4,025	LHC Group, Inc. (b) .....	247,779
8,900	LifePoint Health, Inc. (a)(b) .....	418,300
6,045	MEDNAX, Inc. (b) .....	336,283
5,720	Molina Healthcare, Inc. (a)(b) .....	464,350
2,450	NuVasive, Inc. (a)(b) .....	127,915
26,785	Patterson Cos., Inc. (a) .....	595,431
29,000	Quorum Health Corp. (b) .....	237,220
11,300	Surgery Partners, Inc. (a)(b) .....	193,795
		5,031,949

Shares		Value (\$)
<b>MATERIALS (a) - 15.5%</b>		
	Loma Negra Cia Industrial Argentina SA	
26,100	ADR (b) .....	556,452
250,000	MPM Holdings, Inc. (b) .....	6,662,500
2,205	Quaker Chemical Corp. ....	326,627
6,600	Sensient Technologies Corp. ....	465,828
		8,011,407
<b>MEDIA (a) - 0.9%</b>		
15,275	Sinclair Broadcast Group, Inc., Class A .....	478,107
<b>PHARMACEUTICALS, BIOTECHNOLOGY &amp; LIFE SCIENCES (b) - 20.7%</b>		
15,500	Acorda Therapeutics, Inc. (a) .....	366,575
25,000	Amicus Therapeutics, Inc. (c) .....	376,000
4,400	ANI Pharmaceuticals, Inc. (a) .....	256,168
	Charles River Laboratories International,	
2,582	Inc. ....	275,603
110,825	Coherus Biosciences, Inc. (a)(c) .....	1,224,616
35,716	Collegium Pharmaceutical, Inc. (a)(c) .....	912,544
119,520	Egalet Corp. (a) .....	75,310
85,162	Heron Therapeutics, Inc. (a) .....	2,350,471
6,650	Intersect ENT, Inc. (a) .....	261,345
52,870	MiMedx Group, Inc. (a)(c) .....	368,504
2,100	Nektar Therapeutics .....	223,146
2,350	Pacira Pharmaceuticals, Inc. ....	73,203
5,600	Paratek Pharmaceuticals, Inc. (a) .....	72,800
34,250	Portola Pharmaceuticals, Inc. (a) .....	1,118,605
4,255	PRA Health Sciences, Inc. (a) .....	352,995
81,600	TG Therapeutics, Inc. (a) .....	1,158,720
22,055	Ultragenyx Pharmaceutical, Inc. (a)(c) .....	1,124,584
25,000	Veracyte, Inc. (c) .....	139,000
		10,730,189
<b>REAL ESTATE (a) - 11.1%</b>		
40,575	Forest City Realty Trust, Inc., Class A, REIT ..	822,049
48,500	Independence Realty Trust, Inc., REIT .....	445,230
105,461	Jernigan Capital, Inc., REIT (c) .....	1,908,844
55,508	NexPoint Residential Trust, Inc., REIT (d) .....	1,378,819
613,889	RAIT Financial Trust, REIT .....	99,143
14,300	RLJ Lodging Trust, REIT .....	277,992
102,669	Spirit Realty Capital, Inc., REIT .....	796,711
		5,728,788
<b>RETAILING (a) - 8.7%</b>		
233,527	Barnes & Noble, Inc. ....	1,155,958
104,900	Finish Line, Inc. (The), Class A .....	1,420,346
58,500	Francesca's Holdings Corp. (b) .....	280,800
21,850	Genesco, Inc. (b) .....	887,110
7,075	LKQ Corp. (b) .....	268,496
8,195	Tractor Supply Co. ....	516,449
		4,529,159
<b>SEMICONDUCTORS &amp; SEMICONDUCTOR EQUIPMENT (a)(b) - 1.1%</b>		
14,150	Semtech Corp. ....	552,557
<b>SOFTWARE &amp; SERVICES (a) - 8.2%</b>		
7,450	CoreLogic, Inc. (b) .....	336,963
5,500	Cornerstone OnDemand, Inc. (b) .....	215,105
19,100	CSRA, Inc. ....	787,493
22,900	Fortinet, Inc. (b) .....	1,226,982

# INVESTMENT PORTFOLIO (unaudited) (concluded)

As of March 31, 2018

Shares		Value (\$)
<b>Common Stocks (continued)</b>		
<b>SOFTWARE &amp; SERVICES (a) (continued)</b>		
6,750	Science Applications International Corp. ....	531,900
12,700	SS&C Technologies Holdings, Inc. ....	681,228
12,340	Teradata Corp. (b) .....	489,529
		<u>4,269,200</u>
<b>TECHNOLOGY HARDWARE &amp; EQUIPMENT (a)(b) - 0.9%</b>		
3,390	Zebra Technologies Corp., Class A .....	471,854
<b>TRANSPORTATION (a) - 3.0%</b>		
98,450	Corp. America Airports SA (b)(c) .....	1,214,873
14,000	JetBlue Airways Corp. (b) .....	284,480
2,160	Matson, Inc. ....	61,862
		<u>1,561,215</u>
<b>UTILITIES - 4.2%</b>		
61,000	Central Puerto SA ADR (b)(c) .....	1,037,000
6,700	NRG Energy, Inc. (a) .....	204,551
45,775	Vistra Energy Corp. (a)(b)(c) .....	953,493
		<u>2,195,044</u>
	Total Common Stocks (Cost \$56,018,154) .....	<u>56,991,788</u>

## Master Limited Partnerships - 8.7%

<b>ENERGY (a) - 8.7%</b>		
77,300	Boardwalk Pipeline Partners LP .....	784,595
71,290	Energy Transfer Equity LP .....	1,013,031
24,610	SemGroup Corp., Class A .....	526,654
22,475	Western Gas Equity Partners LP .....	744,372
52,925	Dynagas LNG Partners LP .....	529,250
7,150	Plains All American Pipeline LP .....	157,515
16,440	Andeavor Logistics LP .....	736,676
		<u>4,492,093</u>
	Total Master Limited Partnerships (Cost \$4,196,882) .....	<u>4,492,093</u>

Purchased options contracts outstanding as of March 31, 2018 were as follows:

Description	Exercise Price	Counterparty	Expiration Date	Number of Contracts	Notional Value	Premium	Value
<b>PURCHASED PUT OPTIONS:</b>							
CBOE SPX Volatility Index	\$11.00	Jefferies	April 2018	1,500	\$150,000	\$38,432	\$3,000

The Fund had the following futures contracts, for which \$452,400 was pledged as collateral, open at March 31, 2018:

Description	Expiration Date	Number of Contracts	Notional Value	Value/ Unrealized Appreciation (Depreciation)
<b>Short Futures:</b>				
NASDAQ 100 E-Mini Index	June 2018	38	\$5,011,440	\$433,937
S&P 500 E-Mini Index	June 2018	40	5,286,000	(21,555)
				<u>\$412,382</u>

Highland Small-Cap Equity Fund

Shares		Value (\$)
<b>Purchased Put Options - 0.0%</b>		
	Total Purchased Put Options (Cost \$38,432) .....	<u>3,000</u>
<b>Registered Investment Companies - 1.0%</b>		
664	NexPoint Strategic Opportunities Fund, Common (d) .....	15,259
502,342	State Street Navigator Prime Securities Lending Portfolio, Premier (e) .....	502,342
	Total Registered Investment Companies (Cost \$516,496) .....	<u>517,601</u>
	<b>Total Investments - 119.7%</b> .....	<u><b>62,004,482</b></u>
	(Cost \$60,769,964)	
<b>Securities Sold Short - (5.1)%</b>		
<b>Exchange-Traded Funds - (5.1)%</b>		
(39,000)	Direxion Daily Small Cap Bull 3X Shares ETF ...	(2,626,260)
	Total Exchange-Traded Funds (Proceeds \$2,023,804) .....	<u>(2,626,260)</u>
	Total Securities Sold Short (Proceeds \$2,023,804) .....	<u>(2,626,260)</u>
	<b>Other Assets &amp; Liabilities, Net - (14.6)%</b> .....	<u><b>(7,573,481)</b></u>
	<b>Net Assets - 100.0%</b> .....	<u><u><b>51,804,741</b></u></u>

- (a) All or part of this security is pledged as collateral for short sales and written options contracts. The market value of the securities pledged as collateral was \$46,216,473.
- (b) Non-income producing security.
- (c) Securities (or a portion of securities) on loan. As of March 31, 2018, the market value of securities loaned was \$2,500,292. The loaned securities were secured with cash and securities collateral of \$2,568,095. Collateral is calculated based on prior day's prices. See Note 4.
- (d) Affiliated issuer. Assets with a total aggregate market value of \$1,394,078, or 2.7% of net assets, were affiliated with the Fund as of March 31, 2018. See Note 10 to the financial statements.
- (e) Represents investments of cash collateral received in connection with securities lending.

	Overnight and Continuous	Total
<b>Securities Lending Transactions<sup>1</sup></b>		
Common Stocks	\$502,342	\$502,342
<b>Total Borrowings</b>	<u><b>\$502,342</b></u>	<u><b>\$502,342</b></u>
<b>Gross amount of recognized liabilities for securities lending transactions</b>		<u><b>\$502,342</b></u>

<sup>1</sup> Amounts represent the payable for cash collateral received on securities on loan. This will generally be in "Overnight and Continuous" column as the securities are typically callable on demand.

# INVESTMENT PORTFOLIO (unaudited)

As of March 31, 2018

Highland Total Return Fund

Principal Amount (\$)	Value (\$)
<b>Bonds &amp; Notes - 24.2%</b>	
<b>AGENCY COLLATERALIZED MORTGAGE OBLIGATIONS - 0.0%</b>	
Federal National Mortgage Assoc. REMIC Series 2012-93, Class SW, 1M LIBOR +	
67,696 6.100%, FRN, 09/25/2042 (a)(b) .....	10,329
Federal National Mortgage Assoc. STRIPS Series 354, Class 1	
4,586 0.00%, 12/25/2034 (c) .....	3,898
Total Agency Collateralized Mortgage Obligations (Cost \$18,798) .....	
	14,227
<b>AGENCY MORTGAGE-BACKED SECURITIES - 1.7%</b>	
Federal Home Loan Mortgage Corp.	
60,161 5.00%, 06/01/2041 .....	65,415
Federal National Mortgage Assoc.	
475,558 3.00%, 02/01/2043 - 06/01/2043 (j) .....	468,370
217,525 3.50%, 11/01/2042 - 02/01/2043 (j) .....	219,494
86,069 4.00%, 02/01/2044 .....	88,883
168,047 4.50%, 02/01/2040 - 01/01/2041 (j) .....	177,831
84,131 5.00%, 06/01/2041 .....	91,436
Government National Mortgage Assoc.	
125,694 3.00%, 04/20/2043 - 06/20/2043 (j) .....	124,334
125,428 3.50%, 05/20/2043 .....	127,391
143,507 4.00%, 01/20/2041 - 04/20/2043 (j) .....	149,846
54,998 4.50%, 05/20/2040 - 03/20/2041 (j) .....	57,849
Total Agency Mortgage-Backed Securities (Cost \$1,586,067) .....	
	1,570,849
<b>ASSET-BACKED SECURITIES (b) - 0.0%</b>	
Bear Stearns Asset-Backed Securities Trust Series 2003-ABF1, Class A, 1M USD	
2 LIBOR + 0.740%, FRN, 01/25/2034 .....	2
Total Asset-Backed Securities (Cost \$2) .....	
	2
<b>CORPORATE BONDS &amp; NOTES - 18.8%</b>	
<b>Automobiles &amp; Components - 0.7%</b>	
30,000 AutoNation, Inc. 6.75%, 04/15/2018 .....	30,037
400,000 AutoZone, Inc. 7.13%, 08/01/2018 (d) .....	405,746
Toyota Motor Credit Corp., MTN	
200,000 2.00%, 10/24/2018 .....	199,352
	635,135
<b>Banks - 1.1%</b>	
Bank of America Corp.	
27,000 2.60%, 01/15/2019 .....	27,030
403,000 5.40%, 04/30/2018 (e) .....	403,504
500,000 8.13%, 05/15/2018 (e) .....	502,625
Goldman Sachs Group, Inc. (The)	
42,000 6.15%, 04/01/2018 .....	42,000
Goldman Sachs Group, Inc. (The), MTN	
25,000 3M USD LIBOR + 1.600%, FRN, 07/15/2020 (b) .....	25,392
Morgan Stanley, MTN 3M USD LIBOR +	
21,000 1.500%, FRN, 11/09/2018 (b) .....	21,133
	1,021,684

Principal Amount (\$)	Value (\$)
<b>Capital Goods - 0.1%</b>	
Northrop Grumman Corp.	
92,000 1.75%, 06/01/2018 .....	91,914
<b>Chemicals - 0.2%</b>	
Dow Chemical Co. (The)	
160,000 5.70%, 05/15/2018 .....	160,495
<b>Consumer Durables &amp; Apparel - 0.0%</b>	
19,000 Lennar Corp. 4.50%, 11/15/2019 .....	19,214
<b>Consumer Services - 0.6%</b>	
Marriott International, Inc.	
525,000 6.75%, 05/15/2018 .....	527,545
MGM Resorts International	
32,000 5.25%, 03/31/2020 .....	32,883
Western Union Co. (The)	
20,000 3.65%, 08/22/2018 .....	20,072
	580,500
<b>Diversified Financials - 0.8%</b>	
260,000 Chubb Corp. (The) 5.75%, 05/15/2018 .....	260,973
Daimler Finance North America LLC	
150,000 2.38%, 08/01/2018 (f) .....	149,923
General Motors Financial Co., Inc.	
12,000 3.50%, 07/10/2019 .....	12,066
JPMorgan Chase & Co.	
Series I, 3M USD LIBOR +	
370,000 3.470%, VRN, 04/30/2018 (b)(e) .....	372,349
	795,311
<b>Energy - 0.8%</b>	
Kinder Morgan, Inc.	
42,000 5.63%, 11/15/2023 (f) .....	44,989
750,000 7.25%, 06/01/2018 .....	754,961
	799,950
<b>Financials - 0.4%</b>	
Caterpillar Financial Services Corp., MTN	
129,000 5.45%, 04/15/2018 .....	129,126
300,000 Jefferies Group LLC 5.13%, 04/13/2018 ..	300,170
	429,296
<b>Food, Beverage &amp; Tobacco - 1.3%</b>	
800,000 Altria Group, Inc. 9.70%, 11/10/2018 .....	833,936
Kraft Heinz Foods Co.	
250,000 2.00%, 07/02/2018 .....	249,766
Philip Morris International, Inc.	
125,000 5.65%, 05/16/2018 .....	125,476
	1,209,178
<b>Healthcare Equipment &amp; Services - 4.8%</b>	
Abbott Laboratories	
1,800,000 2.00%, 09/15/2018 .....	1,796,202
885,000 Aetna, Inc. 1.70%, 06/07/2018 .....	884,062
113,000 Anthem, Inc. 2.30%, 07/15/2018 .....	112,911
Becton Dickinson and Co.	
500,000 4.90%, 04/15/2018 .....	500,412
44,000 HCA, Inc. 6.50%, 02/15/2020 .....	46,255
Medtronic, Inc.	
560,000 1.38%, 04/01/2018 .....	560,000
9,000 2.50%, 03/15/2020 .....	8,953

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Total Return Fund

Principal Amount (\$)		Value (\$)
<b>Bonds &amp; Notes (continued)</b>		
<b>CORPORATE BONDS &amp; NOTES (continued)</b>		
<b>Healthcare Equipment &amp; Services (continued)</b>		
Tenet Healthcare Corp.		
50,000	4.75%, 06/01/2020 .....	50,625
30,000	6.00%, 10/01/2020 .....	31,125
270,000	Walgreen Co. 5.25%, 01/15/2019 .....	275,174
Zimmer Biomet Holdings, Inc.		
250,000	2.00%, 04/01/2018 .....	250,000
		<u>4,515,719</u>
<b>Industrials - 2.2%</b>		
General Electric Co.		
Series D, 3M USD LIBOR +		
645,000	3.330%, VRN 01/21/2021 (b)(e) .....	639,356
38,000	Masco Corp. 6.63%, 04/15/2018 .....	38,055
35,000	Monsanto Co. 5.13%, 04/15/2018 .....	35,030
Stanley Black & Decker, Inc.		
202,000	1.62%, 11/17/2018 .....	200,600
230,000	2.45%, 11/17/2018 .....	229,569
United Technologies Corp.		
914,000	1.78%, 05/04/2018 (g) .....	913,238
		<u>2,055,848</u>
<b>Insurance - 0.8%</b>		
Allstate Corp. (The) 3M USD LIBOR +		
204,000	1.935%, VRN 05/15/2067 (b) .....	201,450
Berkshire Hathaway Finance Corp.		
500,000	1.30%, 05/15/2018 .....	499,310
21,000	CNA Financial Corp. 5.88%, 08/15/2020 .....	22,302
		<u>723,062</u>
<b>Materials - 0.2%</b>		
El du Pont de Nemours & Co.		
150,000	6.00%, 07/15/2018 .....	151,393
<b>Media - 1.3%</b>		
431,000	Comcast Corp. 5.70%, 05/15/2018 .....	432,649
Scripps Networks Interactive, Inc.		
15,000	2.75%, 11/15/2019 .....	14,900
Time Warner Cable LLC		
770,000	6.75%, 07/01/2018 .....	777,304
		<u>1,224,853</u>
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences - 1.2%</b>		
250,000	AbbVie, Inc. 1.80%, 05/14/2018 .....	249,825
500,000	Amgen, Inc. 6.15%, 06/01/2018 .....	502,511
175,000	Gilead Sciences, Inc. 1.85%, 09/04/2018 .....	174,767
226,000	Mylan, Inc. 2.60%, 06/24/2018 .....	225,805
Roche Holdings, Inc.		
26,000	2.25%, 09/30/2019 (f) .....	25,872
		<u>1,178,780</u>
<b>Real Estate - 0.3%</b>		
American Tower Corp., REIT		
299,000	3.40%, 02/15/2019 .....	300,131
Iron Mountain, Inc., REIT		
30,000	6.00%, 08/15/2023 .....	31,158
		<u>331,289</u>

Principal Amount (\$)		Value (\$)
<b>Retailing - 1.4%</b>		
523,000	CVS Health Corp. 1.90%, 07/20/2018 .....	521,942
679,000	Dollar General Corp. 1.88%, 04/15/2018 .....	678,711
Home Depot, Inc. (The)		
97,000	2.25%, 09/10/2018 .....	96,942
		<u>1,297,595</u>
<b>Semiconductors &amp; Semiconductor Equipment - 0.0%</b>		
16,000	Xilinx, Inc. 2.13%, 03/15/2019 .....	15,892
<b>Software &amp; Services - 0.0%</b>		
7,000	Oracle Corp. 5.75%, 04/15/2018 .....	7,007
<b>Technology Hardware &amp; Equipment - 0.2%</b>		
175,000	EMC Corp. 1.88%, 06/01/2018 .....	174,520
<b>Telecommunication Services - 0.1%</b>		
Hughes Satellite Systems Corp.		
17,000	6.50%, 06/15/2019 .....	17,574
525,504	iHeartCommunications, Inc., PIK .....	82,767
		<u>100,341</u>
<b>Transportation - 0.1%</b>		
Norfolk Southern Corp.		
66,000	5.75%, 04/01/2018 .....	66,000
<b>Utilities - 0.3%</b>		
25,000	Sempra Energy 6.15%, 06/15/2018 .....	25,212
WEC Energy Group, Inc. 3M USD LIBOR +		
250,000	2.113%, VRN, 05/15/2067 (b) .....	245,000
		<u>270,212</u>
Total Corporate Bonds & Notes		
(Cost \$18,184,849) .....		<u>17,855,188</u>
<b>FOREIGN CORPORATE BONDS &amp; NOTES - 0.2%</b>		
<b>Capital Goods (f) - 0.1%</b>		
61,000	Bombardier, Inc. 7.75%, 03/15/2020 .....	65,270
<b>Media (f) - 0.0%</b>		
Cogeco Communications, Inc.		
27,000	4.88%, 05/01/2020 .....	27,202
<b>Utilities (f) - 0.1%</b>		
Electricite de France SA		
64,000	2.15%, 01/22/2019 .....	63,706
Total Foreign Corporate Bonds & Notes		
(Cost \$151,615) .....		<u>156,178</u>
<b>NON-AGENCY COLLATERALIZED MORTGAGE-BACKED SECURITIES - 0.1%</b>		
Banc of America Commercial Mortgage Trust		
Series 2007-1, Class AMFX, VRN,		
16,776	5.48%, 01/15/2049 (b) .....	17,016
JPMBB Commercial Mortgage Securities Trust		
Series 2013-C17, Class C, VRN,		
60,000	4.88%, 01/15/2047 (b) .....	61,540
LB-UBS Commercial Mortgage Trust		
Series 2007-C6, Class AMFL		
10,106	6.11%, 07/15/2040 (f) .....	10,101

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Total Return Fund

Principal Amount (\$)		Value (\$)
<b>Bonds &amp; Notes (continued)</b>		
<b>NON-AGENCY COLLATERALIZED MORTGAGE-BACKED SECURITIES (continued)</b>		
8,843	Series 2007-C6, Class AM, VRN, 6.11%, 07/15/2040 (b) .....	8,836
492	Morgan Stanley Capital I Trust Series 2007-IQ16, Class AMA, VRN, 6.12%, 12/12/2049 (b) .....	492
40,000	WF-RBS Commercial Mortgage Trust Series 2014-LC14, Class AS, VRN, 4.35%, 03/15/2047 (b) .....	41,310
	Total Non-Agency Collateralized Mortgage-Backed Securities (Cost \$140,201) .....	139,295
<b>U.S. TREASURIES - 1.6%</b>		
500,000	U.S. Treasury Notes 1.25%, 12/31/2018 .....	497,012
500,000	1.38%, 01/15/2020 (d) .....	492,256
500,000	1.75%, 12/31/2020 .....	491,767
	Total U.S. Treasuries (Cost \$1,496,939) .....	1,481,035
<b>U.S. TREASURY BILLS - 1.8%</b>		
1,000,000	U.S. Treasury Bill 0.00%, 05/17/2018 .....	997,954
750,000	U.S. Treasury Bill 0.00%, 06/14/2018 .....	747,487
	Total U.S. Treasury Bills (Cost \$1,745,358) .....	1,745,441
	Total Bonds & Notes (Cost \$23,323,829) .....	22,962,215
<b>Shares</b>		
<b>Domestic Equity - 46.3%</b>		
<b>COMMON STOCKS - 44.7%</b>		
<b>Consumer Durables &amp; Apparel - 2.8%</b>		
15,525	Genius Brands International, Inc. (h) .....	42,539
2,487	JG Boswell Co. ....	1,728,465
14,045	NIKE, Inc., Class B .....	933,150
		2,704,154
<b>Consumer Services (d) - 2.6%</b>		
20,000	Collectors Universe, Inc. ....	314,200
254,272	Jamba, Inc. (h) .....	2,179,111
		2,493,311
<b>Diversified Financials - 10.1%</b>		
7,920	Berkshire Hathaway, Inc., Class B (h) .....	1,579,881
20,896	Oaktree Capital Group LLC .....	827,482
627,422	PICO Holdings, Inc. ....	7,183,982
		9,591,345
<b>Food &amp; Staples Retailing - 3.0%</b>		
42,920	Walgreens Boots Alliance, Inc. ....	2,809,973
<b>Materials - 2.1%</b>		
16,725	Monsanto Co. ....	1,951,640

Shares	Value (\$)
<b>Media - 5.9%</b>	
103,137	Liberty Media Corp-Liberty Formula One, Class A (d)(h) .....
22,970	Time Warner, Inc. ....
11,375	Twenty-First Century Fox, Inc., Class B .....
	5,607,094
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences - 0.5%</b>	
3,900	Johnson & Johnson .....
	499,785
<b>Real Estate - 8.4%</b>	
9,400	GGP, Inc., REIT .....
124,290	Gramercy Property Trust, REIT .....
1,295	Phillips Edison Grocery Center REIT I, Inc. (h)(k)(l) .....
92,970	Retail Opportunity Investments Corp., REIT (d) .....
95,760	St Joe Co. (The)(h) .....
235,480	VEREIT, Inc., REIT .....
	7,992,622
<b>Semiconductors &amp; Semiconductor Equipment - 0.4%</b>	
6,500	QUALCOMM, Inc. ....
	360,165
<b>Software &amp; Services (h) - 4.1%</b>	
581	Alphabet, Inc., Class A .....
3,236	Alphabet, Inc., Class C .....
	3,941,451
<b>Telecommunication Services - 4.1%</b>	
237,482	CenturyLink, Inc. ....
	3,901,829
<b>Transportation - 0.6%</b>	
5,620	United Parcel Service, Inc., Class B .....
	588,189
	Total Common Stocks (Cost \$42,835,599) .....
	42,441,558
<b>PREFERRED STOCKS - 1.7%</b>	
<b>Diversified Financials (e) - 0.5%</b>	
395	Wells Fargo & Co., Series L 7.500% .....
	509,945
<b>Financials - 0.0%</b>	
816	Gabelli Global Utility & Income Trust, Series A 3.800% .....
	41,098
<b>Real Estate (e) - 0.5%</b>	
13,100	American Homes 4 Rent, Series E 6.350% .. Gramercy Property Trust, Series A 7.125% .....
200	
7,492	RLJ Lodging Trust, Series A 1.950% .....
	521,327
<b>Telecommunication Services - 0.5%</b>	
11,700	Qwest Corp. 6.500% .....
11,400	Qwest Corp. 6.750% .....
	503,529
	Total Preferred Stocks (Cost \$1,590,122) .....
	1,575,899
	Total Domestic Equity (Cost \$44,425,721) .....
	44,017,457

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Total Return Fund

Shares	Value (\$)
<b>Foreign Equity - 17.6%</b>	
<b>COMMON STOCKS - 17.6%</b>	
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences - 2.6%</b>	
16,750 Bayer AG .....	1,890,874
19,910 Bayer AG ADR .....	562,557
	<u>2,453,431</u>
<b>Food, Beverage &amp; Tobacco - 4.2%</b>	
8,450 Anheuser-Busch InBev NV ADR .....	928,993
53,105 British American Tobacco PLC, ADR .....	3,063,627
	<u>3,992,620</u>
<b>Telecommunication Services (d)(h) - 0.4%</b>	
35,484 Telecom Italia SpA/Milano ADR .....	339,582
<b>Media - 3.7%</b>	
49,368 Liberty Global PLC, Class A (h) .....	1,545,712
3,000 Sky PLC, ADR .....	218,070
68,700 Vivendi SA ADR .....	1,781,391
	<u>3,545,173</u>
<b>Transportation - 6.1%</b>	
662,320 Bolloré SA .....	3,527,021
648 Bolloré SA (h) .....	3,435
1,790 Financière de L'Odé SA .....	2,234,454
	<u>5,764,910</u>
<b>Diversified Financials - 0.7%</b>	
16,520 Brookfield Asset Management, Inc., Class A .....	644,280
	<u>16,739,996</u>
	<u>16,739,996</u>
<b>Registered Investment Companies - 4.7%</b>	
11,252 BlackRock Taxable Municipal Bond Trust, Common .....	253,395
12,035 Cohen & Steers, Ltd., Duration Preferred & Income Fund, Inc. Common .....	307,133
51,590 Flaherty & Crumrine Preferred Securities Income Fund, Inc., Common (d) .....	980,210
30,170 Kayne Anderson Midstream/Energy Fund, Inc., Common .....	354,498
10,766 Nuveen Build America Bond Fund, Common .....	223,825
4,913,232 State Street Navigator Prime Securities Lending Portfolio, Premier (i) .....	2,079,358
39,710 TCW Strategic Income Fund, Inc., Common .....	221,185
	<u>4,419,604</u>
<b>Principal Amount (\$)</b>	
<b>Cash Equivalents - 8.0%</b>	
<b>COMMERCIAL PAPER - 3.2%</b>	
1,000,000 Mondelez International, Inc. 1.00%, 04/23/2018 .....	998,470

Principal Amount (\$)	Value (\$)
<b>COMMERCIAL PAPER (continued)</b>	
1,000,000 Walgreens Boots Alliance, Inc. 2.13%, 05/14/2018 .....	997,032
1,000,000 Boston Scientific Corp. 2.37%, 04/20/2018 .....	998,679
	<u>2,994,181</u>
<b>Shares</b>	
<b>MONEY MARKET FUNDS - 4.8%</b>	
4,580,441 State Street Institutional U.S. Government Money Market Fund, Premier Class 1.60% .....	4,580,441
	<u>4,580,441</u>
	<u>4,580,441</u>
	<u>7,574,622</u>
<b>Total Investments - 100.8%</b> .....	<b>95,713,894</b>
(Cost \$95,644,525)	
<b>Other Assets &amp; Liabilities, Net - (0.8%)</b> .....	<b>(781,595)</b>
<b>Net Assets - 100.0%</b> .....	<b>94,932,299</b>

- (a) Interest only security ("IO"). These types of securities represent the right to receive the monthly interest payments on an underlying pool of mortgages. Payments of principal on the pool reduce the value of the "interest only" holding.
- (b) Variable or floating rate security. The base lending rates are generally the lending rate offered by one or more European banks such as the LIBOR. The interest rate shown reflects the rate in effect March 31, 2018. LIBOR, otherwise known as London Interbank Offered Rate, is the benchmark interest rate that banks charge each other for short-term loans. Current LIBOR rates include 1 month which is equal to 1.88% and 3 months equal to 2.31%.
- (c) Principal only security ("PO"). These types of securities represent the right to receive the monthly principal payments on an underlying pool of mortgages. No payments of interest on the pool are passed through to the "principal only" holder.
- (d) Securities (or a portion of securities) on loan. As of March 31, 2018, the market value of securities loaned was \$4,797,224. The loaned securities were secured with cash and securities collateral of \$4,913,232. Collateral is calculated based on prior day's prices. See Note 4.
- (e) Perpetual maturity. Maturity date presented represents the next call date.
- (f) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transaction exempt from registration to qualified institutional buyers. At March 31, 2018, these securities amounted to \$387,063 or 0.4% of net assets.
- (g) Step coupon bond. The interest rate shown reflects the rate in effect March 31, 2018 and will reset at a future date.
- (h) Non-income producing security.
- (i) Represents investments of cash collateral received in connection with securities lending.
- (j) Securities are grouped by coupon and represent a range of maturities.
- (k) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. Securities with a total aggregate value of \$12,680, or 0.0% of net assets, were fair valued under the Fund's valuation procedures as of March 31, 2018.
- (l) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.



# INVESTMENT PORTFOLIO (unaudited) (concluded)

As of March 31, 2018

Highland Total Return Fund

The Fund invested in the following countries as of March 31, 2018:

Country	Percentage (based on Total Investments)*
United States	82.9%
France	7.7%
United Kingdom	4.9%
Germany	2.5%
Belgium	0.9%
Canada	0.8%
Italy	0.3%
	<u>100.0%</u>

Industry	Domestic	Foreign	Percentage (based on Total Investments)*
Diversified Financials	10.6%	0.7%	11.3%
Media	5.9%	3.7%	9.6%
Real Estate	8.9%	0.0%	8.9%
Transportation	0.6%	6.0%	6.6%
Telecommunication Services	4.6%	0.4%	5.0%
Food, Beverage & Tobacco	0.0%	4.2%	4.2%
Software & Services	4.1%	0.0%	4.0%
Pharmaceuticals, Biotechnology & Life Sciences	0.5%	2.6%	3.1%
Food & Staples Retailing	3.0%	0.0%	3.0%
Consumer Durables & Apparel	2.8%	0.0%	2.8%
Consumer Services	2.6%	0.0%	2.6%
Materials	2.1%	0.0%	2.1%
Semiconductors & Semiconductor Equipment	0.5%	0.0%	0.5%
Financials	0.0%	0.0%	<u>0.0%</u>
			<u>63.7%</u>

Sector	Percentage (based on Total Investments)
Agency Mortgage-Backed Securities	1.6%
Corporate Bonds & Notes	18.7%
U.S. Treasuries	3.4%
Other (each less than 1.0%)	0.1%
	<u>23.8%</u>

Other Instruments	Percentage (based on Total Investments)*
Cash Equivalents	7.9%
Registered Investment Companies	4.6%
	<u>12.5%</u>
	<u>100.0%</u>

CERTAIN TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

Remaining Contractual Maturity of the Agreements

	Overnight and Continuous	Total
<b>Securities Lending Transactions<sup>2</sup></b>		
Common Stocks	\$1,990,320	\$1,990,320
Corporate Bonds & Notes	89,038	89,038
<b>Total Borrowings</b>	<b>\$2,079,358</b>	<b>\$2,079,358</b>
<b>Gross amount of recognized liabilities for securities lending transactions</b>		<b>\$2,079,358</b>

<sup>1</sup> Includes domestic and foreign equity securities.

<sup>2</sup> Amounts represent the payable for cash collateral received on securities on loan. This will generally be in "Overnight and Continuous" column as the securities are typically callable on demand.

\* The calculated percentages are based on total investments. The other assets & liabilities, net line has been excluded from the calculation.

# INVESTMENT PORTFOLIO (unaudited)

As of March 31, 2018

Highland Tax-Exempt Fund

Principal Amount (\$)	Value (\$)
<b>Municipal Bonds &amp; Notes - 98.5%</b>	
<b>ALASKA - 4.2%</b>	
500,000	559,081
<b>ARIZONA - 3.9%</b>	
475,000	514,743
<b>CALIFORNIA - 13.6%</b>	
120,000	142,875
500,000	560,155
500,000	590,850
435,000	491,950
13,000	13,601
	1,799,431
<b>COLORADO - 4.2%</b>	
500,000	559,715
<b>CONNECTICUT - 6.2%</b>	
250,000	274,225
500,000	543,205
	817,430
<b>DISTRICT OF COLUMBIA (a) - 4.1%</b>	
500,000	544,300
<b>FLORIDA - 3.0%</b>	
350,000	389,274
<b>GEORGIA - 3.9%</b>	
500,000	512,385
<b>HAWAII - 4.1%</b>	
500,000	537,765
<b>ILLINOIS - 10.6%</b>	
500,000	564,205
460,000	504,574
315,000	330,381
	1,399,160
<b>INDIANA - 3.9%</b>	
500,000	514,625
<b>MAINE - 0.1%</b>	
15,000	16,037

Principal Amount (\$)	Value (\$)
<b>MASSACHUSETTS - 1.7%</b>	
200,000	225,108
<b>MICHIGAN - 4.3%</b>	
500,000	568,235
<b>MISSOURI - 4.1%</b>	
500,000	533,540
<b>NEW JERSEY - 11.0%</b>	
500,000	553,785
500,000	542,030
350,000	352,013
	1,447,828
<b>PENNSYLVANIA - 9.3%</b>	
120,000	126,662
480,000	540,144
500,000	555,495
	1,222,301
<b>TEXAS - 6.3%</b>	
500,000	552,965
250,000	283,443
	836,408
	Total Municipal Bonds & Notes (Cost \$12,720,454) .....
	12,997,366
<b>Shares</b>	
<b>Cash Equivalents - 0.3%</b>	
31,933	31,933
	Total Cash Equivalents (Cost \$31,933) .....
	31,933
	<b>Total Investments - 98.8%</b> .....
	13,029,299
	(Cost \$12,752,387)
	<b>Other Assets &amp; Liabilities, Net - 1.2%</b> .....
	162,944
	<b>Net Assets - 100.0%</b> .....
	13,192,243

(a) Variable or floating rate security. The base lending rates are generally the lending rate offered by one or more European banks such as the LIBOR. The interest rate shown reflects the rate in effect March 31, 2018. LIBOR, otherwise known as London Interbank Offered Rate, is the benchmark interest rate that banks charge each other for short-term loans. Current LIBOR rates include 1 month which is equal to 1.88% and 3 months equal to 2.31%.

# INVESTMENT PORTFOLIO (unaudited)

As of March 31, 2018

Highland Fixed Income Fund

Principal Amount (\$)		Value (\$)
<b>Bonds &amp; Notes - 84.8%</b>		
<b>AGENCY COLLATERALIZED MORTGAGE OBLIGATION - 0.1%</b>		
Federal National Mortgage Assoc. REMIC Series 2010-16, Class PA		
95,290	4.50%, 02/25/2040 .....	98,789
Total Agency Collateralized Mortgage Obligation (Cost \$97,748) .....		98,789
<b>AGENCY MORTGAGE-BACKED SECURITIES - 10.3%</b>		
Federal Home Loan Mortgage Corp.		
1,162,049	4.00%, 05/01/2044 .....	1,203,084
190,251	5.00%, 06/01/2041 .....	206,866
Federal National Mortgage Assoc.		
3,675,812	3.00%, 02/01/2043 - 06/01/2043 .....	3,620,254
1,606,304	3.50%, 11/01/2042 - 02/01/2043 (a).....	1,620,845
1,758,974	4.00%, 01/01/2041 - 03/01/2044 .....	1,818,182
2,395,295	4.50%, 10/01/2039 - 04/01/2041 .....	2,534,719
266,048	5.00%, 06/01/2041 .....	289,149
Government National Mortgage Assoc.		
1,407,878	3.50%, 05/20/2043 .....	1,429,903
1,436,283	4.00%, 01/20/2041 - 04/20/2043 .....	1,501,404
Total Agency Mortgage-Backed Securities (Cost \$14,402,187) .....		14,224,406
<b>ASSET-BACKED SECURITIES - 8.1%</b>		
Capital Auto Receivables Asset Trust		
Series 2015-2, Class D		
750,000	3.16%, 11/20/2020 .....	751,903
Series 2014-1, Class D		
224,593	3.39%, 07/22/2019 .....	224,657
CarMax Auto Owner Trust 2014-2		
Series 2014-2, Class D		
750,000	2.58%, 11/16/2020 .....	749,963
DT Auto Owner Trust		
Series 2015-3A, Class D		
750,000	4.53%, 10/17/2022 (b) .....	761,163
First Investors Auto Owner Trust		
Series 2014-1A, Class D		
750,000	3.28%, 04/15/2021 (b) .....	749,871
Series 2013-3A, Class D		
750,000	3.67%, 05/15/2020 (b) .....	750,279
First Investors Auto Owner Trust 2014-2		
Series 2014-2A, Class D		
750,000	3.47%, 02/15/2021 (b) .....	751,715
Flagship Credit Auto Trust Series 2014-1,		
Class C 3.34%, 04/15/2020 (b) .....		
707,800		709,486
GM Financial Automobile Leasing Trust		
Series 2015-3, Class C		
750,000	2.98%, 11/20/2019 .....	751,075
Series 2015-3, Class D		
875,000	3.48%, 08/20/2020 .....	876,686
Hertz Vehicle Financing II LP		
Series 2016-1A, Class A		
624,000	2.32%, 03/25/2020 (b) .....	620,816
Hertz Vehicle Financing LLC		
Series 2013-1A, Class A2		
625,000	1.83%, 08/25/2019 (b) .....	623,748

Principal Amount (\$)		Value (\$)
<b>ASSET-BACKED SECURITIES (continued)</b>		
Hyundai Auto Receivables Trust 2014-B		
Series 2014-B, Class D		
670,000	2.51%, 12/15/2020 .....	669,296
Santander Drive Auto Receivables Trust		
Series 2015-4, Class C		
750,000	2.97%, 03/15/2021 .....	751,407
World Financial Network Credit Card		
Master Trust		
Series 2012-C, Class C 4.55%,		
859,000	08/15/2022 .....	865,895
World Omni Auto Receivables Trust		
Series 2015-A, Class B		
650,000	2.04%, 01/18/2022 .....	647,101
Total Asset-Backed Securities (Cost \$11,326,669) .....		11,255,061
<b>CORPORATE BONDS &amp; NOTES - 38.0%</b>		
<b>Automobiles &amp; Components - 0.1%</b>		
American Axle & Manufacturing, Inc.		
147,000	6.25%, 03/15/2021 .....	149,999
<b>Banks - 7.4%</b>		
Bank of America Corp.		
128,000	4.10%, 07/24/2023 .....	132,229
Bank of America Corp., 3M USD LIBOR +		
311,000	1.75% MTN 04/01/2024 .....	318,051
380,000	09/28/2020 (c) .....	384,490
Capital One Financial Corp. 3M USD LIBOR +		
810,000	0.95%, FRN 03/09/2022 (c) .....	811,640
Goldman Sachs Capital III 3M USD LIBOR +		
835,000	0.77%, FRN 04/30/2018 (c)(d) .....	720,188
Goldman Sachs Group, Inc. (The) 3M USD		
750,000	LIBOR + 1.17%, FRN 11/15/2021 (c) .....	759,450
Goldman Sachs Group, Inc. (The), MTN 3M		
750,000	USD LIBOR + 1.75%, FRN 10/28/2027 (c) ..	786,218
Independent Bank Group, Inc. VRN		
500,000	5.00%, 12/31/2027 (c) .....	505,830
Manufacturers & Traders Trust Co. 3M USD		
750,000	LIBOR + 0.64%, VRN 12/01/2021 (c) .....	749,021
Mellon Capital IV 3M USD LIBOR +		
750,000	0.57%, VRN 04/30/2018 (c)(d)(e) .....	680,858
NTC Capital II Series B, 3M USD LIBOR +		
850,000	0.59%, FRN 04/15/2027 (c) .....	797,937
People's United Bank NA		
250,000	4.00%, 07/15/2024 .....	252,459
State Street Corp. 3M USD LIBOR +		
750,000	1.00%, FRN 06/01/2077 (c) .....	680,700
USB Capital IX 3M USD LIBOR +		
800,000	1.02%, VRN 04/30/2018 (c)(d) .....	723,440
Wachovia Capital Trust II 3M USD LIBOR +		
795,000	0.50%, FRN 01/15/2027 (c) .....	749,287
Wells Fargo & Co. Series S, 3M USD LIBOR +		
884,000	3.11%, VRN 5.90%, 06/15/2024 (c)(d) .....	911,713
Wells Fargo & Co., MTN		
230,000	4.10%, 06/03/2026 .....	228,817
		10,192,328
<b>Capital Goods - 0.9%</b>		
Ares Capital Corp. 4.88%, 11/30/2018 (e) ...		
750,000		757,455
Prospect Capital Corp.		
500,000	5.00%, 07/15/2019 .....	506,792
		1,264,247

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Fixed Income Fund

Principal Amount (\$)	Value (\$)
<b>Bonds &amp; Notes (continued)</b>	
<b>CORPORATE BONDS &amp; NOTES (continued)</b>	
<b>Chemicals - 0.4%</b>	
500,000	Westlake Chemical Corp. 4.88%, 05/15/2023 ..... 515,000
<b>Commercial &amp; Professional Services - 0.6%</b>	
112,000	Catholic Health Initiatives 2.95%, 11/01/2022 ..... 109,723
747,000	Pitney Bowes, Inc. 4.63%, 03/15/2024 (e) ..... 699,379
	<u>809,102</u>
<b>Consumer Durables &amp; Apparel - 0.2%</b>	
307,000	Mattel, Inc. 2.35%, 05/06/2019 ..... 301,627
<b>Diversified Financials - 10.3%</b>	
500,000	American Express Co. Series C, 3M USD LIBOR + 3.29%, VRN 03/15/2020 (c)(d) ..... 503,125
750,000	Block Financial LLC 4.13%, 10/01/2020 ... 762,092
217,000	Citigroup, Inc. 1.75%, 05/01/2018 ..... 216,865
202,000	5.50%, 09/13/2025 ..... 219,043
750,000	5.88%, 03/27/2020 (c)(d)(e) ..... 775,312
150,000	CNH Industrial Capital LLC 3.38%, 07/15/2019 ..... 150,000
150,000	Daimler Finance North America LLC 2.38%, 08/01/2018 (b) ..... 149,923
750,000	Ford Motor Credit Co. LLC 2.87%, 08/03/2022 (c) ..... 756,574
200,000	5.88%, 08/02/2021 ..... 213,571
750,000	General Electric Co., MTN3M USD LIBOR + 0.30%, FRN 05/13/2024 (c) ..... 712,610
250,000	General Motors Financial Co., Inc. 2.97%, 10/04/2019 (c) ..... 252,711
750,000	3.07%, 04/10/2018 (c) ..... 750,120
311,000	Goldman Sachs Group, Inc. (The) 2.63%, 01/31/2019 ..... 310,900
104,000	2.90%, 07/19/2018 ..... 104,157
247,000	4.00%, 03/03/2024 ..... 250,998
516,000	Goldman Sachs Group, Inc. (The), MTN3M USD LIBOR + 1.40%, VRN 08/26/2020 (c) ..... 520,314
500,000	International Lease Finance Corp. 5.88%, 08/15/2022 ..... 537,848
750,000	JPMorgan Chase & Co. 5.00%, 07/01/2019 (c)(d) ..... 757,612
500,000	7.90%, 04/30/2018 (c)(d) ..... 503,175
500,000	Lazard Group LLC 4.25%, 11/14/2020 .... 514,227
208,000	Morgan Stanley 2.13%, 04/25/2018 ..... 207,942
224,000	4.88%, 11/01/2022 ..... 234,961
133,000	5.00%, 11/24/2025 ..... 139,300
500,000	Morgan Stanley & Co., LLC, MTN YOY CPI + 2.00%, VRN 02/11/2020 (c) ..... 508,125
500,000	Morgan Stanley, MTN 2.97%, 01/16/2020 (c) ..... 497,978
500,000	3.00%, 02/21/2020 (c) ..... 496,250
237,000	4.10%, 05/22/2023 ..... 240,465
750,000	Stifel Financial Corp. 3.50%, 12/01/2020 ..... 752,823
1,000,000	UBS AG 5.13%, 05/15/2024 ..... 1,022,810

Principal Amount (\$)	Value (\$)
<b>Diversified Financials (continued)</b>	
495,000	Volkswagen Group of America Finance LLC 2.13%, 05/23/2019 (b) ..... 491,876
750,000	Western Union Co. (The) 3.60%, 03/15/2022 ..... 750,164
	<u>14,303,871</u>
<b>Energy - 1.7%</b>	
90,000	Anadarko Petroleum Corp. 6.20%, 03/15/2040 ..... 106,440
500,000	Chesapeake Energy Corp. 3M USD LIBOR + 3.25%, FRN 04/15/2019 (c) ..... 498,750
98,000	Continental Resources, Inc. 4.90%, 06/01/2044 ..... 94,325
259,000	Energy Transfer Partners LP 6.50%, 02/01/2042 ..... 280,617
65,000	Kerr-McGee Corp. 6.95%, 07/01/2024 ..... 75,175
181,000	Kinder Morgan Energy Partners LP 3.50%, 09/01/2023 ..... 177,441
205,000	4.30%, 05/01/2024 ..... 206,692
96,000	Newfield Exploration Co. 5.75%, 01/30/2022 ..... 100,800
120,000	Sabine Pass Liquefaction LLC 5.63%, 02/01/2021 ..... 126,244
214,000	Unit Corp. 6.63%, 05/15/2021 ..... 215,070
197,000	Williams Cos., Inc. (The) 4.55%, 06/24/2024 ..... 199,358
317,000	Williams Partners LP 5.25%, 03/15/2020 ... 328,630
	<u>2,409,542</u>
<b>Food &amp; Staples Retailing - 0.2%</b>	
279,000	Ingles Markets, Inc. 5.75%, 06/15/2023 ..... 280,311
<b>Food, Beverage &amp; Tobacco - 0.7%</b>	
250,000	Altria Group, Inc. 2.63%, 01/14/2020 ..... 248,587
108,000	2.95%, 05/02/2023 ..... 105,781
108,000	4.50%, 05/02/2043 ..... 109,740
199,000	Anheuser-Busch InBev Worldwide, Inc. 2.50%, 07/15/2022 ..... 193,492
142,000	Diageo Investment Corp. 2.88%, 05/11/2022 ..... 140,453
111,000	Philip Morris International, Inc. 4.13%, 03/04/2043 ..... 109,492
	<u>907,545</u>
<b>Healthcare Equipment &amp; Services - 0.5%</b>	
207,000	Anthem, Inc. 3.30%, 01/15/2023 ..... 204,961
395,000	Express Scripts Holding Co. 2.25%, 06/15/2019 ..... 392,678
114,000	HCA, Inc. 6.50%, 02/15/2020 ..... 119,843
	<u>717,482</u>
<b>Industrials (c)(d) - 0.4%</b>	
600,000	General Electric Co. Series D, 3M USD LIBOR + 3.33%, VRN 01/21/2021 ..... 594,750
<b>Insurance - 2.7%</b>	
250,000	Allstate Corp. (The) 3.77%, 05/15/2067 (c) .. 246,875
119,000	5.75%, 08/15/2053 (c) ..... 124,950
167,000	American International Group, Inc. 3.38%, 08/15/2020 ..... 167,825

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Fixed Income Fund

Principal Amount (\$)		Value (\$)
<b>Bonds &amp; Notes (continued)</b>		
<b>CORPORATE BONDS &amp; NOTES (continued)</b>		
<b>Insurance (continued)</b>		
750,000	Assured Guaranty US Holdings, Inc. 5.00%, 07/01/2024 (e) .....	800,577
224,000	Berkshire Hathaway, Inc. 4.50%, 02/11/2043 .....	243,813
253,000	Five Corners Funding Trust 4.42%, 11/15/2023 (b) .....	264,579
103,000	Genworth Holdings, Inc. 4.80%, 02/15/2024 .....	84,460
101,000	Liberty Mutual Group, Inc. 7.70%, 06/15/2020 .....	100,243
221,000	Old Republic International Corp. 4.25%, 06/15/2023 (b) .....	225,817
750,000	Prudential Financial, Inc. 3M USD LIBOR + 4.88%, 10/01/2024 .....	791,927
750,000	VRN 06/15/2068 (c) .....	758,437
		<u>3,809,503</u>
<b>Media - 0.8%</b>		
205,000	Cequel Communications Holdings I LLC/ Cequel Capital Corp. 5.13%, 12/15/2021 (b) .....	205,256
103,000	Comcast Corp. 4.75%, 03/01/2044 .....	108,836
476,000	Omnicom Group, Inc. 3.63%, 05/01/2022... Time Warner Cable LLC	479,512
189,000	Time Warner, Inc. 5.88%, 11/15/2040 .....	198,017
168,000	Time Warner, Inc. 5.35%, 12/15/2043 .....	179,849
		<u>1,171,470</u>
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences - 0.7%</b>		
143,000	AbbVie, Inc. 2.00%, 11/06/2018 .....	142,470
205,000	Celgene Corp. 3.63%, 05/15/2024 .....	202,677
187,000	Endo Finance LLC & Endo Finco, Inc. 5.38%, 01/15/2023 (b) .....	142,587
209,000	Gilead Sciences, Inc. 3.70%, 04/01/2024 .....	210,095
97,000	Mylan, Inc. 5.40%, 11/29/2043 .....	100,258
153,000	Novartis Capital Corp. 4.40%, 05/06/2044 .....	167,850
		<u>965,937</u>
<b>Real Estate - 4.1%</b>		
148,000	American Campus Communities Operating Partnership LP 4.13%, 07/01/2024 .....	148,699
220,000	American Tower Corp., REIT 3.40%, 02/15/2019 .....	220,832
139,000	Corporate Office Properties LP, REIT 3.60%, 05/15/2023 .....	136,275
750,000	EPR Properties, REIT 5.25%, 02/15/2024 .....	789,679
750,000	Hospitality Properties Trust, REIT 5.75%, 08/15/2022 .....	802,050
610,000	National Retail Properties, Inc., REIT 4.50%, 06/15/2023 .....	623,900
164,000	PotlatchDeltic Corp., REIT 3.90%, 06/15/2024 .....	165,010
750,000	Select Income REIT 7.50%, 11/01/2019 .....	796,875
470,000	Simon Property Group L.P. 4.15%, 02/01/2022 .....	470,374
250,000	Simon Property Group L.P. 2.50%, 07/15/2021 .....	244,813

Principal Amount (\$)		Value (\$)
<b>Real Estate (continued)</b>		
698,000	VEREIT Operating Partnership L.P. 4.60%, 02/06/2024 .....	707,877
569,000	WP Carey, Inc. 4.60%, 04/01/2024 .....	583,944
		<u>5,690,328</u>
<b>Retailing - 0.8%</b>		
29,000	Bed Bath & Beyond, Inc. 4.92%, 08/01/2034 .....	25,349
157,000	Glencore Funding LLC 4.13%, 05/30/2023 (b) .....	158,206
108,000	Home Depot, Inc. (The) 4.88%, 02/15/2044 .....	123,940
750,000	Tapestry, Inc. 4.25%, 04/01/2025 .....	747,121
		<u>1,054,616</u>
<b>Semiconductors &amp; Semiconductor Equipment - 0.1%</b>		
105,000	Xilinx, Inc. 2.13%, 03/15/2019 .....	104,288
<b>Software &amp; Services - 1.3%</b>		
750,000	Amazon.com, Inc. 5.20%, 12/03/2025 .....	837,144
750,000	eBay, Inc. 2.20%, 08/01/2019 (e) .....	743,920
154,000	Oracle Corp. 3.63%, 07/15/2023 .....	157,191
		<u>1,738,255</u>
<b>Technology Hardware &amp; Equipment - 1.5%</b>		
308,000	Apple, Inc. 2.85%, 05/06/2021 .....	308,322
520,000	HP, Inc. 2.75%, 01/14/2019 (e) .....	520,063
500,000	Motorola Solutions, Inc. 3.50%, 03/01/2023 .....	493,365
720,000	Seagate HDD Cayman 4.75%, 01/01/2025 (e) .....	701,738
		<u>2,023,488</u>
<b>Telecommunication Services - 0.8%</b>		
262,000	AT&T, Inc. 2.38%, 11/27/2018 .....	261,924
156,000	5.15%, 03/15/2042 .....	161,219
336,000	L-3 Technologies, Inc. 5.15%, 03/15/2042 .....	347,369
154,000	3.95%, 05/28/2024 .....	155,109
119,000	Sprint Corp. 7.25%, 09/15/2021 .....	123,314
215,000	Windstream Services LLC 6.38%, 08/01/2023 (e) .....	124,163
		<u>1,173,098</u>
<b>Transportation - 0.2%</b>		
246,000	Ryder System, Inc., MTN 2.45%, 09/03/2019 .....	244,280
<b>Utilities - 1.6%</b>		
103,000	CMS Energy Corp. 4.88%, 03/01/2044 .....	113,970
146,000	Duke Energy Corp. 3.75%, 04/15/2024 .....	146,328
215,000	Eversource Energy 1.45%, 05/01/2018 .....	214,820
111,000	Great Plains Energy, Inc. 4.85%, 06/01/2021 .....	114,995
142,000	PacifiCorp 6.25%, 10/15/2037 .....	186,685
126,000	PPL Capital Funding, Inc. 5.00%, 03/15/2044 .....	138,612
324,000	Public Service Electric & Gas Co., MTN 2.38%, 05/15/2023 .....	311,156

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Fixed Income Fund

Principal Amount (\$)		Value (\$)
<b>Bonds &amp; Notes (continued)</b>		
<b>CORPORATE BONDS &amp; NOTES (continued)</b>		
<b>Utilities (continued)</b>		
259,000	Southern Co. (The) 2.45%, 09/01/2018 .....	258,737
750,000	WEC Energy Group, Inc. 3M USD LIBOR + 2.11%, VRN 05/15/2067 (c) .....	735,000
		2,220,303
	Total Corporate Bonds & Notes (Cost \$52,173,089) .....	52,641,370
<b>FOREIGN CORPORATE BONDS &amp; NOTES - 4.7%</b>		
<b>Banks - 1.6%</b>		
500,000	Bank of Nova Scotia (The), MTN3M USD LIBOR + 0.25%, VRN 08/28/2019 (c) .....	503,597
200,000	Bank of Tokyo-Mitsubishi UFJ, Ltd. (The) 2.30%, 03/10/2019 (b)(e) .....	199,023
455,000	Corp. Andina de Fomento 4.38%, 06/15/2022 .....	478,114
200,000	Intesa Sanpaolo SpA 5.02%, 06/26/2024 (b) .....	197,530
394,000	Macquarie Bank, Ltd. 2.60%, 06/24/2019 (b) .....	392,419
249,000	Mizuho Bank, Ltd. 2.45%, 04/16/2019 (b) ...	247,922
240,000	Standard Chartered PLC 5.70%, 03/26/2044 (b) .....	265,327
		2,283,932
<b>Diversified Financials - 0.2%</b>		
304,000	Invesco Finance PLC 3.13%, 11/30/2022 ...	301,769
<b>Energy - 0.8%</b>		
108,000	BP Capital Markets PLC 1.38%, 05/10/2018 .....	107,868
205,000	CNOOC Nexen Finance (2014) ULC 4.25%, 04/30/2024 .....	208,168
138,000	Nexen Energy ULC 6.40%, 05/15/2037 .....	170,905
95,000	Petroleos Mexicanos 3.50%, 07/18/2018 ...	95,371
325,000	Shell International Finance BV 3.40%, 08/12/2023 .....	328,631
106,000	Statoil ASA 4.80%, 11/08/2043 .....	121,178
95,000	Weatherford International, Ltd. 5.95%, 04/15/2042 .....	64,600
		1,096,721
<b>Insurance - 0.1%</b>		
100,000	XLIT, Ltd. 5.25%, 12/15/2043 .....	112,840
<b>Materials - 0.2%</b>		
205,000	Agrium, Inc. 4.90%, 06/01/2043 .....	214,016
103,000	Kinross Gold Corp. 5.95%, 03/15/2024 .....	111,188
		325,204
<b>Media (b) - 0.2%</b>		
208,000	Cogeco Communications, Inc. 4.88%, 05/01/2020 .....	209,560
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences - 0.8%</b>		
197,000	Actavis Funding SCS 3.85%, 06/15/2024 .....	194,898
99,000	4.85%, 06/15/2044 .....	98,384

Principal Amount (\$)		Value (\$)
<b>Pharmaceuticals, Biotechnology &amp; Life Sciences (continued)</b>		
775,000	CVS Health Corp. 3.13%, 03/09/2020 .....	776,143
		1,069,425
<b>Retailing - 0.5%</b>		
750,000	Signet UK Finance PLC 4.70%, 06/15/2024 .....	720,108
<b>Software &amp; Services (b) - 0.1%</b>		
109,000	Tencent Holdings, Ltd. 3.38%, 05/02/2019 .....	109,629
<b>Telecommunication Services - 0.2%</b>		
295,000	America Movil SAB de CV 5.00%, 03/30/2020 .....	304,760
	Total Foreign Corporate Bonds & Notes (Cost \$6,489,095) .....	6,533,948
<b>MUNICIPAL BONDS &amp; NOTES - 13.1%</b>		
500,000	Adelanto Public Utility Authority (Insured: AGM) 3.75%, 07/01/2024 .....	504,960
750,000	Belding Area Schools, GO Insured: Q-SBLF 6.50%, 05/01/2025 .....	809,707
80,000	California Statewide Communities Development Authority (Insured: FANNIE MAE) 2.30%, 05/15/2035 (c) .....	80,000
765,000	City of Fort Collins 1.65%, 12/01/2032 (c) .....	765,000
1,500,000	City of West Memphis 1.80%, 10/01/2021 (c) .....	1,500,000
750,000	Clark County School District Finance Corp. Insured: State Intercept 5.20%, 06/01/2026 .....	797,393
635,000	Comstock Park Public Schools, GO Insured: Q-SBLF 6.30%, 05/01/2026 .....	696,538
785,000	Indiana Development Finance Authority 1.68%, 12/01/2038 (c) .....	785,000
635,000	Industry Public Facilities Authority of California Insured: AGM 5.04%, 01/01/2027 .....	651,783
750,000	Kindred Public School District No. 2, GO 6.00%, 08/01/2027 .....	851,475
1,200,000	Mississippi Business Finance Corp. 1.99%, 08/01/2021 (c) .....	1,200,000
1,200,000	2.04%, 12/01/2025 (c) .....	1,200,000
720,000	New York State Dormitory Authority 5.00%, 01/01/2024 .....	734,710
1,500,000	New York State Housing Finance Agency 1.95%, 05/01/2049 (c) .....	1,500,000
750,000	North Texas Tollway Authority 8.91%, 02/01/2030 .....	826,897
650,000	Pennsylvania Turnpike Commission 7.47%, 06/01/2025 .....	688,240
200,000	7.47%, 06/01/2025 .....	211,442
320,000	Port Authority of New York & New Jersey 4.46%, 10/01/2062 .....	351,542
300,000	San Francisco City & County Redevelopment Financing Agency 8.26%, 08/01/2029 .....	390,384
470,000	Stanton Redevelopment Agency 8.63%, 12/01/2025 .....	564,197
200,000	State of California, GOFRN 2.45%, 04/01/2047 (c) .....	201,548

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of March 31, 2018

Highland Fixed Income Fund

Principal Amount (\$)	Value (\$)
<b>Bonds &amp; Notes (continued)</b>	
<b>MUNICIPAL BONDS &amp; NOTES (continued)</b>	
750,000	Washington Higher Education Facilities Authority 4.27%, 10/01/2022 .....
2,005,000	Wheaton College 1.75%, 10/01/2035 (c) ..
	Total Municipal Bonds & Notes (Cost \$17,947,496) .....
	18,075,026
<b>NON-AGENCY COLLATERALIZED MORTGAGE-BACKED SECURITIES - 1.6%</b>	
141,836	Banc of America Commercial Mortgage Trust Series 2007-1, Class AMFX, VRN 5.48%, 01/15/2049 (c) .....
120,000	Commercial Mortgage Pass-Through Certificates Series 2014-CR14, Class AM, VRN 4.53%, 02/10/2047 (c) .....
100,000	Series 2013-LC13, Class AM, VRN 4.56%, 08/10/2046 (b)(c) .....
205,000	GS Mortgage Securities Trust Series 2014, Class C 3.79%, 01/10/2031 (b) .....
105,000	Series 2014-GC20, Class AS 4.26%, 04/10/2047 .....
100,000	JPMBB Commercial Mortgage Securities Trust Series 2014-C18, Class C, VRN 4.83%, 02/15/2047 (c) .....
153,000	Series 2013-C17, Class C, VRN 4.88%, 01/15/2047 (c) .....
63,165	LB-UBS Commercial Mortgage Trust Series 2007-C6, Class AMFL 6.11%, 07/15/2040 (b) .....
55,585	Series 2007-C6, Class AM, VRN 6.11%, 07/15/2040 (c) .....
210,000	Morgan Stanley Bank of America Merrill Lynch Trust Series 2013-C10, Class AS, VRN 4.08%, 07/15/2046 (c) .....
191,000	Series 2013-C10, Class C, VRN 4.08%, 07/15/2046 (c) .....
100,000	Morgan Stanley Capital I Trust Series 2012-C4, Class B, VRN 5.21%, 03/15/2045 (b)(c) .....
43,684	Series 2006-T21, Class AJ, VRN 5.27%, 10/12/2052 (c) .....
3,775	Series 2007-IQ16, Class AMA, VRN 6.12%, 12/12/2049 (c) .....
115,000	WF-RBS Commercial Mortgage Trust Series 2013-C17, Class AS 4.26%, 12/15/2046 .....
263,000	Series 2014-LC14, Class AS, VRN 4.35%, 03/15/2047 (c) .....
140,000	Series 2014-C19, Class B, VRN 4.72%, 03/15/2047 (c) .....
	Total Non-Agency Collateralized Mortgage-Backed Securities (Cost \$2,154,617) .....
	2,158,511
<b>U.S. GOVERNMENT AGENCIES (f) - 3.9%</b>	
1,000,000	Federal Home Loan Mortgage Corp. 1.25%, 06/30/2021 .....
1,000,000	Federal National Mortgage Assoc. 1.25%, 12/30/2019 .....
2,000,000	1.38%, 10/29/2020 .....
1,500,000	2.00%, 06/30/2021 .....
	Total U.S. Government Agencies (Cost \$5,497,979) .....
	5,446,592

Principal Amount (\$)	Value (\$)
<b>U.S. TREASURIES - 5.0%</b>	
250,000	U.S. Treasury Bond 6.25%, 08/15/2023 ...
750,000	U.S. Treasury Note 1.00%, 09/15/2018 ...
500,000	2.13%, 12/31/2022 .....
500,000	2.25%, 10/31/2024 .....
500,000	2.25%, 12/31/2024 (e) .....
1,500,000	U.S. Treasury Notes 0.75%, 09/30/2018 ..
1,500,000	1.00%, 10/15/2019 .....
1,500,000	1.13%, 09/30/2021 .....
	Total U.S. Treasuries (Cost \$6,993,228) .....
	6,904,258
	Total Bonds & Notes (Cost \$117,082,108) .....
	117,337,961
<b>Shares</b>	
<b>Domestic Equity - 4.2%</b>	
<b>COMMON STOCKS - 2.1%</b>	
<b>Real Estate - 2.1%</b>	
39,900	Gramercy Property Trust, REIT .....
23,221	Phillips Edison Grocery Center REIT I, Inc. (g)(i)(j) .....
33,250	Retail Opportunity Investments Corp., REIT (e) .....
173,000	VEREIT, Inc., REIT .....
	Total Common Stocks (Cost \$3,706,778) .....
	2,885,970
<b>PREFERRED STOCKS - 2.1%</b>	
<b>Banks - 1.7%</b>	
30,000	Countrywide Capital V 7.00% (e) .....
22,109	First Republic Bank, Series E 7.00% (d)(e) .....
28,000	GMAC Capital Trust I, Series 2 7.62% (c) .....
6,572	Wells Fargo & Co., Series Q 5.85% (c)(d) .....
	Total Preferred Stocks (Cost \$2,815,197) .....
	2,869,262
	Total Domestic Equity (Cost \$6,521,975) .....
	5,755,232
<b>Real Estate (d) - 0.4%</b>	
13,500	Gramercy Property Trust, Series A 7.13% .....
10,040	VEREIT, Inc., Series F 6.70% .....
	Total Foreign Equity (Cost \$871,761) .....
	354,374
<b>Foreign Equity - 0.2%</b>	
<b>PREFERRED STOCKS - 0.2%</b>	
<b>Industrial - 0.2%</b>	
1,075	Teva Pharmaceutical Industries, Ltd. 7.00% .....
	Total Foreign Equity (Cost \$871,761) .....
	354,374

# INVESTMENT PORTFOLIO (unaudited) (concluded)

As of March 31, 2018

Highland Fixed Income Fund

Shares	Value (\$)
<b>Registered Investment Companies - 9.4%</b>	
59,543	1,340,908
31,300	798,776
50,842	1,020,907
62,383	1,296,943
140,000	1,111,600
36,950	418,274
79,000	1,807,520
6,314,455	5,208,268
	<b>13,003,196</b>
<b>Cash Equivalents - 4.3%</b>	
<b>MONEY MARKET FUNDS - 4.3%</b>	
5,944,809	5,944,809
	<b>5,944,809</b>
<b>Total Investments - 102.9%</b>	<b>142,395,572</b>
(Cost \$143,197,469)	
<b>Other Assets &amp; Liabilities, Net - (2.9)%</b>	<b>(3,977,039)</b>
<b>Net Assets - 100.0%</b>	<b>138,418,533</b>

(j) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.

	Overnight and Continuous	Total
<b>Securities Lending Transactions<sup>2</sup></b>		
Common Stocks	\$1,129,750	\$1,129,750
Corporate Bonds & Notes	4,078,518	4,078,518
<b>Total Borrowings</b>	<b>\$5,208,268</b>	<b>\$5,208,268</b>
<b>Gross amount of recognized liabilities for securities lending transactions</b>		<b>\$5,208,268</b>

- <sup>1</sup> Includes domestic and foreign equity securities.
- <sup>2</sup> Amounts represent the payable for cash collateral received on securities on loan. This will generally be in "Overnight and Continuous" column as the securities are typically callable on demand.
- \* The calculated percentages are based on total investments. The other assets & liabilities, net line has been excluded from the calculation.

- (a) Securities are grouped by coupon and represent a range of maturities.
- (b) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transaction exempt from registration to qualified institutional buyers. At March 31, 2018, these securities amounted to \$8,706,923 or 6.3% of net assets.
- (c) Variable or floating rate security. The base lending rates are generally the lending rate offered by one or more European banks such as the LIBOR. The interest rate shown reflects the rate in effect March 31, 2018. LIBOR, otherwise known as London Interbank Offered Rate, is the benchmark interest rate that banks charge each other for short-term loans. Current LIBOR rates include 1 month which is equal to 1.88% and 3 months equal to 2.31%.
- (d) Perpetual maturity. Maturity date presented represents the next call date.
- (e) Securities (or a portion of securities) on loan. As of March 31, 2018, the market value of securities loaned was \$6,171,874. The loaned securities were secured with cash and securities collateral of \$6,314,455. Collateral is calculated based on prior day's prices. See Note 4.
- (f) Step coupon bond. The interest rate shown reflects the rate in effect March 31, 2018 and will reset at a future date.
- (g) Non-income producing security.
- (h) Represents investments of cash collateral received in connection with securities lending.
- (i) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. Securities with a total aggregate value of \$227,336, or 0.2% of net assets, were fair valued under the Fund's valuation procedures as of March 31, 2018. See Note 2.



## GLOSSARY: (abbreviations that may be used in the preceding statements) (unaudited)

### Municipal Bond or Agency Abbreviations:

AGM	Assured Guaranty Municipal Corp.
BAM	Build America Mutual
GO	General Obligation
NATL-RE	National Public Finance Guarantee Corp.
Q-SBLF	Qualified School Board Loan Fund
ST APPROP	State Appropriation
ST RES FD GTY	State Resource Fund Guaranty

### Other Abbreviations:

ADR	American Depositary Receipt
CDO	Collateralized Debt Obligation
CLO	Collateralized Loan Obligation
ETF	Exchange-Traded Fund
GDR	Global Depositary Receipt
MLP	Master Limited Partnership
MTN	Medium-Term Note
PIK	Payment-in-Kind
PLC	Public Limited Company
REIT	Real Estate Investment Trust
REMIC	Real Estate Mortgage Investment Conduit
STRIPS	Separate Trading of Registered Interest and Principal of Security

### Underlying Instrument Abbreviations:

MSHDGBH	Morgan Stanley Index
---------	----------------------

# STATEMENTS OF ASSETS AND LIABILITIES

As of March 31, 2018 (unaudited)

	Highland Global Allocation Fund (\$)	Highland Premier Growth Equity Fund (\$)	Highland Small-Cap Equity Fund (\$)
<b>Assets</b>			
Investments, at value.....	624,097,458	144,651,156	60,610,404
Affiliated investments, at value (Note 10).....	<u>168,656,984</u>	<u>3,743,104</u>	<u>1,394,078</u>
Total Investments, at value .....	792,754,442	148,394,260	62,004,482
Cash equivalents (Note 2) .....	—	—	—
Cash .....	2,115,586	119,231	1,107,838
Restricted Cash — Futures (Note 3) .....	3,372,315	—	452,400
Restricted Cash — Securities Sold Short and Written Options (Note 2) .....	41,591,052	142,370	2,974,158
Restricted Cash — Swap (Note 2) .....	—	2,030,000	—
Foreign currency .....	—	—	—
Receivable for:			
Investments sold .....	6,598,046	5,796,871	—
Dividends and interest .....	4,182,753	61,501	81,799
Investment advisory and administration fees (Note 7) .....	—	—	—
Fund shares sold .....	173,491	7,339	7,290
Swap Payments .....	—	87,080	—
Variation margin on futures contracts .....	1,571,019	—	194,872
Prepaid expenses and other assets .....	<u>358,827</u>	<u>37,790</u>	<u>25,791</u>
Total assets .....	<u>852,717,531</u>	<u>156,676,442</u>	<u>66,848,630</u>
<b>Liabilities</b>			
Due to custodian .....	—	—	—
Due to broker (Note 2) .....	67,889,833	—	—
Notes payable (Note 6) .....	132,500,000	—	10,500,000
Securities sold short, at value (Notes 2 and 8) .....	133,558,784	532,260	2,626,260
Written options contracts, at value (Note 3) .....	1,926,399	—	—
Swaps, at value .....	—	188,443	—
Payable for:			
Upon receipt of securities loaned (Note 4) .....	—	—	502,342
Distributions to shareholders .....	134,267	—	—
Investments purchased .....	4,627,159	3,352,382	1,252,904
Fund shares redeemed .....	5,537,407	66,197	64,775
Investment advisory (Note 8) .....	123,067	85,334	20,500
Trustees' fees .....	48,411	7,136	815
Distribution and shareholder service fees (Note 7) .....	27,422	6,405	2,338
Transfer agent fees .....	172,383	23,264	13,286
Custody fees .....	43	—	22
Interest expense and commitment fee payable (Note 6) .....	262,232	—	22,983
Accrued expenses and other liabilities .....	<u>362,335</u>	<u>127,465</u>	<u>37,664</u>
Total liabilities .....	<u>347,169,742</u>	<u>4,388,886</u>	<u>15,043,889</u>
<b>Commitments and Contingencies (Note 7)</b>			
<b>Net Assets</b> .....	<u><u>505,547,789</u></u>	<u><u>152,287,556</u></u>	<u><u>51,804,741</u></u>

Highland Total Return Fund (\$)	Highland Tax- Exempt Fund (\$)	Highland Fixed Income Fund (\$)
88,139,272	12,997,366	136,450,763
—	—	—
88,139,272	12,997,366	136,450,763
7,574,622	31,933	5,944,809
5,501	—	1,499,983
—	—	—
—	—	—
—	—	—
150	—	—
1,071,666	—	675,712
443,829	184,913	1,038,075
—	1,887	—
15,513	207	18,538
—	—	—
—	—	—
27,557	29,881	30,444
<u>97,278,110</u>	<u>13,246,187</u>	<u>145,658,324</u>
22	—	22
—	—	—
—	—	—
—	—	—
—	—	—
—	—	—
2,079,358	—	5,208,268
—	25,474	348,480
18,686	—	1,451,785
140,595	11,015	65,780
41,558	—	51,210
—	111	370
2,657	646	4,694
9,121	3,108	17,251
—	22	—
—	—	—
53,814	13,568	91,931
<u>2,345,811</u>	<u>53,944</u>	<u>7,239,791</u>
<u><u>94,932,299</u></u>	<u><u>13,192,243</u></u>	<u><u>138,418,533</u></u>

# STATEMENTS OF ASSETS AND LIABILITIES (concluded)

As of March 31, 2018 (unaudited)

	Highland Global Allocation Fund (\$)	Highland Premier Growth Equity Fund (\$)	Highland Small-Cap Equity Fund (\$)
<b>Net Assets Consist of:</b>			
Par value (Note 1) .....	60,182	5,805	3,944
Paid-in capital .....	986,517,405	105,341,492	44,840,611
Accumulated net investment income (loss) .....	(7,538,776)	(26,187)	19,222
Accumulated net realized gain (loss) from investments, securities sold short, written options, futures contracts and foreign currency transactions .....	(203,175,593)	47,507,031	5,896,341
Net unrealized appreciation (depreciation) on investments, securities sold short, written options, futures contracts and foreign currency translations .....	(270,315,429)	(540,585)	1,044,623
<b>Net Assets</b> .....	<b><u>505,547,789</u></b>	<b><u>152,287,556</u></b>	<b><u>51,804,741</u></b>
Investments, at cost .....	811,419,026	144,975,222	59,411,393
Affiliated investments, at cost (Note 10) .....	208,139,123	3,762,432	1,358,571
Cash equivalents, at cost (Note 2) .....	—	—	—
Foreign currency, at cost .....	97,125	—	—
Proceeds from securities sold short .....	88,230,240	528,078	2,023,804
Written option premiums received .....	1,965,458	—	—
(a) Includes market value of securities on loan: .....	594,100	4,504,942	2,500,292
<b>Class A:</b>			
Net assets .....	212,494,268	106,550,883	38,241,100
Shares outstanding (\$0.001 par value; unlimited shares authorized) .....	<u>26,048,246</u>	<u>3,967,315</u>	<u>2,830,984</u>
Net asset value per share <sup>(a)(b)</sup> .....	<u>8.16</u>	<u>26.86</u>	<u>13.51</u>
Maximum offering price per share <sup>(c)</sup> .....	<u>8.66</u>	<u>28.50</u>	<u>14.33</u>
<b>Class C:</b>			
Net assets .....	109,224,854	11,974,464	4,680,030
Shares outstanding (\$0.001 par value; unlimited shares authorized) .....	<u>15,387,584</u>	<u>652,967</u>	<u>517,455</u>
Net asset value and offering price per share <sup>(a)</sup> .....	<u>7.10</u>	<u>18.34</u>	<u>9.05</u>
<b>Class Y:</b>			
Net assets .....	183,828,667	33,762,209	8,883,611
Shares outstanding (\$0.001 par value; unlimited shares authorized) .....	<u>18,746,550</u>	<u>1,184,953</u>	<u>595,960</u>
Net asset value, offering and redemption price per share .....	<u>9.81</u>	<u>28.49</u>	<u>14.91</u>

<sup>(a)</sup> Redemption price per share is equal to net asset value per share less any applicable contingent deferred sales charge ("CDSC").

<sup>(b)</sup> Purchases without an initial sales charge of \$1,000,000 or more are subject to a 0.50% CDSC if redeemed within one year of purchase.

<sup>(c)</sup> The sales charge is 5.75% for all Funds except for the Tax-Exempt Fund and Fixed Income Fund, which is 4.25%. On sales of \$1,000,000 or more, there is no sales charge and therefore the offering will be lower.

Highland Total Return Fund (\$)	Highland Tax- Exempt Fund (\$)	Highland Fixed Income Fund (\$)
4,288	1,187	10,868
95,065,619	12,862,655	141,404,578
369,172	51,488	(34,889)
(575,400)	1	(2,160,127)
<u>68,620</u>	<u>276,912</u>	<u>(801,897)</u>
<b><u>94,932,299</u></b>	<b><u>13,192,243</u></b>	<b><u>138,418,533</u></b>
88,068,896	12,720,454	137,252,660
—	—	—
7,575,629	31,933	5,944,809
150	—	—
—	—	—
—	—	—
2,079,358	—	6,171,874
48,029,275	12,246,745	100,433,897
<u>2,170,990</u>	<u>1,102,826</u>	<u>7,884,407</u>
<u>22.12</u>	<u>11.10</u>	<u>12.74</u>
<u>23.47</u>	<u>11.59</u>	<u>13.31</u>
4,153,738	861,826	3,430,885
<u>210,037</u>	<u>77,611</u>	<u>268,990</u>
<u>19.78</u>	<u>11.11</u>	<u>12.75</u>
42,749,286	83,672	34,553,751
<u>1,901,823</u>	<u>6,945</u>	<u>2,714,273</u>
<u>22.48</u>	<u>12.05</u>	<u>12.73</u>

# STATEMENTS OF OPERATIONS

For the Six Months Ended March 31, 2018 (unaudited)

	Highland Global Allocation Fund (\$)	Highland Premier Growth Equity Fund (\$)	Highland Small-Cap Equity Fund (\$)
<b>Investment Income</b>			
<b>Income:</b>			
Dividends from unaffiliated issuers .....	5,484,520	1,006,861	609,030
Dividends from affiliated issuers (Note 10) .....	1,432,093	116,746	28,426
Less: Foreign taxes withheld .....	(41,875)	—	(1,672)
Securities lending income (Note 4) .....	16,978	35,447	17,617
Interest from unaffiliated issuers .....	7,454,614	—	3,290
Interest paid-in-kind from affiliated issuers (Note 10) .....	2,647,586	—	—
Other income .....	104,503	5,862	—
Total Income .....	<u>17,098,419</u>	<u>1,164,916</u>	<u>656,691</u>
<b>Expenses:</b>			
Investment advisory (Note 7) .....	1,120,056	466,212	325,670
Distribution and shareholder service fees: (Note 7)			
Class A .....	295,190	138,902	49,048
Class C .....	659,947	65,405	24,075
Transfer agent fees .....	389,849	99,035	47,568
Trustees fees (Note 7) .....	104,831	22,377	6,431
Accounting services fees .....	139,958	31,108	16,813
Audit fees .....	141,955	34,129	13,868
Legal fees .....	484,139	51,280	34,601
Registration fees .....	31,507	22,869	24,574
Insurance .....	47,287	7,869	3,547
Reports to shareholders .....	138,166	23,388	6,038
Interest expense and commitment fees (Note 6) .....	2,468,507	—	174,767
Dividends and fees on securities sold short (Note 2) .....	348,484	—	51,591
Other .....	133,381	24,765	6,791
Total operating expenses before waiver and reimbursement (Note 7) .....	<u>6,503,257</u>	<u>987,339</u>	<u>785,382</u>
Less: Expenses waived or borne by the adviser and administrator .....	(40,315)	—	(147,915)
Net operating expenses .....	<u>6,462,942</u>	<u>987,339</u>	<u>637,467</u>
Net investment income .....	<u>10,635,477</u>	<u>177,577</u>	<u>19,224</u>
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>			
<b>Realized gain (loss) on:</b>			
Investments from unaffiliated issuers .....	(58,873,715)	48,669,461	5,972,346
Investments from affiliated issuers (Note 10) .....	—	58,181	—
Securities sold short (Note 2) .....	(11,002,270)	(598,262)	—
Swap contracts (Note 3) .....	—	87,910	—
Written options contracts (Note 3) .....	(10,328,982)	(228,141)	(1,759,348)
Futures contracts (Note 3) .....	2,042,856	—	883,225
Foreign currency related transactions .....	(1,414)	(6,392)	(40)
<b>Change in unrealized appreciation (depreciation) on:</b>			
Investments in unaffiliated issuers .....	101,363,174	(35,295,322)	(3,868,262)
Investments in affiliated issuers (Note 10) .....	(26,356,720)	(225,340)	59,781
Securities sold short (Note 2) .....	(7,357,621)	(4,182)	(95,160)
Swap contracts (Note 3) .....	—	(190,837)	—
Written options contracts (Note 3) .....	(566,525)	—	(238,543)
Futures contracts (Note 3) .....	6,452,638	—	961,189
Foreign currency related translations .....	125,919	(2,172)	28
Net realized and unrealized gain (loss) on investments .....	<u>(4,502,660)</u>	<u>12,264,904</u>	<u>1,915,216</u>
Total increase (decrease) in net assets resulting from operations .....	<u>6,132,817</u>	<u>12,442,481</u>	<u>1,934,440</u>

Highland Total Return Fund (\$)	Highland Tax- Exempt Fund (\$)	Highland Fixed Income Fund (\$)
---------------------------------------	--------------------------------------	---------------------------------------

3,652,636	—	514,242
—	—	—
(7,230)	—	(2,822)
33,714	—	20,158
364,633	220,226	1,985,139
—	—	—
12,500	—	—
<u>4,056,253</u>	<u>220,226</u>	<u>2,516,717</u>

260,188	23,901	212,658
67,302	15,838	130,377
22,720	4,635	18,216
53,046	8,717	84,184
9,962	1,427	13,974
30,594	8,778	43,239
22,510	3,095	30,796
30,437	4,427	42,351
22,697	21,998	22,826
4,381	832	6,981
6,766	1,896	12,809
—	—	—
—	—	—
3,082	1,380	4,653
<u>533,685</u>	<u>96,924</u>	<u>623,064</u>
—	(32,064)	(13,712)
<u>533,685</u>	<u>64,860</u>	<u>609,352</u>
<u>3,522,568</u>	<u>155,366</u>	<u>1,907,365</u>

(271,022)	—	(241,071)
—	—	—
—	—	—
—	—	—
—	—	—
3,533	—	—

(6,055,855)	(244,234)	(2,397,982)
—	—	—
—	—	—
—	—	—
—	—	—
546	—	—
<u>(6,322,798)</u>	<u>(244,234)</u>	<u>(2,639,053)</u>
<u>(2,800,230)</u>	<u>(88,868)</u>	<u>(731,688)</u>

# STATEMENTS OF CHANGES IN NET ASSETS

	Highland Global Allocation Fund		Highland Premier Growth Equity Fund	
	Six Months Ended March 31, 2018 (unaudited) (\$)	Year Ended September 30, 2017 (\$)	Six Months Ended March 31, 2018 (unaudited) (\$)	Year Ended September 30, 2017 (\$)
<b>Increase (Decrease) in Net Assets</b>				
<b>Operations:</b>				
Net investment income (loss) .....	10,635,477	61,060,957	177,577	(189,857)
Net realized gain (loss) on investments, securities sold short, written options, futures contracts and foreign currency transactions .....	(78,163,525)	(32,191,936)	47,982,757	33,461,671
Net increase (decrease) in unrealized appreciation (depreciation) on investments, securities sold short, written options, futures contracts and foreign currency transactions .....	73,660,865	32,310,193	(35,717,853)	(11,164,573)
Net increase (decrease) from operations .....	<u>6,132,817</u>	<u>61,179,214</u>	<u>12,442,481</u>	<u>22,107,241</u>
<b>Distributions to shareholders from:</b>				
Net investment income				
Class A .....	(5,981,729)	(21,201,116)	—	—
Class C .....	(3,250,600)	(15,103,261)	—	—
Class Y .....	(4,767,910)	(20,955,856)	—	—
Net realized gains				
Class A .....	—	—	(22,677,999)	(24,053,206)
Class C .....	—	—	(3,707,293)	(5,037,803)
Class Y .....	—	—	(6,885,689)	(6,603,213)
Return of Capital				
Class A .....	—	(804,590)	—	—
Class C .....	—	(573,174)	—	—
Class Y .....	—	(795,283)	—	—
<b>Total distributions</b> .....	<u>(14,000,239)</u>	<u>(59,433,280)</u>	<u>(33,270,981)</u>	<u>(35,694,222)</u>
Decrease in net assets from operations and distributions .....	<u>(7,867,422)</u>	<u>1,745,934</u>	<u>(20,828,500)</u>	<u>(13,586,981)</u>
<b>Share transactions:</b>				
Proceeds from sale of shares				
Class A .....	3,640,293	30,764,451	4,049,593	6,265,591
Class C .....	2,715,931	18,121,574	709,880	883,149
Class Y .....	23,182,180	118,990,879	3,717,174	9,104,977
Value of distributions reinvested				
Class A .....	5,537,665	20,057,183	21,857,793	23,321,947
Class C .....	2,481,464	11,352,710	3,427,323	4,479,595
Class Y .....	3,549,663	16,664,154	6,693,552	5,913,984
Cost of shares redeemed				
Class A .....	(49,879,843)	(105,585,871)	(13,178,454)	(30,818,816)
Class C .....	(47,420,646)	(120,272,071)	(2,847,127)	(10,466,740)
Class Y .....	(95,481,475)	(252,701,337)	(7,436,251)	(14,195,986)
Net increase (decrease) from shares transactions .....	<u>(151,674,768)</u>	<u>(262,608,328)</u>	<u>16,993,483</u>	<u>(5,512,299)</u>
<b>Total increase (decrease) in net assets</b> .....	<u>(159,542,190)</u>	<u>(260,862,394)</u>	<u>(3,835,017)</u>	<u>(19,099,280)</u>
<b>Net Assets</b>				
Beginning of period .....	<u>665,089,979</u>	<u>925,952,373</u>	<u>156,122,573</u>	<u>175,221,853</u>
End of period .....	<u>505,547,789</u>	<u>665,089,979</u>	<u>152,287,556</u>	<u>156,122,573</u>
<b>Accumulated net investment income (loss)</b> .....	<u>(7,538,776)</u>	<u>(4,174,014)</u>	<u>(26,187)</u>	<u>(203,764)</u>



Highland Small-Cap Equity Fund		Highland Total Return Fund	
Six Months Ended March 31, 2018 (unaudited) (\$)	Year Ended September 30, 2017 (\$)	Six Months Ended March 31, 2018 (unaudited) (\$)	Year Ended September 30, 2017 (\$)
19,224	327,304	3,522,568	526,370
5,096,183	9,256,583	(267,489)	2,321,872
<u>(3,180,967)</u>	<u>(2,457,714)</u>	<u>(6,055,309)</u>	<u>5,441,084</u>
<u>1,934,440</u>	<u>7,126,173</u>	<u>(2,800,230)</u>	<u>8,289,326</u>
(82,690)	(229,699)	(1,813,787)	(619,881)
—	(10,276)	(138,530)	(17,717)
(39,333)	(81,377)	(1,602,598)	(156,818)
(6,170,263)	(1,628,044)	(1,137,027)	(390,422)
(1,052,075)	(184,221)	(109,932)	(44,461)
(1,392,998)	(417,374)	(932,409)	(77,674)
—	—	—	—
—	—	—	—
—	—	—	—
<u>(8,737,359)</u>	<u>(2,550,991)</u>	<u>(5,734,283)</u>	<u>(1,306,973)</u>
<u>(6,802,919)</u>	<u>4,575,182</u>	<u>(8,534,513)</u>	<u>6,982,353</u>
3,391,331	13,620,467	671,157	1,731,157
390,407	2,551,911	489,672	290,493
2,368,388	32,864,955	5,437,232	40,230,133
5,959,451	1,719,164	2,622,770	899,697
1,017,530	182,454	157,061	34,003
1,400,924	492,079	2,180,629	228,121
(10,525,384)	(11,009,654)	(7,041,068)	(8,096,911)
(1,044,143)	(1,067,875)	(773,649)	(2,363,399)
<u>(20,494,683)</u>	<u>(15,125,842)</u>	<u>(11,317,166)</u>	<u>(3,561,815)</u>
<u>(17,536,179)</u>	<u>24,227,659</u>	<u>(7,573,362)</u>	<u>29,391,479</u>
<u>(24,339,098)</u>	<u>28,802,841</u>	<u>(16,107,875)</u>	<u>36,373,832</u>
<u>76,143,839</u>	<u>47,340,998</u>	<u>111,040,174</u>	<u>74,666,342</u>
<u>51,804,741</u>	<u>76,143,839</u>	<u>94,932,299</u>	<u>111,040,174</u>
<u>19,222</u>	<u>122,021</u>	<u>369,172</u>	<u>401,519</u>

## STATEMENTS OF CHANGES IN NET ASSETS (continued)

	Highland Tax-Exempt Fund		Highland Fixed Income Fund	
	Six Months Ended March 31, 2018 (unaudited) (\$)	Year Ended September 30, 2017 (\$)	Six Months Ended March 31, 2018 (unaudited) (\$)	Year Ended September 30, 2017 (\$)
<b>Increase (Decrease) in Net Assets</b>				
<b>Operations:</b>				
Net investment income (loss) .....	155,366	366,081	1,907,365	3,466,323
Net realized gain (loss) on investments and securities sold short .....	—	374,635	(241,071)	(165,904)
Net increase (decrease) in unrealized appreciation (depreciation) on investments .....	(244,234)	(1,073,250)	(2,397,982)	(505,611)
Net increase (decrease) from operations .....	<u>(88,868)</u>	<u>(332,534)</u>	<u>(731,688)</u>	<u>2,794,808</u>
<b>Distributions to shareholders from:</b>				
Net investment income				
Class A .....	(147,332)	(348,530)	(1,381,753)	(2,723,500)
Class C .....	(7,269)	(15,902)	(34,867)	(65,883)
Class Y .....	(768)	(1,819)	(491,305)	(660,757)
Net realized gains				
Class A .....	(347,251)	—	—	—
Class C .....	(24,913)	—	—	—
Class Y .....	(834)	—	—	—
Return of Capital				
Class A .....	—	—	—	(206,179)
Class C .....	—	—	—	(4,988)
Class Y .....	—	—	—	(50,022)
<b>Total distributions</b> .....	<u>(528,367)</u>	<u>(366,251)</u>	<u>(1,907,925)</u>	<u>(3,711,329)</u>
Decrease in net assets from operations and distributions .....	<u>(617,235)</u>	<u>(698,785)</u>	<u>(2,639,613)</u>	<u>(916,521)</u>
<b>Share transactions:</b>				
Proceeds from sale of shares				
Class A .....	702,860	886,785	5,468,423	3,899,359
Class C .....	121,219	357,339	1,242,659	608,178
Class Y .....	283,725	277	4,170,763	31,719,537
Value of distributions reinvested				
Class A .....	387,229	220,340	1,015,591	2,604,825
Class C .....	22,120	7,931	25,085	50,031
Class Y .....	1,336	1,360	365,380	646,937
Cost of shares redeemed				
Class A .....	(1,070,982)	(13,165,238)	(8,912,797)	(19,375,949)
Class C .....	(215,764)	(1,199,301)	(660,999)	(3,294,191)
Class Y .....	(237,607)	(116,776)	(2,030,520)	(2,570,570)
Net increase (decrease) from shares transactions .....	<u>(5,864)</u>	<u>(13,007,283)</u>	<u>683,585</u>	<u>14,288,157</u>
<b>Total increase (decrease) in net assets</b> .....	<u>(623,099)</u>	<u>(13,706,068)</u>	<u>(1,956,028)</u>	<u>13,371,636</u>
<b>Net Assets</b>				
Beginning of period .....	<u>13,815,342</u>	<u>27,521,410</u>	<u>140,374,561</u>	<u>127,002,925</u>
End of period .....	<u>13,192,243</u>	<u>13,815,342</u>	<u>138,418,533</u>	<u>140,374,561</u>
<b>Accumulated net investment income (loss)</b> .....	<u>51,488</u>	<u>51,491</u>	<u>(34,889)</u>	<u>(34,329)</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

## STATEMENTS OF CHANGES IN NET ASSETS (continued)

	Highland Global Allocation Fund		Highland Premier Growth Equity Fund	
	Six Months Ended March 31, 2018 (unaudited)	Year Ended September 30, 2017	Six Months Ended March 31, 2018 (unaudited)	Year Ended September 30, 2017
<b>CAPITAL STOCK ACTIVITY - SHARES</b>				
<b>Class A:</b>				
Shares sold.....	432,845	3,500,596	143,714	209,670
Issued for distribution reinvested .....	665,749	2,328,226	831,411	869,573
Shares redeemed .....	(5,935,635)	(12,222,866)	(467,427)	(1,039,983)
Net increase (decrease) in fund shares .....	<u>(4,837,041)</u>	<u>(6,394,044)</u>	<u>507,698</u>	<u>39,260</u>
<b>Class C:</b>				
Shares sold.....	371,471	2,336,879	37,278	40,867
Issued for distribution reinvested .....	342,322	1,498,901	190,513	221,433
Shares redeemed .....	(6,470,478)	(15,814,383)	(146,655)	(461,266)
Net increase (decrease) in fund shares .....	<u>(5,756,685)</u>	<u>(11,978,603)</u>	<u>81,136</u>	<u>(198,966)</u>
<b>Class Y:</b>				
Shares sold.....	2,291,999	11,471,143	124,954	300,393
Issued for distribution reinvested .....	355,290	1,619,935	240,171	210,988
Shares redeemed .....	(9,467,402)	(24,499,391)	(248,670)	(451,024)
Net increase (decrease) in fund shares .....	<u>(6,820,113)</u>	<u>(11,408,313)</u>	<u>116,455</u>	<u>60,357</u>

Highland Small-Cap Equity Fund		Highland Total Return Fund	
Six Months Ended March 31, 2018 (unaudited)	Year Ended September 30, 2017	Six Months Ended March 31, 2018 (unaudited)	Year Ended September 30, 2017
243,229	927,292	28,634	74,772
475,405	128,348	113,810	40,374
<u>(753,729)</u>	<u>(757,663)</u>	<u>(307,666)</u>	<u>(354,059)</u>
<u>(35,095)</u>	<u>297,977</u>	<u>(165,222)</u>	<u>(238,913)</u>
41,416	238,650	23,162	14,037
121,279	18,821	7,616	1,708
<u>(111,180)</u>	<u>(100,031)</u>	<u>(37,272)</u>	<u>(114,531)</u>
<u>51,515</u>	<u>157,440</u>	<u>(6,494)</u>	<u>(98,786)</u>
151,419	2,020,193	230,357	1,653,396
100,989	33,752	93,174	10,074
<u>(1,305,299)</u>	<u>(947,298)</u>	<u>(476,249)</u>	<u>(154,808)</u>
<u>(1,052,891)</u>	<u>1,106,647</u>	<u>(152,718)</u>	<u>1,508,662</u>

# STATEMENTS OF CHANGES IN NET ASSETS (concluded)

Highland Funds II

	Highland Tax-Exempt Fund		Highland Fixed Income Fund	
	Six Months Ended March 31, 2018 (unaudited)	Year Ended September 30, 2017	Six Months Ended March 31, 2018 (unaudited)	Year Ended September 30, 2017
<b>CAPITAL STOCK ACTIVITY - SHARES</b>				
<b>Class A:</b>				
Shares sold.....	62,011	76,538	422,787	302,037
Issued for distribution reinvested .....	36,065	19,099	78,956	201,714
Shares redeemed .....	<u>(95,478)</u>	<u>(1,154,750)</u>	<u>(693,465)</u>	<u>(1,503,115)</u>
Net increase (decrease) in fund shares .....	<u>2,598</u>	<u>(1,059,113)</u>	<u>(191,722)</u>	<u>(999,364)</u>
<b>Class C:</b>				
Shares sold.....	10,708	30,632	95,715	46,944
Issued for distribution reinvested .....	2,022	689	1,948	3,872
Shares redeemed .....	<u>(19,055)</u>	<u>(103,948)</u>	<u>(51,332)</u>	<u>(255,261)</u>
Net increase (decrease) in fund shares .....	<u>(6,325)</u>	<u>(72,627)</u>	<u>46,331</u>	<u>(204,445)</u>
<b>Class Y:</b>				
Shares sold.....	23,391	22	324,675	2,446,571
Issued for distribution reinvested .....	128	109	28,438	50,098
Shares redeemed .....	<u>(19,579)</u>	<u>(9,429)</u>	<u>(158,641)</u>	<u>(199,047)</u>
Net increase (decrease) in fund shares .....	<u>3,940</u>	<u>(9,298)</u>	<u>194,472</u>	<u>2,297,622</u>

# Statement of Cash Flows

For the period ended March 31, 2018

Highland Global Allocation Fund

	\$
<b>Cash Flows Provided by (Used for) Operating Activities:</b>	
Net increase in net assets resulting from operations .....	6,132,817
<b>Adjustments to Reconcile Net Increase in Net Assets Resulting from Operations to Cash Provided by Operating Activities:</b>	
Purchases of investment securities .....	(285,008,028)
Proceeds from disposition of investment securities .....	400,148,800
Purchases of purchased options .....	28,273,318
Proceeds from sales of short-term portfolio investments, net .....	7,157,849
Purchases of securities sold short .....	(71,935,840)
Proceeds from securities sold short .....	80,728,171
Payment-in-kind transactions .....	(2,647,586)
Decrease in restricted cash .....	2,593,298
Net accretion of discount .....	(1,814,258)
Net premium paid on open written options contracts .....	(10,120,106)
Net realized loss on Investments from unaffiliated issuers .....	58,873,715
Net realized loss on securities sold short, written options contracts and foreign currency transactions .....	21,332,666
Net change in unrealized (appreciation)/ depreciation on investments, securities sold short, written options contracts and translation on assets and liabilities denominated in foreign currency .....	(67,208,227)
Decrease in receivable for investments sold .....	7,540,472
Decrease in receivable for dividends and interest .....	755,719
Increase in other assets .....	(173,391)
Decrease in payable upon receipt of securities on loan .....	(7,157,849)
Decrease in payable for investments purchased .....	(10,741,951)
Decrease in accrued dividends on securities sold short .....	(166,967)
Decrease in due to broker .....	(129,203,126)
Increase in payables to related parties .....	170,947
Decrease in payable for distribution and shareholder service fees .....	(8,692)
Decrease in payable for variation margin .....	(1,658,191)
Increase in payable to transfer fees .....	3,358
Increase in payable for custody fees .....	43
Increase in payable for commitment fees .....	47,799
Decrease in accrued expenses and other liabilities .....	(532,031)
Net cash flow provided by operating activities .....	<u>25,382,729</u>
<b>Cash Flows Received from (Used In) Financing Activities:</b>	
Increase in notes payable .....	132,500,000
Distributions paid in cash .....	(2,297,180)
Payments on shares redeemed .....	(191,205,847)
Proceeds from shares sold .....	29,780,085
Net cash flow received from (used in) financing activities .....	<u>(31,222,942)</u>
Effect of exchange rate changes on cash .....	(3,060)
Net Decrease in Cash .....	<u>(5,843,273)</u>
<b>Cash:</b>	
Beginning of year .....	7,958,859
End of year .....	<u>2,115,586</u>
<b>Supplemental disclosure of cash flow information:</b>	
Reinvestment of distributions .....	11,568,792
Cash paid during the period for interest and commitment fees .....	2,420,708
Paid-in-kind interest income .....	<u>2,647,586</u>

# Statement of Cash Flows

For the period ended March 31, 2018

Highland Small-Cap Equity Fund

	\$
<b>Cash Flows Provided by Operating Activities:</b>	
Net increase in net assets resulting from operations .....	1,934,440
<b>Adjustments to Reconcile Net Investment Income to Net Cash Used for Operating Activities Operating Activities:</b>	
Purchases of investment securities .....	(15,988,992)
Proceeds from disposition of investment securities .....	28,109,147
Purchases of purchased options .....	2,014,007
Proceeds from sales of short-term portfolio investments, net .....	(502,342)
Increase in restricted cash .....	(455,745)
Net premium paid on open written options contracts .....	(2,062,891)
Net realized gain on Investments from unaffiliated issuers .....	(5,943,920)
Net realized gain on Investments in affiliated issuers .....	(28,426)
Net realized loss on securities sold short, written options contracts and foreign currency transactions .....	1,759,388
Net change in unrealized (appreciation)/ depreciation on investments, securities sold short, written options contracts and translation on assets and liabilities denominated in foreign currency .....	4,142,156
Decrease in receivable for investments sold .....	5,644,466
Decrease in receivable for dividends and interest .....	81,946
Decrease in other assets .....	1,433
Increase in payable upon receipt of securities on loan .....	502,342
Increase in payable for investments purchased .....	1,252,904
Decrease in due to broker .....	(227,641)
Increase in payables to related parties .....	6,201
Decrease in payable for distribution and shareholder service fees .....	(266)
Decrease in payable for variation margin .....	(197,611)
Decrease in payable to transfer fees .....	(2,314)
Increase in payable for commitment fees .....	(2,614)
Decrease in accrued expenses and other liabilities .....	(41,228)
Net cash flow used for operating activities .....	<u>19,994,440</u>
<b>Cash Flows Used In Financing Activities:</b>	
Increase in notes payable .....	10,500,000
Distributions paid in cash .....	(359,454)
Payments on shares redeemed .....	(32,046,556)
Proceeds from shares sold .....	6,225,534
Decrease in due to custodian .....	(3,206,114)
Net cash flow used in financing activities .....	<u>(18,886,590)</u>
Effect of exchange rate changes on cash .....	(12)
Net increase in cash .....	<u>1,107,838</u>
<b>Cash:</b>	
Beginning of year .....	<u>0</u>
End of year .....	<u>1,107,838</u>
<b>Supplemental disclosure of cash flow information:</b>	
Reinvestment of distributions .....	8,377,905
Cash paid during the period for interest and commitment fees .....	<u>192,517</u>



# FINANCIAL HIGHLIGHTS

## Highland Global Allocation Fund, Class A

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 8.32	\$ 8.40	\$ 8.35	\$ 10.58	\$ 9.03	\$ 10.24
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.15	0.62	0.73	0.26	0.16	0.15
Net realized and unrealized gain/(loss)	(0.09)	(0.05)	—	(1.69)	1.89	1.45
Total from investment operations	0.06	0.57	0.73	(1.43)	2.05	1.60
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.22)	(0.63)	(0.65)	(0.43)	(0.16)	(0.15)
From net realized gains	—	—	—	(0.37)	(0.34)	(2.66)
From return of capital	—	(0.02)	(0.03)	—	—	—
Total distributions declared to shareholders	(0.22)	(0.65)	(0.68)	(0.80)	(0.50)	(2.81)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 8.16	\$ 8.32	\$ 8.40	\$ 8.35	\$ 10.58	\$ 9.03
Total Return <sup>(b)(c)</sup>	0.71% <sup>(d)</sup>	6.69%	9.74%	(14.68)%	23.21%	15.89%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$212,494	\$256,895	\$313,145	\$419,111	\$484,016	\$214,521
Gross operating expenses <sup>(f)</sup>	2.13%	1.45%	1.36%	0.93%	0.94%	1.14%
Net investment income/(loss), net of income taxes	3.66%	7.20%	9.28%	2.49%	1.53%	1.38%
Portfolio turnover rate	32% <sup>(d)</sup>	66%	100%	108%	195%	236%

(a) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.12%	1.44%	1.30%	0.93%	0.94%	1.14%
Interest expense and commitment fees	0.84%	0.37%	0.12%	0.01%	—	—
Dividends and fees on securities sold short	0.12%	0.05%	0.16%	0.02%	—	—

# FINANCIAL HIGHLIGHTS

## Highland Global Allocation Fund, Class C

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 7.27	\$ 7.41	\$ 7.45	\$ 9.53	\$ 8.20	\$ 9.51
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.11	0.50	0.59	0.20	0.07	0.07
Net realized and unrealized gain/(loss)	<u>(0.08)</u>	<u>(0.05)</u>	<u>—</u>	<u>(1.54)</u>	<u>1.72</u>	<u>1.34</u>
Total from investment operations	0.03	0.45	0.59	(1.34)	1.79	1.41
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.20)	(0.57)	(0.60)	(0.37)	(0.12)	(0.06)
From net realized gains	—	—	—	(0.37)	(0.34)	(2.66)
From return of capital	<u>—</u>	<u>(0.02)</u>	<u>(0.03)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total distributions declared to shareholders	(0.20)	(0.59)	(0.63)	(0.74)	(0.46)	(2.72)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 7.10	\$ 7.27	\$ 7.41	\$ 7.45	\$ 9.53	\$ 8.20
Total Return <sup>(b)(c)</sup>	0.30% <sup>(d)</sup>	5.96%	8.85%	(15.28)%	22.32%	14.97%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$109,225	\$153,656	\$245,556	\$391,754	\$151,943	\$4,905
Gross operating expenses <sup>(f)</sup>	2.89%	2.20%	2.11%	1.69%	1.69%	1.88%
Net investment income/(loss), net of income taxes	2.95%	6.60%	8.45%	2.11%	0.76%	0.67%
Portfolio turnover rate	32% <sup>(d)</sup>	66%	100%	108%	195%	236%

(a) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
		Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.87%	2.19%	2.05%	1.69%
Interest expense and commitment fees	0.84%	0.37%	0.11%	0.01%	—	—
Dividends and fees on securities sold short	0.12%	0.05%	0.17%	0.03%	—	—

# FINANCIAL HIGHLIGHTS

## Highland Global Allocation Fund, Class Y

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 9.96	\$ 9.93	\$ 9.75	\$ 12.21	\$ 10.36	\$11.38
<b>Income from Investment Operations:</b>						
Net investment income/(loss) <sup>(a)</sup>	0.20	0.78	0.86	0.39	0.22	0.17
Net realized and unrealized gain/(loss)	(0.12)	(0.08)	0.02	(2.02)	2.16	1.65
Total from investment operations	0.08	0.70	0.88	(1.63)	2.38	1.82
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.23)	(0.65)	(0.66)	(0.46)	(0.19)	(0.18)
From net realized gains	—	—	—	(0.37)	(0.34)	(2.66)
From return of capital	—	(0.02)	(0.04)	—	—	—
Total distributions declared to shareholders	(0.23)	(0.67)	(0.70)	(0.83)	(0.53)	(2.84)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 9.81	\$ 9.96	\$ 9.93	\$ 9.75	\$ 12.21	\$10.36
Total Return <sup>(c)(b)</sup>	0.90% <sup>(d)</sup>	7.01%	9.91%	(14.41)%	23.39%	16.27%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$183,829	\$254,539	\$367,251	\$775,238	\$246,907	\$1,495
Gross operating expenses <sup>(f)</sup>	1.88%	1.20%	1.11%	0.69%	0.69%	0.87%
Net investment income (loss)	3.95%	7.59%	9.24%	3.16%	1.79%	1.44%
Portfolio turnover rate	32% <sup>(d)</sup>	66%	100%	108%	195%	236%

(a) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Interest expense and commitment fees	0.84%	0.37%	0.11%	0.01%	—	—
Dividends and fees on securities sold short	0.12%	0.05%	0.17%	0.03%	—	—

# FINANCIAL HIGHLIGHTS

## Highland Premier Growth Equity Fund, Class A

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 31.18	\$ 34.45	\$ 32.32	\$ 34.99	\$ 31.22	\$ 26.13
<b>Income from Investment Operations:</b>						
Net investment income/(loss) <sup>(a)</sup>	0.03	(0.03)	0.02	0.04	0.06	0.11
Net realized and unrealized gain/(loss)	<u>2.35</u>	<u>4.15</u>	<u>4.73</u>	<u>(0.25)</u>	<u>5.70</u>	<u>5.12</u>
Total from investment operations	2.38	4.12	4.75	(0.21)	5.76	5.23
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	—	—	—	—	(0.04)	(0.14)
From net realized gains	<u>(6.70)</u>	<u>(7.39)</u>	<u>(2.62)</u>	<u>(2.46)</u>	<u>(1.95)</u>	<u>—</u>
Total distributions declared to shareholders	(6.70)	(7.39)	(2.62)	(2.46)	(1.99)	(0.14)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 26.86	\$ 31.18	\$ 34.45	\$ 32.32	\$ 34.99	\$ 31.22
Total Return <sup>(b)(c)</sup>	8.10% <sup>(d)</sup>	15.46%	14.84%	(1.10)%	19.08%	20.12%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$106,551	\$107,865	\$117,817	\$169,434	\$167,187	\$140,949
Gross operating expenses <sup>(f)</sup>	1.23%	1.27%	1.28%	1.13%	1.16%	1.27%
Net investment income/(loss)	0.23%	(0.10)%	0.07%	0.13%	0.17%	0.39%
Portfolio turnover rate	113% <sup>(d)</sup>	83%	77%	18%	20%	20%

(a) Per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.23%	1.27%	1.28%	1.13%	1.16%	1.25%
Interest expense and commitment fees	—	0.04%	0.04%	0.01%	—	—
Dividends and fees on securities sold short	—	—	0.03%	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Premier Growth Equity Fund, Class C

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 23.37	\$ 27.85	\$ 26.76	\$ 29.57	\$ 26.82	\$ 22.50
<b>Income from Investment Operations:</b>						
Net investment loss <sup>(a)</sup>	(0.05)	(0.19)	(0.18)	(0.18)	(0.16)	(0.09)
Net realized and unrealized gain/(loss)	<u>1.72</u>	<u>3.10</u>	<u>3.89</u>	<u>(0.17)</u>	<u>4.86</u>	<u>4.41</u>
Total from investment operations	1.67	2.91	3.71	(0.35)	4.70	4.32
<b>Less Distributions Declared to Shareholders:</b>						
From net realized gains	<u>(6.70)</u>	<u>(7.39)</u>	<u>(2.62)</u>	<u>(2.46)</u>	<u>(1.95)</u>	<u>—</u>
Total distributions declared to shareholders	(6.70)	(7.39)	(2.62)	(2.46)	(1.95)	—
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 18.34	\$ 23.37	\$ 27.85	\$ 26.76	\$ 29.57	\$ 26.82
Total Return <sup>(b)(c)</sup>	7.71% <sup>(d)</sup>	14.58%	13.98%	(1.82)%	18.21%	19.20%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$11,974	\$13,365	\$21,466	\$19,096	\$16,290	\$13,589
Gross operating expenses <sup>(f)</sup>	1.98%	2.02%	2.03%	1.88%	1.91%	2.02%
Net investment loss	(0.52)%	(0.84)%	(0.69)%	(0.63)%	(0.58)%	(0.37)%
Portfolio turnover rate	113% <sup>(d)</sup>	83%	77%	18%	20%	20%

(a) Per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below.

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.98%	2.02%	2.03%	1.88%	1.91%	2.00%
Interest expense and commitment fees	—	0.04%	0.05%	0.01%	—	—
Dividends and fees on securities sold short	—	—	0.04%	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Premier Growth Equity Fund, Class Y

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 32.66	\$ 35.65	\$ 33.29	\$ 35.89	\$ 31.96	\$ 26.74
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.07	0.04	0.10	0.14	0.14	0.18
Net realized and unrealized gain/(loss)	<u>2.46</u>	<u>4.36</u>	<u>4.88</u>	<u>(0.28)</u>	<u>5.85</u>	<u>5.24</u>
Total from investment operations	2.53	4.40	4.98	(0.14)	5.99	5.42
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	—	—	—	—	(0.11)	(0.20)
From net realized gains	<u>(6.70)</u>	<u>(7.39)</u>	<u>(2.62)</u>	<u>(2.46)</u>	<u>(1.95)</u>	<u>—</u>
Total distributions declared to shareholders	(6.70)	(7.39)	(2.62)	(2.46)	(2.06)	(0.20)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 28.49	\$ 32.66	\$ 35.65	\$ 33.29	\$ 35.89	\$ 31.96
Total Return <sup>(b)(c)</sup>	8.21% <sup>(d)</sup>	15.78%	15.12%	(0.87)%	19.40%	20.45%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$33,762	\$34,893	\$35,939	\$35,521	\$31,036	\$26,802
Gross operating expenses <sup>(f)</sup>	0.98%	1.02%	1.03%	0.88%	0.91%	1.02%
Net investment income	0.48%	0.14%	0.29%	0.38%	0.42%	0.64%
Portfolio turnover rate	113% <sup>(d)</sup>	83%	77%	18%	20%	20%

(a) Per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.98%	1.02%	1.03%	0.88%	0.91%	1.00%
Interest expense and commitment fees	—	0.04%	0.05%	0.01%	—	—
Dividends and fees on securities sold short	—	—	0.03%	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Small-Cap Equity Fund, Class A

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 15.23	\$ 13.99	\$ 12.96	\$ 14.90	\$ 14.93	\$ 12.88
<b>Income from Investment Operations:</b>						
Net investment income/(loss) <sup>(a)</sup>	0.01	0.08	0.11	0.01	(0.04)	(0.06)
Net realized and unrealized gain/(loss)	<u>0.64</u>	<u>1.86</u>	<u>2.80</u>	<u>(0.27)</u>	<u>1.07</u>	<u>3.07</u>
Total from investment operations	0.65	1.94	2.91	(0.26)	1.03	3.01
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.03)	(0.09)	—	—	—	—
From net realized gains	<u>(2.34)</u>	<u>(0.61)</u>	<u>(1.88)</u>	<u>(1.68)</u>	<u>(1.06)</u>	<u>(0.96)</u>
Total distributions declared to shareholders	(2.37)	(0.70)	(1.88)	(1.68)	(1.06)	(0.96)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 13.51	\$ 15.23	\$ 13.99	\$ 12.96	\$ 14.90	\$ 14.93
Total Return <sup>(b)(c)</sup>	5.52% <sup>(d)</sup>	14.53%	25.87%	(2.47)%	6.93%	25.36%
<b>Ratios to Average Net Assets<sup>(e)</sup>:</b>						
Net assets, end of period (in 000's)	\$38,241	\$43,663	\$35,935	\$29,765	\$33,598	\$35,882
Gross operating expenses <sup>(f)</sup>	2.71%	2.00%	2.02%	1.67%	1.62%	1.91%
Net investment income/(loss)	0.07%	0.55%	0.90%	0.04%	(0.27)%	(0.47)%
Portfolio turnover rate	24% <sup>(d)</sup>	84%	107%	70%	26%	64%

(a) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.20%	1.60%	1.40%	1.21%	1.49%	1.91%
Interest expense and commitment fees	0.60%	0.18%	0.18%	0.01%	—	—
Dividends and fees on securities sold short	0.18%	0.07%	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Small-Cap Equity Fund, Class C

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$11.01	\$10.32	\$10.11	\$12.06	\$12.35	\$10.91
<b>Income from Investment Operations:</b>						
Net investment income/(loss) <sup>(a)</sup>	(0.03)	(0.02)	—	(0.08)	(0.13)	(0.16)
Net realized and unrealized gain/(loss)	<u>0.41</u>	<u>1.35</u>	<u>2.09</u>	<u>(0.19)</u>	<u>0.90</u>	<u>2.56</u>
Total from investment operations	0.38	1.33	2.09	(0.27)	0.77	2.40
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	—	(0.03)	—	—	—	—
From net realized gains	<u>(2.34)</u>	<u>(0.61)</u>	<u>(1.88)</u>	<u>(1.68)</u>	<u>(1.06)</u>	<u>(0.96)</u>
Total distributions declared to shareholders	(2.34)	(0.64)	(1.88)	(1.68)	(1.06)	(0.96)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 9.05	\$11.01	\$10.32	\$10.11	\$12.06	\$12.35
Total Return <sup>(b)(c)</sup>	5.16% <sup>(d)</sup>	13.73%	24.90%	(3.21)%	6.23%	24.39%
<b>Ratios to Average Net Assets<sup>(e)</sup>:</b>						
Net assets, end of period (in 000's)	\$4,680	\$5,131	\$3,185	\$2,872	\$3,213	\$3,480
Gross operating expenses <sup>(f)</sup>	3.46%	2.78%	2.77%	2.42%	2.37%	2.66%
Net investment income/(loss)	(0.67)%	(0.23)%	0.15%	(0.72)%	(1.01)%	(1.21)%
Portfolio turnover rate	24% <sup>(d)</sup>	84%	107%	70%	26%	64%

(a) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.95%	2.36%	2.15%	1.96%	2.23%	2.66%
Interest expense and commitment fees	0.60%	0.19%	0.18%	0.01%	—	—
Dividends and fees on securities sold short	0.18%	0.07%	—	—	—	—



# FINANCIAL HIGHLIGHTS

## Highland Small-Cap Equity Fund, Class Y

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$16.59	\$ 15.16	\$13.86	\$15.79	\$15.72	\$13.48
<b>Income from Investment Operations:</b>						
Net investment income/(loss) <sup>(a)</sup>	0.02	0.12	0.18	0.04	—	(0.05)
Net realized and unrealized gain/(loss)	<u>0.70</u>	<u>2.04</u>	<u>3.00</u>	<u>(0.29)</u>	<u>1.13</u>	<u>3.25</u>
Total from investment operations	0.72	2.16	3.18	(0.25)	1.13	3.20
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.06)	(0.12)	—	—	—	—
From net realized gains	<u>(2.34)</u>	<u>(0.61)</u>	<u>(1.88)</u>	<u>(1.68)</u>	<u>(1.06)</u>	<u>(0.96)</u>
Total distributions declared to shareholders	(2.40)	(0.73)	(1.88)	(1.68)	(1.06)	(0.96)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$14.91	\$ 16.59	\$15.16	\$13.86	\$15.79	\$15.72
Total Return <sup>(b)(c)</sup>	5.52% <sup>(d)</sup>	14.89%	26.17%	(2.25)%	7.24%	25.66%
<b>Ratios to Average Net Assets<sup>(e)</sup>:</b>						
Net assets, end of period (in 000's)	\$8,884	\$27,350	\$8,221	\$3,579	\$1,745	\$1,539
Gross operating expenses <sup>(f)</sup>	2.49%	1.78%	1.77%	1.42%	1.37%	1.64%
Net investment income (loss)	0.30%	0.72%	1.28%	0.28%	(0.01)%	(0.28)%
Portfolio turnover rate	24% <sup>(d)</sup>	84%	107%	70%	26%	64%

(a) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.97%	1.39%	1.15%	0.96%	1.23%	1.64%
Interest expense and commitment fees	0.61%	0.21%	0.18%	0.01%	—	—
Dividends and fees on securities sold short	0.18%	0.07%	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Total Return Fund, Class A

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 24.04	\$ 21.88	\$ 21.99	\$ 24.52	\$ 22.93	\$ 20.85
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.78	0.16	0.32	0.37	0.24	0.20
Net realized and unrealized gain/(loss)	<u>(1.42)</u>	<u>2.41</u>	<u>2.15</u>	<u>(1.44)</u>	<u>1.57</u>	<u>2.09</u>
Total from investment operations	(0.64)	2.57	2.47	(1.07)	1.81	2.29
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.78)	(0.25)	(0.35)	(0.24)	(0.22)	(0.21)
From net realized gains	<u>(0.50)</u>	<u>(0.16)</u>	<u>(2.23)</u>	<u>(1.22)</u>	<u>—</u>	<u>—</u>
Total distributions declared to shareholders	(1.28)	(0.41)	(2.58)	(1.46)	(0.22)	(0.21)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 22.12	\$ 24.04	\$ 21.88	\$ 21.99	\$ 24.52	\$ 22.93
Total Return <sup>(b)(c)</sup>	(2.83)% <sup>(d)</sup>	11.89%	11.88%	(4.76)%	7.92%	11.15%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$48,029	\$56,167	\$56,345	\$59,307	\$69,084	\$71,505
Gross operating expenses <sup>(f)</sup>	1.10%	1.15%	1.15%	1.20%	1.38%	1.34%
Net investment income	6.73%	0.65%	1.56%	1.55%	0.99%	0.92%
Portfolio turnover rate	39% <sup>(d)</sup>	99%	94%	175%	121%	138%

(a) Per share data was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.10%	1.09%	1.15%	1.20%	1.38%	1.33%
Interest expense and commitment fees	—	—	—	—	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Total Return Fund, Class C

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$21.54	\$19.61	\$20.03	\$22.58	\$21.17	\$19.25
<b>Income from Investment Operations:</b>						
Net investment income/(loss) <sup>(a)</sup>	0.63	(0.02)	0.16	0.18	0.05	0.03
Net realized and unrealized gain/(loss)	<u>(1.28)</u>	<u>2.17</u>	<u>1.93</u>	<u>(1.31)</u>	<u>1.45</u>	<u>1.94</u>
Total from investment operations	(0.65)	2.15	2.09	(1.13)	1.50	1.97
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.61)	(0.06)	(0.28)	(0.20)	(0.09)	(0.05)
From net realized gains	<u>(0.50)</u>	<u>(0.16)</u>	<u>(2.23)</u>	<u>(1.22)</u>	<u>—</u>	<u>—</u>
Total distributions declared to shareholders	(1.11)	(0.22)	(2.51)	(1.42)	(0.09)	(0.05)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$19.78	\$21.54	\$19.61	\$20.03	\$22.58	\$21.17
Total Return <sup>(c)(b)</sup>	(3.18)% <sup>(d)</sup>	11.05%	11.03%	(5.45)%	7.10%	10.28%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$4,154	\$4,664	\$6,183	\$6,292	\$5,690	\$6,019
Gross operating expenses <sup>(f)</sup>	1.85%	1.90%	1.90%	1.95%	2.13%	2.09%
Net investment income/(loss)	6.10%	(0.11)%	0.83%	0.81%	0.24%	0.17%
Portfolio turnover rate	39% <sup>(d)</sup>	99%	94%	175%	121%	138%

(a) Per share data was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.85%	1.84%	1.90%	1.95%	2.13%	2.08%
Interest expense and commitment fees	—	—	—	—	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Total Return Fund, Class Y

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 24.44	\$ 22.24	\$ 22.32	\$24.82	\$23.20	\$21.09
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.81	0.22	0.37	0.57	0.30	0.27
Net realized and unrealized gain/(loss)	(1.43)	2.45	2.19	(1.59)	1.58	2.11
Total from investment operations	(0.62)	2.67	2.56	(1.02)	1.88	2.38
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.84)	(0.31)	(0.41)	(0.26)	(0.26)	(0.27)
From net realized gains	(0.50)	(0.16)	(2.23)	(1.22)	—	—
Total distributions declared to shareholders	(1.34)	(0.47)	(2.64)	(1.48)	(0.26)	(0.27)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 22.48	\$ 24.44	\$ 22.24	\$22.32	\$24.82	\$23.20
Total Return <sup>(b)(c)</sup>	(2.70)% <sup>(d)</sup>	12.15%	12.14%	(4.51)%	8.15%	11.41%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$42,749	\$50,209	\$12,139	\$7,695	\$ 381	\$ 326
Gross operating expenses <sup>(f)</sup>	0.85%	0.90%	0.90%	0.90%	1.14%	1.09%
Net investment income	6.89%	0.89%	1.73%	2.39%	1.24%	1.22%
Portfolio turnover rate	39% <sup>(d)</sup>	99%	94%	175%	121%	138%

(a) Per share data was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.85%	0.84%	0.90%	0.90%	1.14%	1.08%
Interest expense and commitment fees	—	—	—	—	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Tax-Exempt Fund, Class A

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 11.64	\$ 11.82	\$ 11.94	\$ 12.08	\$ 11.64	\$ 12.34
<b>Income from Investment Operations:<sup>(a)</sup></b>						
Net investment income	0.13	0.25	0.21	0.25	0.33	0.31
Net realized and unrealized gain/(loss)	<u>(0.23)</u>	<u>(0.18)</u>	<u>0.24</u>	<u>—</u>	<u>0.44</u>	<u>(0.70)</u>
Total from investment operations	(0.10)	0.07	0.45	0.25	0.77	(0.39)
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.13)	(0.25)	(0.22)	(0.26)	(0.33)	(0.31)
From net realized gains	<u>(0.31)</u>	<u>—</u>	<u>(0.35)</u>	<u>(0.13)</u>	<u>—</u>	<u>—</u>
Total distributions declared to shareholders	(0.44)	(0.25)	(0.57)	(0.39)	(0.33)	(0.31)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 11.10	\$ 11.64	\$ 11.82	\$ 11.94	\$ 12.08	\$ 11.64
Total Return <sup>(b)(c)</sup>	(0.85)% <sup>(d)</sup>	0.67%	3.85%	2.07%	6.67%	(3.26)%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$12,247	\$12,802	\$25,515	\$18,435	\$27,149	\$30,390
Gross operating expenses <sup>(f)</sup>	1.37%	1.32%	1.11%	1.06%	0.98%	1.13%
Net investment income	2.33%	2.15%	1.81%	2.11%	2.76%	2.53%
Portfolio turnover rate	0% <sup>(d)</sup>	9%	1%	17%	14%	16%

(a) Per share data was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.90%	0.91%	0.91%	0.92%	0.98%	1.12%
Interest expense and commitment fees	—	0.01%	—	0.01%	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Tax-Exempt Fund, Class C

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$11.63	\$11.81	\$11.94	\$12.07	\$11.63	\$12.33
<b>Income from Investment Operations:<sup>(a)</sup></b>						
Net investment income	0.09	0.16	0.13	0.16	0.24	0.22
Net realized and unrealized gain/(loss)	<u>(0.21)</u>	<u>(0.17)</u>	<u>0.22</u>	<u>—</u>	<u>0.44</u>	<u>(0.71)</u>
Total from investment operations	(0.12)	(0.01)	0.35	0.16	0.68	(0.49)
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.09)	(0.17)	(0.13)	(0.16)	(0.24)	(0.21)
From net realized gains	<u>(0.31)</u>	<u>—</u>	<u>(0.35)</u>	<u>(0.13)</u>	<u>—</u>	<u>—</u>
Total distributions declared to shareholders	(0.40)	(0.17)	(0.48)	(0.29)	(0.24)	(0.21)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$11.11	\$11.63	\$11.81	\$11.94	\$12.07	\$11.63
Total Return <sup>(b)(c)</sup>	(1.04)% <sup>(d)</sup>	(0.08)%	3.01%	1.40%	5.88%	(3.98)%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$ 862	\$ 976	\$1,849	\$1,166	\$ 925	\$1,000
Gross operating expenses <sup>(f)</sup>	2.12%	2.07%	1.86%	1.81%	1.73%	1.88%
Net investment income	1.57%	1.42%	1.08%	1.37%	2.01%	1.77%
Portfolio turnover rate	0% <sup>(d)</sup>	9%	1%	17%	14%	16%

(a) Per share data was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Interest expense and commitment fees	—	0.01%	—	0.01%	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Tax-Exempt Fund, Class Y

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$12.62	\$12.82	\$12.93	\$13.06	\$12.58	\$13.34
<b>Income from Investment Operations:<sup>(a)</sup></b>						
Net investment income	0.15	0.30	0.27	0.31	0.38	0.36
Net realized and unrealized gain/(loss)	<u>(0.25)</u>	<u>(0.19)</u>	<u>0.24</u>	<u>—</u>	<u>0.48</u>	<u>(0.76)</u>
Total from investment operations	(0.10)	0.11	0.51	0.31	0.86	(0.40)
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.16)	(0.31)	(0.27)	(0.31)	(0.38)	(0.36)
From net realized gains	<u>(0.31)</u>	<u>—</u>	<u>(0.35)</u>	<u>(0.13)</u>	<u>—</u>	<u>—</u>
Total distributions declared to shareholders	(0.47)	(0.31)	(0.62)	(0.44)	(0.38)	(0.36)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$12.05	\$12.62	\$12.82	\$12.93	\$13.06	\$12.58
Total Return <sup>(b)(c)</sup>	(0.82)% <sup>(d)</sup>	0.88%	4.03%	2.42%	6.97%	(3.03)%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$ 84	\$ 38	\$ 158	\$ 426	\$ 167	\$ 266
Gross operating expenses <sup>(f)</sup>	1.12%	1.07%	0.86%	0.81%	0.72%	0.87%
Net investment income	2.45%	2.36%	2.10%	2.40%	3.01%	2.78%
Portfolio turnover rate	0% <sup>(d)</sup>	9%	1%	17%	14%	16%

(a) Per share data was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Interest expense and commitment fees	—	0.01%	—	0.01%	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Fixed Income Fund, Class A

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 12.98	\$ 13.06	\$ 12.58	\$ 12.79	\$ 12.61	\$ 13.04
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.17	0.32	0.33	0.27	0.24	0.17
Net realized and unrealized gain/(loss)	<u>(0.24)</u>	<u>(0.06)</u>	<u>0.50</u>	<u>(0.18)</u>	<u>0.20</u>	<u>(0.41)</u>
Total from investment operations	(0.07)	0.26	0.83	0.09	0.44	(0.24)
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.17)	(0.32)	(0.32)	(0.27)	(0.24)	(0.17)
From return of capital	<u>—</u>	<u>(0.02)</u>	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.02)</u>
Total distributions declared to shareholders	(0.17)	(0.34)	(0.35)	(0.30)	(0.26)	(0.19)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 12.74	\$ 12.98	\$ 13.06	\$ 12.58	\$ 12.79	\$ 12.61
Total Return <sup>(b)(c)</sup>	(0.54)% <sup>(d)</sup>	2.06%	6.72%	0.66%	3.47%	(1.92)%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$100,434	\$104,803	\$118,519	\$126,892	\$144,839	\$161,673
Gross operating expenses <sup>(f)</sup>	0.92%	0.93%	0.91%	0.86%	0.97%	1.04%
Net investment income	2.65%	2.48%	2.58%	2.09%	1.91%	1.32%
Portfolio turnover rate	14% <sup>(d)</sup>	20%	46%	57%	283%	456%

(a) Per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Interest expense and commitment fees	—	—	—	0.01%	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—



# FINANCIAL HIGHLIGHTS

## Highland Fixed Income Fund, Class C

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$12.99	\$13.08	\$12.60	\$12.80	\$12.62	\$13.06
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.12	0.22	0.24	0.18	0.15	0.07
Net realized and unrealized gain/(loss)	<u>(0.24)</u>	<u>(0.06)</u>	<u>0.50</u>	<u>(0.18)</u>	<u>0.19</u>	<u>(0.42)</u>
Total from investment operations	(0.12)	0.16	0.74	—	0.34	(0.35)
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.12)	(0.23)	(0.23)	(0.17)	(0.15)	(0.07)
From return of capital	<u>—</u>	<u>(0.02)</u>	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.01)</u>	<u>(0.02)</u>
Total distributions declared to shareholders	(0.12)	(0.25)	(0.26)	(0.20)	(0.16)	(0.09)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$12.75	\$12.99	\$13.08	\$12.60	\$12.80	\$12.62
Total Return <sup>(b)(c)</sup>	(0.91)% <sup>(d)</sup>	1.23%	5.92%	(0.01)%	2.62%	(2.57)%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$3,431	\$2,893	\$5,585	\$3,697	\$3,082	\$3,098
Gross operating expenses <sup>(f)</sup>	1.67%	1.68%	1.66%	1.61%	1.72%	1.79%
Net investment income	1.90%	1.74%	1.87%	1.35%	1.16%	0.57%
Portfolio turnover rate	14% <sup>(d)</sup>	20%	46%	57%	283%	456%

(a) Per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.65%	1.65%	1.65%	1.61%	1.72%	1.79%
Interest expense and commitment fees	—	—	—	0.01%	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

# FINANCIAL HIGHLIGHTS

## Highland Fixed Income Fund, Class Y

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

	For the Six Months Ended March 31, 2018 (unaudited)	For the Years Ended September 30,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	\$ 12.97	\$ 13.05	\$12.57	\$12.78	\$12.60	\$13.03
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.19	0.35	0.36	0.32	0.27	0.16
Net realized and unrealized gain/(loss)	<u>(0.24)</u>	<u>(0.05)</u>	<u>0.50</u>	<u>(0.20)</u>	<u>0.20</u>	<u>(0.37)</u>
Total from investment operations	(0.05)	0.30	0.86	0.12	0.47	(0.21)
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.19)	(0.35)	(0.35)	(0.30)	(0.27)	(0.20)
From return of capital	<u>—</u>	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.02)</u>
Total distributions declared to shareholders	(0.19)	(0.38)	(0.38)	(0.33)	(0.29)	(0.22)
<b>Net Asset Value, End of Period<sup>(b)</sup></b>	\$ 12.73	\$ 12.97	\$13.05	\$12.57	\$12.78	\$12.60
Total Return <sup>(b)(c)</sup>	(0.42)% <sup>(d)</sup>	2.31%	6.99%	0.91%	3.73%	(1.60)%
<b>Ratios to Average Net Assets<sup>(e)</sup>/Supplemental Data:</b>						
Net assets, end of period (in 000's)	\$34,554	\$32,679	\$2,899	\$4,029	\$ 222	\$ 159
Gross operating expenses <sup>(f)</sup>	0.67%	0.68%	0.66%	0.61%	0.72%	0.79%
Net investment income	2.90%	2.71%	2.83%	2.45%	2.13%	1.27%
Portfolio turnover rate	14% <sup>(d)</sup>	20%	46%	57%	283%	456%

(a) Per share was calculated using average shares outstanding during the period.

(b) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(c) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Not annualized.

(e) All ratios for the period have been annualized, unless otherwise indicated.

(f) Supplemental expense ratios are shown below:

	For the Six Months Ended March 31, 2018 (unaudited)	2017	2016	2015	2014	2013
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.65%	0.65%	0.65%	0.61%	0.72%	0.79%
Interest expense and commitment fees	—	—	—	0.01%	—	—
Dividends and fees on securities sold short	—	—	—	—	—	—

## Note 1. Organization

Highland Funds II (the "Trust") is a Massachusetts business trust organized on August 10, 1992. The Trust is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. It comprises seven portfolios (each a "Fund" and collectively the "Funds") that are currently being offered. This report covers information for the six months ended March 31, 2018 for six of the Funds: Highland Global Allocation Fund (the "Global Allocation Fund"), Highland Premier Growth Equity Fund (the "Premier Growth Equity Fund"), Highland Small-Cap Equity Fund (the "Small-Cap Equity Fund"), Highland Total Return Fund (the "Total Return Fund"), Highland Tax-Exempt Fund (the "Tax-Exempt Fund") and Highland Fixed Income Fund (the "Fixed Income Fund"). The Highland Energy MLP Fund is reported separately.

## Fund Shares

Each Fund is authorized to issue an unlimited number of shares of beneficial interest with a par value of \$0.001 per share (each a "Share" and collectively, the "Shares"). Each Fund currently offers the following three share classes to investors, Class A, Class C, and Class Y Shares.

Class A Shares are sold with a front-end sales charge. Maximum sales load imposed on purchases of Class A Shares (as a percentage of offering price) is as follows:

Fund	%
Global Allocation Fund	5.75
Premier Growth Equity Fund	5.75
Small-Cap Equity Fund	5.75
Total Return Fund	5.75
Tax-Exempt Fund	4.25
Fixed Income Fund	4.25

There is no front-end sales charge imposed on individual purchases of Class A Shares of \$1 million or more. The front-end sales charge is also waived in other instances as described in the Funds' prospectus. Purchases of \$1 million or more of Class A Shares at net asset value ("NAV") pursuant to a sales charge waiver are subject to a 0.50% contingent deferred sales charge ("CDSC") if redeemed within one year of purchase.

Class C shares may be subject to a CDSC. The maximum CDSC imposed on redemptions of Class C Shares for all Funds is 1.00% within the first year of purchase and 0.00% thereafter.

No front-end or CDSCs are assessed by the Trust with respect to Class Y Shares of all Funds.

## Note 2. Significant Accounting Policies

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

### Use of Estimates

The Funds are investment companies that apply the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies. The Funds' financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which require Highland Capital Management Fund Advisors, L.P. (the "Investment Adviser") 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.

### Determination of Class Net Asset Values

Each Fund's income, expenses (other than distribution fees and shareholder service fees) and realized and unrealized gains and losses are allocated proportionally each day among each Fund's respective share classes based upon the relative net assets of each share class. Expenses of the Trust, other than those incurred by a specific Fund, are allocated pro rata among the Funds and their share classes. Certain class specific expenses (such as distribution and shareholder service fees) are allocated to the class that incurs such expense.

### Valuation of Investments

In computing the Funds' net assets attributable to shares, securities with readily available market quotations on the New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotation (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 quotations will be valued pursuant to policies adopted by the Funds' 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. Generally, the Funds' 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 the Investment Adviser has determined to have the capability which provide appropriate pricing services and which have been approved by the Board.

Securities for which market quotations are not readily available, or for which the Funds have determined that 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 Funds’ NAV) will be valued by the Funds 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: (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 Funds’ NAV will reflect the affected portfolio securities’ fair value as determined in the judgment of the Board or its designee instead of being determined by the market. Using a fair value pricing methodology to value securities may result in a value that is different from a security’s most recent sale price and from the prices used by other investment companies to calculate their NAVs. Determination of fair value is uncertain because it involves subjective judgments and estimates.

There can be no assurance that the Funds’ 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 to the Funds. The NAV shown in the Funds’ financial statements may vary from the NAV published by each Fund as of its period end 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 Funds have performed an analysis of all existing investments and derivative instruments to determine the significance and character of inputs to their fair value determination. The levels of fair value inputs used to measure the Funds’ 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 and its affiliates. 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 March 31, 2018, the Funds’ investments consisted of senior loans, asset-backed securities, bonds and notes, common stocks, master limited partnerships, registered investment companies, cash equivalents, commercial paper, preferred stocks, exchange-traded funds, rights, warrants, securities sold short, futures, equity swaps, collateralized loan obligations, and options. The fair value of the Funds’ loans, bonds and asset-backed securities are generally based on quotes received from brokers or independent pricing services. Loans, bonds and asset-backed securities with quotes that are based on actual trades with a sufficient level of activity on or near the

## NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

measurement date are classified as Level 2 assets. Senior loans, bonds and asset-backed securities 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.

The fair value of the Funds' common stocks, preferred stocks, exchange-traded funds, rights, warrants and options that are not actively traded on national exchanges are generally priced using quotes derived from implied values, indicative bids, or a limited amount of actual trades and are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable. Exchange-traded options are valued based on the last trade price on the primary exchange on which they trade. If an option does not trade, the mid-price, which is the mean of the bid and ask price, is utilized to value the option.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value each Fund's assets as of March 31, 2018 is as follows:

At the end of each calendar quarter, the Investment Adviser 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, the Investment Adviser 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 Funds' 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 Funds may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities.

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Global Allocation Fund</b>				
<b>Assets</b>				
U.S. Senior Loans				
Chemicals	\$ 1,067,386	\$ —	\$ —	\$ 1,067,386
Energy	34,681,178	—	34,681,178	—
Financial	2,331,210	—	2,331,210	—
Manufacturing	3,405,778	—	3,405,778	—
Media & Telecommunications	1,529,270	—	1,529,270	—
Retail	10,423,285	—	10,423,285	—
Service	2,408,038	—	2,408,038	—
Telecommunications	49,329,702	—	—	49,329,702
Utilities	2,353,888	—	2,353,888	—
Non-U.S. Senior Loans				
Healthcare	4,633,605	—	—	4,633,605
Information Technology	4,691,191	—	4,691,191	—
Manufacturing	344,471	—	344,471	—
U.S. Corporate Bonds & Notes				
Automobiles & Components	1	—	1	—
Energy	2,558,943	—	216	2,558,727
Healthcare Equipment & Services	683,730	—	683,730	—
Telecommunication Services	—	—	—	—
Utilities	629,530	—	629,530	—
Non-U.S. Government Bonds	43,717,645	—	43,717,645	—
U.S. Equity				
Banks	5,193,590	2,641,699	2,551,891	—
Capital Goods	1,109,029	1,109,029	—	—
Chemicals	20,657,792	19,467,399	—	1,190,393

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Global Allocation Fund (continued)</b>				
Consumer Durables & Apparel	\$ 498,367	\$ 498,367	\$ —	\$ —
Consumer Services	10,392,919	10,392,919	—	—
Diversified Financials	3,784,866	3,784,866	—	—
Energy	5,156,555	5,156,555	—	—
Food & Staples Retailing	171,760	171,760	—	—
Healthcare Equipment & Services	12,903,775	12,903,775	—	—
Insurance	1,459,622	1,459,622	—	—
Materials	8,192,412	8,192,412	—	—
Media	3,261,148	3,261,148	—	—
Pharmaceuticals, Biotechnology & Life Sciences	12,704,006	12,704,006	—	—
Real Estate	18,064,226	18,064,226	—	—
Retailing	863,645	863,645	—	—
Semiconductors & Semiconductor Equipment	3,122,367	3,122,367	—	—
Software & Services	14,807,934	14,807,934	—	—
Technology Hardware & Equipment	580,540	580,540	—	—
Telecommunication Services	85,447,747	—	—	85,447,747
Transportation	39,427,248	39,427,248	—	—
Utilities	152,087,678	152,087,678	—	—
Non-U.S. Equity <sup>(1)</sup>	55,269,821	55,269,821	—	—
U.S. Rights	4,407,117	—	4,407,117	—
U.S. Warrants	213,081	213,081	—	—
Non-U.S. Warrants	157,620	—	—	157,620
U.S. Purchased Call Options	1,398,650	1,398,650	—	—
U.S. Purchased Put Options	235,600	235,600	—	—
U.S. Registered Investment Companies	13,859,610	13,859,610	—	—
U.S. Master Limited Partnerships <sup>(1)</sup>	129,137,457	129,137,457	—	—
Non-U.S. Investment Companies	3,481,712	—	—	3,481,712
U.S. Asset-Backed Securities	19,917,697	—	19,597,580	320,117
Short Futures <sup>(2)</sup>	1,712,910	1,712,910	—	—
<b>Total Assets</b>	<b>794,467,352</b>	<b>512,524,324</b>	<b>133,756,019</b>	<b>148,187,009</b>
<b>Liabilities</b>				
Securities Sold Short				
Common Stocks <sup>(1)</sup>	(113,682,886)	(113,682,886)	—	—
Non-U.S. Equity <sup>(1)</sup>	(12,264,262)	(12,264,262)	—	—
U.S. Corporate Bonds & Notes <sup>(1)</sup>	(2,413,100)	—	(2,413,100)	—
Non-U.S. Corporate Bonds & Notes <sup>(1)</sup>	(5,198,536)	—	(5,198,536)	—
Other Financial Instruments				
Short Futures <sup>(2)</sup>	(161,506)	(161,506)	—	—
Written Call Options Contracts	(418,325)	(418,325)	—	—
Written Put Options Contracts	(1,508,075)	(1,508,075)	—	—
<b>Total Liabilities</b>	<b>(135,646,690)</b>	<b>(128,035,054)</b>	<b>(7,611,636)</b>	<b>—</b>
<b>Total</b>	<b>\$ 658,820,662</b>	<b>\$ 384,489,270</b>	<b>\$126,144,383</b>	<b>\$148,187,009</b>

<sup>(1)</sup> See Investment Portfolio detail for industry breakout.

<sup>(2)</sup> Includes cumulative appreciation/(depreciation) of future contracts reported in the Investment Portfolio.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Premier Growth Equity Fund</b>				
<b>Assets</b>				
Common Stocks				
Banks	\$ 6,134,500	6,134,500	—	—
Capital Goods	7,068,600	7,068,600	—	—
Consumer Durables & Apparel	3,917,820	3,917,820	—	—
Consumer Services	3,220,740	3,220,740	—	—
Diversified Financials	7,905,230	7,905,230	—	—
Energy	9,427,720	9,427,720	—	—
Healthcare Equipment & Services	3,107,200	3,107,200	—	—
Materials	612,560	—	—	612,560
Pharmaceuticals, Biotechnology & Life Sciences	11,691,493	11,691,493	—	—
Real Estate	3,760,240	3,760,240	—	—
Retailing	7,759,898	7,759,898	—	—
Semiconductors & Semiconductor Equipment	15,137,030	15,137,030	—	—
Software & Services	40,812,720	40,812,720	—	—
Technology Hardware & Equipment	15,268,430	15,268,430	—	—
Transportation	3,205,390	3,205,390	—	—
Utilities	2,969,409	2,969,409	—	—
Preferred Stocks <sup>(1)</sup>	2,652,176	—	—	2,652,176
Registered Investment Companies	3,743,104	3,743,104	—	—
<b>Total Assets</b>	<b>148,394,260</b>	<b>145,129,524</b>	<b>—</b>	<b>3,264,736</b>
<b>Liabilities</b>				
Securities Sold Short <sup>(1)</sup>	(532,260)	(532,260)	—	—
Other Financial Instruments				
Swap Contracts Outstanding	(188,443)	—	(188,443)	—
<b>Total Liabilities</b>	<b>(720,703)</b>	<b>(532,260)</b>	<b>(188,443)</b>	<b>—</b>
<b>Total</b>	<b>\$147,673,557</b>	<b>\$144,597,264</b>	<b>\$(188,443)</b>	<b>\$3,264,736</b>

<sup>(1)</sup> See Investment Portfolio detail for industry breakout.

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Small-Cap Equity Fund</b>				
<b>Assets</b>				
Common Stocks <sup>(1)</sup>	\$56,991,788	\$56,991,788	\$—	\$—
Master Limited Partnerships <sup>(1)</sup>	4,492,093	4,492,093	—	—
Purchased Put Options	3,000	3,000	—	—
Registered Investment Companies	517,601	517,601	—	—
Short Futures <sup>(2)</sup>	433,937	433,937	—	—
<b>Total Assets</b>	<b>62,438,419</b>	<b>62,438,419</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>				
Securities Sold Short <sup>(1)</sup>	(2,626,260)	(2,626,260)	—	—
Other Financial Instruments				
Short Futures <sup>(2)</sup>	(21,555)	(21,555)	—	—
<b>Total Liabilities</b>	<b>(2,647,815)</b>	<b>(2,647,815)</b>	<b>—</b>	<b>—</b>
<b>Total</b>	<b>\$59,790,604</b>	<b>\$59,790,604</b>	<b>\$—</b>	<b>\$—</b>

<sup>(1)</sup> See Investment Portfolio detail for industry breakout.

<sup>(2)</sup> Includes cumulative appreciation/(depreciation) of future contracts reported in the Investment Portfolio.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Total Return Fund</b>				
<b>Assets</b>				
Agency Collateralized Mortgage Obligations	\$ 14,227	\$ —	\$ 14,227	\$ —
Agency Mortgage-Backed Securities	1,570,849	—	1,570,849	—
Asset-Backed Securities	2	—	2	—
Corporate Bonds & Notes <sup>(1)</sup>	17,855,188	—	17,855,188	—
Foreign Corporate Bonds & Notes <sup>(1)</sup>	156,178	—	156,178	—
Non-Agency Collateralized Mortgage-Backed Securities	139,295	—	139,295	—
U.S. Treasuries	1,481,035	—	1,481,035	—
U.S. Treasury Bills	1,745,441	—	1,745,441	—
Domestic Equity				
Common Stocks				
Consumer Durables & Apparel	2,704,154	2,704,154	—	—
Consumer Services	2,493,311	2,493,311	—	—
Diversified Financials	9,591,345	9,591,345	—	—
Food & Staples Retailing	2,809,973	2,809,973	—	—
Materials	1,951,640	1,951,640	—	—
Media	5,607,094	5,607,094	—	—
Pharmaceuticals, Biotechnology & Life Sciences	499,785	499,785	—	—
Real Estate	7,992,622	7,979,942	—	12,680
Semiconductors & Semiconductor Equipment	360,165	360,165	—	—
Software & Services	3,941,451	3,941,451	—	—
Telecommunication Services	3,901,829	3,901,829	—	—
Transportation	588,189	588,189	—	—
Preferred Stocks <sup>(1)</sup>	1,575,899	1,575,899	—	—
Foreign Equity				
Common Stocks				
Pharmaceuticals, Biotechnology & Life Sciences	2,453,431	562,557	1,890,874	—
Food, Beverage & Tobacco	3,992,620	3,992,620	—	—
Telecommunication Services	339,582	339,582	—	—
Media	3,545,173	3,545,173	—	—
Transportation	5,764,910	5,764,910	—	—
Diversified Financials	644,280	644,280	—	—
Registered Investment Companies	4,419,604	4,419,604	—	—
Commercial Paper	2,994,181	—	2,994,181	—
Money Markets	4,580,441	4,580,441	—	—
<b>Total</b>	<b>\$95,713,894</b>	<b>\$67,853,944</b>	<b>\$27,847,270</b>	<b>\$12,680</b>

<sup>(1)</sup> See Investment Portfolio detail for industry breakout.

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Tax-Exempt Fund</b>				
<b>Assets</b>				
Municipal Bonds & Notes <sup>(1)</sup>	\$12,997,366	\$ —	\$12,997,366	\$—
Cash Equivalents	31,933	31,933	—	—
<b>Total</b>	<b>\$13,029,299</b>	<b>\$31,933</b>	<b>\$12,997,366</b>	<b>\$—</b>

<sup>(1)</sup> See Investment Portfolio detail for industry breakout.



# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

	Total value at March 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Fixed Income Fund</b>				
<b>Assets</b>				
Agency Collateralized Mortgage Obligations	\$ 98,789	\$ —	\$ 98,789	\$ —
Agency Mortgage-Backed Securities	14,224,406	—	14,224,406	—
Asset-Backed Securities	11,255,061	—	11,255,061	—
Corporate Bonds & Notes <sup>(1)</sup>	52,641,370	—	52,641,370	—
Foreign Corporate Bonds & Notes <sup>(1)</sup>	6,533,948	—	6,533,948	—
Municipal Bonds & Notes	18,075,026	—	18,075,026	—
Non-Agency Collateralized Mortgage-Backed Securities	2,158,511	—	2,158,511	—
U.S. Government Agencies	5,446,592	—	5,446,592	—
U.S. Treasuries	6,904,258	—	6,904,258	—
Domestic Equity				
Common Stocks				
Real Estate	2,885,970	2,658,634	—	227,336
Preferred Stocks <sup>(1)</sup>	2,869,262	2,869,262	—	—
Foreign Equity	354,374	354,374	—	—
Registered Investment Companies	13,003,196	13,003,196	—	—
Cash Equivalents	5,944,809	5,944,809	—	—
<b>Total</b>	<b>\$142,395,572</b>	<b>\$24,830,275</b>	<b>\$117,337,961</b>	<b>\$227,336</b>

<sup>(1)</sup> See Investment Portfolio detail for industry breakout.

The tables below set forth a summary of changes in the Global Allocation Fund, Premier Growth Equity Fund, Total Return Fund and Fixed Income Fund assets measured at fair value using significant unobservable inputs (Level 3) for the six months ended March 31, 2018.

	Balance as of September 30, 2017	Transfers Into Level 3	Transfers Out of Level 3	Net Amortization (Accretion) of Premium/ (Discount)	Net Realized Gain/ (Loss)	Net Unrealized Appreciation (Depreciation)	Net Purchases	Net (Sales)	Balance as of March 31, 2018	Change in Unrealized Appreciation (Depreciation) from Investments Held at March 31, 2018
<b>Highland Global Allocation Fund</b>										
<b>U.S. Senior Loans</b>										
Chemicals	\$ 1,036,854	\$ —	\$ —	\$10,207	\$ —	\$ 20,325	\$ —	\$ —	\$ 1,067,386	\$ 20,325
Telecommunications	46,640,630	—	—	(3,223)	—	44,709	2,647,586	—	49,329,702	44,709
<b>Non-U.S. Senior Loans</b>										
Healthcare	5,038,493	—	—	—	—	(26,920)	—	(377,968)	4,633,605	(26,920)
<b>U.S. Corporate Bonds &amp; Notes</b>										
Energy	—	2,558,727	—	—	—	—	—	—	2,558,727	—
<b>U.S. Equity</b>										
Chemicals	1,225,664	—	—	—	—	(35,271)	—	—	1,190,393	(35,271)
Telecommunication Services	96,811,555	—	—	—	—	(11,363,808)	—	—	85,447,747	(11,363,808)
<b>Non-U.S. Equity</b>										
Healthcare Equipment & Services	2,178,000	—	—	—	—	322,000	—	(2,500,000)	—	—

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

	Balance as of September 30, 2017	Transfers Into Level 3	Transfers Out of Level 3	Net Amortization (Accretion) of Premium/ (Discount)	Net Realized Gain/ (Loss)	Net Unrealized Appreciation (Depreciation)	Net Purchases	Net (Sales)	Balance as of March 31, 2018	Change in Unrealized Appreciation (Depreciation) from Investments Held at March 31, 2018
<b>Highland Global Allocation Fund (continued)</b>										
<b>Non-U.S. Warrants</b>										
Healthcare										
Equipment & Services	\$ 99,206	\$ —	\$ —	\$ —	\$ —	\$ 58,414	\$ —	\$ —	\$ 157,620	\$ 58,414
<b>Non-U.S. Investment Companies</b>	3,491,987	—	—	—	—	(10,275)	—	—	3,481,712	(10,275)
<b>U.S. Asset-Backed Securities</b>	240,647	—	—	—	—	79,470	—	—	320,117	79,470
<b>Total</b>	<u>\$156,763,036</u>	<u>\$2,558,727</u>	<u>\$—</u>	<u>\$6,984</u>	<u>\$—</u>	<u>\$(10,911,356)</u>	<u>\$2,647,586</u>	<u>\$(2,877,968)</u>	<u>\$148,187,009</u>	<u>\$(11,233,356)</u>

	Balance as of September 30, 2017	Transfers Into Level 3	Transfers Out of Level 3	Accrued Discounts (Premiums)	Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Net Purchases	Net Sales	Balance as of March 31, 2018	Change in Unrealized Appreciation (Depreciation) from Investments Held at March 31, 2018
<b>Highland Premier Growth Equity Fund</b>										
<b>Common Stocks</b>										
Materials	\$ —	\$ —	\$ —	\$ —	\$ —	\$414,560	\$198,000	\$ —	\$ 612,560	\$414,560
<b>Preferred Stocks</b>										
Software & Services	2,582,611	—	—	—	—	69,565	—	—	2,652,176	69,565
<b>Total</b>	<u>\$2,582,611</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$484,125</u>	<u>\$198,000</u>	<u>\$ —</u>	<u>\$3,264,736</u>	<u>\$484,125</u>

	Balance as of September 30, 2017	Transfers Into Level 3	Transfers Out of Level 3	Accrued Discounts (Premiums)	Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Net Purchases	Net Sales	Balance as of March 31, 2018	Change in Unrealized Appreciation (Depreciation) from Investments Held at March 31, 2018
<b>Highland Total Return Fund</b>										
<b>Common Stocks</b>										
Real Estate	\$10,543	\$ —	\$ —	\$ —	\$ —	\$2,137	\$ —	\$ —	\$12,680	\$2,137
<b>Total</b>	<u>\$10,543</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,137</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$12,680</u>	<u>\$2,137</u>

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

	Balance as of September 30, 2017	Transfers Into Level 3	Transfers Out of Level 3	Accrued Discounts (Premiums)	Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Net Purchases	Net Sales	Balance as of March 31, 2018	Change in Unrealized Appreciation (Depreciation) from Investments Held at March 31, 2018
<b>Highland Fixed Income Fund</b>										
<b>Common Stocks</b>										
Real Estate	\$189,021	\$ —	\$ —	\$ —	\$ —	\$38,315	\$ —	\$ —	\$227,336	\$38,315
Total	\$189,021	\$ —	\$ —	\$ —	\$ —	\$38,315	\$ —	\$ —	\$227,336	\$38,315

Investments designated as Level 3 may include assets valued using quotes or indications furnished by brokers which are based on models or estimates and may not be executable prices. In light of the developing market conditions, the Investment Adviser continues to search for observable data points and evaluate broker quotes and indications received for portfolio investments.

For the six months ended March 31, 2018, a net amount of \$2,558,727 of the Global Allocation portfolio investments

was transferred from Level 2 to Level 3. Transfers from Level 2 to Level 3 were due to a decrease in market activity (e.g. frequency of trades), which resulted in a decrease in available market inputs to determine price.

For the six months ended March 31, 2018, there were no transfers between Level 1 and Level 2.

The Funds use end of period market value in the determination of the amount associated with any transfers between levels.

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category	Market Value at 3/31/2018	Valuation Technique	Unobservable Inputs	Input Value(s)
<b>Highland Global Allocation Fund</b>				
U.S. Senior Loans	\$ 50,397,088	Discounted Cash Flow	Discount Rate	11.1%
			Spread Adjustment	0.1%
		Debt-Loan Spread	Adjusted Yield	9.74% - 10.14%
			Swap Rate	2.30% - 2.72%
Non-U.S. Senior Loans	4,633,605	Discounted Cash Flow	Discount Rate	9.33%
			Spread Adjustment	0.33%
			Claim Amount: Percent of	
U.S. Corporate Bonds & Notes	2,558,727	Liquidation Analysis	Par	6.9%
U.S. Equity	86,638,140	Multiples Analysis	Price/MHz-PoP	\$0.120 - \$0.550
			Risk Discount	25%
			LTM EBITDA Multiple	8.6x
			Liquidity Discount	10%
			Size Adjustment	10%
Non-U.S. Warrants	157,620	Black-Scholes Model	Annualized Volatility	60%
Non-U.S. Investment Companies	3,481,712	Net Asset Value	N/A	N/A
U.S. Asset-Backed Securities	320,117	Discounted Cash Flow	Discount Rate	20.88%
<b>Total</b>	<b>\$148,187,009</b>			

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

Category	Market Value at 3/31/2018	Valuation Technique	Unobservable Inputs	Input Value(s)
<b>Highland Premier Growth Equity Fund</b>				
Common Stocks	\$ 612,560	Multiples Analysis Discounted Cash Flow	Multiple of EBITDA Discount Rate	6.75x - 8.25x 12%
			Minority Discount	20%
			Terminal Multiple	7.0x
			Discount for Lack of Marketability	15%
Preferred Stocks	2,652,176	Multiples Analysis	Multiple of NFY+1 Gross Profit	3.25x - 3.75x
			Multiple of NFY+1 Total Revenue	3.75x - 4.25x
		Discounted Cash Flow	Minority Discount	20%
			Discount Rate	32.5%
			Terminal Multiple	3.0x
			Minority Discount	20%
			Discount for Lack of Marketability	15%
<b>Total</b>	<b>\$3,264,736</b>			
<b>Highland Total Return Fund</b>				
Common Stocks	\$ 12,680	Market Approach Blended Approach	Market Index Adjustment Weightings	-14% 33.3%
		NAV	Third Party Value Indication	\$9.74
<b>Total</b>	<b>\$ 12,680</b>			
<b>Highland Fixed Income Fund</b>				
Common Stocks	\$ 227,336	Market Approach Blended Approach	Market Index Adjustment Weightings	-14% 33.3%
		NAV	Third Party Value Indication	\$9.74
<b>Total</b>	<b>\$ 227,336</b>			

## 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.

## Income Recognition

Corporate actions (including cash dividends) are recorded on the ex-dividend date, net of applicable withholding taxes, except for certain foreign corporate actions, which are recorded as soon after ex-dividend date as such information becomes available and is verified. Interest income is recorded on the accrual basis.

Accretion of discount and amortization of premium on taxable bonds and loans are computed to the call or maturity date, whichever is shorter, using the effective yield method. Withholding taxes on foreign dividends have been provided for in accordance with the Funds' understanding of the applicable country's tax rules and rates.

## U.S. Federal Income Tax Status

Each Fund is treated as a separate taxpayer for U.S. federal income tax purposes. The Funds intend 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 their taxable income and gains, if any, for the tax year, and as such

March 31, 2018

Highland Funds II

will not be subject to U.S. federal income taxes. In addition, the Funds intend to distribute, in each calendar year, all of their net investment income, capital gains and certain other amounts, if any, such that the Funds should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded.

The Investment Adviser has analyzed the Funds' tax positions taken on U.S. federal income tax returns for all open tax years (current and prior three tax years), and has concluded that no provision for U.S. federal income tax is required in the Funds' financial statements. The Funds' U.S. federal and state income and U.S. 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. Furthermore, the Investment Adviser of the Funds is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next 12 months.

## Distributions to Shareholders

The Tax-Exempt Fund and Fixed Income Fund typically declare investment income dividends daily and pay them monthly. The Global Allocation Fund declares and pays investment income dividends quarterly. All other Funds typically declare and pay dividends from investment income annually. All Funds typically declare and pay distributions from net realized capital gains in excess of capital loss carryforwards annually.

## Cash & Cash Equivalents

The Funds consider liquid assets deposited with a bank and certain short-term debt instruments of sufficient credit quality with original maturities of three months or less to be cash equivalents. The Fund also considers money market instruments that invest in cash equivalents 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 Funds 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 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.

## Securities Sold Short

The Funds may sell securities short. A security sold short is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. A Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any dividends or other payments received on such borrowed securities. In some circumstances, a Fund may be allowed by its prime broker to utilize proceeds from securities sold short to purchase additional investments, resulting in leverage. Cash held as collateral for securities sold short is classified as restricted cash on the Statement of Assets and Liabilities, as applicable. Restricted cash in the amount of \$41,591,052, \$142,370 and \$2,974,158 was held with the broker for the Global Allocation Fund, Premier Growth Equity Fund and Small-Cap Equity Fund, respectively. Additionally, securities valued at \$530,027,892, \$4,784,800 and \$46,216,473 were posted in the Global Allocation Fund's, Premier Growth Equity Fund's and Small-Cap Equity Fund's segregated account as collateral, respectively.

## Due to Broker

As of March 31, 2018, the Global Allocation Fund owed \$67,889,833 to one of its prime broker counterparties related to margin borrowings. This amount is recorded on the Statements of Assets and Liabilities as Due to Broker.

## Other Fee Income

Fee income may consist of origination/closing fees, amendment fees, administrative agent fees, transaction break-up fees and other miscellaneous fees. Origination fees, amendment fees, and other similar fees are non-recurring fee sources. Such fees are received on a transaction by transaction basis and do not constitute a regular stream of income and are recognized when incurred.

## Note 3. Derivative Transactions

The Funds are subject to equity securities risk, interest rate risk and currency risk in the normal course of pursuing their investment objectives. The Funds enter into derivative transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, to gain market exposure for residual and accumulating cash positions and for managing the duration of fixed income investments.

### Futures Contracts

A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. The Funds may invest in interest rate, financial and stock or bond index futures contracts subject to certain limitations. The Funds invest in futures contracts to manage their exposure to the stock and bond markets and fluctuations in currency values. Buying futures tends to increase a Fund's exposure to the underlying instrument while selling futures tends to decrease a Fund's exposure to the underlying instrument, or economically hedge other Fund investments. With futures contracts, there is minimal counterparty credit risk to the Funds since futures contracts are exchange-traded and the exchange's clearinghouse, as counterparty to all traded futures, guarantees the futures against default. A Fund's risks in using these contracts include changes in the value of the underlying instruments, non-performance of the counterparties under the contracts' terms and changes in the liquidity of the secondary market for the contracts. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they principally trade.

Upon entering into a financial futures contract, the Funds are required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount, known as initial margin deposit. Subsequent payments, known as variation margins, are made or can be received by the Funds each day, depending on the daily fluctuation in the fair value of the underlying security. The Funds record an unrealized gain/(loss) equal to the daily variation margin. Should market conditions move unexpectedly, the Funds may not achieve the anticipated benefits of the futures contracts and may incur a loss. The Funds recognize a realized gain/(loss) on the expiration or closing of a futures contract.

At March 31, 2018, the Global Allocation and Small Cap Equity Funds held futures contracts as detailed in the notes to the Fund's Investment Portfolio. The Global Allocation and Small Cap Equity Funds entered into futures transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, and to gain

market exposure for residual and accumulating cash positions. Cash held as collateral for futures contracts is shown on the Statement of Assets and Liabilities as "Restricted Cash — Futures."

For the six months ended March 31, 2018, the Premier Growth Equity, Total Return, Tax-Exempt, and Fixed Income Funds did not invest in futures contracts.

### Options

The Funds may utilize options on securities or indices to varying degrees as part of their principal investment strategy. An option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option at a specified exercise or "strike" price. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. The Funds may hold options, write option contracts, or both.

If an option written by a Fund expires unexercised, a Fund realizes on the expiration date a capital gain equal to the premium received by a Fund at the time the option was written. If an option purchased by a Fund expires unexercised, a Fund realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange-traded option may be closed out by an offsetting purchase or sale of an option of the same series (type, underlying security, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when a Fund desires. A Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if the cost of the closing option is more than the premium received from writing the option, a capital loss. A Fund will realize a capital gain from a closing sale transaction if the premium received from the sale is more than the original premium paid when the option position was opened, or a capital loss, if the premium received from a sale is less than the original premium paid.

During the six months ended March 31, 2018, the Global Allocation, Premier Growth Equity and Small Cap Equity Funds had written options to provide leveraged short exposure, and purchased options to provide leveraged long exposure, to the underlying equity, which is consistent with the investment strategies of these Funds.

For the six months ended March 31, 2018, the Total Return, Tax-Exempt, and Fixed Income Funds did not invest or write in options.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

## Swap Contracts

The Funds may use swaps as part of its investment strategy or to manage its exposure to interest, commodity, and currency rates as well as adverse movements in the debt and equity markets. Swap agreements are privately negotiated in the over-the-counter (“OTC”) market or may be executed in a multilateral or other trade facility platform, such as a registered exchange (“centrally cleared swaps”).

Total return swaps are agreements to exchange the return generated by one instrument for the return generated by another instrument; for example, the agreement to pay interest in exchange for a market or commodity-linked return based on a notional amount. To the extent the total return of the market or commodity-linked index exceeds the offsetting interest obligation, the Fund will receive a payment from the counterparty. To the extent it is less, the Fund will make a payment to the counterparty. Periodic payments received or made by the Fund are recorded in “Net realized gain (loss) on swap contracts” on the accompanying Statement of Operations and Changes in Net Assets as realized gains or losses, respectively. As of March 31, 2018, the Premier Growth Equity Fund was a party to an open swap contract having a net fair value of \$(188,443).

For the six months ended March 31, 2018, the Global Allocation, Small-Cap Equity, Total Return, Tax-Exempt and Fixed Income Funds did not invest in swap contracts.

## Additional Derivative Information

The Funds follow adopted amendments to authoritative guidance on disclosures about derivative instruments and hedging activities which require that the Funds disclose; a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted for; c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows; and d) how the netting of derivatives subject to master netting arrangements (if applicable) affects the net exposure of the Fund related to the derivatives.

The fair value of derivative instruments on the Statement of Assets and Liabilities have the following risk exposure at March 31, 2018:

Fund	Fair Value	
	Asset Derivative	Liability Derivative
<b>Global Allocation Fund</b>		
Foreign Currency Risk	\$ 33,600 <sup>(1)</sup>	\$ —
Equity Price Risk	2,978,560 <sup>(1)(3)(4)</sup>	(1,984,785) <sup>(2)(3)(4)</sup>
Commodity Risk	335,000 <sup>(1)</sup>	(103,121) <sup>(2)(3)(4)</sup>
<b>Premier Growth Equity Fund</b>		
Equity Price Risk	—	(188,443) <sup>(5)</sup>
<b>Small-Cap Equity Fund</b>		
Equity Price Risk	436,937 <sup>(1)</sup>	(21,555) <sup>(3)(4)</sup>

- (1) Statement of Assets and Liabilities location: Unaffiliated investments, at value.
- (2) Statement of Assets and Liabilities location: Written options contracts, at value.
- (3) Statement of Assets and Liabilities location: Variation margin receivable/payable.
- (4) Includes cumulative unrealized appreciation/(depreciation) of futures contracts as reported in the Investment Portfolio and within the components of the net assets section of the Statement of Assets and Liabilities. Only the current day’s variation margin is reported within the receivables and/or payables of the Statements of Assets and Liabilities.
- (5) Statement of Assets and Liabilities location: Swaps, at value.

To reduce counterparty credit risk with respect to over-the-counter (“OTC”) transactions, the Funds have entered into master netting arrangements, established within the Funds’ International Swap and Derivatives Association, Inc. (“ISDA”) master agreements, which allows the Funds to make (or to have an entitlement to receive) a single net payment in the event of default (close-out netting) for outstanding payables and receivables with respect to certain OTC derivative positions in forward currency exchange contracts for each individual counterparty. In addition, the Funds may require that certain counterparties post cash and/or securities in collateral accounts to cover their net payment obligations for those derivative contracts subject to ISDA master agreements. If the counterparty fails to perform under these contracts and agreements, the cash and/or securities will be made available to the Funds.

Certain ISDA master agreements include credit related contingent features which allow counterparties to OTC derivatives to terminate derivative contracts prior to maturity in the event the Funds’ net assets decline by a stated percentage or the Funds fail to meet the terms of its ISDA master agreements, which would cause the Funds to accelerate payment of any net liability owed to the counterparty.

For financial reporting purposes, the Funds do not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Statement of Assets and Liabilities. Bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events.

Collateral terms are contract specific for OTC derivatives. For derivatives traded under an ISDA master agreement, the collateral requirements are typically calculated by netting the mark to market amount for each transaction under such agreement and comparing that to the value of any collateral currently pledged by the Fund or the Counterparty.

For financial reporting purposes, cash collateral that has been pledged to cover obligations of the Funds, if any, is reported in restricted cash on the Statement of Assets and Liabilities. Generally, the amount of collateral due from or to a party must exceed a minimum transfer amount threshold

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

before a transfer has to be made. To the extent amounts due to the Funds from their counterparties are not fully collateralized, contractually or otherwise, the Funds bear the risk of loss from counterparty non-performance.

The effect of derivative instruments on the Statement of Operations for the six months ended March 31, 2018, is as follows:

Fund	Net Realized Gain(Loss) on Derivatives	Net Change in Unrealized Appreciation/(Depreciation) on Derivatives
<b>Global Allocation Fund</b>		
Interest Rate Risk	\$ (673,951) <sup>(1)</sup>	\$ 616,718 <sup>(2)</sup>
Foreign Currency Risk	(580,165) <sup>(3)(4)</sup>	(339,645) <sup>(5)(6)</sup>
Equity Price Risk	2,714,883 <sup>(1)(3)(4)</sup>	11,362,210 <sup>(2)(5)(6)</sup>
Commodity Risk	192,048 <sup>(1)(3)(4)</sup>	(116,271) <sup>(2)(5)(6)</sup>
<b>Premier Growth Equity Fund</b>		
Equity Price Risk	491,663 <sup>(3)(4)(7)</sup>	(190,837) <sup>(8)</sup>
<b>Small-Cap Equity Fund</b>		
Equity Price Risk	158,470 <sup>(1)(3)(4)</sup>	1,438,790 <sup>(2)(5)(6)</sup>

- (1) Statement of Operations location: Realized gain (loss) on future contracts.  
 (2) Statement of Operations location: Change in unrealized appreciation (depreciation) on futures contracts.  
 (3) Statement of Operations location: Realized gain (loss) on investments from unaffiliated issuers.  
 (4) Statement of Operations location: Realized gain (loss) on written options contracts.  
 (5) Statement of Operations location: Change in unrealized appreciation (depreciation) on investments.  
 (6) Statement of Operations location: Change in unrealized appreciation (depreciation) on written options contracts.  
 (7) Statement of Operations location: Realized gain (loss) on swap contracts.  
 (8) Statement of Operations location: Change in unrealized appreciation (depreciation) on swap contracts.

The average monthly volume of derivative activity for the six months ended March 31, 2018, is as follows:

Fund	Units/Contracts	Appreciation/(Depreciation)
<b>Global Allocation Fund</b>		
Futures Contracts <sup>(1)</sup>	—	\$ (1,330,959)
Purchased Options Contracts	54,566	—
Written Options contracts	(46,287)	—
<b>Premier Growth Equity Fund</b>		
Purchased Options Contracts	1,083	—
Written Option Contracts	(210)	—
Swap Contracts	—	(17,155)
<b>Small-Cap Equity Fund</b>		
Futures Contracts <sup>(1)</sup>	—	(192,315)
Purchased Options Contracts	8,827	—
Written Options contracts	(7,966)	—

- (1) Futures Contracts average monthly volume is calculated using Appreciation/(Depreciation).

## Note 4. Securities Lending

Each Fund may seek additional income by making secured loans of its portfolio securities through its custodian, State Street Bank and Trust Company ("State Street"). Such loans will be in an amount not greater than one-third of the value of the Fund's total assets. State Street will charge a Fund fees based on a percentage of the securities lending income.

The Funds will receive collateral consisting of cash (U.S. and foreign currency), securities issued or guaranteed by the U.S. government or its agencies or instrumentalities, sovereign debt, convertible bonds, irrevocable bank letters of credit or such other collateral as may be agreed on by the parties to a securities lending arrangement, initially with a value of 102% or 105% of the market value of the loaned securities and thereafter maintained at a value of 100% of the market value of the loaned securities. If the collateral consists of non-cash collateral, the borrower will pay the Fund a loan premium fee. If the collateral consists of cash, State Street will reinvest the cash. Although voting rights, or rights to consent, with respect to the loaned securities pass to the borrower, the Fund will recall the loaned securities upon reasonable notice in order that the securities may be voted by the Fund if the holders of such securities are asked to vote upon or consent to matters materially affecting the investment. The Fund also may call such loans in order to sell the securities involved.

Securities lending transactions are entered into pursuant to Securities Loan Agreements ("SLA"), which provide the right, in the event of default (including bankruptcy or insolvency) for the non-defaulting party to liquidate the collateral and calculate a net exposure to the defaulting party or request additional collateral. In the event that a borrower defaults, the Funds, as lenders, would offset the market value of the collateral received against the market value of the securities loaned. The value of the collateral is typically greater than that of the market value of the securities loaned, leaving the lender with a net amount payable to the defaulting party. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against such a right of offset in the event of a SLA counterparty's bankruptcy or insolvency. Under the SLA, the Funds can reinvest cash collateral, or, upon an event of default, resell or repledge the collateral, and the borrower can resell or repledge the loaned securities. The risks of securities lending also include the risk that the borrower may not provide additional collateral when required or may not return the securities when due. To mitigate this risk, each Funds benefit from a borrower default indemnity provided by State Street Bank and Trust Company ("State Street"). State Street's indemnity generally provides for replacement of securities lent or the approximate value thereof.



# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

The following table presents financial instruments that are subject to enforceable netting arrangements as of March 31, 2018.

Fund	Gross Amounts Not Offset in the Statement of Assets and Liabilities			
	Gross Amounts of Liabilities Presented in Statement of Assets & Liabilities <sup>(1)</sup>	Financial Instrument <sup>(2)</sup>	Collateral Received	Net Amount (not less than 0)
Global Allocation Fund	\$ —	\$ 594,100	\$ —	\$ —
Premier Growth Equity Fund	—	4,504,942	—	—
Small-Cap Equity Fund	502,342	2,500,292	—	—
Total Return Fund	2,079,358	4,797,224	—	—
Fixed Income Fund	5,208,268	5,682,299	—	—

- <sup>(1)</sup> In some instances, the actual collateral received and/or pledged may be more than the amount shown here due to overcollateralization.  
<sup>(2)</sup> Represents market value of securities on loan at six months ended end.

For the six months ended March 31, 2018, the market value of securities loaned and the amounts secured with cash and securities collateral, which are included on each Fund's Investment Portfolio were as follows:

Fund	Security Lending Market Value	Security Lending Collateral Cash	Security Lending Collateral Non-Cash
Global Allocation Fund	\$ 594,100	\$ —	\$ 608,750
Premier Growth Equity Fund	4,504,942	—	4,605,459
Small-Cap Equity Fund	2,500,292	502,342	2,065,752
Total Return Fund	4,797,224	2,079,358	2,833,875
Fixed Income Fund	5,682,299	5,208,268	1,106,188

- <sup>(1)</sup> The loaned securities were secured with cash collateral which was invested in the State Street Navigator Prime Securities Lending Portfolio.  
<sup>(2)</sup> Security lending non-cash collateral consists of U.S. Government Treasury & Agency debt and Sovereign debt.

At September 30, 2017, the most recent tax year-end, components of distributable earnings on a tax basis is as follows:

Fund	Undistributed Income	Undistributed Long-Term Capital Gains	Undistributed Tax-Exempt Income	Other Temporary Differences <sup>(1)</sup>	Accumulated Capital and Other Losses	Net Tax Appreciation/(Depreciation) <sup>(2)</sup>
Global Allocation Fund	\$ —	\$ —	\$ —	\$(23,349,883)	\$(94,376,306)	\$(355,436,187)
Premier Growth Equity Fund	—	33,270,706	—	(203,764)	—	34,701,817
Small-Cap Equity Fund	6,352,151	2,385,202	—	—	—	5,025,752
Total Return Fund	653,503	1,898,567	—	—	—	5,844,835
Tax-Exempt Fund	—	372,999	57,220	—	—	521,146
Fixed Income Fund	—	—	—	(208,957)	(1,763,608)	1,615,265

- <sup>(1)</sup> Other temporary differences are comprised of dividends payable.  
<sup>(2)</sup> Any differences between book-basis and tax-basis net unrealized appreciation/(depreciation) are primarily due to deferral of losses from wash sale, and other adjustments.

## Note 5. U.S. Federal Income Tax Information

The character of income and gains to be distributed is determined in accordance with income tax regulations which may differ from U.S. GAAP. These differences include (but are not limited to) investments organized as partnerships for tax purposes, foreign taxes, investments in futures, losses deferred to off-setting positions, tax treatment of organizational start-up costs, losses deferred due to wash sale transactions, tax treatment of net investment loss and distributions in excess of net investment income, dividends deemed paid upon shareholder redemption of Fund shares and tax attributes from Fund reorganizations. Reclassifications are made to the Funds' capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. These reclassifications have no impact on net investment income, realized gains or losses, or NAV of the Funds. The calculation of net investment income per share in the Financial Highlights table excludes these adjustments.

For the year ended September 30, 2017, permanent differences chiefly resulting from net investment losses, dividends on short sales, foreign currency gains and losses, equalization, short sale holding period reclass, partnership basis adjustments and REITs were identified and reclassified among the components of the Funds' net assets as follows:

Fund	Undistributed Net Investment Income (Loss)	Accumulated Net Realized Gain (Loss)	Paid-in-Capital
Global Allocation Fund	\$(5,301,413)	\$12,666,635	\$(7,365,222)
Premier Growth Equity Fund	(4,055)	(33,633)	37,688
Small-Cap Equity Fund	(205,182)	167,288	37,894
Total Return Fund	(57,701)	57,837	(136)
Tax-Exempt Fund	—	—	—
Fixed Income Fund	248,332	23,228	(271,560)

## NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

As of September 30, 2017, the most recent tax year-end, the following Funds have capital loss carryovers as indicated below. The capital loss carryover is available to offset future realized capital gains to the extent provided in the Code and regulations promulgated thereunder. To the extent that these carryover losses are used to offset future capital gains, it is probable that the gains so offset will not be distributed to shareholders because they would be taxable as ordinary income.

Fund	2018	No	No	Total
		Expiration	Expiration	
		Short-	Long-	
		Term <sup>(1)</sup>	Term <sup>(1)</sup>	
Global Allocation Fund	\$604,956 <sup>(2)</sup>	\$84,686,226	\$9,085,124	\$94,376,306
Premier Growth Equity Fund	—	—	—	—
Small-Cap Equity Fund	—	—	—	—
Total Return Fund	—	—	—	—
Tax-Exempt Fund	—	—	—	—
Fixed Income Fund	—	—	1,763,608	1,763,608

<sup>(1)</sup> Under the Regulated Investment Company Modernization Act of 2010, the Funds will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. 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.

<sup>(2)</sup> Includes capital loss acquired due to Global Allocation Fund's merger with U.S. Equity Fund on September 28, 2012 and the prior year mergers with Highland International Equity Fund and Global Select Equity Fund on September 20, 2013. The Global Allocation Fund's ability to utilize these capital losses is limited under Internal Revenue Service regulations.

During the year ended September 30, 2017, the Fixed Income Fund and the Tax-Exempt utilized capital carryforwards in the amount of \$3,125 and \$1,636, respectively.

The tax composition of distributions paid during the years ended September 30, 2017 and September 30, 2016 (unless otherwise indicated) were as follows:

Fund	Distributions Paid From:			
	Exempt Interest	Ordinary Income <sup>(1)</sup>	Long-Term Capital Gains	Return of Capital <sup>(2)</sup>
Global Allocation Fund				
2017	\$ —	\$57,260,233	\$ —	\$2,173,047
2016	—	75,774,590	—	4,465,661
Premier Growth Equity Fund				
2017	—	—	35,694,222	—
2016	—	9,467	19,066,459	—
Small-Cap Equity Fund				
2017	—	321,352	2,229,639	—
2016	—	17,190	4,986,416	—
Total Return Fund				
2017	—	1,125,467	181,506	—
2016	—	2,913,433	6,064,211	—
Tax-Exempt Fund				
2017	366,251	—	—	—
2016	434,910	—	602,638	—
Fixed Income Fund				
2017	—	3,450,140	—	261,189
2016	—	3,332,491	—	301,597

<sup>(1)</sup> For tax purposes, short-term capital gains distributions, if any, are considered ordinary income distributions.

<sup>(2)</sup> Additional Information will be distributed on Form 1099 at the end of the calendar year.

## NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

Unrealized appreciation and depreciation at March 31, 2018, based on cost of investments for U.S. federal income tax purposes was:

Fund	Gross Appreciation	Gross Depreciation	Net Appreciation/ (Depreciation)	Cost
Global Allocation Fund	\$42,211,757	\$(368,344,559)	\$(326,132,802)	\$941,463,875
Premier Growth Equity Fund	7,030,736	(8,417,960)	(1,387,224)	149,249,224
Small-Cap Equity Fund	12,447,030	(11,540,056)	906,974	58,465,249
Total Return Fund	3,369,801	(3,241,918)	127,883	95,586,011
Tax-Exempt Fund	327,913	(51,001)	276,912	12,752,387
Fixed Income Fund	1,715,764	(2,464,747)	(748,983)	143,144,555

Under current laws, certain capital losses after October 31 may be deferred (and certain ordinary losses after January 1st may be deferred) and treated as occurring on the first day of the following fiscal year. For the fiscal year ended September 30, 2017, the Funds elected to defer the following losses incurred from November 1, 2016 through September 30, 2017:

Fund	Realized Capital Losses	Ordinary Losses
Global Allocation Fund	\$(21,934,372)	\$(1,248,544)
Premier Growth Equity Fund	—	(203,764)
Small-Cap Equity Fund	—	—
Total Return Fund	—	—
Tax-Exempt Fund	—	—
Fixed Income Fund	(174,628)	—

### Note 6. Credit Agreement

On May 18, 2017, the Small-Cap Equity Fund entered into a Master Margin Loan Agreement (the "Margin Loan Agreement") with The Bank of New York Mellon that expires on May 17, 2018. Interest is charged to the Small-Cap Equity Fund under the Margin Loan Agreement based on its borrowings at a rate equal to LIBOR plus 1.20%. In addition, the Small-Cap Equity Fund pays a commitment fee of 0.40% on any undrawn amount. Included in the Statement of Operations is \$174,767 of interest expense and commitment fees. At March 31, 2018, the current outstanding amount was \$10,500,000. For the six months ended March 31, 2018, the Small-Cap Equity Fund's average daily balance under the Margin Loan Agreement was \$10,384,198, at a weighted average interest rate of 2.69% for the days outstanding.

On January 10, 2018, the Global Allocation Fund entered into a financing arrangement (the "Financing Arrangement") with BNP Paribas Prime Brokerage International, Ltd., BNP Prime Brokerage, Inc., acting through its New York Branch, and BNP Paribas (together, the "BNPP Entities"). Under the Financing Agreement, the BNPP Entities may make margin loans to the Global Allocation Fund

at a rate of one-month LIBOR + 0.50%. The Financing Arrangement may be terminated by either the Global Allocation Fund or the BNPP Entities with 30 days' notice. At March 31, 2018, current outstanding and fair value amounts were \$132,500,000 and \$132,847,356, respectively. The Global Allocation Fund's average daily balance was \$20,446,993 at a weighted average interest rate of 2.06% for the days outstanding.

### Note 7. Advisory, Administration, Service and Distribution, Trustee, and Other Fees

#### Investment Advisory Fees and Administration Fees

For its investment advisory services, each Fund pays the Investment Advisor a monthly fee, computed and accrued daily, based on an annual rate of the Funds' Average Daily Managed Assets. Average Daily Managed Assets of a Fund means the average daily value of the total assets of a Fund less all accrued liabilities of a Fund (other than the aggregate amount of any outstanding borrowings constituting financial leverage).

The table below shows each Fund's contractual advisory fee with Highland for the six months ended March 31, 2018:

Fund	Annual Fee Rate to Highland
Global Allocation Fund	0.40%
Premier Growth Equity Fund	0.60%
Small-Cap Equity Fund	0.95%
Total Return Fund	0.50%
Tax-Exempt Fund	0.35%
Fixed Income Fund	0.30%

On behalf of the Funds, the Trust has entered into an administration agreement with State Street and pays State Street a fee for administration services. The Investment

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

Adviser generally assists in all aspects of the Funds' administration and operations and furnishes offices, necessary facilities, equipment and personnel.

## Sub-Advisory Fees

The Total Return Fund, the Tax-Exempt Fund and the Fixed Income Fund are sub-advised by First Foundation Advisors ("FFA"). The Investment Adviser pays each sub-advisor an investment sub-advisory fee out of the advisory fees that it receives from the respective Fund.

## Expense Limits and Fee Reimbursements

The Investment Adviser has contractually agreed to limit the total annual operating expenses (exclusive of fees paid by the Funds pursuant to their distribution plans under Rule 12b-1 under the 1940 Act, as amended, 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 Global Allocation Fund, the Small-Cap Equity Fund, the Total Return Fund, the Tax-Exempt Fund and the Fixed Income Fund to 0.90%, 1.15%, 0.95%, 0.65% and 0.65%, respectively, of average daily net assets attributable to any class of the Global Allocation Fund, the Small-Cap Equity Fund, the Total Return Fund, the Tax-Exempt Fund and the Fixed Income Fund (each, an "Expense Cap" and collectively, the "Expense Caps"). The Expense Caps will continue through at least January 31, 2019, and may not be terminated prior to this date without the action or consent of the Board.

Under the expense limitation agreement, the Investment Adviser may recoup waived and/or reimbursed amounts with respect to a 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.

On March 31, 2018, the amounts subject to possible future recoupment under the Funds' expense limitations were as follows:

Fund	Expiring during Fiscal Years Ending September 30,			
	2018	2019	2020	2021
Global Allocation Fund	\$ —	\$660,281	\$ —	\$ 40,315
Premier Growth Equity Fund	—	—	—	—
Small-Cap Equity Fund	107,205	222,967	240,496	147,915
Total Return Fund	—	—	—	—
Tax-Exempt Fund	22,801	48,223	71,485	32,064
Fixed Income Fund	—	3,184	32,572	13,712

During the six months ended March 31, 2018, the Investment Adviser did not recoup any fees previously waived or reimbursed, and \$85,924 and \$3,089 of fees previously waived and or reimbursed in the Small-Cap Equity Fund and the Tax-Exempt Fund, respectively, by the Investment Adviser that were eligible for recoupment expired. No other amounts expired or were recouped from the Funds during the year ended six months ended March 31, 2018.

## Fees Paid to Officers and Trustees

Each Trustee who is not an "interested person" of the Funds 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 overseen by such Trustee based on relative net assets. The "Highland Fund Complex" consists of all of the registered investment companies advised by the Investment Adviser or its affiliated advisers 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 as of the date of this report. Effective December 4, 2015, Mr. Powell resigned from his position with the Investment Adviser. Prior to December 8, 2017, Mr. Powell was treated as an Interested Trustee of the Trust for all purposes other than compensation and the Trust's code of ethics.

The Funds pay no compensation to their officers, all of whom are employees of the Investment Adviser or one of its affiliates.

## Distribution and Shareholder Service Fees

The Funds have a distribution and shareholder service plan (each a "Plan" and collectively the "Plans") pursuant to Rule 12b-1 under the 1940 Act. The Plans require the payment of a monthly service fee to Highland Capital Funds Distributor, Inc. (the "Underwriter") at an annual rate of 0.25% of the average daily net assets attributable to Class A, and Class C shares of the Funds. The Plans also require the payment of a monthly distribution fee to the Underwriter at an annual rate of 0.75% of the average daily net assets attributable to Class C shares. Currently Class Y shares are not subject to a 12b-1 fee.

The Underwriter received \$11,539 of front-end sales charges from the sale of Class A shares and \$19,524 in contingent deferred sales charges from the redemption of Class C shares of the Funds during the six months ended March 31, 2018.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

Fund	Class A Front End Sales Charges	Class C CDSC Fees
Global Allocation Fund	\$6,586	\$17,415
Premier Growth Equity Fund	1,577	994
Small-Cap Equity Fund	2,175	1,084
Total Return Fund	733	16
Tax-Exempt Fund	2	—
Fixed Income Fund	466	15

## Indemnification

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

## Note 8. Disclosure of Significant Risks and Contingencies

The primary risks of investing in the Funds are described below in alphabetical order:

### Counterparty Risk

Counterparty risk is the potential loss the Funds may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. Counterparty risk is measured as the loss the Funds would record if its counterparties failed to perform pursuant to the terms of their obligations to the Funds. Because the Funds may enter into over-the-counter forwards, options, swaps and other derivative financial instruments, the Funds may be exposed to the credit risk of their counterparties. To limit the counterparty risk associated with such transactions, the Funds conduct business only with financial institutions judged by the Investment Adviser to present acceptable credit risk.

### Credit Risk

Investments rated below investment grade are commonly referred to as high-yield, high risk or "junk debt." They are regarded as predominantly speculative with respect to the issuing company's continuing ability to meet principal and/or interest payments. Investments in high yield debt and high yield Senior Loans may result in greater NAV fluctuation than if a 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 the Fund.

### Currency Risk

A portion of the Funds' assets may be quoted or denominated in non-U.S. currencies. These securities may be adversely affected by fluctuations in relative currency exchange rates and by exchange control regulations. The Funds' investment performance may be negatively affected by a devaluation of a currency in which the Funds' investments are quoted or denominated. Further, the Funds' investment performance may be significantly affected, either positively or negatively, by currency exchange rates because the U.S. dollar value of securities quoted or denominated in another currency will increase or decrease in response to changes in the value of such currency in relation to the U.S. dollar.

### Derivatives Risk

Derivatives risk is a combination of several risks, including the risks that: (1) an investment in a derivative instrument may not correlate well with the performance of the securities or asset class to which the Fund seeks exposure, (2) derivative contracts, including options, may expire worthless and the use of derivatives may result in losses to the Fund, (3) a derivative instrument entailing leverage may result in a loss greater than the principal amount invested, (4) derivatives not traded on an exchange may be subject to credit risk, for example, if the counterparty does not meet its obligations (see also "Counterparty Risk"), and (5) derivatives not traded on an exchange may be subject to liquidity risk and the related risk that the instrument is difficult or impossible to value accurately. As a general matter, when the Fund establishes certain derivative instrument positions, such as certain futures, options and forward contract positions, it will segregate liquid assets (such as cash, U.S. Treasury bonds or commercial paper) equivalent to the Fund's outstanding obligations under the contract or in connection with the position. In addition, changes in laws or regulations may make the use of derivatives more costly, may limit the availability of derivatives, or may otherwise adversely affect the use, value or performance of derivatives. A Fund's ability to pursue its investment strategy, including its strategy of investing in certain derivative instruments, may be limited to or adversely affected by the Fund's intention to qualify as a regulated investment company, and its strategy may bear adversely on its ability to so qualify.

### Illiquid and Restricted Securities Risk

Certain investments made by the Funds are, and others may be, illiquid, and consequently the Funds may not be

able to sell such investments at prices that reflect the Investment Adviser's assessment of their value or the amount originally paid for such investments by the Funds. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale and other factors. Furthermore, the nature of the Funds' investments, especially those in financially distressed companies, may require a long holding period prior to profitability.

Restricted securities (i.e., securities acquired in private placement transactions) and illiquid securities may offer higher yields than comparable publicly traded securities. The Funds, however, may not be able to sell these securities when the Investment Adviser considers it desirable to do so or, to the extent they are sold privately, may have to sell them at less than the price of otherwise comparable securities. Restricted securities are subject to limitations on resale which can have an adverse effect on the price obtainable for such securities. Also, if in order to permit resale the securities are registered under the Securities Act at a Fund's expense, the Fund's expenses would be increased. A high percentage of illiquid securities in a Fund creates a risk that such a Fund may not be able to redeem its shares without causing significant dilution to remaining shareholders.

### Interest Rate Risk

The risk that fixed income securities will decline in value because of changes in interest rates. When interest rates decline, the value of fixed rate securities already held by the Funds can be expected to rise. Conversely, when interest rates rise, the value of existing fixed rate portfolio securities can be expected to decline. A fund with a longer average portfolio duration will be more sensitive to changes in interest rates than a Fund with a shorter average portfolio duration. 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.

### Leverage Risk

Each Fund may use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent the Funds purchase securities with borrowed funds, their net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. If the interest expense on borrowings were to exceed the net

return on the portfolio securities purchased with borrowed funds, the Funds' use of leverage would result in a lower rate of return than if the Funds were not leveraged.

### Master Limited Partnership ("MLP") Risk

Master Limited Partnership Risk is the risk of investing in MLP units, which involves some risks that differ from an investment in the equity securities of a company. The Funds may hold a significant investment in MLP units. Holders of MLP units have limited control and voting rights on matters affecting the partnership. Holders of units issued by an MLP are exposed to a remote possibility of liability for all of the obligations of that MLP in the event that a court determines that the rights of the holders of MLP units to vote to remove or replace the general partner of that MLP, to approve amendments to that MLP's partnership agreement, or to take other action under the partnership agreement of that MLP would constitute "control" of the business of that MLP, or a court or governmental agency determines that the MLP is conducting business in a state without complying with the partnership statute of that state. Holders of MLP units are also exposed to the risk that they will be required to repay amounts to the MLP that are wrongfully distributed to them. Additionally, a sustained reduced demand for crude oil, natural gas and refined petroleum products could adversely affect MLP revenues and cash flows, and changes in the regulatory environment could adversely affect the profitability of MLPs.

### Non-U.S. Securities Risk

Non-U.S. securities risk is the risk associated with investing in non-U.S. issuers. Investments in securities of non-U.S. issuers involve certain risks not involved in domestic investments (for example, fluctuations in foreign exchange rates (for non-U.S. securities not denominated in U.S. dollars); future foreign economic, financial, political and social developments; nationalization; exploration or confiscatory taxation; smaller markets; different trading and settlement practices; less governmental supervision; and different accounting, auditing and financial recordkeeping standards and requirements) that may result in each Fund experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. These risks are magnified for investments in issuers tied economically to emerging markets, the economies of which tend to be more volatile than the economies of developed markets. In addition, certain investments in non-U.S. securities may be subject to foreign withholding and other taxes on interest, dividends, capital gains or other income or proceeds. Those taxes will reduce each Fund's yield on any such securities.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

## Senior Loans Risk

The risk that the issuer of a senior may fail to pay interest or principal when due, and changes in market interest rates may reduce the value of the senior loan or reduce the Fund's returns. The risks associated with senior loans are similar to the risks of high yield debt securities. Senior loans and other debt securities are also 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 long-term interest rate environment. The Fund's investments in senior loans are typically below investment grade and are considered speculative because of the credit risk of their issuers.

## Short Sales Risk

Short sales by the Funds that are not made where there is an offsetting long position in the asset that it is being sold short theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. Short selling allows the Funds to profit from declines in market prices to the extent such decline exceeds the transaction costs and costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of securities to rise further, thereby exacerbating the loss. The Funds may mitigate such losses by replacing the securities

sold short before the market price has increased significantly. Under adverse market conditions, a Fund might have difficulty purchasing securities to meet margin calls on its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

## Note 9. Investment Transactions

### Purchases & Sales of Securities

The cost of purchases and the proceeds from sales of investments, other than short-term securities and short-term options, for the six months ended March 31, 2018, were as follows:

Fund	U.S. Government Securities		Other Securities	
	Purchases	Sales	Purchases	Sales
Global Allocation Fund	\$ —	\$ —	\$271,233,754	\$384,804,148
Premier Growth Equity Fund	—	—	178,087,458	198,407,637
Small-Cap Equity Fund	—	—	15,691,354	28,109,144
Total Return Fund	—	122,655	43,800,676	25,952,603
Tax-Exempt Fund	—	—	138,652	—
Fixed Income Fund	1,754,203	4,139,555	21,161,488	14,672,716

## Note 10. Affiliated Issuers

Under Section 2 (a) (3) of the Investment Company Act of 1940, as amended, a portfolio company is defined as "affiliated" if a fund owns five percent or more of its outstanding voting securities or if the portfolio company is under common control.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2018

Highland Funds II

The table below shows affiliated issuers of each Fund for the period ended March 31, 2018:

Global Allocation Fund Issuer	Shares at September 30, 2017	Beginning Value as of September 30, 2017	Purchases/ Reinvestment at Cost	Proceeds from Sales	Net Realized Gain/(Loss) on Sales of Affiliated Issuers	Change in Unrealized Appreciation/ Depreciation	Ending Value as of March 31, 2018	Shares at March 31, 2018	Affiliated Income
<b>Other Affiliates</b>									
Highland Merger Arbitrage Fund (Registered Investment Companies)	657,039	\$ 14,034,358	\$ 646,680	\$—	\$—	\$ (836,687)	\$ 13,844,351	688,774	\$ 646,680
Highland Energy MLP Fund (Master Limited Partnerships)	4,203,447	16,771,754	784,616	—	—	(3,546,780)	14,009,590	4,405,532	784,616
Nexpoint Strategic Opportunities Fund (Registered Investment Companies)	664	15,305	—	—	—	(46)	15,259	664	797
BB Votorantim Highland Infrastructure LLC (Non-U.S. Investment Companies)	10,000	3,491,987	—	—	—	(10,275)	3,481,712	10,000	—
Gambier Bay LLC (U.S. Equity) <sup>(1)</sup>	16,054,749	2,327,938	—	—	—	200,685	2,528,623	16,054,749	—
TerreStar Corp. (U.S. Equity)	306,550	96,811,555	—	—	—	(11,363,808)	85,447,747	306,550	—
TerreStar Corp. (U.S. Senior Loans)	46,780,973	46,640,630	2,647,586	—	—	41,486	49,329,702	49,428,559	2,647,586
<b>Total</b>	<b>68,013,422</b>	<b>\$180,093,527</b>	<b>\$4,078,882</b>	<b>\$—</b>	<b>\$—</b>	<b>\$(15,515,425)</b>	<b>\$168,656,984</b>	<b>70,894,828</b>	<b>\$4,079,679</b>

<sup>(1)</sup> Includes the value of iHeart Communications, Inc. bonds as of September 30, 2017 and subsequent activity.

Highland Premier Growth Equity Fund Issuer	Shares at September 30, 2017	Beginning Value as of September 30, 2017	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss) on Sales of Affiliated Issuers	Change in Unrealized Appreciation/ Depreciation	Ending Value as of March 31, 2018	Shares at March 31, 2018	Affiliated Income
<b>Other Affiliates</b>									
Highland Merger Arbitrage Fund (Registered Investment Companies)	176,920	\$3,779,008	\$174,131	\$(58,181)	\$58,181	\$(225,294)	\$3,727,845	185,465	\$115,949
Nexpoint Strategic Opportunities Fund (Registered Investment Companies)	664	15,305	—	—	—	(46)	15,259	664	797
<b>Total</b>	<b>177,584</b>	<b>\$3,794,313</b>	<b>\$174,131</b>	<b>\$(58,181)</b>	<b>\$58,181</b>	<b>\$(225,340)</b>	<b>\$3,743,104</b>	<b>186,129</b>	<b>\$116,746</b>

Highland Small-Cap Equity Fund Issuer	Shares at September 30, 2017	Beginning Value as of September 30, 2017	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss) on Sales of Affiliated Issuers	Change in Unrealized Appreciation/ Depreciation	Ending Value as of March 31, 2018	Shares at March 31, 2018	Affiliated Income
<b>Other Affiliates</b>									
NexPoint Residential Trust, Inc., REIT	54,500	\$1,293,285	\$25,707	\$ —	\$ —	\$59,827	\$1,378,819	55,508	\$27,630
Nexpoint Strategic Opportunities Fund (Registered Investment Companies)	664	15,305	—	—	—	(46)	15,259	664	796
<b>Total</b>	<b>\$55,164</b>	<b>\$1,308,590</b>	<b>\$25,707</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$59,781</b>	<b>\$1,394,078</b>	<b>\$56,172</b>	<b>\$28,426</b>

## Note 11. New Accounting Pronouncements

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 to explain the change during

the period in the total of cash, restricted cash and 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



March 31, 2018

Highland Funds II

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. The Investment Adviser is currently evaluating the impact of this new guidance on the Funds' financial statements.

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 Funds' financial statements.

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 the 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 Funds' financial statements.

In February 2018, the FASB issued Accounting Standards Update 2018-03, Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update provide a variety of technical corrections and improvements to how entities should account for financial instruments. For public entities this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years beginning after June 15, 2018. The Investment Adviser is currently evaluating the impact of this new guidance on the Funds' financial statements.

## Note 12. Subsequent Events

Management has evaluated the impact of all subsequent events on the Funds through the date the financial statements were issued. Other than the matter below, no such subsequent events were identified.

Effective May 17, 2018, the Margin Loan Agreement was amended to extend the maturity through May 16, 2019.

## ADDITIONAL INFORMATION (unaudited)

March 31, 2018

Highland Funds II

### Additional Portfolio Information

The Investment Adviser and its affiliates manage other accounts, including registered and private funds and individual accounts. Although investment decisions for the Funds 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 Funds, 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 Funds and one or more of such other accounts are prepared to invest in, or desire to dispose of, the same security, available investments or opportunities for each will be allocated in a manner believed by the Investment Adviser to be equitable to the Funds and such other accounts. The Investment Adviser also may aggregate orders to purchase and sell securities for the Funds and such other accounts. Although the Investment Adviser believes that, over time, the potential benefits of participating in volume transactions and negotiating lower transaction costs should benefit all accounts including the Funds, in some cases these activities may adversely affect the price paid or received by the Funds or the size of the position obtained or disposed of by the Funds.

### Disclosure of Fund Expenses

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchases and redemption fees; and (2) ongoing costs, including management fees; distribution (12b-1) and service 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 from October 1, 2017 through March 31, 2018, unless otherwise indicated.

This table illustrates your Fund's costs in two ways:

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

**Hypothetical Example for Comparison Purposes:** The second part of the table provides information about hypothetical account values and hypothetical expenses based on your Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not your Fund's actual return. The actual expense ratio includes voluntary fee waivers or expense reimbursements by the Fund's investment adviser. The expense ratio would be higher had the fee waivers or expense reimbursements not been in effect. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in your Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads) or redemption fees. 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 10/01/17	Ending Account Value 03/31/18	Annualized Expense Ratio <sup>(1)</sup>	Expenses Paid During the Period <sup>(1)</sup>
<b>Highland Global Allocation Fund</b>				
<i>Actual Fund Return</i>				
Class A	\$1,000.00	\$1,007.10	2.12%	\$10.61
Class C	1,000.00	1,003.00	2.87%	14.33
Class Y	1,000.00	1,009.00	1.87%	9.37
<i>Hypothetical 5% Return (before expenses)</i>				
Class A	\$1,000.00	\$1,014.36	2.12%	\$10.65
Class C	1,000.00	1,010.62	2.87%	14.39
Class Y	1,000.00	1,015.61	1.87%	9.40

## ADDITIONAL INFORMATION (unaudited) (concluded)

March 31, 2018

Highland Funds II

	Beginning Account Value 10/01/17	Ending Account Value 03/31/18	Annualized Expense Ratio <sup>(1)</sup>	Expenses Paid During the Period <sup>(1)</sup>
<b>Highland Premier Growth Equity Fund</b>				
<i>Actual Fund Return</i>				
Class A	\$1,000.00	\$1,081.00	1.23%	\$ 6.38
Class C	1,000.00	1,077.10	1.98%	10.25
Class Y	1,000.00	1,082.10	0.98%	5.09
<i>Hypothetical 5% Return (before expenses)</i>				
Class A	\$1,000.00	\$1,018.80	1.23%	\$ 6.19
Class C	1,000.00	1,015.06	1.98%	9.95
Class Y	1,000.00	1,020.04	0.98%	4.94
<b>Highland Small-Cap Equity Fund</b>				
<i>Actual Fund Return</i>				
Class A	\$1,000.00	\$1,055.20	2.20%	\$11.27
Class C	1,000.00	1,050.40	2.95%	15.08
Class Y	1,000.00	1,055.20	1.97%	10.09
<i>Hypothetical 5% Return (before expenses)</i>				
Class A	\$1,000.00	\$1,013.96	2.20%	\$11.05
Class C	1,000.00	1,010.22	2.95%	14.78
Class Y	1,000.00	1,015.11	1.97%	9.90
<b>Highland Fixed Income Fund</b>				
<i>Actual Fund Return</i>				
Class A	\$1,000.00	\$ 994.60	0.90%	\$ 4.48
Class C	1,000.00	990.90	1.65%	8.19
Class Y	1,000.00	995.80	0.65%	3.23
<i>Hypothetical 5% Return (before expenses)</i>				
Class A	\$1,000.00	\$1,020.44	0.90%	\$ 4.53
Class C	1,000.00	1,016.70	1.65%	8.30
Class Y	1,000.00	1,021.69	0.65%	3.28
<b>Highland Tax-Exempt Fund</b>				
<i>Actual Fund Return</i>				
Class A	\$1,000.00	\$ 991.50	0.90%	\$ 4.47
Class C	1,000.00	989.60	1.65%	8.18
Class Y	1,000.00	991.80	0.65%	3.23
<i>Hypothetical 5% Return (before expenses)</i>				
Class A	\$1,000.00	\$1,020.44	0.90%	\$ 4.53
Class C	1,000.00	1,016.70	1.65%	8.30
Class Y	1,000.00	1,021.69	0.65%	3.28
<b>Highland Total Return Fund</b>				
<i>Actual Fund Return</i>				
Class A	\$1,000.00	\$ 971.70	1.10%	\$ 5.41
Class C	1,000.00	968.20	1.85%	9.08
Class Y	1,000.00	973.00	0.85%	4.18
<i>Hypothetical 5% Return (before expenses)</i>				
Class A	\$1,000.00	\$1,019.45	1.10%	\$ 5.54
Class C	1,000.00	1,015.71	1.85%	9.30
Class Y	1,000.00	1,020.69	0.85%	4.28

(1) Expenses are equal to the Fund's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year, divided by the number of days in the full fiscal year (182/365).

## IMPORTANT INFORMATION ABOUT THIS REPORT

### **Investment Adviser**

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

### **Sub-Advisers**

First Foundation Advisors  
18101 Von Karman Ave., Suite 700  
Irvine, CA 92612-0145

### **Transfer Agent**

DST Asset Manager Solutions  
30 Dan Road  
Canton, MA 02021-2809

### **Underwriter**

Highland Capital Funds Distributor, Inc.  
200 Crescent Court, Suite 700  
Dallas, TX 75201

### **Custodian**

State Street Bank and Trust Company  
One Lincoln Street  
Boston, Massachusetts 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.  
Washington, DC 20036-2652

This report has been prepared for shareholders of Highland Global Allocation Fund, Highland Premier Growth Equity Fund, Highland Small-Cap Equity Fund, Highland Total Return Fund, Highland Tax-Exempt Fund, and Highland Fixed Income Fund (collectively, the "Funds"). The Funds mail one shareholder report to each shareholder address. If you would like more than one report, please call shareholder services at 1-877-665-1287 to request that additional reports be sent to you.

A description of the policies and procedures that the Funds use to determine how to vote proxies relating to their portfolio securities, and the Funds' proxy voting records for the most recent 6-month period ended March 31, are available (i) without charge, upon request, by calling 1-877-665-1287 and (ii) on the Securities and Exchange Commission's website at <http://www.sec.gov>.

The Funds file their complete schedules of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Funds' 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 by visiting the Funds' website at [www.highlandfunds.com](http://www.highlandfunds.com).

The Statements of Additional Information include additional information about the Funds' Trustees and are available upon request without charge by calling 1-877-665-1287.

**THIS PAGE LEFT BLANK INTENTIONALLY**

**THIS PAGE LEFT BLANK INTENTIONALLY**





Highland Funds  
c/o DST Asset Manager Solutions  
30 Dan Road  
Canton, MA 02021-2809

Highland Funds II

Semi-Annual Report, March 31, 2018