HIGHLAND CAPITAL MANAGEMENT

Q3 2018

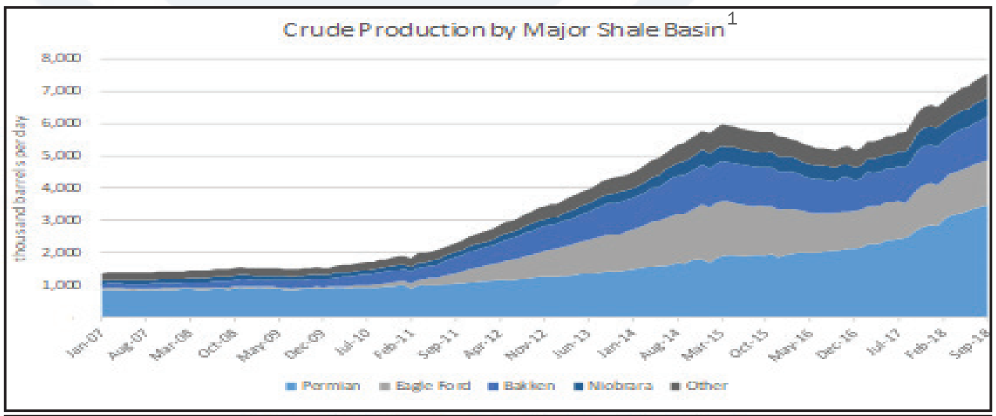
MLP MARKET REVIEW

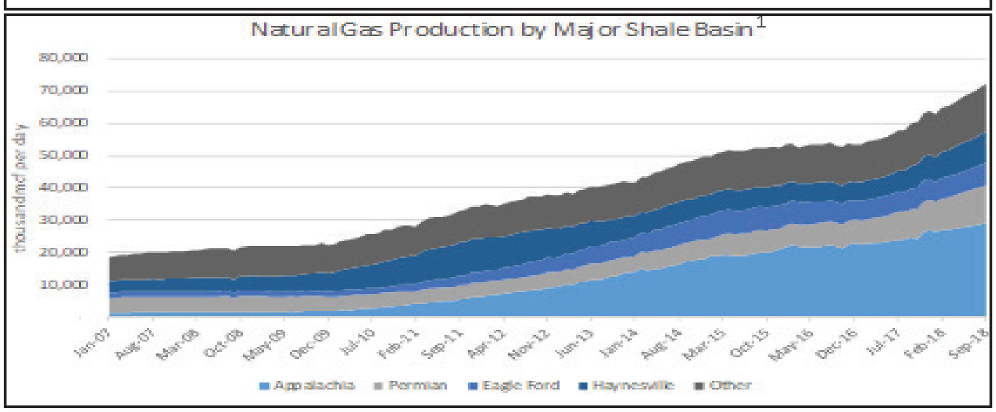
MLP PERFORMANCE

During the third quarter of 2018, MLPs (as measured by the Alerian MLP Index, the “AMZ”) provided a 6.57% total return, lagging that of the broader S&P 500 Index by 1.14% but exceeding the S&P Oil & Gas Exploration and Production Select Industry Index (an index designed to largely measure the performance of U.S. exploration and production (E&P) companies) by 5.75%. The relative performance of MLPs was encouraging, especially compared against the muted returns posted by the E&P index. Amidst a backdrop of strengthening commodity prices and continued pipeline capacity constraints in certain basins, investor sentiment towards the asset class seems to remain on the road to improvement.

FUNDAMENTALS

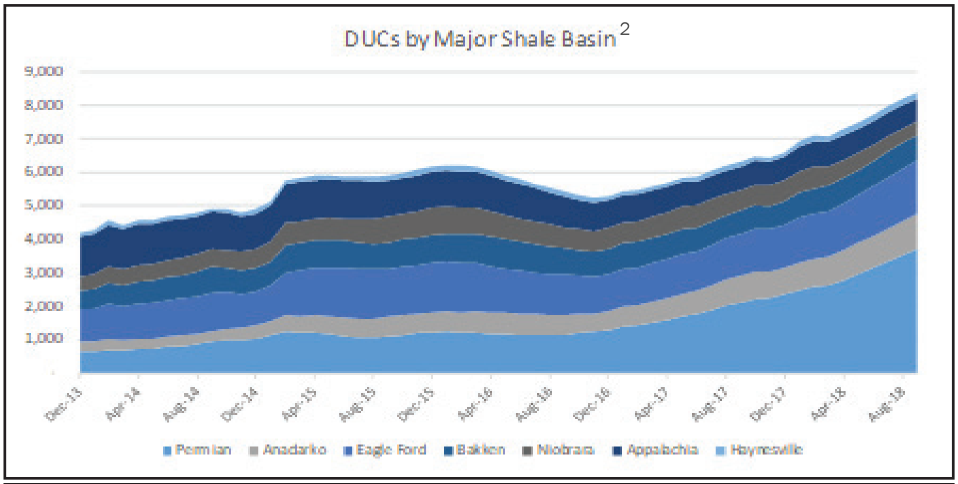
Similar to the past several quarters, crude and natural gas production continues to rise, and year-over-year production growth remains high at 25.0% and 15.5% in September, respectively.[1]

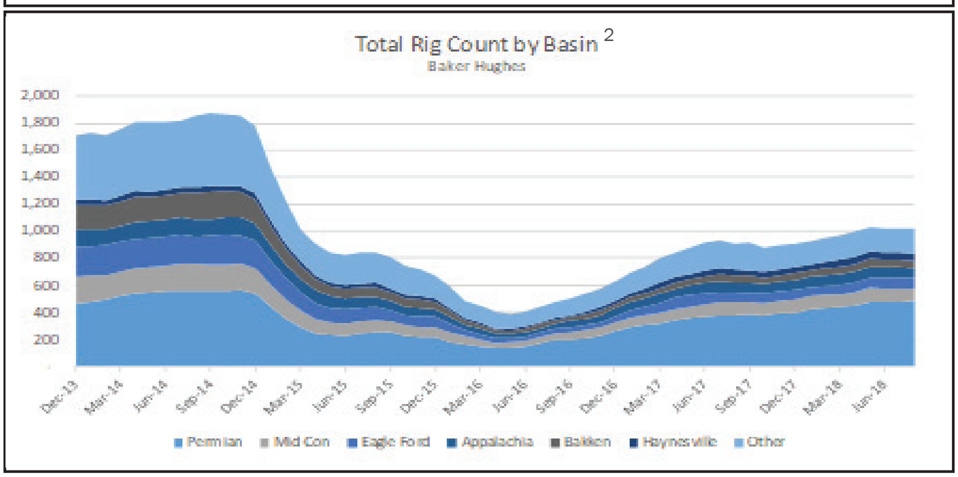




[1] Source: U.S. Energy Information Administration (EIA)

Despite these trends and recent market performance, some investors have become concerned about slowing production growth in basins, like the Permian, where takeaway pipeline utilization is very high and contributing to persistent pricing discounts. However, we believe these investors are missing the forest for the trees. The Permian situation is a perfect example of supply-demand economics and the need for energy infrastructure growth in the U.S. In fact, MLPs are already responding to the situation, with several operators in the midst of adding over 2 million barrels per day of pipeline capacity that should be completed by late-2019/early-2020. While this new capacity will not be fully utilized all at once, it appears that E&P companies (in the Permian as well as in other basins) are forging ahead with their production growth plans, which should provide a strong tailwind for future utilization increases. Drilled but uncompleted wells (DUCs) continue their meteoric rise, and with drilling rig counts not flinching, it is likely that the number of DUCs will increase further.[2]





With interest rates on the rise, MLPs, as a perceived yield vehicle, have increasingly been placed in the spotlight. While we readily concede the attractive yields of many MLPs, we believe that the assumed negative correlation to interest rates is unfounded, which is evidenced by the data.[3]

In fact, examining the data more closely, there is a slight positive correlation present. This actually seems somewhat logical, as rising interest rates have often been related to improving economic growth as well as greater hydrocarbon production and consumption.

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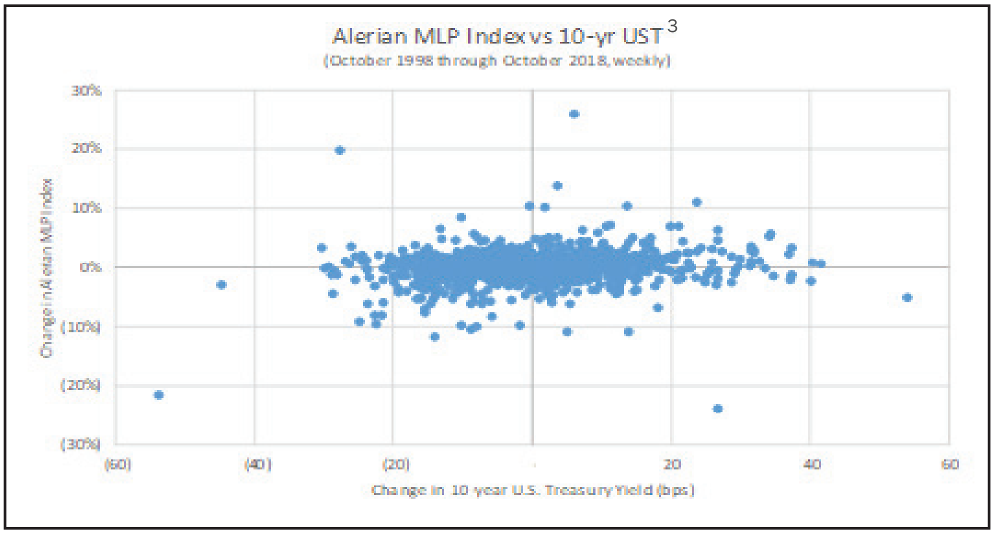
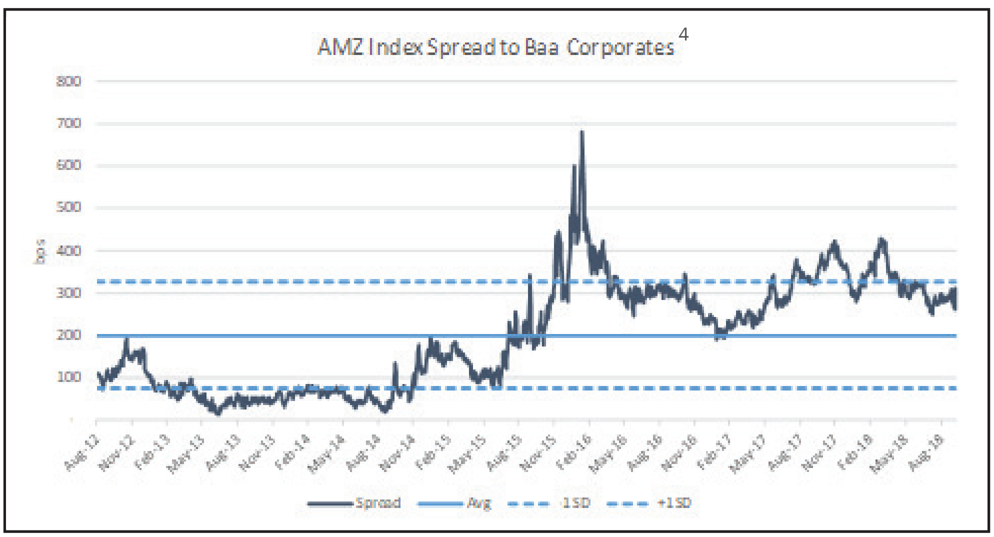
[2] Source: U.S. Energy Information Administration (EIA) and Baker Hughes
[3] Source: Bloomberg

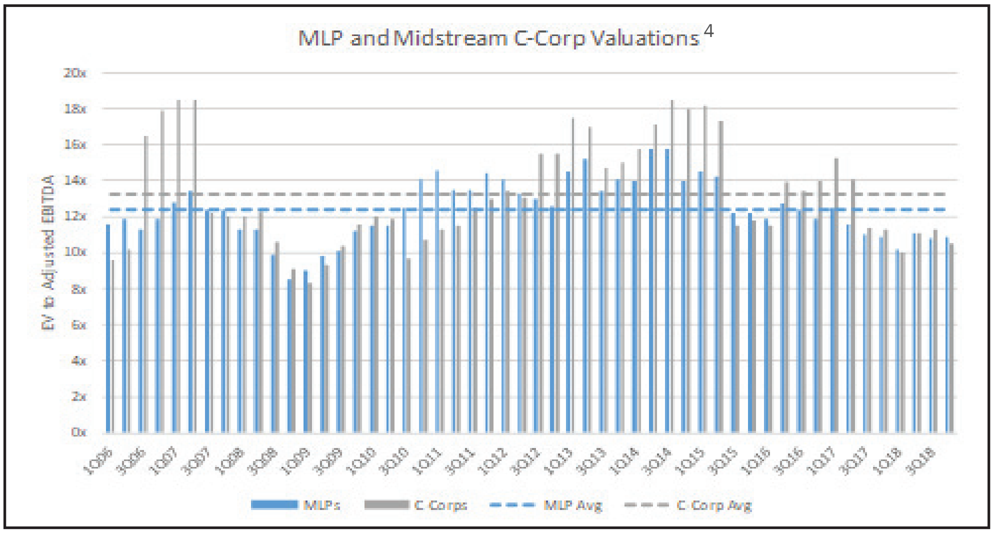


OUTLOOK

We remain constructive on the outlook for the midstream sector and MLPs, and we believe that recent U.S. production growth trends are not solely being driven by higher commodity pricing. Through the energy downturn, U.S. shale producers were able to establish themselves as a viable and cost-effective supply for the global markets, and efficiency gains are likely to progress further. This should allow MLP fundamentals and sentiment to continue improving. Against this positive backdrop, valuations remain wide of historical norms. Despite rising interest rates, MLP yields are still near one standard deviation higher than their longer-term average, and valuation multiples are at some of their lowest levels since the financial crisis.[4]



[4] Source: Bloomberg (yield of Alerian MLP Index (AMZ) versus the Moody's Baa Bond Index) and Wells Fargo Research (October 2018)



We believe that MLPs continue to offer value, and as investors become more comfortable with their potential in this third stage of the U.S. shale revolution (the first two being before the financial crisis and energy downturn), there could be ample opportunity.

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[4] Source: Bloomberg (yield of Alerian MLP Index (AMZ) versus the Moody's Baa Bond Index) and Wells Fargo Research (October 2018)

RISK CONSIDERATIONS

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

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership, which could reduce or eliminate distributions paid by MLPs.

1) Source: U.S. Energy Information Administration (EIA)
2) Source: U.S. Energy Information Administration (EIA) and Baker Hughes
3) Source: Bloomberg
4) Source: Bloomberg (yield of Alerian MLP Index (AMZ) versus the Moody's Baa Bond Index) and Wells Fargo Research (October 2018)

Credit Risk. The risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty of a derivatives contract or repurchase agreement, is unable or unwilling (or is perceived to be unable or unwilling) to make a timely payment of principal and/or interest, or to otherwise honor its obligations. **Currency Risk.** The risk that the values of foreign investments may be affected by changes in the currency rates or exchange control regulations. **Derivatives Risk.** Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. **Foreign and Emerging Markets Risk.** The Fund may invest in foreign and emerging market securities which involves certain risks such as currency volatility, political and social instability and reduced market liquidity. **Growth Investing Risk.** The risk of investing in growth stocks that may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing companies growth potential. **Leverage Risk.** The risk associated with the use of leverage for investment purposes to create opportunities for greater total returns. Any investment income or gains earned with respect to the amounts borrowed that are in excess of the interest that is due on the borrowing will augment the Fund's income. Conversely, if the investment performance with respect to the amounts borrowed fails to cover the interest on such borrowings, the value of the Fund's shares may decrease more quickly than would otherwise be the case. Interest payments and fees incurred in connection with such borrowings will reduce the amount of net income available for payment to Fund shareholders. **Value Investing Risk.** The risk of investing in undervalued stocks that may not realize their perceived value for extended periods of time or may never realize their perceived value.

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

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

S&P Oil & Gas Exploration and Production Select Industry Index is comprises stocks in the S&P Total Market Index that are classified in the GICS oil and gas exploration and production sub-industry.

Moody's Baa Bond Index is an index of the performance of all bonds given an Baa rating by Moody's Investors Service.

Index returns assume reinvestment of all dividends and distributions, if any. Indices are unmanaged, have no fees or costs and are not available for investment. The performance of the indices may be materially different from the individual performance attained by a specific investor. An investment cannot be made directly in an index.