HIGHLAND CAPITAL MANAGEMENT

Q4 2018

MLP MARKET REVIEW

MLP PERFORMANCE

During the fourth quarter of 2018, MLPs (as measured by the Alerian MLP Index, the "AMZ") provided a -17.91% total return, lagging that of the broader S&P 500 Index by 4.23% 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 20.60%. Sector performance was challenged during the period because of broader market volatility and commodity price weakness. Despite the AMZ performance during the quarter, MLP fundamentals appear better positioned and valuations seem attractive.

FUNDAMENTALS

While the drop in oil and NGL prices has been a near-term headwind, we have already seen a rebound in prices in the New Year. Short run supply/demand dynamics can result in commodity price volatility, but ultimately we believe US shale volumes will be required to balance the global market. This demand backdrop combined with constrained infrastructure should drive operating leverage, better margins and better cash flow for midstream companies. We believe tight takeaway capacity also adds value-creating opportunities for companies to pursue organic growth projects.

This underlying fundamental backdrop has been in place for some time, but what has changed over the past year has been the process of capital structure simplification. We believe the sector became too complex during the upcycle which necessitated a period of unwind. We are now at a point where the majority of simplification transactions – the most awaited being the consolidation of the ETE/ETP structure – have been completed. The process of simplifying structures benefits companies by removing incentive distribution rights (IDRs) which lowers their cost of equity capital. It also allows companies to fund organic growth projects with internally generated cashflow, instead of perennially relying on the capital markets for equity funding.

Despite these positive factors, midstream MLPs appear cheap relative to history and relative to other yield-oriented asset classes. The median MLP yields 10.0% which is a 29.8% discount relative to its five year average of 7.0%, and trades at an estimated 2020 EV/EBITDA multiple of 9.1x which is a 25.2% discount relative to its five year average of 12.2x. Meanwhile, Utilities trade at a 9.7x EV/EBITDA which is a 5% discount to its five year average and REITs trade at 15.3x which is a 16% discount.[1]

OUTLOOK

We believe MLPs are showing better fundamentals and attractive valuations. We have witnessed a trend since the 2015-16 industry downturn of consolidation and simplification. Companies now have better balance sheets and require less outside equity capital in order to fund growth projects. If capital structure simplification and capital allocation disciplines continue and fundamentals and valuations stay positive, it will be interesting to see how MLPs play out in 2019.

[1] Source: Wells Fargo, "Midstream Monthly Abridged – Jan 2019", 1/7/19

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.

MLP 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 Fund intends to invest substantially in MLP units. Holders of MLP units have limited control and voting rights on matters affecting the partnership. 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.

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.

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.

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.

Utilities are measured/represented by the S&P 500 Utilities Index

REITs are measured/represented by the FTSE NAREIT Index

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