

**HIGHLAND CAPITAL**  
**MANAGEMENT**

# Highland/iBoxx Senior Loan ETF

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

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# Highland/iBoxx Senior Loan ETF

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Economic and market conditions change frequently.  
There is no assurance that the trends described in this report will continue or commence.

**A prospectus must precede or accompany this report. Please read the prospectus carefully before you invest.**

## FUND PROFILE (unaudited)

December 31, 2018

Highland/iBoxx Senior Loan ETF

### Objective

Highland/iBoxx Senior Loan ETF seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Markit iBoxx USD Liquid Leveraged Loan Index.

### Net Assets as of December 31, 2018

\$381.0 million

### Portfolio Data as of December 31, 2018

The information below provides a snapshot of the Highland/iBoxx Senior Loan ETF at the end of the reporting period.

Quality Breakdown as of December 31, 2018 (%)*	
BBB	8.8
BB	40.1
B	35.8
CCC	10.4
NR	4.9

Top 5 Sectors as of 12/31/18 (%)*	
Media/Telecommunications	16.9
Information Technology	10.2
Retail	8.6
Service	8.0
Gaming/Leisure	6.0

Top 10 Holdings as of 12/31/18 (%)*†	
iHeartCommunications Inc., Term Loan D, 1st Lien	3.3
Envision Healthcare Corp., Cov-Lite, Term Loan, 1st Lien	2.5
Univision Communications Inc., 2017 Replacement Repriced Term Loan, 1st Lien	2.4
Valeant Pharmaceuticals International Inc., Initial Term Loan, 1st Lien	2.2
SS&C Technologies Holdings, Term Loan B3, 1st Lien	2.2
Transdigm Inc., Term Loan F, 1st Lien	2.1
Virgin Media Bristol LLC, Term Loan K, 1st Lien	2.0
SBA Senior Finance II LLC, Term Loan, 1st Lien	1.9
Misys Ltd., Dollar Term Loan	1.9
Vistra Operations Company LLC, Term Loan, 1st Lien	1.9

The Fund is non-diversified and may invest a larger portion of its assets in the securities of fewer issuers than if the Fund were diversified.

Please refer to the financial statement's Note 7, Disclosure of Significant Risks and Contingencies, for more information.

\* Quality is calculated as a percentage of total senior loans. Sectors and holdings are calculated as a percentage of total net assets. The quality ratings reflected were issued by Standard & Poor's, a nationally recognized statistical rating organization. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Quality ratings reflect the credit quality of the underlying bonds in the Fund's portfolio and not that of the Fund itself. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change, including daily. The ratings assigned by credit rating agencies are but one of the considerations that the Fund's investment adviser incorporates into its credit analysis process, along with such other issuer-specific factors as cash flows, capital structure and leverage ratios, ability to de-leverage through free cash flow, quality of management, market positioning and access to capital, as well as such security-specific factors as the terms of the security (e.g., interest rate, and time to maturity) and the amount of any collateral. Quality Ratings and holdings are subject to change, and may have changed since December 31, 2018.

† Excludes cash equivalents.

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

<b>Investment Portfolio</b>	The Investment Portfolio details the Fund's holdings and their market value as of the last day of the reporting period. Portfolio holdings are organized by type of asset and industry to demonstrate areas of concentration and diversification.
<b>Statement of Assets and Liabilities</b>	This statement details the Fund's assets, liabilities, net assets and share price for each share class as of the last day of the reporting period. Net assets are calculated by subtracting all of a Fund's liabilities (including any unpaid expenses) from the total of the Fund's investment and non-investment assets. The net asset value per share for each class is calculated by dividing net assets allocated to that share class by the number of shares outstanding in that class as of the last day of the reporting period.
<b>Statement of Operations</b>	This statement reports income earned by the Fund and the expenses incurred by the Fund during the reporting period. The Statement of Operations also shows any net gain or loss the Fund realized on the sales of its holdings during the period as well as any unrealized gains or losses recognized over the period. The total of these results represents the Fund's net increase or decrease in net assets from operations.
<b>Statement of Changes in Net Assets</b>	This statement details how the Fund's net assets were affected by its operating results, distributions to shareholders and shareholder transactions (e.g., subscriptions, redemptions and distribution reinvestments) during the reporting period. The Statement of Changes in Net Assets also details changes in the number of shares outstanding.
<b>Financial Highlights</b>	The Financial Highlights demonstrate how the Fund's net asset value per share was affected by the Fund's operating results. The Financial Highlights also disclose the class' performance and certain key ratios (e.g., net expenses and net investment income as a percentage of average net assets).
<b>Notes to Financial Statements</b>	These notes disclose the organizational background of the Fund, certain of their significant accounting policies (including those surrounding security valuation, income recognition and distributions to shareholders), federal tax information, fees and compensation paid to affiliates and significant risks and contingencies.

# INVESTMENT PORTFOLIO (unaudited)

As of December 31, 2018

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (a) - 84.9%</b>	
<b>AEROSPACE - 4.3%</b>	
Transdigm Inc., Term Loan E, 1st Lien, VAR LIBOR USD	
4,356,055	1 Month+2.500%, 05/30/25 .....
	4,122,614
Transdigm Inc., Term Loan F, 1st Lien, VAR LIBOR USD	
8,593,222	1 Month+2.500%, 06/09/23 .....
	8,131,336
Transdigm Inc., Term Loan G, 1st Lien, VAR LIBOR USD	
4,481,163	1 Month+2.500%, 08/22/24 (b) .....
	4,241,914
	<u>16,495,864</u>
<b>AIRLINES - 2.4%</b>	
Air Medical Group Holdings Inc., Cov-Lite, Term Loan, 1st Lien, VAR LIBOR USD	
5,959,875	USD 1 Month+4.250%, 03/14/25 .....
	5,568,221
American Airlines Inc., Term Loan, 1st Lien, VAR LIBOR USD	
4,000,000	1 Month+1.750%, 06/27/25 .....
	3,760,000
	<u>9,328,221</u>
<b>BUILDING MATERIALS - 3.0%</b>	
American Builders & Contractors Supply Co., Inc., Term Loan B2, 1st Lien, VAR LIBOR USD	
6,414,748	1 Month+2.000%, 10/31/23 .....
	6,121,530
Quikrete Holdings Inc., Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD	
5,711,587	1 Month+2.750%, 11/15/23 .....
	5,458,164
	<u>11,579,694</u>
<b>CHEMICALS - 3.1%</b>	
Berry Global Inc., Term Loan Q, 1st Lien, VAR LIBOR USD	
4,574,403	1 Month+2.000%, 10/01/22 .....
	4,480,376
H.B. Fuller Company, Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD	
4,786,403	1 Month+2.000%, 10/20/24 .....
	4,518,365
Ineos US Finance LLC, Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD	
2,982,418	1 Month+2.000%, 04/01/24 (b) .....
	2,830,509
	<u>11,829,250</u>
<b>COMPUTERS &amp; ELECTRONICS - 1.0%</b>	
GTT Communications Inc., Cov-Lite, Term Loan, 1st Lien, VAR LIBOR USD	
3,977,506	1 Month+2.750%, 05/31/25 .....
	3,752,121
<b>CONSTRUCTION - 1.6%</b>	
Brand Energy & Infrastructure Services Inc., Cov-Lite, Term Loan, 1st Lien, VAR LIBOR USD	
6,325,679	3 Month+4.250%, 06/21/24 .....
	6,023,438

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>CONSUMER PRODUCTS - 0.8%</b>	
Revlon Consumer Products Corp., Term Loan B, 1st Lien, VAR LIBOR USD	
4,384,944	3 Month+3.500%, 09/07/23 .....
	3,140,039
<b>ENERGY - 2.6%</b>	
Seadrill Partners Finco LLC, Term Loan, 1st Lien, VAR LIBOR USD	
4,706,487	3 Month+6.000%, 02/21/21 .....
	3,706,382
Traverse Midstream Partners LLC, Advance Term Loan, 1st Lien, VAR LIBOR USD	
6,350,354	3 Month+4.000%, 09/27/24 .....
	6,112,295
	<u>9,818,677</u>
<b>FOOD &amp; BEVERAGE - 2.0%</b>	
Albertson's LLC, Term Loan B5, 1st Lien, VAR LIBOR USD	
3,275,418	3 Month+3.000%, 12/21/22 .....
	3,153,949
Albertson's LLC, Term Loan B6, 1st Lien, VAR LIBOR USD	
4,553,769	3 Month+3.000%, 06/22/23 .....
	4,337,465
	<u>7,491,414</u>
<b>GAMING/LEISURE - 6.0%</b>	
Aristocrat Leisure, Cov-Lite, Term Loan B3, 1st Lien, VAR LIBOR USD	
5,006,540	3 Month+1.750%, 10/19/24 .....
	4,819,571
Crown Finance US Inc., Initial Dollar Term Loan, VAR LIBOR USD	
6,892,104	1 Month+2.500%, 02/28/25 .....
	6,541,744
Golden Nugget Inc., Term Loan B, 1st Lien, VAR LIBOR USD	
6,598,323	3 Month+2.750%, 10/04/23 .....
	6,373,287
Station Casinos LLC, Term Facility Loan B, 1st Lien, VAR LIBOR USD	
2,480,750	1 Month+2.500%, 06/08/23 .....
	2,389,495
VICI Properties 1 LLC, Term Loan B, 1st Lien, VAR LIBOR USD	
3,000,000	1 Month+2.000%, 12/20/24 .....
	2,874,855
	<u>22,998,952</u>
<b>HEALTHCARE - 5.0%</b>	
Envision Healthcare Corp., Cov-Lite, Term Loan, 1st Lien, VAR LIBOR USD	
10,000,000	3 Month+3.750%, 10/10/25 (b) .....
	9,346,400
Grifols Worldwide Operations Limited, Term Loan B, 1st Lien, VAR LIBOR USD	
1,369,017	1 Week+2.250%, 01/31/25 (b) .....
	1,318,438

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2018

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (continued)</b>	
<b>HEALTHCARE (continued)</b>	
	Valeant Pharmaceuticals International Inc., Initial Term Loan, 1st Lien, VAR LIBOR USD
8,761,218	1 Month+3.000%, 06/02/25 .....
	8,392,546
	<u>19,057,384</u>
<b>INFORMATION TECHNOLOGY - 7.2%</b>	
	Avaya Inc., Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD
2,541,728	1 Month+4.250%, 12/15/24 .....
	2,460,711
	Riverbed Technology Inc., Term Loan, 1st Lien, VAR LIBOR USD
4,131,822	1 Month+3.250%, 04/24/22 .....
	3,908,249
	Solera LLC, Dollar Term Loan, 1st Lien, VAR LIBOR USD
4,901,438	1 Month+2.750%, 03/03/23 .....
	4,638,010
	SS&C Technologies Holdings, Term Loan B3, 1st Lien, VAR LIBOR USD
8,806,616	1 Month+2.250%, 04/16/25 .....
	8,334,846
	SS&C Technologies Holdings, Term Loan B4, 1st Lien, VAR LIBOR USD
3,340,469	1 Month+2.250%, 04/16/25 .....
	3,161,521
	Vertafore Inc., Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD
5,000,000	3 Month+3.250%, 06/04/25 .....
	4,767,175
	<u>27,270,512</u>
<b>INSURANCE - 3.7%</b>	
	Alliant Holdings Intermediate LLC, Term Loan B, 1st Lien, VAR LIBOR USD
5,443,591	1 Month+3.000%, 05/09/25 .....
	5,160,851
	Hub International Ltd., Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD
3,185,173	3 Month+3.000%, 04/25/25 .....
	3,016,470
	MPH Acquisition Holdings LLC, Term Loan, 1st Lien, VAR LIBOR USD
6,155,412	3 Month+2.750%, 06/07/23 (b) .....
	5,851,919
	<u>14,029,240</u>
<b>MACHINERY - 0.6%</b>	
	Gardner Denver Inc., Dollar Term Loan B1, VAR LIBOR USD
2,409,767	1 Month+2.750%, 07/30/24 (b) .....
	2,333,341
<b>MEDIA/TELECOMMUNICATIONS - 16.9%</b>	
	Charter Communications Operating LLC, Term Loan B, 1st Lien, VAR LIBOR USD
3,989,924	1 Month+2.000%, 04/30/25 .....
	3,837,829

Principal Amount (\$)	Value (\$)
<b>MEDIA/TELECOMMUNICATIONS (continued)</b>	
	Coral-US Co-Borrower LLC, Additional Term Loan B4, VAR LIBOR USD
4,250,000	1 Month+3.250%, 01/30/26 .....
	4,116,422
	iHeartCommunications Inc., Term Loan D, 1st Lien, VAR LIBOR USD
18,621,429	1 Month+6.750%, 01/22/19 (c) .....
	12,595,348
	iHeartCommunications Inc., Term Loan E, 1st Lien, VAR LIBOR USD
4,000,000	1 Month+6.500%, 07/30/19 (c) .....
	2,704,280
	Radiate Holdco LLC, Term Loan, 1st Lien, VAR LIBOR USD
4,432,331	1 Month+3.000%, 02/01/24 .....
	4,195,135
	SBA Senior Finance II LLC, Term Loan, 1st Lien, VAR LIBOR USD
7,653,167	1 Month+2.000%, 04/11/25 .....
	7,359,018
	Unitymedia Finance LLC, Facility Loan D, 1st Lien, VAR LIBOR USD
3,000,000	1 Month+2.250%, 01/15/26 .....
	2,904,990
	Univision Communications Inc., 2017 Replacement Repriced Term Loan, 1st Lien, VAR LIBOR USD
10,198,317	1 Month+2.750%, 03/15/24 .....
	9,280,468
	UPC Financing Partnership, Term Loan, 1st Lien, VAR LIBOR USD
5,000,000	1 Month+2.500%, 01/15/26 .....
	4,771,250
	Virgin Media Bristol LLC, Term Loan K, 1st Lien, VAR LIBOR USD
7,900,000	1 Month+2.500%, 01/15/26 .....
	7,503,064
	Ziggo Secured Finance Partnership, Facility Term Loan E, 1st Lien, VAR LIBOR USD
5,350,000	1 Month+2.500%, 04/15/25 .....
	5,054,921
	<u>64,322,725</u>
<b>METALS &amp; MINING - 0.4%</b>	
	BWay Holding Company, Term Loan, 1st Lien, VAR LIBOR USD
1,462,369	3 Month+3.250%, 04/03/24 .....
	1,380,111
<b>REAL ESTATE - 1.7%</b>	
	Lightstone Holdco LLC, Refinancing Term Loan B, VAR LIBOR USD
6,643,198	3 Month+3.750%, 01/30/24 .....
	6,305,525
	Lightstone Holdco LLC, Refinancing Term Loan C, VAR LIBOR USD
356,802	3 Month+3.750%, 01/30/24 .....
	338,665
	<u>6,644,190</u>

# INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2018

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
<b>US Senior Loans (continued)</b>	
<b>RETAIL - 8.6%</b>	
Academy Ltd., Term Loan, 1st Lien, VAR LIBOR USD	
5,650,416 1 Month+4.000%, 07/01/22 .....	3,797,560
Belk Inc., Closing Date Term Loan, 1st Lien, VAR LIBOR USD	
3,151,591 1 Month+4.750%, 12/12/22 .....	2,557,169
Harbor Freight Tools USA Inc., Term Loan B, 1st Lien, VAR LIBOR USD	
4,944,733 1 Month+2.500%, 08/18/23 .....	4,683,601
J. Crew Group Inc., Term Loan, 1st Lien, VAR LIBOR USD	
3,483,009 1 Month+3.220%, 03/05/21 (b) .....	2,761,243
Jo-Ann Stores LLC, Term Loan, 2nd Lien, VAR LIBOR USD	
1,604,167 1 Month+9.250%, 05/21/24 .....	1,558,047
Neiman Marcus Group Ltd. LLC, Other Term Loan, 1st Lien, VAR LIBOR USD	
6,038,362 1 Month+3.250%, 10/25/20 .....	5,123,188
Petco Animal Supplies Inc., Term Loan, 1st Lien, VAR LIBOR USD	
6,126,718 3 Month+3.250%, 01/26/23 .....	4,530,371
PetSmart Inc., Term Loan B2, 1st Lien, VAR LIBOR USD	
8,814,766 1 Month+3.000%, 03/11/22 .....	6,995,134
Toys 'R' US-Delaware Inc., Term Loan B4, 1st Lien, 04/24/20 (c) .....	838,107
	<u>32,844,420</u>
<b>SECURITIES &amp; TRUSTS - 1.3%</b>	
Titan Acquisition Ltd., Term Loan, 1st Lien, VAR LIBOR USD	
5,446,281 1 Month+3.000%, 03/28/25 (b) .....	<u>5,010,579</u>
<b>SERVICE - 8.0%</b>	
Acosta Inc., Term Loan B1, 1st Lien, VAR LIBOR USD	
4,603,931 1 Month+3.250%, 09/26/21 .....	2,828,264
Advantage Sales & Marketing Inc., Cov-Lite, Incremental Term Loan B2, 1st Lien, VAR LIBOR USD	
1,028,537 1 Month+3.250%, 07/23/21 .....	914,540
Allied Universal Holdco LLC, Term Loan, 1st Lien, VAR LIBOR USD	
1,066,649 3 Month+3.750%, 07/28/22 (b) .....	1,014,916
Change Healthcare Holdings Inc., Closing Date Term Loan, 1st Lien, VAR LIBOR USD	
1,579,534 1 Month+2.750%, 03/01/24 (b) .....	1,503,187
First Data Corp., 2022D New Dollar Term Loan, VAR LIBOR USD	
5,055,053 1 Month+2.000%, 07/08/22 .....	4,869,432

Principal Amount (\$)	Value (\$)
<b>SERVICE (continued)</b>	
First Data Corp., 2024A New Dollar Term Loan, VAR LIBOR USD	
7,084,903 1 Month+2.000%, 04/26/24 (b) .....	6,785,566
Nielsen Finance LLC, Cov-Lite, Term Loan B4, 1st Lien, VAR LIBOR USD	
5,982,278 3 Month+2.000%, 10/04/23 .....	5,823,389
Refinitiv/Thomson Reuters, Cov-Lite, Term Loan B, 1st Lien, VAR LIBOR USD	
2,000,000 3 Month+3.750%, 10/01/25 .....	1,912,500
Weight Watchers International Inc., Term Loan, 1st Lien, VAR LIBOR USD	
4,750,000 1 Month+4.750%, 11/29/24 .....	4,708,438
	<u>30,360,232</u>
<b>TRANSPORTATION - 1.3%</b>	
XPO Logistics Inc., Term Loan B, 1st Lien, VAR LIBOR USD	
5,000,000 1 Month+2.000%, 02/24/25 .....	<u>4,800,000</u>
<b>UTILITIES - 3.4%</b>	
Calpine Corp., Term Loan, 1st Lien, VAR LIBOR USD	
5,858,914 3 Month+2.500%, 01/15/24 .....	5,581,992
Texas Competitive Electric Holdings Company LLC, Escrow Loan (Extending) (d)(e) .....	65,000
26,000,000 Vistra Operations Company LLC, Term Loan, 1st Lien, VAR LIBOR USD	
7,388,839 1 Month+2.000%, 08/04/23 .....	7,141,498
	<u>12,788,490</u>
Total US Senior Loans (Cost \$350,188,667) .....	<u>323,298,894</u>
<b>Foreign Domiciled Senior Loans (a) - 1.9%</b>	
<b>UNITED KINGDOM - 1.9%</b>	
<b>USD</b>	
Misys Ltd., Dollar Term Loan, VAR LIBOR USD	
7,687,785 3 Month+3.500%, 06/13/24 .....	7,185,350
Total Foreign Domiciled Senior Loans (Cost \$7,692,643) .....	<u>7,185,350</u>
<b>Shares</b>	
<b>Common Stock - 1.1%</b>	
<b>UNITED STATES - 1.1%</b>	
<b>Information Technology - 1.1%</b>	
295,607 Avaya Holdings Corp. * .....	4,304,038
Total Common Stocks (Cost \$4,687,676) .....	<u>4,304,038</u>

# INVESTMENT PORTFOLIO (unaudited) (concluded)

As of December 31, 2018

Highland/iBoxx Senior Loan ETF

Units	Value (\$)
<b>Warrants - 0.1%</b>	
46,125 Cumulus Media, Expires 05/31/38* (Cost \$590,183) .....	415,125
Total Warrants (Cost \$590,183) .....	415,125
<b>Rights - 0.1%</b>	
<b>UNITED STATES - 0.1%</b>	
431,587 Vistra Energy *(e) .....	319,374
Total Rights (Cost \$1,161,723) .....	319,374
<b>Shares</b>	
<b>Cash Equivalent - 5.7%</b>	
21,776,628 State Street Institutional US Government Money Market Fund, Premier Class, 2.020% (f) (Cost \$21,776,628) .....	21,776,628
Total Cash Equivalents (Cost \$21,776,628) .....	21,776,628
<b>Total Investments - 93.8%</b> .....	<b>357,299,409</b>
(Cost \$386,097,520)	
<b>Other Assets &amp; Liabilities, Net - 6.2%</b> .....	<b>23,679,081</b>
<b>Net Assets - 100.0%</b> .....	<b>380,978,490</b>

LIBOR London Interbank Offered Rate  
 LLC Limited Liability Company  
 Ltd Limited  
 USD United States Dollars  
 VAR Variable Rate

Foreign Domiciled Senior Loans Industry Concentration Table: (% of Net Assets)	
Information Technology	1.9%
	1.9%

- (a) Senior loans (also called bank loans, leveraged loans, or floating rate loans) in which the Highland/iBoxx Senior Loan ETF (the "Fund") invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread. (Unless otherwise denoted as a fixed rate loan, all senior loans carry a variable interest rate.) These base lending rates are generally (i) the Prime Rate offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Inter-Bank Offered Rate ("LIBOR") or (iii) the Certificate of Deposit rate. As of December 31, 2018, the LIBOR USD 1 Week, LIBOR USD 1 Month and LIBOR USD 3 Month rates were 1.205%, 1.232% and 1.334%, respectively. Senior loans, while exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy and the actual remaining maturity may be substantially less than the stated maturity shown.
- (b) All or a portion of this position has not settled. Full contract rates do not take effect until settlement date.
- (c) The issuer is, or is in danger of being, in default of its payment obligation. Full income is not being accrued, although adequate protection payments are being made in certain cases.
- (d) Represents value held in escrow pending future events. No interest is being accrued.
- (e) No expiration date.
- (f) The rate shown is the 7-day effective yield as of December 31, 2018.
- \* Non-income producing security.



# STATEMENT OF ASSETS AND LIABILITIES

As of December 31, 2018 (unaudited)

Highland/iBoxx Senior Loan ETF

(\$)

<b>Assets:</b>	
Total Investments, at value (cost \$364,320,892) .....	335,522,781
Cash Equivalent (cost \$21,776,628) .....	21,776,628
Cash .....	26,490,299
Receivable for:	
Investments sold .....	22,738,030
Fund shares sold .....	8,579,547
Dividends and interest .....	1,398,713
Prepaid expenses .....	50,917
Total assets .....	<u>416,556,915</u>
<b>Liabilities:</b>	
Payable for:	
Fund shares redeemed .....	24,501,737
Investments purchased .....	10,679,922
Investment advisory fees (Note 4) .....	88,782
Administration fees (Note 4) .....	23,460
Trustees' fees (Note 4) .....	19,908
Audit fees .....	14,130
Accrued expenses and other liabilities .....	250,486
Total liabilities .....	<u>35,578,425</u>
<b>Net Assets</b> .....	<b><u>380,978,490</u></b>
<b>Net Assets consist of:</b>	
Paid-in capital .....	440,216,105
Total distributable loss .....	(59,237,615)
<b>Net Assets</b> .....	<b><u>380,978,490</u></b>
Shares outstanding (unlimited authorization — no par value) .....	22,200,000
Net asset value, per share (Net assets/shares outstanding) .....	17.16

# STATEMENT OF OPERATIONS

For the Six-Month Period Ended December 31, 2018 (unaudited)

Highland/iBoxx Senior Loan ETF

	(\$)
<b>Investment Income:</b>	
Interest income .....	14,574,763
Total investment income .....	<u>14,574,763</u>
<b>Expenses:</b>	
Investment advisory fees (Note 4) .....	1,238,000
Administration fees (Note 4) .....	197,730
Trustees' fees (Note 4) .....	48,059
Licensing fees .....	89,350
Audit fees .....	84,735
Legal fees .....	73,006
Printing fees .....	62,497
Custodian fees .....	45,323
Pricing fees .....	43,384
Registration fees .....	11,202
Transfer agent fees .....	7,407
Other .....	<u>68,093</u>
Total operating expenses .....	<u>1,968,786</u>
Fees and expenses waived by Investment Adviser (Note 4) .....	<u>(455,707)</u>
Net operating expenses .....	<u>1,513,079</u>
Net investment income .....	<u>13,061,684</u>
<b>Net Realized and Unrealized Gain (Loss) on Investments</b>	
Net realized loss on investments .....	(7,249,568)
Net change in unrealized depreciation on investments .....	<u>(17,102,300)</u>
Net realized and unrealized loss on investments .....	<u>(24,351,868)</u>
Net decrease in net assets resulting from operations .....	<u>(11,290,184)</u>

# STATEMENTS OF CHANGES IN NET ASSETS

## Highland/iBoxx Senior Loan ETF

	Six Months Ended December 31, 2018 (unaudited) (\$)	Year Ended June 30, 2018 (\$)
<b>Increase (Decrease) in Net Assets:</b>		
<b>Operations:</b>		
Net investment income .....	13,061,684	26,385,761
Net realized loss on investments .....	(7,249,568)	(3,214,760)
Net change in unrealized (depreciation) on investments .....	(17,102,300)	(5,518,945)
Net increase (decrease) in net assets resulting from operations .....	<u>(11,290,184)</u>	<u>17,652,056</u>
Distributions <sup>(1)</sup> .....	(12,984,168)	(26,385,761)
Return of capital .....	—	(191,058)
Total distributions .....	<u>(12,984,168)</u>	<u>(26,576,819)</u>
<b>Share Transactions</b>		
Subscriptions .....	191,228,617	287,221,071
Redemptions .....	(385,230,056)	(241,551,887)
Net increase (decrease) from share transactions .....	<u>(194,001,439)</u>	<u>45,669,184</u>
Total increase (decrease) in net assets .....	<u>(218,275,791)</u>	<u>36,744,421</u>
<b>Net Assets:</b>		
Beginning of period .....	<u>599,254,281</u>	<u>562,509,860</u>
End of period <sup>(2)</sup> .....	<u>380,978,490</u>	<u>599,254,281</u>
<b>Changes in Shares</b>		
Subscriptions .....	10,600,000	15,700,000
Redemptions .....	(21,500,000)	(13,200,000)
Net increase (decrease) .....	<u>(10,900,000)</u>	<u>2,500,000</u>

(1) Current year presentation of distributions conforms with S-X Disclosure Simplification. Prior year distributions have been consolidated to conform with S-X Disclosure Simplification.

(2) Includes distributions in excess of net investment income of \$0 as of the year ended June 30, 2018. In August 2018, the SEC eliminated the requirement to disclose undistributed net investment income in 2018 (See Note 8).

# FINANCIAL HIGHLIGHTS

Highland/iBoxx Senior Loan ETF

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

	Six Months Ended 12/31/18 (unaudited)	For the Years Ended June 30,				
		2018	2017	2016	2015	2014
<b>Net Asset Value, Beginning of Period/Year</b>	\$ 18.10	\$ 18.38	\$ 18.37	\$ 19.19	\$ 19.94	\$ 19.93
<b>Income from Investment Operations:</b>						
Net investment income <sup>(a)</sup>	0.43	0.83	0.86	0.81	0.76	0.93
Net realized and unrealized gain (loss)	(0.93)	(0.27)	0.01	(0.82)	(0.75)	0.08
Total from investment operations	(0.50)	0.56	0.87	(0.01)	0.01	1.01
<b>Less Distributions Declared to Shareholders:</b>						
From net investment income	(0.44)	(0.83)	(0.86)	(0.81)	(0.76)	(0.93)
From net realized gains	—	—	—	—	—	(0.06)
From return of capital	—	(0.01)	— <sup>(b)</sup>	—	— <sup>(b)</sup>	(0.01)
Total distributions declared to shareholders	(0.44)	(0.84)	(0.86)	(0.81)	(0.76)	(1.00)
<b>Net Asset Value, End of Period/Year</b>	\$ 17.16	\$ 18.10	\$ 18.38	\$ 18.37	\$ 19.19	\$ 19.94
Market Price, end of period/year	\$ 17.18	\$ 18.09	\$ 18.39	\$ 18.38	\$ 19.23	\$ 19.93
Total return <sup>(c)</sup>	(2.85)% <sup>(d)</sup>	3.11%	4.78%	0.02%	0.09%	5.19%
<b>Ratios to Average Net Assets/Supplemental Data:</b>						
Net assets, end of period/year (000s)	\$380,978	\$599,254	\$562,510	\$391,293	\$324,371	\$ 199,367
Gross operating expenses <sup>(g)</sup>	0.72% <sup>(e)</sup>	0.73%	0.74%	0.77%	0.73%	0.92%
Net investment income	4.75% <sup>(e)</sup>	4.56%	4.62%	4.39%	3.90%	4.68%
Portfolio turnover rate	41% <sup>(f)</sup>	126%	115%	51%	9%	35%

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

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

(c) Total return is at net asset value assuming all distributions are reinvested. For periods with waivers/reimbursements, had the Fund's Investment Adviser not waived or reimbursed a portion of expenses, total return would have been reduced.

(d) Total return is for the period indicated and has not been annualized.

(e) Annualized.

(f) Not annualized.

(g) Supplemental expense ratios are shown below:

	Six Months Ended 12/31/18 (unaudited)	For the Years Ended June 30,				
		2018	2017	2016	2015	2014
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.55% <sup>(e)</sup>	0.55%	0.55%	0.55%	0.55%	0.55%

Amounts designated as “—” are \$0.

## Note 1. Organization

Highland Funds I (the "Trust") was organized as a Delaware statutory trust on February 28, 2006. The Trust is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company with five portfolios that are currently being offered, each of which is non-diversified. The financial statements herein are those of the Highland/iBoxx Senior Loan ETF (the "Fund"). The Fund is a non-diversified exchange-traded fund ("ETF"). The financial statements of the remaining funds of the Trust are presented separately.

## Investment Objective

The investment objective of the Fund is to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Markit iBoxx USD Liquid Leveraged Loan Index (the "Underlying Index").

## Fund Shares

Shares of the Fund are listed and traded on NASDAQ, Inc. Market prices for the shares of the Fund may be different from their net asset value ("NAV"). The Fund issues and redeems shares on a continuous basis at NAV only to authorized participants who have entered into agreements with the Fund's distributor ("Authorized Participants") in exchange for the deposit or delivery of a basket of assets (securities and/or cash) in large blocks, known as Creation Units, each of which comprises 100,000 shares for the Fund. Once created, shares will trade in a secondary market at market prices that change throughout the day in amounts less than a Creation Unit.

## Creation Units

Except when aggregated in Creation Units, shares are not redeemable securities of the Fund. Creation Units of the Fund may only be purchased or redeemed directly from the Fund by Authorized Participants. An Authorized Participant is either (i) a broker-dealer or other participant in the clearing process through the Continuous Net Settlement System of the National Securities Clearing Corporation or (ii) a Depository Trust Company ("DTC") participant and, in each case, must have executed an Authorized Participant Agreement with the Fund's distributor. Most retail investors will not qualify as Authorized Participants or have the resources to buy and sell whole Creation Units. Therefore, they will be unable to purchase or redeem the shares directly from the Fund. Rather, most retail investors will purchase shares in the secondary market with the assistance of a broker and will be subject to customary brokerage commissions or fees.

## Note 2. Significant Accounting Policies

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

## Use of Estimates

The Fund is an investment company that follows the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies. The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

## Valuation of Investments

In computing the Fund's net assets attributable to shares, securities with readily available market quotations on the New York Stock Exchange, National Association of Securities Dealers Automatic Quotation System ("NASDAQ") or other nationally recognized exchange use the closing quotations on the respective exchange for valuation of those securities. Securities for which there are no readily available market quotation will be valued pursuant to policies adopted by the Fund's Board of Trustees (the "Board"). Typically, such securities will be valued at the mean between the most recently quoted bid and ask prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day may be priced by an independent pricing service. Investments in mutual funds are valued at their respective net asset values as determined by those mutual funds each business day. Generally, the Fund's loan and bond positions are not traded on exchanges and consequently are valued based on a mean of the bid and ask price from the third-party pricing services or broker-dealer sources that Highland Capital Management Fund Advisors, L.P. (the "Investment Adviser") has determined generally have the capability to provide appropriate pricing services and have been approved by the Board.

Securities for which market quotations are not readily available and for which the Fund has determined the price received from a pricing service or broker-dealer is "stale" or otherwise does not represent fair value (such as when events materially affecting the value of securities occur between the time when market price is determined and calculation of the Fund's NAV), will be valued by the Fund at fair value, as determined by the Board or its designee in good faith in accordance with procedures approved by the Board, taking into account factors reasonably determined to

December 31, 2018

Highland/iBoxx Senior Loan ETF

be relevant, including, among other things: (i) the fundamental analytical data relating to the investment; (ii) the nature and duration of restrictions on disposition of the securities; and (iii) an evaluation of the forces that influence the market in which these securities are purchased and sold. In these cases, the Fund's NAV will reflect the affected portfolio securities' fair value as determined in the judgment of the Board or its designee instead of being determined by the market. Determination of fair value is uncertain because it involves subjective judgments and estimates.

There can be no assurance that the Fund's valuation of a security will not differ from the amount that it realizes upon the sale of such security. Those differences could have a material impact on the Fund.

The NAV shown in the Fund's financial statements may vary from the NAV published by the Fund as of the end of the reporting period because portfolio securities transactions are accounted for on the trade date (rather than the day following the trade date) for financial statement purposes.

## Fair Value Measurements

The Fund has performed an analysis of all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

- Level 1* — Quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement;
- Level 2* — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active, but are valued based on executed trades; broker quotations that constitute an executable price; and alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 inputs are either directly or indirectly observable for the asset in connection with market data at the measurement date; and
- Level 3* — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. In certain cases, investments classified within Level 3 may include securities for which the Fund has obtained indicative quotes from broker-dealers that do not necessarily

represent prices the broker may be willing to trade on, as such quotes can be subject to material management judgment. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The Investment Adviser has established policies and procedures, as described above and approved by the Board, to ensure that valuation methodologies for investments and financial instruments that are categorized within all levels of the fair value hierarchy are fair and consistent. A Pricing Committee has been established to provide oversight of the valuation policies, processes and procedures, and is comprised of personnel from the Investment Adviser. The Pricing Committee meets monthly to review the proposed valuations for investments and financial instruments and is responsible for evaluating the overall fairness and consistent application of established policies.

As of December 31, 2018, the Fund's investments consisted mainly of senior loans. The fair value of the Fund's loans is generally based on quotes received from brokers or independent pricing services. Loans with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Loans that are priced using quotes derived from implied values, indicative bids, or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

At the end of each calendar quarter, management evaluates the Level 2 and 3 assets and liabilities for changes in liquidity, including but not limited to: whether a broker is willing to execute at the quoted price, the depth and consistency of prices from third party services, and the existence of contemporaneous, observable trades in the market. Additionally, management evaluates the Level 1 and 2 assets and liabilities on a quarterly basis for changes in listings or delistings on national exchanges.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Fund's investments may fluctuate from period to period. Additionally, the fair value of investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values the Fund may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise be less liquid than publicly traded securities.

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

December 31, 2018

Highland/iBoxx Senior Loan ETF

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of the levels are recognized at the value of the security at the end of the period. A summary of the levels of inputs used to value the Fund's assets as of December 31, 2018 is as follows:

	Total Market Value at 12/31/18	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs
<b>Highland/iBoxx Senior Loan ETF</b>				
<b>Assets</b>				
US Senior Loans*	\$323,298,894	\$ —	\$323,298,894	\$ —
Foreign Domiciled Senior Loans*	7,185,350	—	7,185,350	—
Common Stock*	4,304,038	4,304,038	—	—
Warrants*	415,125	—	415,125	—
Rights*	319,374	—	319,374	—
Cash Equivalent	21,776,628	21,776,628	—	—
<b>Total</b>	<b>\$357,299,409</b>	<b>\$26,080,666</b>	<b>\$331,218,743</b>	<b>\$ —</b>

\* Please refer to the Investment Portfolio for industry/country breakout.

For the six-month period ended December 31, 2018, there were no transfers within the Fund between Level 1, Level 2 and/or Level 3.

### Security Transactions

Security transactions are accounted for on the trade date. Realized gains/(losses) on investments sold are recorded on the basis of the specific identification method for both financial statement and U.S. federal income tax purposes taking into account any foreign taxes withheld.

### Cash and Cash Equivalents

The Fund considers liquid assets deposited with a bank, and certain short term debt instruments with original maturities of 3 months or less to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay Fund expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value. The value of cash equivalents denominated in foreign currencies is determined by converting to U.S. dollars on the date of the Statement of Assets and Liabilities.

### Foreign Currency

Accounting records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rates using the current 4:00 PM London Time Spot Rate. Fluctuations in the value of the foreign currencies and other assets and liabilities resulting from changes in exchange rates, between trade and settlement dates on securities transactions and between the accrual and payment dates on dividends, interest income and foreign withholding taxes, are recorded as unrealized

foreign currency gains/(losses). Realized gains/(losses) and unrealized appreciation/(depreciation) on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated in the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

### Income Recognition

Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums of debt instruments.

### U.S. Federal Income Tax Status

The Fund intends to continue to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended, and will distribute substantially all of its taxable income and gains, if any, for the tax year, and as such will not be subject to U.S. federal income taxes. In addition, the Fund intends to distribute, in each calendar year, all of its net investment income, capital gains and certain other amounts, if any, such that it should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded.

Management has analyzed the Fund's tax positions taken on federal income tax returns for all open tax years (current and prior tax year), and has concluded that no provision for federal income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

December 31, 2018

Highland/iBoxx Senior Loan ETF

## Distributions to Shareholders

The Fund intends to pay distributions from net investment income, if any, on a monthly basis. The Fund intends to pay net realized capital gains, if any, on an annual basis.

## Note 3. U.S. Federal Tax Information

The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. GAAP. As a result, net investment income (loss) and net realized gain/(loss) on investment transactions for a reporting period may differ significantly from distributions during such period.

Reclassifications are made to the Fund's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations.

For the year ended June 30, 2018, permanent differences chiefly resulting from return of capital, were identified and reclassified among the components of the Fund's net assets as follows:

	Undistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
Highland/iBoxx Senior Loan ETF	\$191,058	\$—	\$(191,058)

These reclassifications have no effect on net asset value per share.

The tax character of distributions paid during the prior two fiscal years ended June 30, was as follows:

	Distributions paid from:		
	Ordinary Income*	Long-Term Capital Gains	Return of Capital
Highland/iBoxx Senior Loan ETF			
2018	\$26,385,761	\$—	\$ 191,058
2017	20,889,862	—	13,013

\* For tax purposes, short-term capital gains distributions, if any, are considered ordinary income distributions.

As of June 30, 2018, the Fund's most recent tax year end, the components of distributable earnings on a tax basis were as follows:

	Net Unrealized Capital Loss Carryforward	Undistributed Appreciation/ (Depreciation)	Undistributed Ordinary Income	Undistributed Long-Term Capital Gains
Highland/iBoxx Senior Loan ETF	\$(22,838,478)	\$(12,124,788)	\$—	\$—

Under the Regulated Investment Company Modernization Act of 2010, Fund is permitted to carry forward capital losses

incurred in taxable years beginning after December 22, 2010 for an unlimited period. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law. Losses carried forward under these new provisions as of June 30, 2018 are as follows:

	Short-Term Loss	Long-Term Loss	Total
Highland/iBoxx Senior Loan ETF	\$13,650,797	\$9,187,681	\$22,838,478

For federal income tax purposes, the cost of securities owned at December 31, 2018, and the net realized gains or losses on securities sold for the period, were different from amounts reported for financial reporting purposes, primarily due to wash sales which cannot be used for federal income tax purposes in the current period and have been deferred for use in future periods.

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

	Gross Appreciation	Gross Depreciation	Net Depreciation	Cost
Highland/iBoxx Senior Loan ETF	\$88,832	\$(28,886,943)	\$(28,798,111)	\$386,097,520

## Note 4. Advisory, Administration, Service and Distribution, Trustee, and Other Fees

### Investment Advisory Fees

The Investment Adviser receives from the Fund monthly investment advisory fees, computed and accrued daily based on the Average Daily Managed Assets of the Fund, at the annual rate of 0.45%.

"Average Daily Managed Assets" of a Fund means the average daily value of the total assets of the Fund less all accrued liabilities of the Fund (other than the aggregate amount of any outstanding borrowings constituting financial leverage).

### Administration Fees

SEI Investments Global Funds Services (the "Administrator") serves as the Fund's Administrator pursuant to an Administration Agreement. For its services under the Administration Agreement, the Administrator receives a monthly administration fee from the Fund, calculated and assessed in arrears based on the aggregate net assets of the Fund, subject to an annual minimum fee. For the six-month period ended December 31, 2018, the Fund paid \$197,730 for these services.



# NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

December 31, 2018

Highland/iBoxx Senior Loan ETF

## Service and Distribution Fees

SEI Investments Distribution Co. (the “Distributor”) serves as the Fund’s underwriter and distributor of shares pursuant to a Distribution Agreement. Under the Distribution Agreement, the Distributor, as agent, receives orders to create and redeem shares in Creation Unit Aggregations and transmits such orders to the Fund’s custodian and transfer agent. The Distributor has no obligation to sell any specific quantity of Fund shares. The Distributor bears the following costs and expenses relating to the distribution of shares: (i) the costs of processing and maintaining records of creations of Creation Units; (ii) all cost of maintaining the records required of a registered broker/dealer; (iii) the expenses of maintaining its registration or qualification as a dealer or broker under Federal or state laws; (iv) filing fees; and (v) all other expenses incurred in connection with the distribution services as contemplated in the Distribution Agreement. The Distributor does not maintain any secondary market in Fund shares.

## Expense Limits and Fee Reimbursements

The Investment Adviser has contractually agreed to limit the total annual operating expenses (exclusive of taxes, brokerage commissions and other transaction costs, acquired fund fees and expenses and extraordinary expenses (collectively, the “Excluded Expenses”)) of the Fund to 0.55% of average daily net assets of the Fund (the “Expense Cap”). The Expense Cap will continue through at least October 31, 2019, and may not be terminated prior to this date without the action or consent of the Board. Under the Expense Cap, the Investment Adviser may recoup waived and/or reimbursed amounts with respect to the Fund within thirty-six months of the date such amounts were waived or reimbursed, provided the Fund’s total annual operating expenses, including such recoupment, do not exceed the Expense Cap in effect at the time of such waiver/reimbursement.

As of December 31, 2018, pursuant to the above, fees previously waived and reimbursed by the Investment Adviser that may be subject to possible future reimbursement to the Investment Adviser were as follows:

	Expiring Fiscal Years Ended June 30,		
	2019	2020	2021
Highland/iBoxx Senior Loan ETF	\$662,390	\$866,942	\$1,038,447

During the six-months ended December 31, 2018, \$262,996 of fees previously waived and or reimbursed by the Investment Adviser that were eligible for recoupment expired.

## Fees Paid to Officers and Trustees

Each Trustee who is not an “interested person” of the Fund as defined in the 1940 Act (the “Independent Trustees”) receives an annual retainer of \$150,000 payable in quarterly installments and allocated among each portfolio in the Highland

Fund Complex based on relative net assets. The “Highland Fund Complex” consists of all of the registered investment companies and NexPoint Capital, Inc., a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act, which are each advised by the Investment Adviser or its affiliated advisers as of the date of this report. Prior to December 8, 2017, Mr. Powell was treated as an “interested person” of the Fund for all purposes other than compensation and the Trust’s Code of Ethics. The Fund pays no compensation to its officers, all of whom are employees of the Investment Adviser.

## Expedited Settlement Agreement

On June 15, 2017, the Fund entered into an Expedited Settlement Agreement with a major dealer in the floating rate loan market, pursuant to which the Fund has the right to designate certain loans it sells to the dealer to settle on or prior to three days from the trade date in exchange for a quarterly fee (the “Expedited Settlement Agreement”). The Expedited Settlement Agreement is designed to reduce settlement times from the standard seven days to three days for eligible loans. For the six-month period ended December 31, 2018, the Fund paid \$82,216 to the dealer as part of the Expedited Settlement Agreement.

While the Expedited Settlement Agreement is intended to provide the Fund with additional liquidity with respect to such loans, and may not represent the exclusive method of expedited settlement of such loans, no assurance can be given that the Expedited Settlement Agreement or other methods for expediting settlements will provide the Fund with sufficient liquidity in the event of abnormally large redemptions.

## Note 5. Portfolio Information

For the six-month period ended December 31, 2018, the cost of purchases and the proceeds from sales of the Fund’s portfolio securities amounted to the following:

	U.S. Government Securities*		Other Securities	
	Purchases	Sales	Purchases	Sales
Highland/iBoxx Senior Loan ETF	\$—	\$—	\$217,112,185	\$452,575,879

\* The Fund did not have any purchases or sales of U.S. Government Securities for the six-month period ended December 31, 2018.

## Note 6. Indemnification

Under the Trust’s organizational documents, the officers and Trustees have been granted certain indemnification rights against certain liabilities that may rise out of performance of their duties to the Fund. Additionally, in the normal course of business, the Fund may enter into contracts with service providers that contain a variety of indemnification clauses.

December 31, 2018

Highland/iBoxx Senior Loan ETF

The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated.

### Note 7. Disclosure of Significant Risks and Contingencies

#### Counterparty Risk

A counterparty (the other party to a transaction or an agreement or the party with whom a Fund executes transactions) to a transaction with a Fund may be unable or unwilling to make timely principal, interest or settlement payments, or otherwise honor its obligations.

#### Credit Risk

Investments rated below investment grade are commonly referred to as "high yield securities" or "junk securities". They are regarded as predominantly speculative with respect to the issuing company's continuing ability to meet principal and interest payments. Investments in high-yield securities may result in greater NAV fluctuation than if the Fund did not make such investments.

Corporate debt obligations, including senior loans, are subject to the risk of non-payment of scheduled interest and/or principal. Non-payment would result in a reduction of income to a Fund, a reduction in the value of the corporate debt obligation experiencing non-payment and a potential decrease in the NAV of a Fund.

#### Debt Securities and Leveraged Loans Risk

The market prices of debt securities generally fluctuate inversely with changes in interest rates so that the value of investments in such securities can be expected to decrease as interest rates rise and increase as interest rates fall. Such changes may be greater among debt securities with longer maturities. Leveraged loans are subject to the same risks typically associated with debt securities. In addition, leveraged loans, which typically hold a senior position in the capital structure of a borrower, are subject to the risk that a court could subordinate such loans to presently existing or future indebtedness or take other action detrimental to the holders of leveraged loans. Leveraged loans are also especially subject to the risk that the value of the collateral, if any, securing a loan may decline, be insufficient to meet the obligations of the borrower or be difficult to liquidate. Because loans are not ordinarily registered with the SEC or any state securities commission or listed on any securities exchange, there is usually less publicly available information about such instruments. In addition, loans may not be considered "securities" for purposes of the anti-fraud protections of the federal securities laws and, as a result, as a purchaser of these instruments, we may not be entitled to

the antifraud protections of the federal securities laws. In the course of investing in such instruments, we may come into possession of material nonpublic information and, because of prohibitions on trading in securities of issuers while in possession of such information, we may be unable to enter into a transaction in a publicly-traded security of that issuer when it would otherwise be advantageous for us to do so. Alternatively, we may choose not to receive material nonpublic information about an issuer of such loans, with the result that we may have less information about such issuers than other investors who transact in such assets.

#### Focused Investment Risk

The Fund's investments in senior loans arranged through private negotiations between a borrower and several financial institutions may expose the Fund to risks associated with the financial services industry. The financial services industry is subject to extensive government regulation, which can limit both the amounts and types of loans and other financial commitments financial services companies can make and the interest rates and fees they can charge. Profitability is largely dependent on the availability and cost of capital funds, and can fluctuate significantly when interest rates change. Because financial services companies are highly dependent on short-term interest rates, they can be adversely affected by downturns in the U.S. and foreign economies or changes in banking regulations. Losses resulting from financial difficulties of borrowers can negatively affect financial services companies.

#### Illiquid Securities Risk

The Adviser may not be able to sell illiquid securities at the price it would like or may have to sell them at a loss. Securities of non-U.S. issuers and emerging markets securities in particular, are subject to greater liquidity risk.

#### Industry Concentration Risk

Because the Fund may invest 25% or more of the value of its assets in an industry or group of industries to the extent that the Underlying Index concentrates in an industry or group of industries, the Fund's performance largely depends on the overall condition of such industry or group of industries and a Fund is susceptible to economic, political and regulatory risks or other occurrences associated with that industry or group of industries.

#### Non-Diversification Risk

Due to the nature of the Fund's investment strategy and its non-diversified status, it is possible that a material amount of the Fund's portfolio could be invested in the securities of one or a few issuers. Investing a significant portion of the

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

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Highland/iBoxx Senior Loan ETF

Fund's portfolio in any one or a few issuers may result in the Fund's shares being more sensitive to the economic results of those few issuers.

### Non-Payment Risk

Debt securities are subject to the risk of non-payment of scheduled interest and/or principal. Non-payment would result in a reduction of income to the Fund, a reduction in the value of the obligation experiencing non-payment and a potential decrease in the Fund's NAV and the market price of the Fund's shares.

### Ongoing Monitoring Risk

On behalf of the several lenders, the agent generally will be required to administer and manage the senior loans and, with respect to collateralized senior loans, to service or monitor the collateral. Financial difficulties of agents can pose a risk to the Fund. Unless, under the terms of the loan, the Fund has direct recourse against the borrower, the Fund may have to rely on the agent or other financial intermediary to apply appropriate credit remedies against a borrower.

### Regulatory Risk

To the extent that legislation or state or federal regulators impose additional requirements or restrictions with respect to the ability of financial institutions to make loans in connection with highly leveraged transactions, the availability of Senior Loan interests for investment by the Fund may be adversely affected.

### Senior Loans Risk

The Fund's investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. As with any debt instrument, Senior Loans are generally subject to the risk of price declines and to increases in interest rates, particularly long-term rates. Senior loans are also subject to the risk that, as interest rates rise, the cost of borrowing increases, which may increase the risk of default. In addition, the interest rates of floating rate loans typically only adjust to changes in short-term interest rates; long-term interest rates can vary dramatically from short-term interest rates. Therefore, Senior Loans may not mitigate price declines in a rising long-term interest rate environment. The secondary market for loans is generally less liquid than the market for higher grade debt. Less liquidity in the secondary trading market could adversely affect the price at which the Fund could sell a loan, and could adversely affect the Fund's income. The volume and frequency of secondary market trading in such loans varies significantly over time and among loans. Although Senior Loans in which the Fund will invest will often be secured by collateral, there can be no assurance that liquidation of such collateral would satisfy the

Borrower's obligation in the event of a default or that such collateral could be readily liquidated.

### Note 8. Regulatory Matters

On August 17, 2018, the SEC adopted amendments to Regulation S-X. These changes are effective for periods after November 5, 2018. The updates to Registered Investment Companies were mainly focused on simplifying the presentation of distributable earnings by eliminating the need to present the components of distributable earnings on a book basis in the Statements of Assets and Liabilities. The update also impacted the presentation of undistributed net investment income and distribution to shareholders on the Statements of Changes in Net Assets. The amounts presented in the current Statements of Changes in Net Assets represent the aggregated total distributions of net investment income and realized capital gains, except for distributions classified as return of capital which are still presented separately. The disaggregated amounts from the prior fiscal year are broken out below if there were both distributions from net investment income and realized capital gains. Otherwise, the amount on the current Statement of Changes for the prior fiscal year end represents distributions of net investment income.

### Note 9. New Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this update shorten amortization period for certain callable debt securities held at premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities this update will be effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements and disclosures.

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 Fund's financial statements.

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In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820). The new guidance includes additions and modifications to disclosures requirements for fair value measurements. For public entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. At this time, management is currently evaluating the impact of this new guidance on the financial statements and disclosures.

### **Note 10. Subsequent Events**

Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

## ADDITIONAL INFORMATION (unaudited)

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### Additional Portfolio Information

Net asset value, or “NAV,” is the price per share at which the Fund issues and redeems shares. It is calculated in accordance with the standard formula for valuing mutual fund shares. The “Market Price” of the Fund generally is determined using the midpoint between the bid and the ask on the stock exchange on which the shares of the Fund are listed for trading, as of the time that the Fund’s NAV is calculated. The Fund’s Market Price may be at, above or below its NAV. The NAV of the Fund will fluctuate with changes in the market value of its holdings. The Market Price of the Fund will fluctuate in accordance with changes in its NAV, as well as market supply and demand. Shareholders may pay more than NAV when they buy Fund shares and receive less than NAV when they sell those shares, because shares are bought and sold at current Market Prices. Premiums or discounts are the differences (expressed as a percentage) between the NAV and Market Price of the Fund on a given day, generally at the time NAV is calculated. A premium is the amount that a Fund is trading above the reported NAV, expressed as a percentage of the NAV. A discount is the amount that a Fund is trading below the reported NAV, expressed as a percentage of the NAV. Further information regarding premiums and discounts for the Fund is available on the Fund’s website at [www.highlandfunds.com](http://www.highlandfunds.com). The Investment Adviser and its affiliates manage other accounts, including private funds and individual accounts. Although investment decisions for the Fund are made independently from those of such other accounts, the Investment Adviser may, consistent with applicable law, make investment recommendations to other clients or accounts that may be the same or different from those made to the Fund, including investments in different levels of the capital structure of a company, such as equity versus senior loans, or that involve taking contradictory positions in multiple levels of the capital structure. The Investment Adviser has adopted policies and procedures that address the allocation of investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, this may create situations where a client could be disadvantaged because of the investment activities conducted by the Investment Adviser for other client accounts. When the Fund and one or more other accounts is prepared to invest in, or desires to dispose of, the same security, available investments or opportunities for each are allocated in a manner believed by the Investment Adviser to be equitable over time. The Investment Adviser may aggregate orders, which may include orders for accounts in which the Investment Adviser or its affiliates have an interest, to purchase and sell securities to obtain favorable execution or lower brokerage commissions, to the extent permitted by applicable laws and regulations.

Although the Investment Adviser believes that, over time, the potential benefits of participating in volume transactions and negotiating lower transaction costs should benefit all participating accounts, in some cases these activities may adversely affect the price paid or received or the size of the position obtained by or disposed of for the Fund. Where trades are aggregated, the investments or proceeds, as well as the expenses incurred, will be allocated by the Investment Adviser in a manner designed to be equitable and consistent with the Investment Adviser’s fiduciary duty to the Fund and its other clients (including its duty to seek to obtain best execution of client trades).

### Disclosure of Fund Expenses

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees, and other Fund expenses. This example is intended to help you understand the ongoing costs (in dollars) of investing in your Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The example is based on an investment of \$1,000 invested at the beginning of the period and held for the six-month period July 1, 2018 through December 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.

## ADDITIONAL INFORMATION (unaudited) (continued)

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Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the second part of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	Beginning Account Value 07/01/18	Ending Account Value 12/31/2018	Annualized Expense Ratios	Expenses Paid During Period*
<b>Highland/iBoxx Senior Loan ETF</b>				
<i>Actual Fund Return</i>	\$1,000.00	\$ 971.50	0.55%	\$2.73
<i>Hypothetical</i>	\$1,000.00	\$1,022.43	0.55%	\$2.80

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

### Changes of Independent Registered Public Accounting Firms

On September 28, 2018, Highland Long/Short Equity Fund, Highland Long/Short Healthcare Fund, Highland Merger Arbitrage Fund, Highland Opportunistic Credit Fund and Highland/iBoxx Senior Loan ETF, each a series of Highland Funds I (the "Trust"), dismissed KPMG LLP ("KPMG") as the Trust's independent registered public accounting firm, effective on such date. The decision to dismiss KPMG was approved by the audit committee and by the full board of trustees of the Trust (the "Board"). On September 27, 2018, the Trust approved the appointment of PricewaterhouseCoopers LLP ("PwC") as the Trust's independent registered public accounting firm.

KPMG's audit reports on the Trust's financial statements as of and for the years ended June 30, 2018 and 2017 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During its audits of the Trust as of June 30, 2018, KPMG concluded management's review control over a certain hard-to-value security held by Opportunistic Credit Fund was not designed at an appropriate level of precision to assess the orderly nature of transactions involving the security and reasonableness and reliability of certain inputs to the fair value model for the security. In connection with this audit, KPMG advised the Trust of the need to expand significantly the scope of its audits. Although Management of the Trust initially disagreed with KPMG's position, subsequent to KPMG's dismissal Management ultimately took the position that the transactions were orderly and revised certain non-observable inputs to the fair value model for the security.

KPMG and Management individually identified a material weakness in the control environment of Highland Opportunistic

Credit Fund related to the assessment of orderly transactions and non-observable inputs used in fair valuation of a fair valued asset held.

Other than the disagreements and reportable events disclosed above, during the Trust's years ended June 30, 2018 and 2017 and the subsequent interim period through September 28, 2018, there were no: (1) disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events (as described in Item 304(a)(1)(v) of Regulation S-K). The audit committee of the Trust discussed the subject matter of these disagreements and reportable events with KPMG. The Trust has authorized KPMG to respond fully to the inquiries of PwC concerning the subject matter of these disagreements and reportable events.

During the years ended June 30, 2018 and 2017 and the subsequent interim period through September 28, 2018, neither Management, the Trust, nor anyone on its behalf, consulted PwC regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Trust, and no written report or oral advice was provided to the Trust by PwC that PwC concluded was an important factor considered by the Trust in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

### Approval of Highland/iBoxx Senior Loan ETF Advisory Agreement

The Fund has retained the Investment Adviser to manage the assets of the Fund pursuant to an investment advisory agreement between the Investment Adviser and the Fund (the "Advisory Agreement"). The Advisory Agreement has been approved by the Fund's Board of Trustees, including a majority of the Independent Trustees. The Advisory Agreement continues in effect from year-to-year, provided that such continuance is specifically approved at least annually by the vote of holders of at least a majority of the outstanding shares of the Fund or by the Board of Trustees and, in either event, by a majority of the Independent Trustees of the Fund casting votes in person at a meeting called for such purpose.

During telephonic meetings held on August 16, 2018 and August 28, 2018, the Board of Trustees gave preliminary

## ADDITIONAL INFORMATION (unaudited) (continued)

December 31, 2018

consideration to information bearing on the continuation of the Agreement for a one-year period commencing November 1, 2018 with respect to the Fund. The primary objective of the meetings was to ensure that the Trustees had the opportunity to consider matters they deemed relevant in evaluating the continuation of the Agreement, and to request any additional information they considered reasonably necessary for their deliberations.

At an in-person meeting held on September 16-17, 2018, the Board of Trustees, including the Independent Trustees, approved the continuance of the Agreement for a one-year period commencing on November 1, 2018. As part of its review process, the Board of Trustees requested, through Fund counsel and its independent legal counsel, and received from the Investment Adviser, various information and written materials in connection with meetings of the Board of Trustees, including: (1) information regarding the financial soundness of the Adviser and the profitability of the Agreement to the Investment; (2) information on the advisory and compliance personnel of the Investment Adviser, including compensation arrangements; (3) information on the internal compliance procedures of the Investment Adviser; (4) comparative information showing how the Fund's fees and operating expenses compare to those of other accounts of the Investment Adviser and comparable funds managed by unaffiliated advisers, both of which follow investment strategies similar to those of the Fund; (5) information on the investment performance of the Fund, including comparisons of the Fund's performance against that of other registered investment companies and comparable funds that follow investment strategies similar to those of the Fund; (6) information regarding brokerage and portfolio transactions; and (7) information on any legal proceedings or regulatory audits or investigations affecting the Investment Adviser. After the August 2018 meetings, the Trustees requested that the Investment Adviser provide additional information regarding various matters. In addition, the Trustees received an independent report from Morningstar Inc. ("Morningstar"), an independent source of investment company data, relating to the Fund's performance, volatility and expenses compared to the performance, volatility and expenses of a peer group determined by Morningstar to be comparable. The Trustees also relied on information provided at periodic meetings of the Board of Trustees over the course of the year. The Trustees reviewed various factors discussed in independent counsel's legal memoranda regarding their responsibilities in considering the Agreement, the detailed information provided by the Investment Adviser and other relevant information and factors. The Trustees' conclusions as to the approval of the Agreement were based on a comprehensive consideration of all information provided to the Trustees without any single factor being dispositive in and of itself. Some of the factors

Highland/iBoxx Senior Loan ETF

that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

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

**The Investment Adviser's historical performance in managing the Fund.** With respect to the Advisory Agreement, the Board of Trustees reviewed the historical performance of the Investment Adviser and the Fund's portfolio management team in managing the Fund over various time periods and reflected on previous discussions regarding matters bearing on the Investment Adviser's performance at their meetings throughout the year. With respect to the Fund, the Trustees discussed relative performance and contrasted the performance of the Fund and its portfolio management team to that of the Fund's peers, as represented by certain other registered investment companies that follow investment strategies similar to the Fund as well as the Fund's underlying index and the Fund's Morningstar peer group. The Trustees reviewed a supplemental report Morningstar provided that compares the Fund with only ETF peers that are part of the bank loan category. The Trustees also considered the quarterly tracking error reports they receive with respect to the Fund and discussed reasons for tracking error, including the fees and expenses of the Fund. Among other data relating specifically to the Fund's performance, the Board took note of Morningstar's explanatory note concerning its peer grouping analysis that, due to the small number of bank loan ETFs managed to an index, Morningstar included actively managed ETFs and open-end funds in the peer group. The Board reviewed the supplemental report Morningstar provided that compares the Fund with only ETF peers that are part of the bank loan category.

## ADDITIONAL INFORMATION (unaudited) (concluded)

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The Board also considered that the Fund had underperformed its benchmark, the Markit iBoxx USD Liquid Leveraged Loan Index, for the one-, three- and five-year periods ended June 30, 2018, that the Fund underperformed its Morningstar peer group median and category median for the three- and five-year periods ended June 30, 2018, and outperformed its Morningstar peer group median and category median for the one-year period ended June 30, 2018. The Board also took into account management's discussion of the Fund's performance and the Fund's tracking error relative to its underlying index. The Trustees concluded that the Fund's performance and other relevant factors supported the renewal of the Advisory Agreement.

**The costs of the services to be provided by the Investment Adviser and the profits to be realized by the Investment Adviser and its affiliates from their relationship with the Fund.** The Board of Trustees also gave consideration to the fees payable under the Agreement, the expenses the Investment Adviser incur in providing advisory services and the profitability to the Investment Adviser from managing the Fund, including: (1) information regarding the financial condition of the Investment Adviser; (2) information regarding the total fees and payments received by the Investment Adviser for its services and, with respect to the Investment Adviser, whether such fees are appropriate given economies of scale and other considerations; (3) comparative information showing (a) the fees payable under the Agreement versus the investment advisory fees of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund and (b) the expense ratios of the Fund versus the expense ratios of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund; and (4) information regarding the total fees and payments received and the related amounts waived and/or reimbursed by the Investment Adviser for providing administrative services with respect to the Fund under separate agreements and whether such fees are appropriate. The Trustees also considered the so-called "fall-out benefits" to the Investment Adviser with respect to the Fund, such as the reputational value of serving as Investment Adviser to the Fund, potential fees paid to the Investment Adviser's affiliates by the Fund or portfolio companies for services provided, including administrative services provided to the Fund by the Investment Adviser pursuant to separate agreements,

the benefits of scale from investment by the Fund in affiliated funds, and the benefits of research made available to the Investment Adviser by reason of brokerage commissions (if any) generated by the Fund's securities transactions. After such review, the Trustees determined that the anticipated profitability rates to the Investment Adviser with respect to the Agreement were fair and reasonable. The Trustees also took into consideration the amounts waived and/or reimbursed, if any, where expense caps or advisory fee waivers had been implemented.

**The extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of shareholders.** The Board of Trustees considered the respective asset levels of the Fund over time and historical net expenses relative to such asset levels, the information provided by the Investment Adviser relating to their costs and information comparing the fee rates charged by the Investment Adviser with fee rates charged by other unaffiliated investment advisers to their clients. The Trustees concluded that the fee structures are reasonable, and with respect to the Investment Adviser, should result in a sharing of economies of scale in view of the information provided. The Board determined to continue to review ways, and the extent to which, economies of scale might be shared between the Investment Adviser, on the one hand and shareholders of the Fund on the other. The Board also requested that the Investment Adviser consider ways in which economies of scale can be shared with Fund shareholders.

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



## IMPORTANT INFORMATION ABOUT THIS REPORT

### Investment Adviser

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

### Transfer Agent

State Street Bank and Trust Company  
One Heritage Drive, 1<sup>st</sup> Floor,  
Quincy, MA 02171

### Distributor

SEI Investments Distribution Co.  
One Freedom Valley Drive  
Oaks, PA 19456

### Custodian

State Street Bank and Trust Company  
One Lincoln Street  
Boston, MA 02111

### Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP  
2121 N. Pearl Street, Suite 2000  
Dallas, TX 75201

### Fund Counsel

K&L Gates LLP  
1 Lincoln Street  
Boston, MA 02111

This report has been prepared for shareholders of the Highland/iBoxx Senior Loan ETF (the "Fund"). The Fund mails one shareholder report to each shareholder address. If you would like more than one report, please call shareholder services at 1-855-799-4757 to request that additional reports be sent to you.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities, and the Fund's proxy voting records for the most recent 12-month period ended June 30th are available (i) without charge, upon request, by calling 1-855-799-4757 and (ii) on the U.S. Securities and Exchange Commission's website at <http://www.sec.gov>.

The Fund files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission (the "Commission") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the Commission's website at <http://www.sec.gov> and also may be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the Public Reference Room may be obtained by calling 1-800-SEC-0330. Shareholders may also obtain the Form N-Q, upon request and without charge, by visiting the Fund's website at [www.highlandfunds.com](http://www.highlandfunds.com) or by calling 1-855-799-4757.

The Statement of Additional Information includes additional information about the Fund's Trustees and is available upon request without charge by calling 1-855-799-4757.

Beginning on January 1, 2021, as permitted by regulations adopted by the U.S. Securities and Exchange Commission, paper copies of the Funds' annual and semi-annual shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports. Instead, the reports will be made available on the Funds' website ([highlandfunds.com](http://highlandfunds.com)), and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from a Fund electronically by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by contacting the Funds' transfer agent at [1-855-799-4757].

Beginning on January 1, 2019, you may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. If you invest directly with a Fund, you can call [1-855-799-4757] to let the Fund know you wish to continue receiving paper copies of your shareholder reports. Your election to receive reports in paper will apply to all funds held in your account if you invest through your financial intermediary or all funds held with the fund complex if you invest directly with a Fund.

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**One Heritage Drive, 1st Floor  
North Quincy, MA 02171**

**Highland/iBoxx Senior Loan ETF**

Semi-Annual Report December 31, 2018