

Highland/iBoxx Senior Loan ETF

Semi-Annual Report **December 31, 2020**

As permitted by regulations adopted by the U.S. Securities and Exchange Commission (the "Commission"), paper copies of the Fund's 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 Fund's website (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 the Fund electronically by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by contacting the Fund's transfer agent at 1-855-799-4757.

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 the 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 the Fund.

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, 2020

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, 2020

\$52.9 million

Portfolio Data as of December 31, 2020

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, 2020 (%)*	
BBB	8.9
BB	44.9
B	31.6
CCC	13.2
NR	1.4

Top 5 Sectors as of 12/31/20 (%)	
Media/Telecommunications	14.5
Healthcare	9.7
Gaming/Leisure	8.4
Service	8.3

Top 10 Holdings as of 12/31/20 (%)†	
Berry Global, Inc., Term Y Loan, 1st Lien, 07/01/2026 VAR LIBOR+2.000%	2.5
Scientific Games International, Inc., Initial Term B-5 Loan, 1st Lien, 08/14/2024 VAR LIBOR+2.750%	2.4
CenturyLink, Inc., Term B Loan, 1st Lien, 03/15/2027 VAR LIBOR+2.250%	2.0
Charter Communications Operating, LLC, Term B-2 Loan, 1st Lien, 02/01/2027 VAR LIBOR+1.750%	1.9
Elanco Animal Health Incorporated, Term Loan, 1st Lien, 08/01/2027 VAR LIBOR+1.750%	1.9
Refinitiv US Holdings Inc., Initial Dollar Term Loan, 1st Lien, 10/01/2025 VAR LIBOR+3.250%	1.9
Envision Healthcare Corporation, Initial Term Loan, 1st Lien, 10/10/2025 VAR LIBOR+3.750%	1.9
1011778 B.C. Unlimited Liability Company (New Red Finance, Inc.) (aka Burger King/ Tim Hortons), Term Loan B-4, 11/19/2026 VAR LIBOR+1.750%	1.9
Change Healthcare Holdings, Inc. (fka Emdeon Inc.), Closing Date Term Loan, 1st Lien, 03/01/2024 VAR LIBOR+2.500%	1.8
Virgin Media Bristol LLC, N Facility, 1st Lien, 01/31/2028 VAR LIBOR+2.500%	1.8

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, 2020.

† Excludes the Fund's investment in a cash equivalent.

A guide to understanding the Fund's financial statements

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

INVESTMENT PORTFOLIO (unaudited)

December 31, 2020

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
US Senior Loans (a) - 85.7%	
AEROSPACE AND DEFENSE - 3.7%	
571,198	561,174
945,226	928,637
497,487	489,040
	<u>1,978,851</u>
AUTOMOTIVE - 0.7%	
386,831	386,348
BROADCASTING AND ENTERTAINMENT - 0.9%	
500,000	494,455
BUILDING MATERIALS - 3.5%	
496,231	492,286
696,447	695,702
652,486	651,266
	<u>1,839,254</u>
CHEMICALS - 5.0%	
129,391	129,441
1,315,920	1,311,650
250,856	249,681
486,109	481,687
444,840	443,341
	<u>2,615,800</u>

Principal Amount (\$)	Value (\$)
COMPUTERS & ELECTRONICS - 4.9%	
700,369	698,887
653,218	654,159
299,227	296,030
354,547	350,891
271,487	268,994
336,815	337,113
	<u>2,606,074</u>
CONGLOMERATES - 1.4%	
746,231	750,839
CONSUMER PRODUCTS - 1.5%	
242,315	89,414
714,420	711,095
	<u>800,509</u>
CONTAINERS & GLASS PRODUCTS - 0.9%	
489,831	492,189
DIVERSIFIED MEDIA - 0.4%	
299,992	202,954
DIVERSIFIED/CONGLOMERATE MANUFACTURING - 1.3%	
698,250	704,482
ELECTRONICS - 0.9%	
199,497	199,622
250,000	251,205
	<u>450,827</u>

INVESTMENT PORTFOLIO (unaudited) (continued)

December 31, 2020

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
US Senior Loans (a) (continued)	
FINANCE - 3.8%	
604,248	596,363
AssuredPartners, Inc., 2020 February Refinancing Term Loan, 1st Lien, VAR LIBOR+3.500%, 02/12/27 (b)	
447,112	443,479
First Eagle Holdings, Inc. (fka Arnhold and S. Bleichroeder Holdings, Inc.), Refinancing Term Loan (2020), Term Loan, VAR LIBOR+2.500%, 02/01/27	
989,883	989,680
Refinitiv US Holdings Inc., Initial Dollar Term Loan, 1st Lien, VAR LIBOR+3.250%, 10/01/25	
	<u>2,029,522</u>
FOOD & BEVERAGE - 3.3%	
989,981	977,918
1011778 B.C. Unlimited Liability Company (New Red Finance, Inc.) (aka Burger King/Tim Hortons), Term Loan B-4, VAR LIBOR+1.750%, 11/19/26	
746,164	741,288
IRB Holding Corp., 2020 Replacement Term B Loan, 1st Lien, VAR LIBOR+2.750%, 02/05/25	
	<u>1,719,206</u>
GAMING/LEISURE - 6.7%	
221,014	218,482
CityCenter Holdings, LLC, Term B Loan, 1st Lien, VAR LIBOR+2.250%, 04/18/24	
848,477	580,409
Crown Finance US, Inc., Initial Dollar Tranche Term Loan, 1st Lien, VAR LIBOR+2.500%, 02/28/25	
478,315	477,081
Nascar Term Loan B, VAR LIBOR+2.750%, 10/19/26	
1,282,436	1,255,986
Scientific Games International, Inc., Initial Term B-5 Loan, 1st Lien, VAR LIBOR+2.750%, 08/14/24	
498,352	491,956
Station Casinos LLC, Term B-1 Facility Loan, 1st Lien, VAR LIBOR+2.250%, 02/08/27	
500,000	492,938
VICI Properties 1 LLC, Term B Loan, 1st Lien, VAR LIBOR+1.750%, 12/20/24	
	<u>3,516,852</u>
HEALTHCARE - 7.4%	
743,737	738,624
DaVita Inc., Tranche B-1 Term Loan, 1st Lien, VAR LIBOR+1.750%, 08/12/26	
997,440	990,064
Elanco Animal Health Incorporated, Term Loan, 1st Lien, VAR LIBOR+1.750%, 08/01/27	
1,169,523	980,797
Envision Healthcare Corporation, Initial Term Loan, 1st Lien, VAR LIBOR+3.750%, 10/10/25 (b)	

Principal Amount (\$)	Value (\$)
HEALTHCARE - (continued)	
719,726	714,666
Grifols Worldwide Operations Limited, Dollar Tranche B Term Loan, 1st Lien, VAR LIBOR+2.500%, 11/15/27	
496,697	490,303
Ortho-Clinical Diagnostics, Inc., Second Amendment New Term Loan, VAR LIBOR+3.250%, 06/30/25	
	<u>3,914,454</u>
INFORMATION TECHNOLOGY - 5.7%	
246,175	246,440
Applied Systems, Inc., Initial Term Loan, VAR LIBOR USD 3 Month+3.250%, 09/19/24	
249,347	239,855
Cengage Learning Inc., 2016 Refinancing Term Loan, 1st Lien, VAR LIBOR USD 1 Month+4.250%, 06/07/23	
199,500	201,048
Epicor Software Corporation (fka Eagle Parent Inc.), Term B Loan (2020), 1st Lien, VAR LIBOR+4.250%, 07/30/27	
245,738	245,815
Go Daddy Operating Company, LLC (GD Finance Co, Inc.), Tranche B-2 Term Loan, 1st Lien, VAR LIBOR+1.750%, 02/15/24	
497,494	494,347
Informatica LLC, Dollar 2020 Term Loan, 1st Lien, VAR LIBOR+3.250%, 02/25/27 (b)	
346,109	347,263
ON Semiconductor Corp., 2019 New Replacement Term B-4 Loan, 1st Lien, VAR LIBOR USD 1 Month+2.000%, 09/19/26	
246,810	236,551
SolarWinds Holdings, Inc., 2018 Refinancing Term Loan, 1st Lien, VAR LIBOR+2.750%, 02/05/24 (b)	
497,389	494,422
Solera LLC, Dollar Term Loan, 1st Lien, VAR LIBOR USD 1 Month+2.750%, 03/03/23 (b)	
498,750	502,122
Ultimate Software Group Inc., The, 2020 Incremental Term Loan, 1st Lien, VAR LIBOR+4.000%, 05/04/26	
	<u>3,007,863</u>
INSURANCE - 4.5%	
409,785	403,978
Alliant Holdings Intermediate LLC, Term Loan B, 1st Lien, VAR LIBOR+2.750%, 05/09/25	
843,134	829,302
Hub International Limited, Initial Term Loan, 1st Lien, VAR LIBOR+3.000%, 04/25/25	
647,878	646,110
MPH Acquisition Holdings LLC, Initial Term Loan, 1st Lien, VAR LIBOR+2.750%, 06/07/23	
498,711	492,425
USI, Inc., 2019 New Term Loan, 1st Lien, VAR LIBOR+3.000%, 05/16/24	
	<u>2,371,815</u>

INVESTMENT PORTFOLIO (unaudited) (continued)

December 31, 2020

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
US Senior Loans (a) (continued)	
MACHINERY - 0.4%	
199,467	197,983
MEDIA/TELECOMMUNICATIONS - 15.5%	
1,089,233	1,079,429
497,436	496,332
994,962	990,923
300,000	297,015
497,494	500,673
750,000	739,219
449,054	447,036
612,671	607,282
498,698	498,626
199,488	200,931
950,000	942,704
889,112	885,698
500,000	497,812
	8,183,680
PUBLISHING - 0.9%	
498,724	491,518
RETAIL - 1.7%	
322,625	322,878

Principal Amount (\$)	Value (\$)
RETAIL (continued)	
545,597	546,917
	869,795
SERVICE - 9.2%	
493,583	489,227
730,029	474,154
746,107	747,841
498,750	501,089
1,609	1,604
952,044	949,250
398,975	395,436
500,000	497,500
825,854	824,475
	4,880,576
UTILITIES - 1.5%	
218,869	217,720
298,485	295,997
298,489	294,995
	808,712
	Total US Senior Loans (Cost \$45,053,042).....
	45,314,558
Foreign Domiciled Senior Loans (a) - 6.8%	
AUSTRALIA - 0.8%	
USD	
400,000	397,064

INVESTMENT PORTFOLIO (unaudited) (concluded)

As of December 31, 2020

Highland/iBoxx Senior Loan ETF

Principal Amount (\$)	Value (\$)
Foreign Domiciled Senior Loans (a) (continued)	
CANADA - 2.3%	
USD	
	Bausch Health Companies Inc., Term Loan B, 1st Lien,
792,903	VAR LIBOR+3.000%, 06/02/25
	791,048
	Bausch Health Companies Inc., Term Loan, 1st Lien,
436,254	VAR LIBOR+2.750%, 11/27/25
	432,904
	<u>1,223,952</u>
LUXEMBOURG - 0.5%	
USD	
	SS&C Technologies Holdings, Inc., Term B-4 Loan, 1st Lien,
282,468	VAR LIBOR+1.750%, 04/16/25
	279,555
NETHERLANDS - 0.9%	
USD	
	Flutter Entertainment plc, USD Term Loan, 1st Lien,
491,575	VAR LIBOR+3.500%, 07/10/25
	493,898
UKRAINE - 0.9%	
USD	
	Titan Acquisition Ltd., Term Loan, 1st Lien, VAR LIBOR USD
483,633	3 Month+3.000%, 03/28/25 (b)
	472,945
UNITED KINGDOM - 1.4%	
USD	
	Misys Limited, Dollar Term Loan, 1st Lien,
737,209	VAR LIBOR+3.500%, 06/13/24
	724,002
	Total Foreign Domiciled Senior Loans (Cost \$3,561,045)
	<u>3,591,416</u>
Shares	
Cash Equivalent - 10.8%	
MONEY MARKET FUND (d) - 10.8%	
	Dreyfus Treasury & Agency Cash Management, Institutional Class,
5,718,279	0.030%
	5,718,279
	Total Cash Equivalents (Cost \$5,718,279)
	<u>5,718,279</u>
	Total Investments - 103.3%
	54,624,253
	(Cost \$54,332,366)
	Other Assets & Liabilities, Net - (3.3%)
	(1,741,362)
	Net Assets - 100.0%
	52,882,891

- (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, 2020, the LIBOR USD 1 Week, LIBOR USD 1 Month and LIBOR USD 3 Month rates were 0.096%, 0.144% and 0.238%, 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) Variable or floating rate security, the interest rate of which adjusts periodically based on changes in current interest rates and prepayments on the underlying pool of assets.
- (d) The rate shown is the 7-day effective yield as of December 31, 2020.

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)	
Computers & Electronics	1.9%
Gaming/Leisure	1.7%
Healthcare	2.3%
Machinery	0.9%
	<u>6.8%</u>

STATEMENT OF ASSETS AND LIABILITIES

As of December 31, 2020 (unaudited)

Highland/iBoxx Senior Loan ETF

	(\$)
Assets:	
Total Investments, at value (cost \$48,614,087)	48,905,974
Cash Equivalent (cost \$5,718,279)	5,718,279
Cash	142,902
Receivable for:	
Investments sold	4,714,515
Dividends and interest	51,591
Investment adviser reimbursement (Note 4)	25,428
Total assets	<u>59,558,689</u>
Liabilities:	
Payable for:	
Investments purchased	6,277,161
Expedited settlement facility fees (Note 4)	78,575
Legal fees	52,722
Transfer agent fees	28,974
Trustees' fees (Note 4)	7,852
Administration fees (Note 4)	3,056
Accrued expenses and other liabilities	227,458
Total liabilities	<u>6,675,798</u>
Net Assets	<u>52,882,891</u>
Net Assets consist of:	
Paid-in capital	109,100,676
Total accumulated loss	(56,217,785)
Net Assets	<u>52,882,891</u>
Shares outstanding (unlimited authorization — no par value)	3,300,000
Net asset value, per share (Net assets/shares outstanding)	16.03

STATEMENT OF OPERATIONS

For the Six-Month Period Ended December 31, 2020 (Unaudited)

Highland/iBoxx Senior Loan ETF

(\$)

Investment Income:

Interest income	1,336,693
Other income	257
Total investment income	<u>1,336,950</u>

Expenses:

Investment advisory fees (Note 4)	171,419
Administration fees (Note 4)	24,761
Trustees' fees (Note 4)	21,820
Expedited settlement facility (Note 4)	95,334
Legal fees	73,121
Audit fees	40,774
Printing fees	37,026
Pricing fees	29,104
Custodian fees	17,658
Licensing fees	12,824
Registration fees	7,241
Professional fees	3,025
Transfer agent fees	2,666
Other	70,937
Total operating expenses	<u>607,710</u>
Fees and expenses waived by Investment Adviser (Note 4)	<u>(313,187)</u>
Net operating expenses	<u>294,523</u>
Net investment income	<u>1,042,427</u>

Net Realized and Unrealized Gain (Loss) on Investments

Net realized loss on investments	(2,166,430)
Net change in unrealized appreciation on investments	<u>3,883,786</u>
Net realized and unrealized gain on investments	<u>1,717,356</u>
Net increase in net assets resulting from operations	<u>2,759,783</u>

STATEMENTS OF CHANGES IN NET ASSETS

Highland/iBoxx Senior Loan ETF

	Six Months Ended December 31, 2020 (unaudited) (\$)	Year Ended June 30, 2020 (\$)
Increase (Decrease) in Net Assets:		
Operations:		
Net investment income	1,042,427	8,095,330
Net realized loss on investments	(2,166,430)	(11,729,889)
Net change in unrealized appreciation on investments	3,883,786	1,786,154
Net increase (decrease) in net assets resulting from operations	<u>2,759,783</u>	<u>(1,848,405)</u>
Distributions		
Return of capital	(789,367)	(8,215,455)
Total distributions	<u>(192,594)</u>	<u>(253,069)</u>
Total distributions	<u>(981,961)</u>	<u>(8,468,524)</u>
Share Transactions		
Creations	109,338,029	824,046,162
Redemptions	(135,240,589)	(999,987,389)
Net decrease from share transactions	<u>(25,902,560)</u>	<u>(175,941,227)</u>
Total decrease in net assets	<u>(24,124,738)</u>	<u>(186,258,156)</u>
Net Assets:		
Beginning of period/year	<u>77,007,629</u>	<u>263,265,785</u>
End of period/year	<u>52,882,891</u>	<u>77,007,629</u>
Changes in Shares		
Creations	6,800,000	47,900,000
Redemptions	(8,400,000)	(58,000,000)
Net decrease	<u>(1,600,000)</u>	<u>(10,100,000)</u>

Amounts designated as “—” are \$0.

FINANCIAL HIGHLIGHTS

Highland/iBoxx Senior Loan ETF

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

	Six Months Ended December 31, 2020 (unaudited)	For the Years Ended June 30,				
		2020	2019	2018	2017	2016
Net Asset Value, Beginning of Period/Year	\$ 15.72	\$ 17.55	\$ 18.10	\$ 18.38	\$ 18.37	\$ 19.19
Income from Investment Operations:						
Net investment income ^(a)	0.22	0.71	0.89	0.83	0.86	0.81
Net realized and unrealized gain (loss)	<u>0.28</u>	<u>(1.85)</u>	<u>(0.55)</u>	<u>(0.27)</u>	<u>0.01</u>	<u>(0.82)</u>
Total from investment operations	0.50	(1.14)	0.34	0.56	0.87	(0.01)
Less Distributions Declared to Shareholders:						
From net investment income	(0.19)	(0.67)	(0.89)	(0.83)	(0.86)	(0.81)
From return of capital	<u>—</u>	<u>(0.02)</u>	<u>—</u>	<u>(0.01)</u>	<u>(0.00)</u> ^(b)	<u>—</u>
Total distributions declared to shareholders	(0.19)	(0.69)	(0.89)	(0.84)	(0.86)	(0.81)
Net Asset Value, End of Period/Year	\$ 16.03	\$ 15.72	\$ 17.55	\$ 18.10	\$ 18.38	\$ 18.37
Market Price, end of period/year	\$ 15.75	\$ 15.75	\$ 17.54	\$ 18.09	\$ 18.39	\$ 18.38
Total return ^(c)	3.15% ^(d)	(6.69)%	1.94%	3.11%	4.78%	0.02%
Ratios to Average Net Assets/Supplemental Data:						
Net assets, end of period/year (000s)	\$52,883	\$77,008	\$263,266	\$599,254	\$562,510	\$391,293
Gross operating expenses ^(e)	1.59% ^(f)	1.12%	0.82%	0.73%	0.74%	0.77%
Net investment income	2.73% ^(f)	4.13%	4.98%	4.56%	4.62%	4.39%
Portfolio turnover rate	337% ^(g)	344%	186%	126%	115%	51%

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

(b) Amount represents less than \$0.005 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 is not annualized.

(e) Supplemental expense ratios are shown below.

	Six Months Ended December 31, 2020 (unaudited)	For the Years Ended June 30,				
		2020	2019	2018	2017	2016
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	0.77%	0.75%	0.61%	0.55%	0.55%	0.55%
Excluded from Expense Cap:						
Expedited settlement facility and licensing fees	0.25%	0.19%	0.06%	—	—	—

(f) Annualized.

(g) Not annualized.

Amounts designated as "—" are \$0.

December 31, 2020

Highland/iBoxx Senior Loan ETF

Note 1. Organization

Highland Funds I (the “Trust”) was organized as a Delaware statutory trust on February 28, 2006. The Trust is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company with four 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 investment company accounting and reporting guidance of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946 *Financial Services—Investment Companies* 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 increases and decreases in net assets from operations 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. (“HCMFA” or 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

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

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

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, 2020, 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.

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The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the levels of inputs used to value the Fund's assets as of December 31, 2020 is as follows:

	Total Market Fair Value at 12/31/20	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Highland/iBoxx Senior Loan ETF				
Assets				
US Senior Loans*	\$45,314,558	\$ —	\$45,314,558	\$ —
Foreign Domiciled Senior Loans*	3,591,416	—	3,591,416	—
Cash Equivalent*	5,718,279	5,718,279	—	—
Total	\$54,624,253	\$5,718,279	\$48,905,974	\$ —

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

For the six-month period ended December 31, 2020, there were no transfers in or out of 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. The Fund also considers money market instruments that invest in cash equivalents to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay Fund expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates fair 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. These balances may exceed the federally insured limits under the Federal Deposit Insurance Corporation (“FDIC”).

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 segregated in the Statement of Operations from the effects of changes in market prices of those securities, included within 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 using the effective interest method.

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

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

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statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Distributions to Shareholders

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

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.

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			
2020	\$ 8,215,455	\$—	\$ 253,069
2019	23,252,153	—	—

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

As of June 30, 2020, the Fund's most recent tax year end, the components of distributable earnings on a tax basis were as follows:

	Capital Loss Carryforward	Net	Post October Losses	Other Temporary Differences
		Unrealized Appreciation/ (Depreciation)		
Highland/iBoxx Senior Loan ETF	\$(44,861,308)	\$(3,832,046)	\$(9,302,256)	\$3

At June 30, 2020 the Fund had capital loss carryover as indicated below. The capital loss carryover is available to offset future realized capital gain.

	Short-Term	Long-Term	Total
	Loss	Loss	
Highland/iBoxx Senior Loan ETF	\$22,866,001	\$21,995,307	\$44,861,308

For federal income tax purposes, the cost of securities owned at June 30, 2020, 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, 2020, based on cost of investments, including cash equivalents, for U.S. federal income tax purposes was:

	Gross	Gross	Net	Cost
	Appreciation	Depreciation	Appreciation/ (Depreciation)	
Highland/iBoxx Senior Loan ETF	\$941,974	\$(650,088)	\$291,886	\$54,332,367

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).

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Highland/iBoxx Senior Loan ETF

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, 2020, the Fund paid \$24,761 for these services.

Service and Distribution Fees

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

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, dividend expense 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, 2021, 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, 2020, 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		
	2021	2022	2023
Highland/iBoxx Senior Loan ETF	\$1,160,499	\$713,412	\$313,187

During the six-month period ended December 31, 2020, \$638,206 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 Chairman of the Audit Committee and the Chairman of the Board each receive an additional \$10,000. 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.

The Fund pays no compensation to its officers, all of whom are employees of the Investment Adviser.

Trustees are reimbursed for actual out-of-pocket expenses relating to attendance at meetings, however, the Chairman of the Board and the Chairman of the Audit Committee each receive an additional payment of \$10,000 payable in quarterly installments and allocated among each portfolio in the Funds Complex based on relative net assets.

The Trustees do not receive any separate compensation in connection with service on Committees or for attending Board or Committee Meetings. The Trustees do not have any pension or retirement plan.

Expedited Settlement Agreements

On June 15, 2017 and May 14, 2019, the Fund entered into Expedited Settlement Agreements with two major dealers 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 Agreements”). The Expedited Settlement Agreements are designed to reduce settlement times from the standard seven days to three days for eligible loans. For the six-month period ended December 31, 2020, the Fund paid \$95,334 to the dealer as part of the Expedited Settlement Agreements.

While the Expedited Settlement Agreements are intended to provide the Fund with additional liquidity with respect to

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

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such loans, and may not represent the exclusive method of expedited settlement of such loans, no assurance can be given that the Expedited Settlement Agreements 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, 2020, 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 +	\$—	\$—	\$3,214,109	\$1,766,408

* The Fund did not have any purchases or sales of U.S. Government Securities for the six-month period ended December 31, 2020.

+ The Fund did not have any in-kind creations/redemptions for the six-month period December 31, 2020.

Note 6. Indemnification

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

Note 7. Disclosure of Significant Risks and Contingencies

The Fund's investments expose the Fund to various risks, certain of which are discussed below. Please refer to the Fund's prospectus and statement of additional information for a full listing of risks associated with the Fund's investments.

Asset Class Risk

Securities in the Underlying Index or in the Fund's portfolio may underperform in comparison to the general securities markets or other asset classes.

Cash Transaction Risk

Unlike most exchange-traded funds ("ETFs"), the Fund currently intends to effect creations and redemptions principally for cash, rather than principally for in-kind securities, because of the nature of the Fund's investments. As a result, investments in Fund shares may be less tax-efficient than investments in conventional ETFs. Paying redemption proceeds in cash rather than through in-kind

delivery of portfolio securities may require the Fund to dispose of or sell portfolio investments to obtain the cash needed to distribute redemption proceeds at an inopportune time. This may cause the Fund to recognize gains or losses that it might not have incurred if it had made a redemption in-kind.

Commodities Risk

Commodities markets historically have been extremely volatile, and the performance of securities and other instruments that provide exposure to those markets therefore also may be highly volatile. The commodities markets may fluctuate widely based on a variety of factors. These include changes in overall market movements, domestic and foreign political and economic events and policies, war, acts of terrorism, changes in domestic or foreign interest rates and/or investor expectations concerning interest rates, domestic and foreign inflation rates and/or investor expectations concerning inflation rates and investment and trading activities of mutual funds, hedge funds and commodities funds. Commodity linked derivative instruments have a high degree of price variability and are subject to rapid and substantial price changes. Commodity-linked derivative instruments may employ leverage, which creates the possibility for losses greater than the amount invested.

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.

Covenant-Lite Loans Risk

Loans in which the Fund invests include covenant-lite loans, which carry more risk to the lender than traditional loans as they may contain fewer or less restrictive covenants on the borrower than traditionally included in loan documentation or may contain other borrower-friendly characteristics. The Fund may experience relatively greater difficulty or delays in enforcing its rights on its holdings of certain covenant-lite loans and debt securities than its holdings of loans or securities with the usual covenants.

Credit Risk

The issuers of certain securities or the counterparties of a derivatives contract or repurchase contract might be unable or unwilling (or perceived as being unable or unwilling) to make interest and/or principal payments when due, or to otherwise honor its obligations. 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

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experiencing non-payment and a potential decrease in the Fund's net asset value and the market price of the Fund's shares.

Debt Securities and Leveraged Loans Risk

The value of debt securities typically changes in response to various factors, including, by way of example, market-related factors (such as changes in interest rates or changes in the risk appetite of investors generally) and changes in the actual or perceived ability of the issuer (or of issuers generally) to meet its (or their) obligations. During periods of rising interest rates, debt securities generally decline in value. Conversely, during periods of falling interest rates, debt securities generally rise in value. This kind of market risk is generally greater for funds investing in debt securities with longer maturities. 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. Leveraged Loans are subject to the same risks typically associated with debt securities. In addition, Leveraged Loans, which typically hold a senior position in the capital structure of a borrower, are subject to the risk that a court could subordinate such loans to presently existing or future indebtedness or take other action detrimental to the holders of Leveraged Loans. Leveraged Loans are also especially subject to the risk that the value of the collateral, if any, securing a loan may decline, be insufficient to meet the obligations of the borrower or be difficult to liquidate.

Because loans are not ordinarily registered with the SEC or any state securities commission or listed on any securities exchange, there is usually less publicly available information about such instruments. In addition, loans may not be considered "securities" for purposes of the anti-fraud protections of the federal securities laws and, as a result, as a purchaser of these instruments, we may not be entitled to the anti-fraud protections of the federal securities laws. In the course of investing in such instruments, we may come into possession of material nonpublic information and, because of prohibitions on trading in securities of issuers while in possession of such information, we may be unable to enter into a transaction in a publicly-traded security of that issuer when it would otherwise be advantageous for us to do so. Alternatively, we may choose not to receive material nonpublic information about an issuer of such loans, with the result that we may have less information about such issuers than other investors who transact in such assets.

Derivatives Risk

Derivatives Risk is a combination of several risks, including the risks that: (1) an investment in a derivative instrument

may not correlate well with the performance of the securities or asset class to which the Fund seeks exposure, (2) derivative contracts, including options, may expire worthless and the use of derivatives may result in losses to the Fund, (3) a derivative instrument entailing leverage may result in a loss greater than the principal amount invested, (4) derivatives not traded on an exchange may be subject to credit risk, for example, if the counterparty does not meet its obligations (see also "Counterparty Risk"), and (5) derivatives not traded on an exchange may be subject to liquidity risk and the related risk that the instrument is difficult or impossible to value accurately. As a general matter, when the Fund establishes certain derivative instrument positions, such as certain futures and options contract positions, it will segregate liquid assets (such as cash, U.S. Treasury bonds or commercial paper) equivalent to the Fund's outstanding obligations under the contract or in connection with the position. In addition, recent legislation has called for a new regulatory framework for the derivatives market. The impact of the new regulations are still unknown, but has the potential to increase the costs of using derivatives, may limit the availability of some forms of derivatives or the Fund's ability to use derivatives, and may adversely affect the performance of some derivative instruments used by the Fund as well as the Fund's ability to pursue its investment objective through the use of such instruments.

Emerging Markets Risk

The risk of investing in securities of issuers tied economically to emerging markets, which entails all of the risks of investing in securities of non-U.S. issuers detailed below under "Foreign Securities Risk" to a heightened degree. These heightened risks include:

(i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the markets for such securities and a lower volume of trading, resulting in lack of liquidity and in price volatility; (iii) greater fluctuations in currency exchange rates; and (iv) certain national policies that may restrict the Fund's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

Exchange-Traded Funds Risk

The price movement of an exchange-traded fund may not exactly track the underlying index and may result in a loss. In addition, shareholders bear both their proportionate share of the Fund's expenses and similar expenses of the underlying investment company when the Fund invests in shares of another investment company.

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Fixed Income Market Risk

Fixed income markets may, in response to governmental intervention, economic or market developments (including potentially a reduction in the number of broker-dealers willing to engage in market-making activity), or other factors, experience periods of increased volatility and reduced liquidity. During those periods, the Fund may experience increased levels of shareholder redemptions, and may have to sell securities at times when it would otherwise not do so, and at unfavorable prices. Fixed income securities may be difficult to value during such periods. As of the date of this Prospectus, market interest rates in the United States are at or near historic lows, which may increase the Fund's exposure to risks associated with rising market interest rates. Rising market interest rates could have unpredictable effects on the markets and may expose fixed-income and related markets to heightened volatility, which could reduce liquidity for certain investments, adversely affect values, and increase costs. Increased redemptions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so and may lower returns. If dealer capacity in fixed-income and related markets is insufficient for market conditions, it may further inhibit liquidity and increase volatility in the fixed-income and related markets. Further, recent and potential future changes in government policy may affect interest rates.

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.

Foreign Securities Risk

Investments in securities of non-U.S. issuers involve certain risks not involved in domestic investments (for example, fluctuations in foreign exchange rates (for non-U.S. securities not denominated in U.S. dollars); future foreign economic, financial, political and social developments; nationalization; exploration or confiscatory taxation; smaller markets; different trading and settlement practices; less governmental

supervision; and different accounting, auditing and financial recordkeeping standards and requirements) that may result in the Fund experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. These risks are magnified for investments in issuers tied economically to emerging markets, the economies of which tend to be more volatile than the economies of developed markets. In addition, investments by the Fund in non-U.S. securities may be subject to withholding and other taxes imposed by foreign countries on dividends, interest, capital gains, or other income or proceeds. Those taxes will reduce the Fund's yield on any such securities.

High-Yield Debt Securities Risk

Below investment grade securities or unrated securities of similar credit quality (commonly known as "high-yield securities" or "junk securities") are more likely to default than higher rated securities. The Fund's ability to invest in high-yield debt securities generally subjects the Fund to greater risk than securities with higher ratings. Such securities are regarded by the rating organizations as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. The market value of these securities is more sensitive to corporate developments and economic conditions and can be volatile. Market conditions can diminish liquidity and make accurate valuations difficult to obtain.

Illiquid and Restricted Securities Risk

The Adviser may not be able to sell illiquid or restricted securities, such as securities issued pursuant to Rule 144A of the Securities Act of 1933, at the price it would like or may have to sell them at a loss. Securities of non-U.S. issuers and emerging or developing 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.

Intellectual Property Risk

The Investment Adviser relies on a license, which may be terminated by the Index Provider, that permits the Fund to use the Underlying Index and associated trade names, trademarks and service marks (the "Intellectual Property") in connection with the name and investment strategies of the Fund. In the event the license is terminated or the Index

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Provider does not have rights to license the Intellectual Property, it may have a significant effect on the operation of the Fund.

Interest Rate Risk

Fixed income securities may decline in value because of changes in interest rates. When interest rates decline, the value of fixed rate securities already held by the Fund can be expected to rise. Conversely, when interest rates rise, the value of existing fixed rate portfolio securities can be expected to decline. A fund with a longer average portfolio duration will be more sensitive to changes in interest rates than a fund with a shorter average portfolio duration. In addition, the interest rates of floating rate loans typically only adjust to changes in short-term interest rates; long-term interest rates can vary dramatically from short-term interest rates.

Loans in which the Fund will invest generally pay interest at rates that are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates generally are the London Interbank Offered Rate ("LIBOR"), the prime rate offered by one or more major United States banks ("Prime Rate") or the certificate of deposit ("CD") rate or other base lending rates used by commercial Lenders. Due to manipulation allegations in 2012 and reduced activity in the financial markets that it measures, in July 2017, the FCA, the United Kingdom financial regulatory body, announced a desire to phase out the use of LIBOR by the end of 2021. Please refer to "LIBOR Transition and Associated Risk" for more information.

Lender Liability Risk

A number of judicial decisions have upheld the right of Borrowers to sue lending institutions on the basis of various evolving legal theories founded upon the premise that an institutional Lender has violated a duty of good faith and fair dealing owed to the Borrower or has assumed a degree of control over the Borrower resulting in a creation of a fiduciary duty owed to the Borrower or its other creditors or shareholders. Because of the nature of certain of the Fund's investments, the Fund or the Investment Adviser could be subject to such liability.

LIBOR Transition and Associated Risk

LIBOR is the average offered rate for various maturities of short-term loans between major international banks who are members of the British Bankers Association. LIBOR is the most common benchmark interest rate index used to make adjustments to variable-rate loans. It is used throughout global banking and financial industries to determine interest rates for a variety of financial instruments (such as debt instruments and derivatives) and borrowing arrangements.

Due to manipulation allegations in 2012 and reduced activity in the financial markets that it measures, in July 2017, the FCA, the United Kingdom financial regulatory body, announced a desire to phase out the use of LIBOR by the end of 2021. As a result, plans are underway to phase out the use of LIBOR by the end of 2021.

The potential effects of a transition away from LIBOR on the Fund or the financial instruments utilized by the Fund cannot yet be determined. The transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that currently rely on LIBOR. The transition may also result in a change in (i) the value of certain instruments held by the Fund, (ii) the cost of temporary borrowing for the Fund, or (iii) the effectiveness of related Fund transactions such as hedges, as applicable.

Limited Information Risk

The types of Senior Loans in which the Fund will invest historically may not have been rated by a NRSRO, have not been registered with the SEC or any state securities commission, and have not been listed on any national securities exchange. Although the Fund will generally have access to financial and other information made available to the Lenders in connection with Senior Loans, the amount of public information available with respect to Senior Loans will generally be less extensive than that available for rated, registered or exchange-listed securities.

Liquidity Risk

Liquidity risk is the risk that low trading volume, lack of a market maker, large position size, or legal restrictions (including daily price fluctuation limits or "circuit breakers") limits or prevents the Fund from selling particular securities or unwinding derivative positions at desirable prices. At times, a major portion of any portfolio security may be held by relatively few institutional purchasers. Even if the Fund considers such securities liquid because of the availability of an institutional market, such securities may become difficult to value or sell in adverse market or economic conditions. Because loan transactions often take longer to settle than transactions in other securities, the Fund may not receive the proceeds from the sale of a loan for a significant period of time. As a result, the Fund may maintain higher levels of cash and short-term investments than mutual funds that invest in securities with shorter settlement cycles and/or may enter into a line of credit to permit the Fund to finance redemptions pending settlement of the sale of portfolio securities, each of which may adversely affect the Fund's performance. No assurance can be given that these measures will provide the Fund with sufficient liquidity in the event of abnormally large redemptions.

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Loan Participation Risk

In addition to the risks typically associated with debt securities, Participations involve the risk that there may not be a readily available market for Participation interests and, in some cases, the Fund may have to dispose of such securities at a substantial discount from face value. Participations also involve the credit risk associated with the underlying corporate borrower.

Management Risk

Management risk is the risk associated with the fact that the Fund relies on the Investment Adviser's ability to achieve its investment objective. The Investment Adviser may be incorrect in its assessment of the intrinsic value of companies whose securities the Fund holds, which may result in a decline in the value of Fund shares and failure to achieve its investment objective. The Fund's portfolio manager uses quantitative analyses and/or models. Any imperfections or limitations in such analyses and models could affect the ability of the portfolio manager to implement strategies.

Market Price Variance Risk

Fund shares will be listed for trading on NASDAQ, Inc. (the "Exchange") and can be bought and sold in the secondary market at market prices. The market prices of shares will fluctuate in response to changes in the NAV and supply and demand for shares. As a result, the trading prices of Shares may deviate significantly from NAV during periods of market volatility. The Investment Adviser cannot predict whether shares will trade above, below or at their NAV. Given the fact that shares can be created and redeemed in Creation Units, the Investment Adviser believes that large discounts or premiums to the NAV of shares should not be sustained in the long-term. In addition, the securities held by the Fund may be traded in markets that close at a different time than NASDAQ. Liquidity in those securities may be reduced after the applicable closing times. Accordingly, during the time when NASDAQ is open but after the applicable market closing, fixing or settlement times, bid-ask spreads and the resulting premium or discount to the Shares' NAV may widen. Further, secondary markets may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which could cause a material decline in the Fund's NAV. The bid/ask spread of the Fund may be wider in comparison to the bid/ask spread of other ETFs, given the liquidity of the Fund's assets. The Fund's investment results are measured based upon the daily NAV of the Fund. Investors purchasing and selling shares in the secondary market may not experience investment results consistent with those experienced by those purchasing and redeeming directly with the Fund.

Non-Diversification Risk

As a non-diversified fund for purposes of the 1940 Act, the Fund may invest a larger portion of its assets in the securities of fewer issuers than a diversified fund. The Fund's investment in fewer issuers may result in the Fund's shares being more sensitive to the economic results of those issuers. An investment in the Fund could fluctuate in value more than an investment in a diversified fund.

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

Ongoing monitoring risk is the risk associated with ongoing monitoring of the Agent. 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.

Operational and Technology Risk

Cyber-attacks, disruptions, or failures that affect the Fund's service providers, counterparties, market participants, or issuers of securities held by the Fund may adversely affect the Fund and its shareholders, including by causing losses for the Fund or impairing Fund operations.

Options Risk

Options, such as covered calls and covered puts, are subject to the risk that significant differences between the securities and options markets that could result in an imperfect correlation between these markets.

Pandemics and Associated Economic Disruption

An outbreak of respiratory disease caused by a novel coronavirus was first detected in China in December 2019 and subsequently spread internationally. This coronavirus has resulted in the closing of borders, enhanced health screenings, healthcare service preparation and delivery, quarantines, cancellations, disruptions to supply chains and customer activity, as well as general anxiety and economic uncertainty. The impact of this coronavirus may be short term or may last for an extended period of time and result in a substantial economic downturn. Health crises caused by

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outbreaks of disease, such as the coronavirus, may exacerbate other pre-existing political, social and economic risks. This outbreak, and other epidemics and pandemics that may arise in the future, could negatively affect the global economy, as well as the economies of individual countries, individual companies and the market in general in significant and unforeseen ways. For example, a widespread health crisis such as a global pandemic could cause substantial market volatility, exchange trading suspensions and closures, impact a Fund's ability to complete repurchase requests, and affect Fund performance. Any such impact could adversely affect a Fund's performance, the performance of the securities in which a Fund invests, lines of credit available to a Fund and may lead to losses on your investment in a Fund. In addition, the increasing interconnectedness of markets around the world may result in many markets being affected by events or conditions in a single country or region or events affecting a single or small number of issuers.

Passive Investment Risk

The Fund is not actively managed and HCMFA does not attempt to take defensive positions under any market conditions, including during declining markets.

Portfolio Turnover Risk

High portfolio turnover will increase the Fund's transaction costs and may result in increased realization of net short-term capital gains (which are taxable to shareholders as ordinary income when distributed to them), higher taxable distributions and lower after-tax performance.

Prepayment Risk

During periods of falling interest rates, issuers of debt securities may repay higher rate securities before their maturity dates. This may cause the Fund to lose potential price appreciation and to be forced to reinvest the unanticipated proceeds at lower interest rates. This may result in a decrease in the Fund's income.

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.

In addition, such requirements or restrictions may reduce or eliminate sources of financing for affected Borrowers. Further, to the extent that legislation or federal or state regulators require such institutions to dispose of Senior Loan interests relating to highly leveraged transactions or subject

such Senior Loan interests to increased regulatory scrutiny, such financial institutions may determine to sell Senior Loan interests in a manner that results in a price that, in the opinion of the Adviser, is not indicative of fair value. Were the Fund to attempt to sell a Senior Loan interest at a time when a financial institution was engaging in such a sale with respect to the Senior Loan interest, the price at which the Fund could consummate such a sale might be adversely affected. See "Industry Concentration Risk" above.

Securities Market Risk

The value of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably, due to factors affecting particular companies or the securities markets generally. A general downturn in the securities market may cause multiple asset classes to decline in value simultaneously. Many factors can affect this value and you may lose money by investing in the Fund.

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.

LIBOR is the most common benchmark interest rate index used to make adjustments to variable-rate loans; however, due to manipulation allegations in 2012 and reduced activity in the financial markets that it measures, the FCA, the United Kingdom financial regulatory body, announced a desire to phase out the use of LIBOR by the end of 2021. Please refer to "LIBOR Transition and Associated Risk" for more information.

Stop Order Risk

During periods of high market volatility, a Fund share may trade at a significant discount to its NAV, and in these circumstances certain types of brokerage orders may expose an investor to an increased risk of loss. A “stop order,” sometimes called a “stop-loss order,” may cause a Fund share to be sold at the next prevailing market price once the “stop” level is reached, which during a period of high volatility can be at a price that is substantially below NAV. By including a “limit” criteria with a brokerage order, a shareholder may be able to limit the size of the loss resulting from the execution of an ill-timed stop order, although no assurance can be given that inclusion of limit criteria will benefit the shareholder.

Telecommunications Sector Risk.

The Fund may be impacted by risks faced by companies in the telecommunications services industry, including: a telecommunications market characterized by increasing competition and regulation by the Federal Communications Commission and various state regulatory authorities; the need to commit substantial capital to meet increasing competition, particularly in formulating new products and new services using new technology; and technological innovations that may make various products and services obsolete.

Tracking Error Risk

The performance of the Fund may diverge from that of the Underlying Index. Because the Fund employs a representative sampling strategy, the Fund may experience tracking error to a greater extent than a fund that seeks to replicate an index. The Investment Adviser may not be able to cause the Fund’s performance to correlate to that of the Fund’s benchmark, either on a daily or aggregate basis. Because the Underlying Index rebalances monthly but the Fund is not obligated to do the same, the risk of tracking error may increase following the rebalancing of the Underlying Index.

An investment in the Fund is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. As with any investment company, there is no guarantee that the Fund will achieve its goal.

Note 8. New Accounting Pronouncements

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. The Investment Adviser has evaluated the impact of this new guidance and the adoption of this guidance did not have a material impact on the Fund’s financial statements.

Note 9. Other Affiliate Matters

The Investment Adviser has historically been affiliated through common control with Highland Capital Management, L.P. (“HCMLP”), an SEC-registered investment adviser that filed for Chapter 11 bankruptcy protection on October 16, 2019. On January 9, 2020, the United States Bankruptcy Court for the Northern District of Texas (the “Court”) approved a change of control of HCMLP, which involved the resignation of James Dondero as the sole director of, and the appointment of an independent board to, HCMLP’s general partner. On October 9, 2020, Mr. Dondero resigned as an employee of HCMLP and as portfolio manager for all HCMLP-advised funds. As a result of these changes, the Adviser is no longer under common control or otherwise affiliated with HCMLP. Mr. Dondero continues to be a portfolio manager for the Investment Adviser and the Fund.

On November 13, 2020, HCMLP filed an amended plan of reorganization and disclosure statement with the Court (the “Amended Plan”), which was subsequently approved by the Creditors and confirmed (subject to final order) by the Court. On November 30, 2020, HCMLP provided notice of termination of the Shared Services Agreement with the Investment Adviser, through which HCMLP had provided support services to the Adviser. The Shared Services Agreement was terminated effective February 19, 2021. However, the Investment Adviser expects to be able to continue to provide the required advisory and support services to the Trust through a transfer of personnel, equipment and/or facilities from HCMLP either to the Investment Adviser or to a third-party service provider.

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.

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Additional Portfolio Information

Net asset value, or “NAV,” is the price per share at which the Fund issues and redeems shares. It is calculated in accordance with the standard formula for valuing mutual fund shares. The “Market Price” of the Fund generally is determined using the midpoint between the bid and the ask on the stock exchange on which the shares of the Fund are listed for trading, as of the time that the Fund’s NAV is calculated. The Fund’s Market Price may be at, above or below its NAV. The NAV of the Fund will fluctuate with changes in the market value of its holdings. The Market Price of the Fund will fluctuate in accordance with changes in its NAV, as well as market supply and demand. Shareholders may pay more than NAV when they buy Fund shares and receive less than NAV when they sell those shares, because shares are bought and sold at current Market Prices. Premiums or discounts are the differences (expressed as a percentage) between the NAV and Market Price of the Fund on a given day, generally at the time NAV is calculated. A premium is the amount that a Fund is trading above the reported NAV, expressed as a percentage of the NAV. A discount is the amount that a Fund is trading below the reported NAV, expressed as a percentage of the NAV. Further information regarding premiums and discounts for the Fund is available on the Fund’s website at www.highlandfunds.com. The Investment Adviser and its affiliates manage other accounts, including private funds and individual accounts. Although investment decisions for the Fund are made independently from those of such other accounts, the Investment Adviser may, consistent with applicable law, make investment recommendations to other clients or accounts that may be the same or different from those made to the Fund, including investments in different levels of the capital structure of a company, such as equity versus senior loans, or that involve taking contradictory positions in multiple levels of the capital structure. The Investment Adviser has adopted policies and procedures that address the allocation of investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, this may create situations where a client could be disadvantaged because of the investment activities conducted by the Investment Adviser for other client accounts. When the Fund and one or more other accounts is prepared to invest in, or desires to dispose of, the same security, available investments or opportunities for each are allocated in a manner believed by the Investment Adviser to be equitable over time. The Investment Adviser may aggregate orders, which may include orders for accounts in which the Investment Adviser or its affiliates have an interest, to purchase and sell securities to obtain favorable execution 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, 2020 through December 31, 2020, 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.

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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 07/01/20	Ending Account Value 12/31/20	Annualized Expense Ratios	Expenses Paid During Period*
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Actual Fund Return	\$1,000.00	\$1,031.50	0.77%	\$3.94
Hypothetical	\$1,000.00	\$1,021.32	0.77%	\$3.92

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

Approval of Investment Advisory Agreement

The Fund has retained Highland Capital Management Fund Advisors, L.P. (the "Investment Adviser") to manage the assets of the Fund pursuant to an investment advisory agreement between the Investment Adviser and the Fund (the "Agreement"). The Agreement has been approved by the Funds' Board of Trustees, including a majority of the Independent Trustees. The 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. On March 25, 2020, as a result of health and safety measures put in place to combat the global COVID-19 pandemic, the Securities and Exchange Commission issued an exemptive order (the "Order") pursuant to Sections 6(c) and 38(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), that temporarily exempts registered investment management companies from the in-person voting requirements under the 1940 Act, subject to certain requirements, including that votes taken pursuant to the Order are ratified at the next in-person meeting. The Board determined that reliance on the Order was necessary or appropriate due to the circumstances related to current or potential effects of COVID-19 and therefore, the Board's October 28, 2020 meeting was held telephonically in reliance on the Order.

During a telephonic meeting held on August 13, 2020, the Board of Trustees gave preliminary consideration to information bearing on the continuation of the Agreement for a one-year period commencing November 1, 2020 with respect to the Fund. The primary objective of the meeting 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. The Board received additional follow up information and presentations from the Investment Adviser at multiple meetings, which the Board took into account in connection with their consideration of the renewal of the Agreement, including at meetings held on September 17-18, 2020, September 23, 2020 and October 13, 2020. The Board also received regular updates on the HCMLP bankruptcy and services being provided under the Shared Services Agreement.

At a meeting held on October 28, 2020, the Board of Trustees, including the Independent Trustees, approved the continuance of the Agreement for a one-year period commencing on November 1, 2020. As part of its review process, the Board requested, through its independent legal counsel, and received from the Investment Adviser, various information and written materials, including: (1) information regarding the financial soundness of the Investment Adviser and the profitability of the Advisory Agreement to the Investment Adviser; (2) information on the advisory, legal and compliance personnel of the Investment Adviser, including compensation arrangement; (3) information on the internal compliance procedures of the Investment Adviser, including policies and procedures for personal securities transactions, conflicts of interest and with respect to cybersecurity, business continuity and disaster recovery; (4) comparative information showing how the Fund's fees and expenses compare to those of other registered investment companies and comparable funds managed by the Investment Adviser that follow investment strategies similar to those of the Fund, if any; (5) information regarding the investment performance of the Fund, including comparisons of the Fund's performance against that of other registered investment companies and comparable funds managed by the Investment Adviser that follow investment strategies similar to the Fund, if any; (6) information regarding brokerage and portfolio transactions; and (7) information on any legal proceedings or regulatory audits or investigations affecting the Investment Adviser or its affiliates. Throughout the contract renewal process, the Trustees requested that the Investment Adviser provide additional information regarding various matters. In addition, the Board of Trustees received an independent report from FUSE Research Network ("FUSE"), an independent third-part provider of investment company data, relating to the Fund's performance and expenses compared to the performance and expenses of a group of funds deemed by FUSE to be comparable to the Fund (the "peer group"), and to a larger group of comparable funds (the "peer universe"). The Board also received data relating to the Fund's leverage, discounts and distribution rates as compared to its peer group.

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The Board of Trustees' evaluation process with respect to the Investment Adviser is an ongoing one. In this regard, the Board of Trustees also took into account discussions with management and information provided to the Board of Trustees at periodic meetings of the Board of Trustees over the course of the year with respect to the services provided by the Investment Adviser to the Fund, including quarterly performance reports prepared by management containing reviews of investment results and prior presentations from the Investment Adviser with respect to the Fund. The information received and considered by the Board of Trustees in connection with the October 28, 2020 meeting and throughout the year was both written and oral.

The Board of Trustees reviewed various factors that were discussed in a legal memorandum provided by independent counsel regarding trustee responsibilities in considering the Advisory Agreement, the detailed information provided by the Investment Adviser and other relevant information and factors. The Board of Trustees also considered other factors (including conditions and trends prevailing generally in the economy, the securities markets, and the effect of the COVID-19 pandemic on the Funds and the industry). The Board of Trustees' conclusions as to the approval of the Advisory 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 that figured particularly in the Board of Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. In addition, the Board of Trustees' conclusions may be based in part on its consideration of the advisory arrangements in prior years and on the Board's ongoing regular review of fund performance and operations throughout the year.

Throughout the process, the Board of Trustees had the opportunity to ask questions of and request additional information from the Investment Adviser. The Board of Trustees was assisted by legal counsel for the Trust and the Independent Trustees were also separately assisted by independent legal counsel throughout the process. The Board also met separately without representatives of the Investment Adviser present. The Independent Trustees were also advised by and met in executive sessions with their independent legal counsel at which no representatives of management were present to discuss the proposed continuation of the Advisory Agreement, including prior to the October 28, 2020 meeting.

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

The Board considered the portfolio management services to be provided by the Investment Adviser under the Advisory Agreement and the activities related to portfolio management, including use of technology, research capabilities and investment management staff. The Board considered the relevant experience and qualifications of the personnel who would provide 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, including with respect to liquidity management. The Board also reviewed and discussed information regarding the Investment Adviser's compliance policies, procedures and personnel, including compensation arrangements and with respect to valuation, cybersecurity, business continuity and disaster recovery. The Board also considered the Investment Adviser's risk management and monitoring processes. The Board of Trustees took into account the terms of the Advisory Agreement and considered that, the Investment Adviser, subject to the direction of the Board of Trustees, is responsible for providing advice and guidance with respect to the Fund and for managing the investment of the assets of the Fund. The Board of Trustees also took into account that the scope of services provided by the Investment Adviser and the undertakings required of the Investment Adviser in connection with those services, including maintaining and monitoring its own and the Fund's compliance program, had expanded over time as a result of regulatory, market and other developments. In this regard, they considered the Investment Adviser's preparation with respect to the COVID-19 pandemic, ongoing reporting modernization efforts, and compliance with Rule 6c-11.

The Investment Adviser's services in coordinating and overseeing the activities of the Fund's other service providers, as well of the services provided under the Shared Services Agreements, were also considered. The Board also evaluated the expertise and performance of the personnel of the Investment Adviser who performed services for the Fund throughout the year. They also considered the quality of the Investment Adviser's compliance oversight program with respect to the Funds' service providers. The Board also considered both the investment advisory services and the nature, quality and extent of any administrative and other non-advisory services, including shareholder servicing and distribution support services that are provided to the Fund and its shareholders by the Investment Adviser and its affiliates, as well as considered the services provided under the Shared Services Agreements. The Board noted that the level and quality of services to the Funds by the Investment

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Adviser and its affiliates had not been materially impacted by the Highland Capital Management L.P. (“HCMLP”) bankruptcy and took into account the Investment Adviser’s representations that the level and quality of the services provided by the Investment Adviser and their affiliates, as well as of those services currently being provided by HCMLP pursuant to the Shared Services Agreement, would continue to be provided to the Funds at the same or higher level and quality.

The Board also considered the significant risks assumed by the Investment Adviser in connection with the services provided to the Fund, including entrepreneurial risk and ongoing risks including investment, operational, enterprise, litigation, regulatory and compliance risks with respect to the Fund. The Board of Trustees also noted various cost-savings initiatives that had been implemented by the Investment Adviser with respect to the Fund and the other funds in the Highland complex over the years. The Board also considered the financial condition and operations of the Investment Adviser during the COVID-19 pandemic and noted that there had been no material disruption of the Investment Adviser’s services to the Fund and that the Investment Adviser had continued to provide the same level, quality and extent of services to the Funds.

The Board of Trustees also noted that on a regular basis it receives and reviews information from the Fund’s Chief Compliance Officer (CCO) regarding the Fund’s compliance policies and procedures established pursuant to Rule 38a-1 under the Investment Company Act of 1940.

In considering the nature, extent, and quality of the services provided by the Investment Adviser, the Board also took into account its knowledge of the Investment Adviser’s management and the quality of the performance of its duties, through discussions and reports during the preceding year and in past years.

The Board took into account the Investment Adviser’s risk assessment, monitoring process and regulatory history. The Board concluded that the Investment Adviser had the quality and depth of personnel and investment methods essential to performing its duties under the Advisory Agreement, and that the nature and the quality of such advisory services supported the approval of the Advisory Agreement.

The Investment Adviser’s historical performance.

In considering the Fund’s performance, the Board of Trustees noted that it reviews at its regularly scheduled meetings information about the Fund’s performance results. The Board of Trustees reviewed the historical performance of the Fund over various time periods and reflected on previous discussions regarding matters bearing on the Investment Adviser’s performance at its meetings

throughout the year. The Board of Trustees discussed the performance of the Fund and considered the relative performance of the Fund and its portfolio management team as compared to that of the Fund’s peer group as selected by FUSE, as well as comparable indices. Among other data, the Board of Trustees also received data with respect to the Fund’s leverage and distribution rates as compared to its peer group. The Board also received a review of the data contained in the FUSE report from representatives of FUSE. The Board of Trustees noted that while it found the data provided by FUSE, the independent third-party data provider, generally useful, it recognized its limitations, including in particular that the data may vary depending on the end date selected and the results of the performance comparisons may vary depending on the selection of the peer group. The Board of Trustees also took into account management’s discussion of the category in which the Fund was placed for comparative purposes, including any differences between the Fund’s investment strategy and the strategy of the funds in the Fund’s respective category, as well as compared to the peer group selected by FUSE.

Among other data relating specifically to the Fund’s performance, the Board took note of FUSE’s explanatory note that the peer group and universe consist of bank loan funds with similar pricing characteristics, and includes both passive and active strategies, and that the universe excludes outliers. The Board then considered that the Fund had underperformed its benchmark, the Markit iBoxx USD Liquid Leveraged Loan Index, and its peer group median for the one-, three- and five-year periods ended June 30, 2020. The Board also took into account management’s discussion of the Fund’s performance, including the impact of current market conditions on the Fund’s performance, the peer group in which it was placed, as well as of the and historical tracking errors, and potential actions to be taken with respect to the Fund.

The Board of Trustees concluded that the Fund’s overall performance and other relevant factors, including the Investment Adviser’s actions to address any underperformance, supported the continuation of the Agreement with respect to the Fund for an additional one-year period.

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 the relationship with the Fund.

The Board of Trustees also gave consideration to the fees payable under the Agreement, the expenses the Investment Adviser incurs 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

ADDITIONAL INFORMATION (unaudited) (concluded)

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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 Board of Trustees took into account the management fee structure, including that management fees for the Fund were based on the Fund's total managed assets.

Among other data, the Board of Trustees considered that the Fund's total net expenses and advisory fee were lower than those of its peer group median. The Board also took into account management's discussion of the Fund's expenses

The Board of 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. The Board of Trustees concluded that the benefits received by the Investment Adviser and its affiliates were reasonable in the context of the relationship between the Investment Adviser and the Fund.

After such review, the Board of Trustees determined that the profitability to the Investment Adviser and its affiliates from their relationship with the Fund was not excessive.

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 considered the effective fee under the Advisory Agreement for the Fund as a percentage of assets at different asset levels and possible economies of scale that may be realized if the assets of the Fund grow. The Board noted that the Fund does not currently contain breakpoints in its advisory fee schedule. The Board considered the Investment Adviser's discussion of the Fund's advisory fee structure.

The Board also noted that the Fund's contractual advisory fee is in line with its peer universe at all asset levels. The Board of 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.

Conclusion.

Following a further discussion of the factors above, it was noted that in considering the approval of the Advisory Agreement, no single factor was determinative to the decision of the Board of Trustees. Rather, after weighing all factors and considerations, including those discussed above, the Board of Trustees, including separately, the Independent Trustees, unanimously agreed that the Advisory Agreement, including the advisory fee to be paid to the Investment Adviser, is fair and reasonable to the Fund in light of the services that the Investment Adviser proposes to provide, 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.
300 Crescent Court, Suite 700
Dallas, TX 75201

Transfer Agent

Bank of New York Mellon
240 Greenwich Street
New York, NY 10286

Distributor

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

Custodian

Bank of New York Mellon
240 Greenwich Street
New York, NY 10286

Independent Registered Public Accounting Firm

Cohen & Company, Ltd.
1350 Euclid Ave., Suite 800
Cleveland, OH 44115

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 as an exhibit to its report on Form N-PORT. The Fund's Form N-PORT is 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-PORT, upon request and without charge, by visiting the Fund's website at www.highlandfunds.com or by calling 1-855-799-4757.

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



**240 Greenwich Street
New York, NY 10286**

Highland/iBoxx Senior Loan ETF

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