HIGHLAND CAPITAL MANAGEMENT

Highland Income Fund

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 1-800-357-9167.

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 1-800-357-9167 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 Income Fund

TABLE OF CONTENTS

Privacy Policy

We recognize and respect your privacy expectations, whether you are a visitor to our web site, a potential shareholder, a current shareholder or even a former shareholder.

Collection of Information. We may collect nonpublic personal information about you from the following sources:

- ***Account applications and other forms,*** **which may include your name, address and social security number, written and electronic correspondence and telephone contacts;**
- ***Web site information,*** **including any information captured through the use of "cookies"; and**
- ***Account history,*** **including information about the transactions and balances in your accounts with us or our affiliates.**

Disclosure of Information. We may share the information we collect with our affiliates. We may also disclose this information as otherwise permitted by law. We do not sell your personal information to third parties for their independent use.

Confidentiality and Security of Information. We restrict access to nonpublic personal information about you to our employees and agents who need to know such information to provide products or services to you. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information, although you should be aware that data protection cannot be guaranteed.

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.

As of December 31, 2020 **Highland Income Fund (NYSE: HFRO)**

Performance Overview

For the twelve-month period ended December 31, 2020, Highland Income Fund (the "Fund" or "HFRO") experienced a total market price return of -8.29% and a total NAV return of 6.23%. Over the same period, the Fund's benchmark, the Credit Suisse Leveraged Loan Index (the "Index"), returned 2.78%.

Manager's Discussion

2020 was a year marked by unprecedented medical, economic and social challenges that will have lasting effects around the world. The Fund felt the effects of the pandemic in the turmoil that swept through markets in the first quarter; however, we saw resiliency in the Fund's net asset value during that time. In the first quarter the Fund's NAV returned -6.98% while the Credit Suisse Leveraged Loan Index declined -13.2%. Performance was bolstered by the Fund's hedge positions that provided approximately 14% of positive contribution during the quarter. Many of the Fund's tops themes including Creek Pine Holdings and Metro Goldwyn Mayer were positive contributors to performance during the year. Fieldwood Energy, real estate positions and loans were among the largest detractors to performance during the year.

The Fund's largest position, Creek Pine Holdings, continues to perform well. We originally invested in the asset in May 2018 as participating preferred in a joint venture with a consortium of institutional investors lead by Catchmark Timber Trust (ticker: CTT). The asset comprises 1.1 million acres of prime East Texas timberlands. The timberlands are located near top quartile mills and within approximately 100 miles of three of the top five U.S. homebuilding markets; Austin, Dallas, and Houston. These markets provide strong, growing, and compelling demand fundamentals. The joint venture assumes long-term sawtimber and pulpwood supply agreements with Georgia-Pacific and International Paper.

On June 24, 2020, Catchmark announced that the joint venture has amended its wood supply agreement with Georgia Pacific intended to achieve market-based pricing on timber sales. Under the amended supply agreement, the asset will also be able to increase reimbursement for extended haul distances, sell timber to other third parties, and expand its ability to sell large timberland parcels to third party buyers. The supply agreement with Georgia Pacific has also been extended by two years, with optimized harvest volume obligations to enhance and preserve long-term value. Speaking of the transaction, Catchmark CEO, Brian Davis, said "we expect these amendments to increase cash flows from timber sales at market-based prices based on customary pricing mechanisms, improve the value and marketability of the property for the long-term, and significantly enhanced the investments ability to make opportunistic timberland sales as well as recapitalize our investment." John Rasor at Catchmark added "our operations can now realize the full potential of the investments premier timberland holdings to optimize future cash flow and value." The Amended and Restated Joint Venture Agreement further provides for an increase in the 10.25% cumulative return on the preferred investors' interests in triple net lease ("NNN") subsidiary real estate investment trust of 0.5% per quarter, subject to a maximum increase of 2.0% and subject to decrease in other circumstances. This is very positive news and renegotiation of this agreement has been central to our investment thesis.

Throughout the course of the year the Fund has increased its allocation to SafStor. This is the largest position in the Fund's wholly owned REIT, NFRO REIT Sub, LLC. SafStor owns, develops, and redevelops single and multi-story self-storage properties. The Company focuses on currently undersupplied markets that offer low delinquency rates, high population growth with above average household income, and greater barriers to entry. Property management is performed by reputable operators such as Extra Space Storage and CubeSmart. As of December 31, 2020, the Fund has invested in the development of 19 individual storage facilities. The weighted average yield on cost is 8.6% for all SafStor properties. Stabilized cap rates for similar properties average approximately 5.5%, reflecting the potential for SafStor properties to see significant increases in value once stabilized. Additionally, we expect appreciation of the storage portfolio once development is complete. Self Storage has widely been viewed as recession resistant due to strong relative performance in previous recessions. 2020 was no different as the asset class proved to a safe haven while self-storage total returns have outperformed most REIT sectors since the pandemic started to devastate financial markets in February 2020.

We continue to follow an investment approach centered around a diverse set of opportunities. To this end and in addition to its traditional core portfolios of leveraged loans, CLO debt, and special situations, the Fund has increased its allocations to Real Estate. At this point in the credit cycle, we believe it prudent to expand the investment scope to include other assets with similar income characteristics that may not be as correlated to traditional floating rate investments. We believe that this approach leverages

Highland's existing real estate capabilities positions the Fund to better weather bouts of market turbulence should they arise in the future.

As we begin a new year, we are cognizant that the virus will continue to dominate economic outlook. Newly placed restrictions across the globe and surging case counts will most likely bring negative growth in the first quarter. However, positive news on vaccine trials gives us some confidence that the economy can expand in the second and third quarters. Additional fiscal stimulus could also potentially boost growth mid-year. We are cautiously optimistic about returns in the credit markets. There may be some catalyst-driven instances that have a successful outcome, but there still seems to be some persisting cautiousness amongst credit investors. Regardless of the opportunity set, we expect that the Fund’s flexible investment strategy will position it to positively traverse this next stage of the credit cycle. We continue to believe that upcoming opportunities will be defined around more idiosyncratic situations that favor a more active approach to investment management, and the ability to pursue those opportunities (and avoid others), regardless of asset class, should be beneficial and enhance the total return potential for the Fund.

We thank you for your continued support and investment in the Fund.

Objective

Highland Income Fund seeks to provide a high level of current income, consistent with preservation of capital.

Net Assets as of December 31, 2020

$950.3 million

Portfolio Data as of December 31, 2020

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

Quality Breakdown as of 12/31/2020 (%)[1]	
BBB	0.45
BB	10.55
B	43.01
CCC	10.97
NR	35.02

Top 5 Sectors as of 12/31/2020 (%)[1][2][3]	
Real Estate	62.4
Collateralized Loan Obligations	19.6
Information Technology	6.7
Communication Services	6.4
Healthcare	6.0

Top 10 Holdings as of 12/31/2020 (%)[1][2][3]	
Creek Pine Holdings, LLC 10.25%, (Preferred Stock)	25.7
NFRO REIT SUB, LLC (Common Stock)	19.2
EDS Legacy Partners VAR Prime Rate+2.750%, 12/14/2023 (U.S. Senior Loans)	5.3
CCS Medical Inc., Term Loan, 1st Lien 10.25%, 5/31/2021 (U.S. Senior Loans)	4.7
Metro-Goldwyn-Mayer, Inc. (Common Stock)	4.6
SFR WLIF II, LLC %, (LLC Interest)	4.5
IQHQ, Inc. (Common Stock)	4.1
Grayson CLO, Ltd., 11/1/2021 (Preferred Stock)	2.3
NexPoint Storage Partners, Inc. (Common Stock)	2.1
LLV Holdco LLC, Revolving Exit Loan 5.00%, 9/3/2021 (U.S. Senior Loans)	1.5

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

[2] Sectors and holdings are calculated as a percentage of total net assets.

[3] Excludes the Fund’s investment in a cash equivalent.

A guide to understanding the Fund's consolidated financial statements

Consolidated Investment Portfolio

The Consolidated Investment Portfolio details all of the Fund's holdings and its 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.

Consolidated 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 the Fund's liabilities (including any unpaid expenses) from the total of the Fund's investment and noninvestment assets. The net asset value per share for each class is calculated by dividing net assets allocated to that share class by the number of shares outstanding in that class as of the last day of the reporting period.

Consolidated 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.

Consolidated Statements of Changes in Net Assets

These statements detail how the Fund's net assets were affected by its operating results, distributions to shareholders and shareholder transactions (e.g., subscriptions, redemptions and distribution reinvestments) during the reporting periods. The Statement of Changes in Net Assets also details changes in the number of shares outstanding.

Consolidated Statement of Cash Flows

This statement reports net cash and foreign currency provided or used by operating, investing and financing activities and the net effect of those flows on cash and foreign currency during the period.

Consolidated Financial Highlights

The Consolidated Financial Highlights demonstrate how the Fund's net asset value per share was affected by the Fund's operating results. The Consolidated Financial Highlights also disclose the classes' performance and certain key ratios (e.g., net expenses and net investment income as a percentage of average net assets).

Notes to Consolidated Financial Statements

These notes disclose the organizational background of the Fund, certain of its 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.

Shares		Value ($)
Preferred Stock - 33.6%		
ENERGY - 1.4%		
1,759,514	Crestwood Equity Partners 9.25% (a)(s)	13,143,570
FINANCIALS - 5.1%		
	Eastland CLO, Ltd.	
3,980	1.00%, 05/01/2022 (b)(c)	1,605,001
34,500	Eastland CLO, Ltd. II (a)(b)(d)	13,912,700
	Gleneagles CLO. Ltd. ,	
8,860	12/30/2049 (b)(c)(d)	2,471,054
	Grayson CLO, Ltd. ,	
62,600	11/01/2021 (c)(d)(e)(f)	22,379,500
	Rockwall CDO, Ltd. ,	
12,553	08/01/2024 (b)(c)(d)	8,002,219
4,800	Rockwall CDO, Ltd. (a)(d)	551,280
		48,921,754
REAL ESTATE - 27.1%		
	Braemar Hotels & Resorts, REIT	
624,510	5.50% (a)(b)(g)	10,146,539
	Creek Pine Holdings, LLC, REIT	
180,008	10.25% (a)(b)(e)(f)	244,606,303
249,514	G-LA Resorts Holdings (a)(b)(d)(e)(f)	249,514
	Wheeler Real Estate Investment Trust,	
74,600	REIT 10.75%, 09/21/2023 (b)(g)(h)	1,346,530
	Wheeler Real Estate Investment Trust,	
97,992	REIT 9.00% (a)(b)	1,273,896
		257,622,782
	Total Preferred Stock (Cost $251,914,082)	319,688,106
Common Stocks - 33.1%		
COMMUNICATION SERVICES - 5.7%		
49,600	Loral Space & Communications, Inc.	1,041,104
502,161	Metro-Goldwyn-Mayer, Inc. (b)(i)	43,688,007
27,134	TerreStar Corporation (b)(e)(f)(i)	8,952,049
		53,681,160
CONSUMER DISCRETIONARY - 0.4%		
1,450	Toys ‘R’ Us (b)(e)(f)	362,543
1,450	Tru Kids, Inc. (b)(e)(f)	3,262,883
		3,625,426
ENERGY - 0.0%		
167,419	Fieldwood Energy LLC (b)	—
1,118,286	Value Creation, Inc. (b)(e)(f)	1
		1
GAMING/LEISURE - 0.3%		
	LLV Holdco LLC - Series A, Membership	
34,512	Interest (b)(e)(f)(j)	2,919,018
	LLV Holdco LLC - Series B, Membership	
436	Interest (b)(e)(f)(j)	—
		2,919,018
HEALTHCARE - 0.0%		
207,031	CCS Medical Inc. (b)(e)(f)(j)	—

Shares		Value ($)
INDUSTRIALS - 0.0%		
250,627	Remington Outdoor Co., Inc. (b)	—
MATERIALS - 0.2%		
299,032	MPM Holdings, Inc. (b)	1,495,160
REAL ESTATE - 26.5%		
1,464,698	Allenby (b)(e)(f)(j)	1
10,229,279	Claymore (b)(e)(f)(j)	10
	Independence Realty Trust, Inc.,	
331,800	REIT (s)	4,456,074
2,356,665	IQHQ, Inc. (a)(b)(e)(f)	39,144,206
17,630	NexPoint Real Estate Finance (j)	291,248
148,521	NexPoint Residential Trust, REIT (j)(s)	6,283,923
18,568	NexPoint Storage Partners, Inc. (e)(f)(j)	19,746,737
9,610,479	NFRO REIT SUB, LLC (b)(e)(f)(j)	182,266,573
		252,188,772
UTILITIES - 0.0%		
4,953	Vistra Energy Corp.	97,376
	Total Common Stocks (Cost $561,599,738)	314,006,913

Principal ($)		Value ($)
U.S. Senior Loans (k) - 21.1%		
BUSINESS EQUIPMENT & SERVICES - 0.4%		
	VM Consolidated Inc., Term Loan B1,	
3,867,671	1st Lien, 3.398% 02/28/25	3,840,288
COMMUNICATION SERVICES - 0.7%		
	TerreStar Corporation, Term Loan D,	
6,838,141	11.000% PIK 02/27/28 (e)(f)	6,838,141
	TerreStar Corporation, Term Loan H,	
50,000	11.000%, 02/28/22 (e)(f)	50,000
	TerreStar Corporation, Term Loan, 1st	
53,136	Lien, 11.000% 02/28/22 (e)(f)	53,136
		6,941,277
CONSUMER DISCRETIONARY - 0.3%		
	USS Ultimate Holdings Inc., Initial Term Loan, 1st Lien, VAR LIBOR USD 3	
2,660,674	Month+3.750%, 08/09/24	2,664,199
CONSUMER PRODUCTS - 0.3%		
	Dayco Products LLC, Term Loan B, 1st Lien, VAR LIBOR USD 3	
3,299,917	Month+4.250%, 05/08/23	2,560,736
ENERGY - 0.4%		
	Fieldwood Energy LLC, Closing Date Loan, 2nd Lien, VAR LIBOR USD	
15,904,030	3 Month+7.250%, 04/11/23 (l)	23,061
	Traverse Midstream Partners LLC, Advance Term Loan, 1st Lien, VAR LIBOR	
4,047,344	USD 3 Month+4.000%, 09/27/24	3,984,731
		4,007,792

See Glossary on page 11 for abbreviations along with accompanying Notes to Consolidated Financial Statements.

Principal ($)		Value ($)
U.S. Senior Loans (continued)		
FINANCIALS - 0.3%		
2,697,348	Edelman Financial Center LLC, Initial Term Loan, 2nd Lien, VAR LIBOR USD 3 Month+6.750%, 06/26/26	2,717,578
GAMING/LEISURE - 1.8%		
22,764,040	Ginn-LA CS Borrower LLC, Term Loan A, 1st Lien, 0.000% (e)(f)(l)	741,288
48,791,955	Ginn-LA CS Borrower LLC, Term Loan B, 1st Lien, 0.000% (e)(f)(l)	—
563,359	LLV Holdco LLC, 1st Protective Advance, 7.000% 03/31/21 (e)(f)(j)	624,202
938,933	LLV Holdco LLC, 3rd Protective Advance, 7.000% 03/31/21 (e)(f)(j)	1,040,337
333,130	LLV Holdco LLC, 4th Protective Advance, 7.000% 03/31/21 (e)(f)(j)	369,108
11,940,100	LLV Holdco LLC, Revolving Exit Loan, 5.000% 09/03/21 (e)(f)(j)	14,208,720
		16,983,655
HEALTHCARE - 6.0%		
13,541,667	BW NHHC Holdco Inc., Initial Term Loan, 1st Lien, VAR LIBOR USD 3 Month+5.000%, 05/15/25	11,966,093
65,153,356	CCS Medical Inc., Term Loan, 1st Lien, 10.250%, 05/31/21 (e)(f)(j)	44,760,356
		56,726,449
INDUSTRIALS - 1.1%		
4,000,000	PSC Industrial Holdings Corp., Initial Term Loan, 2nd Lien, VAR LIBOR USD 3 Month+8.500%, 10/11/25	3,496,660
6,855,124	PSC Industrial Holdings Corp., Term Loan, 1st Lien, VAR LIBOR USD 3 Month+3.750%, 10/11/24	6,662,323
		10,158,983
INFORMATION TECHNOLOGY - 6.7%		
4,334,475	Avaya Inc., Term Loan B-1, 1st Lien, 4.409%, 12/15/27	4,343,491
57,000,000	EDS Legacy Partners, VAR Prime Rate+2.750%, 12/14/23 (e)(f)(j)	50,028,900
3,913,008	Intermedia Holdings Inc., New Term Loan, 1st Lien, VAR LIBOR USD 3 Month+6.000%, 07/21/25	3,909,956
5,651,549	Procera Networks Inc., Initial Term Loan, 1st Lien, VAR LIBOR USD 3 Month+4.500%, 10/30/25	5,430,178
		63,712,525
REAL ESTATE - 0.4%		
3,602,446	Forest City Enterprises L.P., Replacement Term Loan, 1st Lien, 3.647%, 12/08/25	3,456,114
RETAIL - 1.7%		
78,242	General Nutrition Centers Inc., Term Loan B-2, 1st Lien, VAR LIBOR USD 3 Month+8.750%, 03/04/21 (l)	61,029
RETAIL (continued)		
4,130,311	GNC Holdings, Inc., 2nd Lien, VAR LIBOR USD 3 Month + 6.000%, 10/30/26 (l)	3,015,127
5,073,808	Jo-Ann Stores LLC, Initial Term Loan, 1st Lien, VAR LIBOR USD 3 Month+5.000%, 10/20/23	4,911,040
9,554,955	Jo-Ann Stores LLC, Initial Term Loan, 2nd Lien, VAR LIBOR USD 3 Month+9.250%, 05/21/24	8,770,684
		16,757,880
SERVICE - 0.6%		
5,899,573	EnergySolutions LLC, Initial Term Loan, 1st Lien, VAR LIBOR USD 3 Month+3.750%, 05/09/25	5,823,350
TRANSPORTATION - 0.4%		
3,818,151	Gruden Acquisition Inc., Incremental Term Loan, 1st Lien, VAR LIBOR USD 3 Month+5.500%, 08/18/22	3,787,930
UTILITIES - 0.0%		
59,127,210	Texas Competitive Electric Holdings Co. LLC, Extended Escrow Loan, (m)	98,441
	Total U.S. Senior Loans (Cost $313,381,396)	200,237,197
Collateralized Loan Obligations - 19.6%		
4,000,000	Acis CLO, Ltd., Series 2014-3A, Class E VAR ICE LIBOR USD 3 Month+4.750%, 4.96%, 2/1/2026 (c)	3,450,400
750,000	Acis CLO, Ltd., Series 2014-4, Class D 3.31%, 5/1/2026 (c)	733,187
1,000,000	Acis CLO, Ltd., Series 2015-6A, Class D VAR ICE LIBOR USD 3 Month+3.770%, 3.98%, 5/1/2027 (c)	992,500
14,750,000	Acis CLO, Ltd., Series 2014-4A, Class E VAR ICE LIBOR USD 3 Month+4.800%, 5.01%, 5/1/2026 (c)	13,275,000
7,500,000	Acis CLO, Ltd., Series 2015-6A, Class E VAR ICE LIBOR USD 3 Month+5.490%, 5.70%, 5/1/2027 (c)	6,750,000
10,500,000	Acis CLO, Ltd., Series 2017-7A, Class E VAR ICE LIBOR USD 3 Month+6.000%, 6.21%, 5/1/2027 (c)	10,080,000
2,000,000	Apex Credit CLO, Series 2019-1A, Class D VAR ICE LIBOR USD 3 Month+7.100%, 7.32%, 4/18/2032 (c)	1,780,000
250,000	Ares XXIX CLO, Series 2014-1A, Class E VAR ICE LIBOR USD 3 Month+5.750%, 5.97%, 4/17/2026 (c)	217,500
1,000,000	Ares XXVIIIR CLO, Series 2018-28RA, Class F VAR ICE LIBOR USD 3 Month+7.785%, 8.00%, 10/17/2030 (c)	825,000
1,500,000	Atlas Senior Loan Fund, Series 2017- 8A, Class F VAR ICE LIBOR USD 3 Month+7.150%, 7.38%, 1/16/2030 (c)	1,140,000

Principal ($)		Value ($)
	Collateralized Loan Obligations (continued)	
2,400,000	Atlas Senior Loan Fund XII, Series 2018-12A, Class E VAR ICE LIBOR USD 3 Month+5.950%, 6.16%, 10/24/2031 (c)	1,977,120
1,000,000	Atrium XIII, Series 2017-13A, Class E VAR ICE LIBOR USD 3 Month+6.050%, 6.26%, 11/21/2030 (c)	948,000
1,000,000	Benefit Street Partners CLO VII, Series 2015-VIIA, Class D VAR ICE LIBOR USD 3 Month+5.350%, 5.57%, 7/18/2027 (c)	925,000
2,000,000	Benefit Street Partners CLO XI, Series 2017-11A, Class E VAR ICE LIBOR USD 3 Month+7.200%, 7.44%, 4/15/2029 (c)	1,580,000
3,500,000	BlueMountain CLO, Ltd., Series 2018- 3A, Class ER VAR ICE LIBOR USD 3 Month+8.080%, 8.30%, 4/20/2031 (c)	2,541,350
2,000,000	California Street CLO IX, Series 2019- 9A, Class FR2 VAR ICE LIBOR USD 3 Month+8.520%, 8.75%, 7/16/2032 (c)	1,660,000
2,000,000	Canyon Capital CLO, Series 2018-1A, Class ER VAR ICE LIBOR USD 3 Month+5.750%, 5.99%, 7/15/2031 (c)	1,800,000
500,000	Carlyle US CLO, Series 2020-4A, Class D VAR ICE LIBOR USD 3 Month+7.650%, 7.89%, 1/15/2033 (c)	499,375
2,500,000	Catamaran CLO, Ltd., Series 2016-1A, Class D VAR ICE LIBOR USD 3 Month+6.650%, 6.87%, 1/18/2029 (c)	2,250,000
2,250,000	Catamaran CLO, Ltd., Series 2015-1A, Class E VAR ICE LIBOR USD 3 Month+5.150%, 5.37%, 4/22/2027 (c)	1,935,000
3,000,000	Catamaran CLO, Ltd., Series 2014-2A, Class D VAR ICE LIBOR USD 3 Month+4.850%, 5.07%, 10/18/2026 (c)	2,400,000
4,000,000	Cathedral Lake CLO, Series 2019-4A, Class E2R VAR ICE LIBOR USD 3 Month+7.830%, 8.05%, 10/20/2028 (c)	3,500,000
1,250,000	Cathedral Lake CLO, Series 2017-1A, Class DR VAR ICE LIBOR USD 3 Month+7.250%, 7.49%, 10/15/2029 (c)	1,101,375
5,400,000	Cedar Funding VI CLO, Series 2018-6A, Class ER VAR ICE LIBOR USD 3 Month+5.900%, 6.12%, 10/20/2028 (c)	5,183,460
1,000,000	CIFC Funding, Series 2018-1A, Class ER2 VAR ICE LIBOR USD 3 Month+5.850%, 6.07%, 1/18/2031 (c)	925,000
3,000,000	Covenant Credit Partners CLO III, Series 2017-1A, Class F VAR ICE LIBOR USD 3 Month+7.950%, 8.19%, 10/15/2029 (c)	2,152,500
1,500,000	Dryden 41 Senior Loan Fund, Series 2018-41A, Class FR VAR ICE LIBOR USD 3 Month+7.200%, 7.44%, 4/15/2031 (c)	1,241,250
2,000,000	Dryden 45 Senior Loan Fund, Series 2018-45A, Class FR VAR ICE LIBOR USD 3 Month+8.120%, 8.36%, 10/15/2030 (c)	1,720,000
1,500,000	Dryden 49 Senior Loan Fund, Series 2017-49A, Class F VAR ICE LIBOR USD 3 Month+7.550%, 7.77%, 7/18/2030 (c)	1,275,000
8,000,000	Eaton Vance CLO, Series 2019-1A, Class F VAR ICE LIBOR USD 3 Month+8.250%, 8.49%, 4/15/2031 (c)	7,081,600
2,000,000	Flatiron CLO, Series 2015-1A, Class F VAR ICE LIBOR USD 3 Month+5.500%, 5.74%, 4/15/2027 (c)	1,700,000
750,000	Galaxy XXII CLO, Series 2018-22A, Class ER VAR ICE LIBOR USD 3 Month+5.750%, 5.98%, 7/16/2028 (c)	697,425
2,500,000	Galaxy XXV CLO, Series 2018-25A, Class E VAR ICE LIBOR USD 3 Month+5.950%, 6.16%, 10/25/2031 (c)	2,386,250
5,450,000	Galaxy XXVI CLO, Series 2018-26A, Class F VAR ICE LIBOR USD 3 Month+8.000%, 8.21%, 11/22/2031 (c)	4,605,250
3,000,000	GoldenTree Loan Management US CLO 3, Series 2018-3A, Class F VAR ICE LIBOR USD 3 Month+6.500%, 6.72%, 4/20/2030 (c)	2,505,000
4,500,000	Goldentree Loan Management US CLO 4, Series 2019-4A, Class E VAR ICE LIBOR USD 3 Month+4.750%, 4.96%, 4/24/2031 (c)	4,095,000
3,500,000	GoldenTree Loan Management US CLO 4, Series 2019-4A, Class F VAR ICE LIBOR USD 3 Month+6.400%, 6.61%, 4/24/2031 (c)	3,010,000
3,500,000	GoldenTree Loan Opportunities IX, Series 2018-9A, Class FR2 VAR ICE LIBOR USD 3 Month+7.640%, 7.85%, 10/29/2029 (c)	3,080,000
1,500,000	Grippen Park CLO, Series 2017-1A, Class E VAR ICE LIBOR USD 3 Month+5.700%, 5.92%, 1/20/2030 (c)	1,432,500
3,500,000	Jamestown CLO IX, Series 2019-9A, Class DR VAR ICE LIBOR USD 3 Month+6.940%, 7.16%, 10/20/2028 (c)	3,342,500
4,000,000	Jay Park CLO, Ltd., Series 2018-1A, Class ER VAR ICE LIBOR USD 3 Month+7.350%, 7.57%, 10/20/2027 (c)	3,560,000

Principal ($)		Value ($)
	Collateralized Loan Obligations (continued)	
5,000,000	KKR CLO 18, Series 2017-18, Class E VAR ICE LIBOR USD 3 Month+6.450%, 6.67%, 7/18/2030 (c)	4,725,000
1,300,000	Madison Park Funding X, Series 2019- 10A, Class ER2 VAR ICE LIBOR USD 3 Month+6.400%, 6.62%, 1/20/2029 (c)	1,267,500
5,250,000	Madison Park Funding XV, Series 2017-15A, Class DR VAR ICE LIBOR USD 3 Month+5.440%, 5.66%, 1/27/2026 (c)	5,135,156
2,000,000	Madison Park Funding XVII, Series 2017-17A, Class FR VAR ICE LIBOR USD 3 Month+7.480%, 7.69%, 7/21/2030 (c)	1,810,000
1,400,000	Madison Park Funding XX, Series 2018-20A, Class ER VAR ICE LIBOR USD 3 Month+5.300%, 5.52%, 7/27/2030 (c)	1,260,000
2,000,000	Madison Park Funding XXIV, Series 2019-24A, Class ER VAR ICE LIBOR USD 3 Month+7.200%, 7.42%, 10/20/2029 (c)	1,930,000
1,000,000	Madison Park Funding XXIX, Series 2018-29A, Class F VAR ICE LIBOR USD 3 Month+7.570%, 7.79%, 10/18/2030 (c)	862,500
1,000,000	Madison Park Funding XXX, Series 2018-30A, Class F VAR ICE LIBOR USD 3 Month+6.850%, 7.09%, 4/15/2029 (c)	820,000
490,000	Magnetite VII, Ltd., Series 2018-7A, Class ER2 VAR ICE LIBOR USD 3 Month+6.500%, 6.74%, 1/15/2028 (c)	426,300
4,500,000	Man GLG US CLO, Series 2018-1A, Class DR VAR ICE LIBOR USD 3 Month+5.900%, 6.12%, 4/22/2030 (c)	3,760,762
500,000	Mountain View Clo XIV, Series 2019- 1A, Class F VAR ICE LIBOR USD 3 Month+8.700%, 8.94%, 4/15/2029 (c)	405,200
5,800,000	MP CLO VII, Series 2018-1A, Class FRR VAR ICE LIBOR USD 3 Month+7.910%, 8.13%, 10/18/2028 (c)	3,489,667
3,000,000	Neuberger Berman CLO XX, Ltd., Series 2017-20A, Class FR VAR ICE LIBOR USD 3 Month+7.450%, 7.69%, 1/15/2028 (c)	2,596,875
4,000,000	Northwoods Capital XII-B, Ltd., Series 2018-12BA, Class F VAR ICE LIBOR USD 3 Month+8.170%, 8.39%, 6/15/2031 (c)	2,960,000
1,000,000	OCP CLO, Series 2015-9A, Class E VAR ICE LIBOR USD 3 Month+6.400%, 6.64%, 7/15/2027 (c)	900,000
2,900,000	OHA Credit Partners XII, Series 2018- 12A, Class FR VAR ICE LIBOR USD 3 Month+7.680%, 7.89%, 7/23/2030 (c)	2,395,545

Principal ($)		Value ($)
	Collateralized Loan Obligations (continued)	
1,000,000	OZLM Funding III, Series 2016-3A, Class DR VAR ICE LIBOR USD 3 Month+7.770%, 7.99%, 1/22/2029 (c)	960,000
3,110,000	OZLM XXII, Ltd., Series 2018-22A, Class E VAR ICE LIBOR USD 3 Month+7.390%, 7.61%, 1/17/2031 (c)	2,270,300
2,250,000	Regatta VI Funding, Series 2018-1A, Class ER VAR ICE LIBOR USD 3 Month+5.000%, 5.22%, 7/20/2028 (c)	2,176,875
3,150,000	Saranac CLO III, Ltd., Series 2018-3A, Class ER VAR ICE LIBOR USD 3 Month+7.500%, 7.74%, 6/22/2030 (c)	1,960,513
5,000,000	Saranac CLO VI, Ltd., Series 2018-6A, Class E VAR ICE LIBOR USD 3 Month+6.400%, 6.62%, 8/13/2031 (c)	3,648,500
2,160,000	SCOF-2, Series 2018-2A, Class ER VAR ICE LIBOR USD 3 Month+5.710%, 5.99%, 7/15/2028 (c)	1,976,400
1,250,000	Symphony CLO XX, Series 2019-20A, Class E VAR ICE LIBOR USD 3 Month+6.290%, 6.52%, 1/16/2032 (c)	1,187,500
1,500,000	Symphony CLO XXI, Series 2019-21A, Class E VAR ICE LIBOR USD 3 Month+6.750%, 6.99%, 7/15/2032 (c)	1,500,000
1,000,000	TCW CLO, Series 2020-1A, Class ER VAR ICE LIBOR USD 3 Month+7.960%, %, 10/20/2031 (c)	995,000
1,000,000	TCW CLO, Series 2019-1A, Class F VAR ICE LIBOR USD 3 Month+8.670%, 8.89%, 2/15/2029 (c)	945,000
1,250,000	THL Credit Wind River CLO, Series 2017-1A, Class E VAR ICE LIBOR USD 3 Month+6.420%, 6.64%, 4/18/2029 (c)	1,206,250
2,200,000	TICP CLO I-2, Series 2018-IA, Class E VAR ICE LIBOR USD 3 Month+8.000%, 8.21%, 4/26/2028 (c)	1,784,640
4,150,000	TICP CLO III-2, Ltd., Series 2018-3R, Class F VAR ICE LIBOR USD 3 Month+7.980%, 8.20%, 4/20/2028 (c)	3,318,548
2,069,089	Trinitas CLO III, Series 2015-3A, Class E VAR ICE LIBOR USD 3 Month+5.250%, 5.49%, 7/15/2027 (c)	1,500,089
5,000,000	Trinitas CLO X, Series 2019-10A, Class F VAR ICE LIBOR USD 3 Month+7.785%, 8.02%, 4/15/2032 (c)	4,275,000
1,000,000	Vibrant ClO 1X, Series 2018-9A, Class D VAR ICE LIBOR USD 3 Month+6.250%, 6.47%, 7/20/2031 (c)	890,000
1,275,000	Voya CLO, Series 2013-2, Class DR VAR ICE LIBOR USD 3 Month+5.600%, 5.81%, 4/25/2031 (c)	1,082,156

Principal ($)		Value ($)
Collateralized Loan Obligations (continued)		
3,200,000	Voya CLO, Series 2014-4, Class ER VAR ICE LIBOR USD 3 Month+9.050%, 9.28%, 7/14/2031 (c)	2,656,000
1,000,000	Webster Park CLO, Series 2018-1A, Class ER VAR ICE LIBOR USD 3 Month+7.750%, 7.97%, 7/20/2030 (c)	910,000
3,117,861	Zais CLO 3, Ltd., Series 2018-3A, Class DR VAR ICE LIBOR USD 3 Month+6.910%, 7.15%, 7/15/2031 (c)	1,847,333
3,462,200	Zais CLO 8, Ltd., Series 2018-1A, Class E VAR ICE LIBOR USD 3 Month+5.250%, 5.49%, 4/15/2029 (c)	2,414,885
	Total Collateralized Loan Obligations (Cost $ 197,537,819)	186,603,036
LLC Interest - 8.3%		
192	NEXLS LLC (e)(f)(j)	6,733,993
534,905	NexPoint Real Estate Finance Operating Partnership, L.P. (j)	8,836,629
624,311	NREF OP II, L.P. (j)	10,313,613
11,854,986	SFR WLIF I, LLC (e)(f)(j)	9,651,737
52,666,032	SFR WLIF II, LLC (e)(f)(j)	43,137,167
	Total LLC Interest (Cost $ 94,362,844)	78,673,139
Shares		
Registered Investment Companies - 1.3%		
48,649	Highland Global Allocation Fund (j)	317,678
1,156,943	NexPoint Strategic Opportunities Fund (j)(s)	12,171,040
	Total Registered Investment Companies (Cost $ 19,708,761)	12,488,718
Principal ($)		
Corporate Bonds & Notes - 0.1%		
COMMUNICATION SERVICES - 0.0%		
1,550	iHeartCommunications, Inc. 6.38%, 05/01/26	1,661
ENERGY - 0.0%		
15,600,000	Ocean Rig UDW, Inc. 7.25%, 04/01/19 (c)(e)(f)(l)	—
INDUSTRIALS - 0.0%		
7,500,000	American Airlines 12/31/49 (m)(l)	123,276
REAL ESTATE - 0.1%		
2,000,000	CBL & Associates 5.95%, 12/15/26 (l)	795,610
UTILITIES - 0.0%		
15,222,107	Bruce Mansfield Pass-Through Trust 6.85%, 06/01/34 (l)	—
8,000,000	Texas Competitive Electric Holdings Co., LLC 11.50%, 10/01/20 (l)(m)	12,000
		12,000
	Total Corporate Bonds & Notes (Cost $ 15,043,396)	932,547

Units		Value ($)
Warrants - 0.0%		
ENERGY - 0.0%		
5,801	Arch Resources, Expires 10/05/2023 (b)	52,209
INDUSTRIALS - 0.0%		
178,140	Remington Outdoor Co., Inc. (b)(e)(f)	—
	Total Warrants (Cost $264,794)	52,209
Rights - 0.0%		
Utilities - 0.0%		
4,933	Texas Competitive Electric Holdings Co., LLC (b)	5,448
	Total Rights (Cost $–)	5,448
Principal ($)		
Claims - 0.0%		
Communication Services - 0.0%		
3,791,858	Lehman Brothers Commercial Paper LCPI Claim Facility (e)(f)(l)(n)	52,138
	Total Claims (Cost $1,814,883)	52,138
Repurchase Agreement (o)(p) - 0.0%		
172,731	Citigroup Global Markets 0.070%, dated 12/31/2020 to be repurchased on 01/04/2021, repurchase price $172,732 (collateralized by U.S. Government obligations, ranging in par value $317 - $22,863, 0.000% - 4.000%, 09/15/2021 - 01/01/2051; with total market value $176,186)	172,731
	Total Repurchase Agreement (Cost $172,731)	172,731
Shares		
Cash Equivalent - 15.5%		
MONEY MARKET FUND (q) - 15.5%		
147,537,395	Dreyfus Treasury & Agency Cash Management, Institutional Class 0.030%	147,537,395
	Total Cash Equivalent (Cost $147,537,395)	147,537,395
Total Investments - 132.6% (Cost $1,603,337,839)		**1,260,449,577**
Securities Sold Short - (0.7)%		
Common Stock - (0.7)%		
INFORMATION TECHNOLOGY - (0.7)%		
(41,100)	Texas Instruments, Inc.	(6,745,743)
	Total Common Stock (Proceeds $ 4,920,256)	(6,745,743)
	Total Securities Sold Short - (0.7)% (Proceeds $ 4,920,256)	(6,745,743)
Other Assets & Liabilities, Net - (31.9)% (r)		**(303,355,949)**
Net Assets - 100.0%		**950,347,885**

(a) Perpetual security with no stated maturity date.

(b) Non-income producing security.

(c) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transactions exempt from registration to qualified institutional buyers. The Board has determined these investments to be liquid. At December 31, 2020, these securities amounted to $221,060,810 or 23.3% of net assets.

(d) There is currently no rate available.

(e) Securities with a total aggregate value of $702,178,561, or 73.9% of net assets, were classified as Level 3 within the three-tier fair value hierarchy. Please see Consolidated Notes to Financial Statements for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.

(f) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. The Board considers fair valued securities to be securities for which market quotations are not readily available and these securities may be valued using a combination of observable and unobservable inputs. Securities with a total aggregate value of $702,178,561, or 73.9% of net assets, were fair valued under the Fund's valuation procedures as of December 31, 2020. Please see Consolidated Notes to Financial Statements.

(g) Securities (or a portion of securities) on loan. As of December 31, 2020, the fair value of securities loaned was $167,217. The loaned securities were secured with cash and/or securities collateral of $172,731. Collateral is calculated based on prior day's prices.

(h) Step Bonds - Represents the current rate, the step rate and the step date.

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

Restricted Security	Security Type	Acquisition Date	Cost of Security	Fair Value at Year End	Percent of Net Assets
Metro-Goldwyn-Mayer, Inc.	Common Stocks	12/20/2010	$21,845,688	$43,688,007	4.6%
TerreStar Corporation	Common Stocks	3/16/2018	$ 3,093,276	$ 8,952,049	0.9%

(j) Affiliated issuer. Assets with a total aggregate fair value of $413,700,990, or 43.5% of net assets, were affiliated with the Fund as of December 31, 2020.

(k) Senior loans (also called bank loans, leveraged loans, or floating rate loans) in which the Fund invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread (unless otherwise identified, all senior loans carry a variable rate of interest). These base lending rates are generally (i) the Prime Rate was 3.25% offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Interbank Offered Rate ("LIBOR") or (iii) the Certificate of Deposit rate. As of December 31, 2020, the LIBOR USD 3 Month rate was 0.238%. Senior loans, while exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity maybe substantially less than the stated maturity shown.

(l) The issuer is, or is in danger of being, in default of its payment obligation.

(m) Represents value held in escrow pending future events. No interest is being accrued.

(n) These positions represent claims that have been filed with the United States Bankruptcy Court Southern District of New York against Lehman Commercial Paper, Inc. UK Branch.

(o) Tri-Party Repurchase Agreement.

(p) This security was purchased with cash collateral held from securities on loan. The total value of such securities as of December 31, 2020 was $172,731.

(q) Rate shown is 7 day effective yield.

(r) As of December 31, 2020, $6,686,970 in cash was segregated or on deposit with the brokers to cover investments sold short and is included in "Other Assets & Liabilities, Net".

(s) All or part of this security is pledged as collateral for short sales. The fair value of the securities pledged as collateral is $20,497,456.

Futures contracts outstanding as of December 31, 2020 were as follows:

Description	Expiration Date	Number of Contracts	Notional Value	Unrealized Depreciation	Value
Short Futures:					
Russell 2000 Index E-MINI	March 2021	(315)	$ (30,486,343)	$ (616,757)	$ (31,103,100)
S&P 500 Index E-MINI	March 2021	(928)	(170,509,892)	(3,434,428)	(173,944,320)
				$(4,051,185)	$(205,047,420)

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

Other Abbreviations:

CLO	Collateralized Loan Obligation
ICE	Intercontinental Exchange
LIBOR	London Interbank Offered Rate
PIK	Payment In-Kind
REIT	Real Estate Investment Trust
USD	United States Dollar
VAR	Variable

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

As of December 31, 2020 **Highland Income Fund**

	$
Assets	
Investments from unaffiliated issuers, at value[a]	699,038,461
Affiliated investments, at value (Note 10)	413,700,990
Total Investments, at value (Cost $1,455,627,713)	1,112,739,451
Repurchase Agreements, at value	172,731
Cash equivalents (Note 2)	147,537,395
Cash	250,455
Restricted Cash — Securities Sold Short (Note 2)	6,686,970
Restricted Cash — Futures (Note 3)	13,307,800
Receivable for:	
Investments sold and principal paydowns	8,436,573
Dividends and interest	12,697,422
Fund shares sold	115,516
Prepaid expenses and other assets	680,546
Total assets	1,302,624,859
Liabilities:	
Line of credit (Note 6)	200,000,000
Securities sold short, at value (Proceeds $4,920,256) (Note 2)	6,745,743
Payable for:	
Investments purchased	2,223,860
Payable for variation margin	1,114,373
Investment advisory and administration fees (Note 7)	1,014,527
Upon receipt of securities loaned (Note 4)	172,731
Due to broker	36,816
Accrued expenses and other liabilities	1,212,675
Total liabilities	212,520,725
Mezzanine Equity:	
Cumulative preferred shares (Series A), net of deferred financing costs (Notes 1 and 2)	139,756,249
Net Assets	**950,347,885**
Net Assets Consist of:	
Paid-in capital	1,576,243,109
Total accumulated losses	(625,895,224)
Net Assets	**950,347,885**
Investments, at cost	713,265,113
Affiliated investments, at cost (Note 10)	742,362,600
Cash equivalents, at cost (Note 2)	147,537,395
Repurchase Agreements, at cost	172,731
Proceeds from securities sold short	4,920,256
(a) Includes fair value of securities on loan	167,217
Common Shares	
Shares outstanding ($0.001 par value; unlimited authorization)	71,350,322
Net asset value per share (Net assets/shares outstanding)	13.32

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2020 **Highland Income Fund**

	Highland Income Fund $
Investment Income	
Income:	
Dividends from unaffiliated issuers	5,939,783
Dividends from affiliated issuers (Note 10).	8,240,159
Securities lending income (Note 4)	8,247
Interest from unaffiliated issuers	36,414,575
Interest from affiliated issuers	3,937,399
Interest paid in kind from unaffiliated issuers	1,326,554
Interest paid in kind from affiliated issuers (Note 10)	7,155,168
Total income	63,021,885
Expenses:	
Investment advisory (Note 7)	8,652,931
Administration fees (Note 7)	2,769,587
Interest expense, commitment fees, and financing costs (Note 6)	7,794,173
Legal fees	1,488,707
Accounting services fees	717,795
Audit fees	622,060
Insurance	507,684
Amortized offering costs	490,613
Reports to shareholders	325,156
Dividends and fees on securities sold short (Note 2)	229,686
Trustees fees (Note 7)	213,658
Custodian/wire agent fees	198,783
Pricing fees	169,265
Transfer agent fees	128,501
Registration fees	112,766
Expedited settlement facility (Note 7)	66,029
Total operating expenses	24,487,394
Net investment income	38,534,491
Preferred dividend expenses	(7,793,756)
Net Realized and Unrealized Gain (Loss) on Investments	
Realized gain (loss) on:	
Investments from unaffiliated issuers	(112,067,776)
Investments in affiliated issuers	(7,458,253)
Securities sold short (Note 2)	34,114,580
Written options contracts (Note 3)	18,882,098
Futures contracts (Note 3)	25,402,789
Foreign currency related transactions	(136)
Net Change in Unrealized Appreciation (Depreciation) on:	
Investments	73,092,703
Investments in affiliated issuers	(29,200,785)
Securities sold short (Note 2)	(1,221,593)
Written options contracts (Note 3)	(4,437,523)
Futures contracts (Note 3)	(1,761,821)
Foreign currency related translations	1
Net realized and unrealized gain (loss) on investments	(4,655,716)
Total increase in net assets resulting from operations	26,085,019

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Highland Income Fund

	Year Ended December 31, 2020 ($)	Year Ended December 31, 2019 ($)
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	38,534,491	60,675,649
Preferred dividend expenses	(7,793,756)	(3,285,411)
Net realized loss on investments, securities sold short, written options, futures contracts and foreign currency transactions	(41,126,698)	(74,038,344)
Net increase in unrealized appreciation on investments, securities sold short, written options, futures contracts and foreign currency translations	36,470,982	53,928,243
Net increase from operations	26,085,019	37,280,137
Distributions		
Shares of closed-end fund	(31,361,875)	(58,214,363)
Return of capital:		
Shares of closed-end fund	(34,680,666)	(8,201,030)
Total distributions	(66,042,541)	(66,415,393)
Decrease in net assets from operations and distributions	(39,957,522)	(29,135,256)
Share transactions:		
Value of distributions reinvested	1,428,747	1,291,961
Shares repurchased of closed-end fund (Note 1)	(6,528,265)	(3,163,298)
Net decrease from shares transactions	(5,099,518)	(1,871,337)
Total decrease in net assets	(45,057,040)	(31,006,593)
Net Assets		
Beginning of year	995,404,925	1,026,411,518
End of year	950,347,885	995,404,925
Change in Common Shares:		
Issued for distribution reinvested	158,755	98,540
Shares redeemed (Note 1)	(544,508)	(235,049)
Net decrease in fund shares	(385,753)	(136,509)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2020 | **Highland Income Fund**

	Highland Income Fund $
Cash Flows Provided by Operating Activities:	
Net increase in net assets resulting from operations	26,085,019
Adjustments to Reconcile Net Increase in Net Assets Resulting from Operations to Net Cash Provided by Operating Activities:	
Purchases of investment securities from unaffiliated issuers	(282,717,701)
Purchases of investment securities from affiliated issuers	(167,375,893)
Interest paid in kind from unaffiliated issuers	(1,326,554)
Interest paid in kind from affiliated issuers	(7,155,168)
Proceeds from disposition of investment securities from unaffiliated issuers	649,602,748
Proceeds from disposition of investment securities from affiliated issuers	49,754,798
Purchases to cover securities sold short	(252,661,175)
Proceeds from securities sold short	283,223,388
Purchases to cover written options	(46,934,154)
Proceeds from written options	59,860,728
Paydowns at cost	64,532,852
Net (amortization) accretion of discount	(2,632,086)
Net realized (gain) loss on Investments from unaffiliated issuers	112,067,776
Net realized (gain) loss on Investments from affiliated issuers	7,458,253
Net realized (gain) loss on securities sold short, written options contracts, and foreign currency transactions	(52,996,542)
Net change in unrealized (appreciation) depreciation on investments, investments in affiliated issuers, securities sold short, written options contracts, and foreign currency related transactions	(38,232,803)
(Increase) Decrease in receivable for investments sold and principal paydowns	941,912
(Increase) Decrease in receivable for dividends and interest	425,053
(Increase) Decrease in receivable for variation margin	783,337
(Increase) Decrease in due from broker	4,624,535
(Increase) Decrease in prepaid expenses and other assets	255,441
Increase (Decrease) in payable for investments purchased	2,208,750
Increase (Decrease) in payable to investment advisory	(121,241)
Increase (Decrease) in due to broker	(3,287,717)
Increase (Decrease) in payable for upon return of securities loaned	172,731
Increase (Decrease) in payable for variation margin	1,114,373
Increase (Decrease) in payable to custody	(123,375)
Increase (Decrease) in payable for commitment fees and interest expense	(1,009,760)
Increase (Decrease) in accrued expenses and other liabilities	690,882
Net cash flow provided by operating activities	407,228,407
Cash Flows Used In Financing Activities:	
Distributions paid in cash, net of receivable	(64,613,794)
Shares repurchased of closed-end fund	(6,528,265)
Decrease in notes payable	(100,000,000)
Proceeds from shares sold	(13,950)
Proceeds from reverse repurchase agreements, net	(119,796,600)
Net cash flow used in financing activities	(290,952,609)
Effect of exchange rate changes on cash	(135)
Net increase in cash	116,275,663
Cash, cash equivalents and restricted cash:	
Beginning of year	51,506,957
End of year	167,782,620
Supplemental disclosure of cash flow information:	
Reinvestment of distributions	1,428,747
Cash paid during the year for interest expense and commitment fees	8,803,933

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

	For the Years Ended December 31,		For the Period Ended December 31,	For the Years Ended June 30,		
	2020	2019	2018**	2018*‡	2017*‡	2016*‡
Net Asset Value, Beginning of Year/Period	$ 13.88	$ 14.28	$ 15.12	$ 15.01	$ 14.33	$ 16.17
Income from Investment Operations:						
Net investment income[(a)]	0.54	0.85	0.42	0.75	0.68	0.89
Preferred dividend expense	(0.11)	(0.05)	—	—	—	—
Net realized and unrealized gain (loss)	(0.07)	(0.28)	(0.80)	0.18	0.74	(1.84)
Total Income from Investment Operations	0.36	0.52	(0.38)	0.93	1.42	(0.95)
Less Distributions Declared to shareholders:						
From net investment income	(0.43)	(0.81)	(0.45)	(0.72)	(0.74)	(0.89)
From return of capital	(0.49)	(0.11)	(0.01)	(0.10)	—	—
Total distributions declared to shareholders	(0.92)	(0.92)	(0.46)	(0.82)	(0.74)	(0.89)
Net Asset Value, End of Year/Period[(b)]	$ 13.32	$ 13.88	$ 14.28	$ 15.12	$ 15.01	$ 14.33
Market Value, End of Year/Period	$ 10.28	$ 12.43	$ 12.80	$ 15.62	$ —	$ —
Market Value Total Return[(c)]	(8.29)%	4.30%	(15.44)%[(d)]	9.77%	10.05%	(5.77)%
Ratios to Average Net Assets /Supplemental Data:[(e)(f)]						
Net Assets, End of Year/Period (000's)	$950,348	$995,405	$1,026,412	$1,085,547	$389,278	$241,197
Gross operating expenses[(g)(h)]	2.68%	3.39%	3.10%	1.79%	1.20%[(i)]	1.38%
Net investment income[(h)]	4.22%	5.93%	5.48%	4.98%	4.61%	5.65%
Portfolio turnover rate	22%	18%	27%[(d)]	177%	63%	53%
Average commission rate paid[(j)]	$ 0.0969	$ 0.0032	$ 0.0243	$ 0.0300		

* Per share data prior to November 3, 2017 has been adjusted to give effect to an approximately 2 to 1 reverse stock split as part of the conversion to a closed-end fund. (Note 1)

** For the six-month period ended December 31, 2018. Effective April 11, 2019, the Fund had a fiscal year change from June 30 to December 31 (Note 1).

‡ Reflects the financial highlights of Class Z of the open-end fund prior to the conversion.

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

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

(c) Total return is based on market value per share for periods after November 3, 2017. Distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Prior to November 3, 2017, 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 lower.

(d) Not annualized.

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

(f) Supplemental expense ratios are shown below.

(g) Includes dividends and fees on securities sold short.

(h) Excludes 12b-1 fees from partial period operating as an open-end fund. Following the conversion on November 3, 2017, the Fund is no longer subject to 12b-1 fees.

(i) The prior custodian announced that it had identified inconsistencies in the way in which clients were invoiced for out-of-pocket expenses from 1998 until November 2015. The dollar amount difference between what was charged for certain predecessor entities of the Fund and what should have been charged, plus interest, was communicated back to the Floating Rate Opportunities Fund in the fourth quarter of 2016 as a reimbursement. This amount was recorded as a "Reimbursement of Custodian Fees" in the Statement of Operations for the Fund. The amount of the reimbursement was immaterial on a per share basis and did not impact the total return of the Fund. The Ratios of Gross Operating Expenses and Net Operating Expenses to Average Net Assets would be unchanged as the reimbursement of custodian fees was offset against current period expense waivers/reimbursements with no impact to net expenses or net investment income.

(j) Represents the total dollar amount of commissions paid on portfolio transactions divided by total number of portfolio shares purchased and sold for which commissions were charged. The period prior to the Conversion Date is not presented.

Supplemental Expense Ratios:

	For the Years Ended December 31,		For the Period Ended December 31,	For the Years Ended June 30,		
	2020	2019	2018**	2018	2017	2016
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.68%	3.39%	3.10%	1.79%	1.12%	1.11%
Interest expense and commitment fees, and preferred dividend expense	1.71%	1.90%	1.63%	0.49%	0.01%	0.15%
Dividends and fees on securities sold short	0.03%	0.01%	—%(k)	—%(k)	0.01%	0.01%
Borrowings at end of year/period:						
Aggregate Amount Outstanding Excluding Preferred Shares	200,000,000	419,796,600	496,141,100	498,563,423	—	—
Asset Coverage Per $1,000	5,751.74	3,371.16	3,068.79	3,177.35	N/A	N/A
Aggregate Amount Outstanding Including Preferred Shares	345,000,000	564,796,600	496,141,100	498,563,423		
Asset Coverage Per $1,000	3,754.63	2,762.41	3,068.79	3,177.35	N/A	N/A

(k) Represents less than 0.005%.

Note 1. Organization

Highland Income Fund (the "Fund") is organized as an unincorporated business trust under the laws of The Commonwealth of Massachusetts. The Fund is registered with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940, as amended (the "1940 Act"), as a non-diversified, closed-end management investment company. On September 25, 2017, the Fund acquired the assets of Highland Floating Rate Opportunities Fund (the "Predecessor Fund"), a series of Highland Funds I, a Delaware statutory trust. The Fund is the successor to the accounting and performance information of the Predecessor Fund.

Effective April 11, 2019, the Fund changed its fiscal year end to December 31. The previous fiscal year end was June 30.

On May 20, 2019, the Fund changed its name from Highland Floating Rate Opportunities Fund to Highland Income Fund.

On November 3, 2017, shareholders of the Fund approved a proposal authorizing the Board of Trustees (the "Board") of the Fund to convert the fund from an open-end fund to a closed-end fund at a special meeting of shareholders. The Board took action to convert the Fund to a closed-end fund effective shortly after 4:00 p.m. Eastern Time on November 3, 2017 (the "Conversion Date"). The Fund also effected an approximately 1-for-2 reverse stock split of the Fund's issued and outstanding shares on November 3, 2017, thereby reducing the number of shares outstanding. Shareholders were paid cash for any fractional shares resulting from the reverse stock split. The Fund began listing its shares for trading on the New York Stock Exchange (the "NYSE") on November 6, 2017 under the ticker symbol "HFRO". The Fund may issue an unlimited number of common shares, par value $0.001 per share ("Common Shares"). Prior to the Conversion Date, the Fund issued Class A, Class C, and Class Z shares.

On October 29, 2019, the Board of the Fund authorized the repurchase of up to $25 million of the Fund's shares. Under this program, the Fund repurchased 235,049 shares through December 2019. Upon retirement of the repurchased shares, the net asset value ("NAV") was $3.2 million, or $13.46 per share.

On July 29, 2019, the Fund issued 5.4 million 5.375% Series A Cumulative Preferred shares (NYSE: HFRO.PR.A) with an aggregate liquidation value of $135 million. Subsequently on August 9, 2019, the underwriters exercised their option to purchase additional overallotment shares of $10mm, resulting in a total Preferred outstanding offering of $145mm.

The Series A Cumulative Preferred shares are perpetual, noncallable for five years, and have a liquidation preference of $25.00 per share. Distributions are scheduled quarterly, with payments beginning on September 30, 2019. Series A Preferred shares trade on the NYSE. Moody's Investors Service has assigned an A1 rating to the preferred shares.

On October 14, 2019, the Board approved an amendment to the Third Amended and Restated Agreement and Declaration of Trust of the Fund to require the affirmative vote or consent of the holders of 75% of each class of shares outstanding (with each such class voting separately thereon) for certain transactions involving a Principal Shareholder. For purposes of this requirement, Principal Shareholder is defined any person which is the beneficial owner, directly or indirectly, of more than 5% of the outstanding shares of the Fund or of any class and shall include any "affiliate" or "associate", as such terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended. The certain transactions covered by this requirement include: (i) a merger or consolidation of the Fund or any subsidiary of the Fund with or into any Principal Shareholder; (ii) the issuance of any securities of the Fund to any Principal Shareholder for cash; (iii) the sale, lease or exchange of all or any substantial part of the assets of the Fund to any Principal Shareholder (except assets determined by the Board to have an aggregate fair market value of less than $1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period or assets sold in the ordinary course of business); and (iv) the sale, lease or exchange to or with the Fund or any subsidiary thereof, in exchange for securities of the Fund, of any assets of any Principal Shareholder (except assets determined by the Board to have an aggregate fair market value of less than $1,000,000 aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period).

On April 24, 2020, the Board authorized the repurchase of up to 10% of the Fund's shares over a twelve-month period. Under this program, the Fund repurchased 544,508, at an average price of $7.36, for a total investment of $4.0 million. Upon retirement of the repurchased shares, the net asset value was $6.5 million, or $11.99 per share.

On August 13, 2020, the Board approved an amendment to the Third Amended and Restated Agreement and Declaration of Trust of the Fund to provide that holders of control shares of the Fund acquired in a control share acquisition have no voting rights with respect to the control shares except to the extent approved by the shareholders by the affirmative vote of at least two-thirds of all votes entitled to be cast on the matter, excluding all interested shares. For such purposes, "control shares" are shares of the Fund that, when aggregated with other shares controlled by the shareholder, entitle the person to exercise voting power in electing directors within certain ranges of voting power (i.e., 10-33%, 33-50%, greater than 50%). Control shares include shares only to the extent that the "acquiring person" following the acquisition of shares, is entitled to exercise voting power in electing directors within any of these levels of voting power for which shareholder approval has not been obtained. An "acquiring person" is a person who makes or proposes to make a "control share acquisition", which in turn is defined as the direct or indirect acquisition of ownership or control of control shares.

Note 2. Significant Accounting Policies

The following summarizes the significant accounting policies consistently followed by the Fund in the preparation of its consolidated 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 consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which require Highland Capital Management Fund Advisors, L.P., the Fund's investments adviser ("HCMFA" or the "Investment Adviser") to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of increases or 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.

Basis of Consolidation

The Fund consolidates HFRO Sub, LLC ("HFRO Sub"), a Delaware wholly owned subsidiary, for financial reporting, and the holdings of HFRO Sub, LLC and its operations are included within the consolidated financial statements for the Fund. HFRO Sub is a bankruptcy remote financing vehicle used to obtain leverage with the portfolio of bank loans serving as collateral. All inter-company accounts and transactions have been eliminated in the consolidation.

Fund Valuation

The NAV of the Fund's common shares is calculated daily on each day that the NYSE is open for business as of the close of the regular trading session on the NYSE, usually 4:00 PM, Eastern Time. The NAV is calculated by dividing the value of the Fund's net assets attributable to common shares by the numbers of common shares outstanding.

Valuation of Investments

The Fund's investments are recorded at fair value. In computing the Fund's net assets attributable to shares, securities with readily available market quotations on the NYSE, National Association of Securities Dealers Automated Quotation ("NASDAQ") or other nationally recognized exchange, use the closing quotations on the respective exchange for valuation of those securities. Securities for which there are no readily available market quotations will be valued pursuant to policies adopted by the Board. Typically, such securities will be valued at the mean between the most recently quoted bid and ask prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day may be priced by an independent pricing service. Generally, the 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 the Investment Adviser has determined to have the capability to provide appropriate pricing services which have been approved by the Board.

Securities for which market quotations are not readily available, or for which the Fund has determined that the price received from a pricing service or broker-dealer is "stale" or otherwise does not represent fair value (such as when events materially affecting the value of securities occur between the time when market price is determined and calculation of the Fund's NAV, will be valued by the Fund at fair value, as determined by the Board or its designee in good faith in accordance with procedures approved by the Board, taking into account factors reasonably determined to be relevant, including, but not limited to: (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. Using a fair value pricing methodology to value securities may result in a value that is different from a security's most recent sale price and from the prices used by other investment companies to calculate their NAVs. Determination of fair value is uncertain because it involves subjective judgments and estimates.

There can be no assurance that the 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 to the Fund. The NAV shown in the Fund's consolidated financial statements may vary from the NAV published by the Fund as of its period end because portfolio securities transactions are accounted for on the trade date (rather than the day following the trade date) for financial statement purposes.

Deferred Financing Costs on the Preferred Stock

Deferred financing costs on the preferred shares consist of fees and expenses incurred in connection with the closing of the preferred stock offerings, and are capitalized at the time of payment. Based on ASC 480-10-S99, preferred stock that, by its terms, is contingently redeemable upon the occurrence of an event that is outside of the issuer's control should be classified as mezzanine equity; therefore, these costs are only amortized once it is probable the shares will become redeemable. As of December 31, 2020, the Fund is compliant with all contingent redemption provisions of the preferred offering, therefore the financing costs are currently unamortized until probable. Deferred financing costs of $5.2 million are presented net with the mezzanine equity on the Consolidated Statement of Assets and Liabilities.

Issuer	Shares at December 31, 2019	Beginning Value as of December 31, 2019	Issuance Net Liquidation Value	Deferred Issuance Costs	Paydowns	Balance net of Deferred Financing Costs at December 31, 2020	Shares at December 31, 2020
Cumulative preferred shares (Series A)	5,800,000	$139,756,249	$145,000,000	$5,243,751	$—	$139,756,249	5,800,000

Fair Value Measurements

The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of inputs to their fair value determination. The levels of fair value inputs used to measure the 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 and its affiliates. The Pricing Committee meets monthly to review the proposed valuations for investments and financial instruments and is responsible for evaluating the overall fairness and consistent application of established policies.

As of December 31, 2020, the Fund's investments consisted of U.S. senior loans, collateralized loan obligations, corporate bonds and notes, claims, common stocks, registered investment companies, cash equivalents, rights, warrants, preferred stock, repurchase agreements, and LLC interests. The fair value of the Fund's senior loans and bonds are generally based on quotes received from brokers or independent pricing services. Loans, bonds and asset-backed securities with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Loans and bonds that are priced using quotes derived from implied values, indicative bids, or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable. The fair value of the Fund's futures contracts are valued based on the settlement price established each day by the board of trade or exchange on which they principally trade and are classified as Level 1 liabilities.

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

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

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the 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.

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

	Total value at December 31, 2020 ($)	Level 1 Quoted Price ($)	Level 2 Significant Observable Inputs ($)	Level 3 Significant Unobservable Inputs ($)
Highland Income Fund				
Assets				
Preferred Stock				
Energy	13,143,570	—	13,143,570	—
Financials	48,921,754	—	26,542,254	22,379,500
Real Estate	257,622,782	—	12,766,965	244,855,817
Common Stocks				
Communication Services	53,681,160	1,041,104	43,688,007	8,952,049
Consumer Discretionary	3,625,426	—	—	3,625,426
Energy	1	—	—	1
Gaming/Leisure	2,919,018	—	—	2,919,018
Healthcare	—	—	—	—(1)
Industrials	—	—	—(1)	—
Materials	1,495,160	—	1,495,160	—
Real Estate	252,188,772	11,031,245	—	241,157,527
Utilities	97,376	97,376	—	—
U.S. Senior Loans				
Business Equipment & Services	3,840,288	—	3,840,288	—
Communication Services	6,941,277	—	—	6,941,277
Consumer Discretionary	2,664,199	—	2,664,199	—
Consumer Products	2,560,736	—	2,560,736	—
Energy	4,007,792	—	4,007,792	—
Financials	2,717,578	—	2,717,578	—
Gaming/Leisure	16,983,655	—	—	16,983,655
Healthcare	56,726,449	—	11,966,093	44,760,356
Industrials	10,158,983	—	10,158,983	—
Information Technology	63,712,525	—	13,683,625	50,028,900

	Total value at December 31, 2020 ($)	Level 1 Quoted Price ($)	Level 2 Significant Observable Inputs ($)	Level 3 Significant Unobservable Inputs ($)
Real Estate	3,456,114	—	3,456,114	—
Retail	16,757,880	—	16,757,880	—
Service	5,823,350	—	5,823,350	—
Transportation	3,787,930	—	3,787,930	—
Utilities	98,441	—	98,441	—
Collateralized Loan Obligations	186,603,036	—	186,603,036	—
LLC Interest	78,673,139	—	19,150,242	59,522,897
Registered Investment Companies	12,488,718	12,488,718	—	—
Corporate Bonds & Notes				
Communication Services	1,661	—	1,661	—
Energy	—	—	—	—(1)
Industrials	123,276	—	123,276	—
Real Estate	795,610	—	795,610	—
Utilities	12,000	—	12,000	—
Warrants				
Energy	52,209	—	52,209	—
Industrials	—	—	—	—(1)
Rights				
Utilities	5,448	—	5,448	—
Claims	52,138	—	—	52,138
Repurchase Agreement	172,731	—	172,731	—
Cash Equivalent	147,537,395	147,537,395	—	—
Total Assets	1,260,449,577	172,195,838	386,075,178	702,178,561
Liabilities				
Securities Sold Short(2)	(6,745,743)	(6,745,743)	—	—
Futures Contracts(3)	(4,051,185)	(4,051,185)	—	—
Total Liabilities	(10,796,928)	(10,796,928)	—	—
Total	$1,249,652,649	$161,398,910	$386,075,178	$702,178,561

(1) This category includes securities with a value of zero.
(2) See Consolidated Investment Portfolio detail for industry breakout.
(3) Futures contracts are valued at the unrealized depreciation on the instrument.

The table below sets forth a summary of changes in the Fund's assets measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2020.

	Balance as of December 31, 2019 $	Transfers Into Level 3 $	Transfers Out of Level 3 $	Accrued Discounts (Premiums) $	Distribution to Return Capital $	Realized Gain (Loss) $	Net Change in Unrealized Appreciation (Depreciation) $	Net Purchases $	Net Sales $	Balance as of December 31, 2020 $	Change in Unrealized Appreciation (Depreciation) from Investments held at December 31, 2020 $
Preferred Stock											
Financials	—	—	—	—	—	—	2,660,500	19,719,000	—	22,379,500	2,660,500
Real Estate	233,025,297	—	—	—	(875,010)	351,780	36,367,016	1,059,244	(25,072,510)	244,855,817	36,367,016
Common Stocks											
Communication Services	7,520,731	—	—	—	—	—	1,431,318	—	—	8,952,049	1,431,318
Consumer Discretionary	—	7,250,850	—	—	(139,491)	—	(3,485,933)	—	—	3,625,426	(3,485,933)
Energy	1	—	—	—	—	—	—	—	—	1	—
Gaming/ Leisure	—	—	—	—	—	—	2,919,018	—	—	2,919,018	2,919,018
Healthcare	72,254	—	—	—	—	—	(72,254)	—	—	—	—
Materials	45,617	—	—	—	—	(1,447,454)	1,401,837	—	—	—	—
Real Estate	95,747,531	7,749,990	—	—	(9,599,985)	—	578,411	146,681,580	—	241,157,527	578,411
U.S. Senior Loans											
Communication Services	6,107,407	—	—	—	—	(466)	12,705	821,631	—	6,941,277	12,705
Gaming/ Leisure	10,753,914	—	—	(58,675)	—	4,211	6,037,806	333,130	(86,731)	16,983,655	6,037,806
Healthcare	47,733,657	—	—	—	—	—	(9,413,672)	6,470,362	(29,991)	44,760,356	(9,413,672)
Industrials	8,105,187	—	—	254,448	—	(6,010,799)	1,084,407	684,807	(4,118,050)	—	—
Information Technology	56,829,000	—	—	—	—	—	(6,800,100)	—	—	50,028,900	(6,800,100)
LLC Interest	88,777,470	—	—	—	—	—	(10,509,584)	6,733,992	(25,478,981)	59,522,897	(10,509,584)
Corporate Bonds & Notes											
Energy	1,076,400	—	—	—	—	—	(1,076,400)	—	—	—	(1,076,400)
Warrants											
Industrials	1,412	—	—	—	—	—	(1,412)	—	—	—	—
Claims	52,138	—	—	—	—	—	—	—	—	52,138	—
Total	$555,848,016	$15,000,840	$ —	$195,773	$(10,614,486)	$(7,102,728)	$ 21,133,663	$182,503,746	$(54,786,263)	$702,178,561	$ 18,721,085

Investments designated as Level 3 may include assets valued using quotes or indications furnished by brokers which are based on models or estimates without observable inputs and may not be executable prices. In light of the developing market conditions, the Investment Adviser continues to search for observable data points and evaluate broker quotes and indications received for portfolio investments. Determination of fair values is uncertain because it involves subjective judgments and estimates that are unobservable.

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

Category	Fair Value at 12/31/2020 $	Valuation Technique	Unobservable Inputs	Input Value(s)
Preferred Stock	267,235,317	Discounted Cash Flow	Discount Rate	11.0%
		Third Party Indication of Value	Broker Quote	Various
Common Stocks	256,654,021	Multiples Analysis	Multiple of EBITDA less CAPEX	8.75x - 11.75x
			Unadjusted Price/MHz-PoP	$0.09 - $0.95
		Discounted Cash Flow	Discount Rate	1.28% - 22.00%
			Capitalization Rate	5.75% - 9.50%
		Transaction Analysis	Multiple of EBITDA	8.50x - 10.50x
			Price per Square Foot	$15.00 - $27.50
		Transaction Indication of Value	Enterprise Value ($mm)	$771.00
			Subscription Price per Share	$16.61
			Cost Price per Share	$1,063.47
			Cash Offer per Share	$2,500.00
		Black-Scholes Model	Volatility Assumption	25%
U.S. Senior Loans	118,714,188	Multiples Analysis	Multiple of EBITDA less CAPEX	8.75x - 11.75x
		Transaction Analysis	Multiple of EBITDA less CAPEX	8.50x - 10.50x
		Black-Scholes Model	Volatility Assumption	25%
		Discounted Cash Flow	Discount Rate	9.00% - 15.00%
		Transaction Indication of Value	Enterprise Value ($mm)	$13.25
LLC Interest	59,522,897	Net Asset Value	Net Asset Value	$81.00 - $82.00
		Transaction Indication of Value	Policy Cost + Premiums	Various
Claims	52,138	Pricing Feed	Indication of Value	1.375
Total	702,178,561			

In addition to the unobservable inputs utilized for various valuation methodologies, the Fund frequently uses a combination of two or more valuation methodologies to determine fair value for a single holding. In such instances, the Fund assesses the methodologies and ascribes weightings to each methodology. The weightings ascribed to any individual methodology ranged from as low as 5% to as high as 95% as of December 31, 2020. The selection of weightings is an inherently subjective process, dependent on professional judgement. These selections may have a material impact to the concluded fair value for such holdings.

The significant unobservable inputs used in the fair value measurement of the Fund's preferred stock assets are the discount rate and broker quotes. Significant decreases (increases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Fund's U.S. Senior Loans are: liquidity discount, asset specific discount, multiple of adjusted EBITDA, volatility assumption, transaction indication of value, discount rate and spread adjustment. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Fund's LLC Interests are the net asset value and policy cost and premiums. Significant decreases (increases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Fund's claims are the indication of value. Significant decreases (increases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

Security Transactions

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

Income Recognition

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

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

The Fund records distributions received from investments in real estate investment trusts ("REIT") and partnerships in excess of income from underlying investments as a reduction of cost of investments and/or realized gain. Such amounts are based on estimates if actual amounts are not available, and actual amounts of income, realized gain and return of capital may differ from the estimated amounts. The Fund adjusts the estimated amounts once the issuers provide information about the actual composition of the distributions.

U.S. Federal Income Tax Status

The Fund is treated as a separate taxpayer for U.S. federal income tax purposes. The Fund intends to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986 (the "Code"), 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 the Fund should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in Consolidated Statement of Operations. There were no interest or penalties during the year ended December 31, 2020.

The Investment Adviser has analyzed the Fund's tax positions taken on U.S. federal income tax returns for all open tax years (current and prior three tax years), and has concluded that no provision for U.S. federal income tax is required in the Fund's consolidated financial statements. The Fund's U.S. federal and state income and U.S. federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue. Furthermore, the Investment Adviser of the Fund is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next 12 months.

Distributions to Shareholders

The Fund plans to pay distributions from net investment income monthly and net realized capital gains annually to common shareholders. To permit the Fund to maintain more stable monthly distributions and annual distributions, the Fund may from time to time distribute less than the entire amount of income and gains earned in the relevant month or year, respectively. The undistributed income and gains would be available to supplement future distributions. In certain years, this practice may result in the Fund distributing, during a particular taxable year, amounts in excess of the amount of income and gains earned therein. Such distributions would result in a portion of each distribution occurring in that year to be treated as a return of capital to shareholders. Shareholders of the Fund will automatically have all distributions reinvested in Common Shares of the Fund issued by the Fund in accordance with the Fund's Dividend Reinvestment Plan (the "Plan") unless an election is made to receive cash. The number of newly issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the lesser of (i) the NAV per Common Share determined on the Declaration Date and (ii) the market price per Common Share as of the close of regular trading on the NYSE on the Declaration Date. Participants in the Plan requesting a sale of securities through the plan agent of the Plan are subject to a sales fee and a brokerage commission.

Consolidated Statement of Cash Flows

Information on financial transactions which have been settled through the receipt or disbursement of cash is presented in the Consolidated Statement of Cash Flows. The cash amount shown in the Consolidated Statement of Cash Flows is the amount included within the Fund's Consolidated Statement of Assets and Liabilities and includes cash on hand at its custodian bank and/or sub-custodian bank(s) cash equivalents, foreign currency and restricted cash held at broker(s).

Cash & Cash Equivalents

The Fund considers liquid assets deposited with a bank and certain short-term debt instruments of sufficient credit quality with original maturities of three months or less to be cash equivalents. 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 value. The value of cash equivalents denominated in foreign currencies is determined by converting to U.S. dollars on the date of this financial report. 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 exchange rates using the current 4:00 PM London Time Spot Rate. Fluctuations in the value of the foreign currencies and other assets and liabilities resulting from changes in exchange rates, between trade and settlement dates on securities transactions and between the accrual and payment dates on dividends, interest income and foreign withholding taxes, are recorded as unrealized foreign currency gains/(losses). Realized gains/(losses) and unrealized appreciation/(depreciation) on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated in the Consolidated Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

Securities Sold Short

The Fund may sell securities short. A security sold short is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. The Fund may have to pay a fee to borrow particular securities and is obligated to pay over any dividends or other payments received on such borrowed securities. In some circumstances, the Fund may be allowed by its prime broker to utilize proceeds from securities sold short to purchase additional investments, resulting in leverage. Cash held as collateral for securities sold short is classified as restricted cash on the Consolidated Statement of Assets and Liabilities, as applicable. Restricted cash in the amount of $6,686,970 was held with the broker for the Fund. Securities valued at $20,497,456 were posted in the Fund's segregated account as collateral.

Other Fee Income

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

Note 3. Derivative Transactions

The Fund is subject to equity securities risk, interest rate risk and currency risk in the normal course of pursuing its investment objectives. The Fund enters into derivative transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, to gain market exposure for residual and accumulating cash positions and for managing the duration of fixed income investments. As of December 31, 2020 we had no hedge accounting derivatives.

Futures Contracts

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

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

During the year ended December 31, 2020, the Fund entered into futures transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, and to gain market exposure for residual and accumulating cash positions. Cash held as collateral for futures contracts is shown on the Consolidated Statement of Assets and Liabilities as "Restricted Cash — Futures."

Options

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

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

The Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if the cost of the closing option is more than the premium received from writing the option, a capital loss. The Fund will realize a capital gain from a closing sale transaction if the premium received from the sale is more than the original premium paid when the option position was opened, or a capital loss, if the premium received from a sale is less than the original premium paid.

During the twelve months ended December 31, 2020, the Fund had written options to provide leveraged short exposure, and purchased options to provide leveraged long exposure, to the underlying equity, which is consistent with the investment strategies of the Fund.

Reverse Repurchase Agreements

The Fund may engage in reverse repurchase agreement transactions with respect to instruments that are consistent with the Fund's investment objective or policies. This creates leverage for the Fund because the cash received can be used to purchase other securities. See Note 6 for additional information on the Fund's reverse repurchase agreements, if any.

Additional Derivative Information

The Fund is required to disclose; a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted for; c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows; and d) how the netting of derivatives subject to master netting arrangements (if applicable) affects the net exposure of the Fund related to the derivatives.

The fair value of derivative instruments on the Consolidated Statement of Assets and Liabilities have the following risk exposure at December 31, 2020:

	Fair Value	
Risk Exposure	Asset Derivative	Liability Derivative
Equity Price Risk	$—	$(4,051,185)[1]

(1) Includes cumulative unrealized depreciation of futures contracts as reported in the Consolidated Investment Portfolio and within the components of net assets section of the Consolidated Statement of Assets and Liabilities. Only the current day's variation margin is reported within the receivables and/or payables of the Consolidated Statement of Assets and Liabilities.

The effect of derivative instruments on the Consolidated Statement of Operations for the year ended December 31, 2020, is as follows:

Risk Exposure	Net Realized Gain/(Loss) on Derivatives	Net Change in Unrealized Appreciation/ (Depreciation) on Derivatives
Equity Price Risk	$29,362,001[1][2][3]	$(16,671,348)[4][5][6]
Foreign Currency Risk	(2,882,250)[1]	1,847,650[4]

(1) Consolidated Statement of Operations location: Realized gain (loss) on investments from unaffiliated issuers. Purchased options only.
(2) Consolidated Statement of Operations location: Realized gain (loss) on written options contracts.
(3) Consolidated Statement of Operations location: Realized gain (loss) on futures contracts.
(4) Consolidated Statement of Operations location: Net increase (decrease) in unrealized appreciation (depreciation) on investments. Purchased options only.
(5) Consolidated Statement of Operations location: Net increase (decrease) in unrealized appreciation (depreciation) on futures contracts.
(6) Consolidated Statement of Operations location: Net increase (decrease) in unrealized appreciation (depreciation) on written options.

The average monthly volume of derivative activity for the year ended December 31, 2020 is as follows:

Income Fund	Units/ Contracts	Appreciation/ (Depreciation)
Purchased Options Contracts	227,102,933	—
Written Options Contracts	598	—
Futures Contracts	—	$(8,795,894)

Note 4. Securities Lending

Effective January, 7, 2020, the Fund entered into a securities lending agreement with The Bank of New York Mellon ("BNY" or the "Lending Agent").

Securities lending transactions are entered into by the Fund under the Securities Lending Agreement ("SLA"), which permits the Fund, under certain circumstances such as an event of default, to offset amounts payable by the Fund to the same counterparty against amounts receivable from the counterparty to create a net payment due to or from the Fund.

The following is a summary of securities lending agreements held by the Fund, with cash collateral of overnight maturities and non-cash collateral, which would be subject to offset as of December 31, 2020:

Gross Amount of Recognized Assets (Value of Securities on Loan)	Value of Cash Collateral Received[(1)]	Value of Non-Cash Collateral Received	Net Amount
$167,217	$167,217	$—	$—

[(1)] Collateral received in excess of market value of securities on loan is not presented in this table. The total cash collateral received by the Fund is disclosed in the Consolidated Statement of Assets and Liabilities.

The value of loaned securities and related collateral outstanding at December 31, 2020 are shown in the Consolidated Investment Portfolio. The value of the collateral held may be temporarily less than that required under the lending contract. As of December 31, 2020, the cash collateral was invested in repurchase agreements with the following maturities:

Remaining Contractual Maturity of the Agreements, as of December 31, 2020

	Overnight and Continuous	<30 Days	Between 30 & 90 Days	>90 Days	Total
Repurchase Agreements	$172,731	$—	$—	$—	$172,731

The Fund seeks additional income by making secured loans of its portfolio securities through its custodian. Such loans are not greater than one-third of the value of the Fund's total assets. BNY charges a fund fees based on a percentage of the securities lending income.

The fair value of the loaned securities is determined at the close of each business day of the Fund and any additional required collateral is delivered to the Fund, or excess collateral is returned by the Fund, on the next business day.

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

Securities lending transactions were entered into pursuant to SLAs, which would provide the right, in the event of default (including bankruptcy or insolvency) for the non-defaulting party to liquidate the collateral and calculate a net exposure to the defaulting party or request additional collateral. In the event that a borrower defaulted, the Fund, as lender, would offset the market value of the collateral received against the market value of the securities loaned. The value of the collateral is typically greater than that of the market value of the securities loaned, leaving the lender with a net amount payable to the defaulting party. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against such a right of offset in the event of an SLA counterparty's bankruptcy or insolvency.

Under the SLA, the Fund can reinvest cash collateral, or, upon an event of default, resell or repledge the collateral, and the borrower can resell or repledge the loaned securities. The risks of securities lending also include the risk that the borrower may not provide additional collateral when required or may not return the securities when due. To mitigate this risk, the Fund benefits from a borrower default indemnity provided by BNY. BNY's indemnity generally provides for replacement of securities lent or the approximate value thereof.

Note 5. U.S. Federal Income Tax Information

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

For the year ended December 31, 2020, permanent differences chiefly resulting from partnership basis adjustments, return of capital distributions paid by the Fund, differences in premium amortization methods for book and tax, foreign currency gains and losses, and paydown reclasses were identified and reclassified among the components of the Fund's net assets as follows:

Distributable Earnings (Accumulated Losses)	Paid-in-Capital
$2,687,910	$(2,687,910)

At December 31, 2020, the Fund's most recent tax year end, components of distributable earnings on a tax basis are as follows:

Undistributed Net Investment Income	Accumulated Capital and Other Losses	Unrealized Appreciation (Depreciation)[(1)]
$—	$(264,727,931)	$(361,167,293)

(1) Any differences between book-basis and tax-basis net unrealized appreciation/(depreciation) are primarily due to wash sales, non-taxable dividends, partnership, REIT basis adjustments and difference in premium amortization methods for book and tax.

As of December 31, 2020, the Fund has capital loss carryovers as indicated below. The capital loss carryovers are available to offset future realized capital gains to the extent provided in the Code and regulations promulgated thereunder. To the extent that these carryover losses are used to offset future capital gains, the gains offset will not be distributed to shareholders.

No Expiration Short-Term	No Expiration Long-Term	Total
$34,252,362	$230,475,569	$264,727,931

During the year ended December 31, 2020, the Fund did not utilize capital carryforwards to offset capital gains. The tax character of distributions paid during the last two fiscal years ended December 31, is as follows:

	Ordinary Income	Long-term Capital Gain	Return of Capital
2020	$31,361,875	$—	$34,680,666
2019	58,214,363	—	8,201,030

Unrealized appreciation (depreciation) at December 31, 2020, based on cost of investments, securities sold short and foreign currency transactions for U.S. federal income tax purposes was:

Gross Appreciation	Gross Depreciation	Net Appreciation/ (Depreciation)	Cost
$155,747,000	$(516,914,293)	$(361,167,293)	$1,619,784,334

Qualified Late Year Ordinary and Post October Losses

Under current laws, certain capital losses and specified losses realized after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. For the fiscal year ended December 31, 2020, the Fund did not elect to defer net realized losses incurred from November 1, 2020 through December 31, 2020.

Note 6. Credit Agreement and Reverse Repurchase Agreement

On February 2, 2018, HFRO Sub, LLC a wholly-owned subsidiary of the Fund entered into a financing arrangement (the "Financing Arrangement") with Bank of America Merrill Lynch and Bank of America, N.A. The Fund is in compliance with the Financing Arrangement.

On December 7, 2020, the Fund amended the Financing Agreement to temporarily decrease the aggregate Commitments from $350,000,000 to $200,000,000. Prior to the amendment, the maximum borrow outstanding was $300,000,000. Under the Financing Agreement, the Fund pays a rate of one-month LIBOR + 1.35%.

Pursuant to the terms of the Financing Arrangement, as amended and subject to certain customary conditions, HFRO Sub, LLC may borrow on a revolving basis a maximum of $200 million, with a maturity date of February 2, 2022. In connection with the Financing Arrangement, HFRO Sub, LLC and the Fund have made representations and warranties regarding the loans and underlying collateral and are required to comply with various covenants, reporting requirements and other customary requirements. The Financing Arrangement also limits the recourse of the lender to the assets of HFRO Sub, LLC and includes usual and customary events of default for senior secured revolving facilities of this nature. At December 31, 2020, current outstanding and fair value amounts were $200,000,000 and $202,017,029, respectively, and would be categorized as Level 3 within the fair value hierarchy. The Fund's average daily balance was $290,710,383 at a weighted average interest rate of 2.12% for the days outstanding.

On March 21, 2017, the Fund entered into a leverage facility agreement (the "BNP Agreement") with BNP Paribas Prime Brokerage International, Ltd., BNP Prime Brokerage, Inc., acting through its New York Branch, and BNP Paribas (together, the "BNPP Entities"). Under the BNP Agreement, the BNPP Entities may make margin loans to the Fund at a rate of one-month LIBOR + 0.50%. The BNP Agreement may be terminated by either the Fund or the BNPP Entities with 30 days' notice. As of May 15, 2020, this BNP Agreement was terminated with the BNP Entities. For the period outstanding, the Fund's average daily balance was $1,432,856 at a weighted average interest rate of 1.12% for the days outstanding.

On February 9, 2018, the Fund entered into an agreement with BNP Paribas Securities Corporation ("BNP Securities") under which it may from time to time enter into reverse repurchase transactions pursuant to the terms of a master repurchase agreement and related annexes (collectively the "Repurchase Agreement"). A reverse repurchase transaction is a repurchase transaction in which the Fund is the seller of securities or other assets and agrees to repurchase them at a date certain or on demand. Pursuant to the Repurchase Agreement, the Fund may agree to sell securities or other assets to BNP Securities for an agreed upon price (the "Purchase Price"), with a simultaneous agreement to repurchase such securities or other assets from BNP Securities for the Purchase Price plus a price differential that is economically similar to interest. The price differential is negotiated for each transaction. This creates leverage for the Fund because the cash received can be used to purchase other securities. As of May 15, 2020, this Repurchase Agreement was terminated with BNP Securities.

At December 31, 2020, the Fund's outstanding balance on the BNP Securities was zero. The Fund's average daily balance was $26,229,328 at a weighted average interest rate of 3.05% for the days outstanding.

On March 6, 2019, the Fund entered into an agreement with Mizuho Securities USA LLC ("Mizuho Securities") under which it may from time to time enter into reverse repurchase transactions pursuant to the terms of a master repurchase agreement and related annexes (collectively the "Repurchase Agreement"). A reverse repurchase transaction is a repurchase transaction in which the Fund is the seller of securities or other assets and agrees to repurchase them at a date certain or on demand. Pursuant to the Repurchase Agreement, the Fund may agree to sell securities or other assets to Mizuho Securities for an agreed upon price (the "Purchase Price"), with a simultaneous agreement to repurchase such securities or other assets from Mizuho Securities for the Purchase Price plus a price differential that is economically similar to interest. The price differential is negotiated for each transaction. This creates leverage for the Fund because the cash received can be used to purchase other securities.

At December 31, 2020, the Fund's outstanding balance on the Mizuho Securities was zero. The Fund's average daily balance was $16,599,879 at a weighted average interest rate of 2.86% for the days outstanding.

Note 7. Investment Advisory, Administration and Trustee Fees

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

The table below shows the Fund's contractual advisory fee with the Investment Adviser for the year ended December 31, 2020:

Annual Fee Rate to the Investment Advisor	> 1 Billion	> 2 Billion
0.65%	0.60%	0.55%

Administration Fee

The Investment Adviser provides administrative services to the Fund. For its services, the Investment Adviser receives an annual fee, payable monthly, in an amount equal to 0.20% of the average weekly value of the Fund's Managed Assets. Under a separate sub-administration agreement, the Investment Adviser delegates certain administrative functions and pays the sub-administrator directly for these sub-administration services. Effective October 1, 2018, the Investment Adviser entered into an administrative services agreement with SEI Investments Global Funds Services, a wholly owned subsidiary of SEI Investments Company. Prior to October 1, 2018, State Street served as sub-administrator to the Fund.

Fees Paid to Officers and Trustees

Each Trustee receives an annual retainer of $150,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund Complex overseen by such

Trustee based on relative net assets. The “Highland Fund Complex” consists of all of the registered investment companies advised by the Investment Adviser or its affiliated advisers and NexPoint Capital, Inc., a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act as of the date of this report.

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

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 and Qualified Legal Compliance Committee each receive an additional payment of $10,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund 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 period ended December 31, 2020, the Fund paid $197,167 to the dealers as part of the Expedited Settlement Agreements.

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

Indemnification

Under the Fund’s organizational documents, the officers and Trustees have been granted certain indemnification rights against certain liabilities that may arise out of performance of their duties to the 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 8. 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.

Counterparty Risk

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

Credit Risk

The value of debt securities owned by the Fund may be affected by the ability of issuers to make principal and interest payments and by the issuer’s or counterparty’s credit quality. If an issuer cannot meet its payment obligations or if its credit rating is lowered, the value of its debt securities may decline. Lower quality bonds are generally more sensitive to these changes than higher quality bonds. Non- payment would result in a reduction of income to the Fund, a reduction in the value of the obligation experiencing nonpayment and a potential decrease in the Fund’s net asset value and the market price of the Fund’s shares.

Currency Risk

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

Derivatives Risk

Derivatives risk is a combination of several risks, including the risks that: (1) an investment in a derivative instrument may not correlate well with the performance of the securities or asset class to which the Fund seeks exposure, (2) derivative contracts, including options, may expire worthless and the use of derivatives may result in losses to the Fund, (3) a derivative instrument entailing leverage may result in a loss greater than the principal amount invested, (4) derivatives not traded on an exchange may be subject to credit risk, for example, if the counterparty does not meet its obligations (see also "Counterparty Risk"), and (5) derivatives not traded on an exchange may be subject to liquidity risk and the related risk that the instrument is difficult or impossible to value accurately.

As a general matter, when the Fund establishes certain derivative instrument positions, such as certain futures, options and forward contract positions, it will segregate liquid assets (such as cash, U.S. Treasury bonds or commercial paper) equivalent to the Fund's outstanding obligations under the contract or in connection with the position. In addition, changes in laws or regulations may make the use of derivatives more costly, may limit the availability of derivatives, or may otherwise adversely affect the use, value or performance of derivatives. The Fund's ability to pursue its investment strategy, including its strategy of investing in certain derivative instruments, may be limited to or adversely affected by the Fund's intention to qualify as a RIC, and its strategy may bear adversely on its ability to so qualify.

Distressed and Defaulted Securities Risk

The Fund may invest in companies that are troubled, in distress or bankrupt. As such, they are subject to a multitude of legal, industry, market, environmental and governmental forces that make analysis of these companies inherently difficult. Further, the Investment Adviser relies on company management, outside experts, market participants and personal experience to analyze potential investments for the Fund. There can be no assurance that any of these sources will prove credible, or that the resulting analysis will produce accurate conclusions.

Equity Securities Risk

The risk that stock prices will fall over short or long periods of time. In addition, common stocks represent a share of ownership in a company, and rank after bonds and preferred stock in their claim on the company's assets in the event of bankruptcy.

Exchange-Traded Funds ("ETF") Risk

The risk that the price movement of an ETF 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 Funds invest in shares of another investment company.

Financial Services Industry Risk

The risk associated with the fact that the Trust's investments in Senior Loans are arranged through private negotiations between a borrower ("Borrower") and several financial institutions. Investments in the financial services sector may be subject to credit risk, interest rate risk, and regulatory risk, among others. Banks and other financial institutions can be affected by such factors as downturns in the U.S. and foreign economies and general economic cycles, fiscal and monetary policy, adverse developments in the real estate market, the deterioration or failure of other financial institutions, and changes in banking or securities regulations. 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. The financial services industry is currently undergoing relatively rapid change as existing distinctions between financial service segments become less clear. This change may make it more difficult for the Investment Adviser to analyze investments in this industry. Additionally, the recently increased volatility in the financial markets and implementation of the recent financial reform legislation may affect the financial services industry as a whole in ways that may be difficult to predict.

Hedging Risk

The Fund may engage in "hedging," the practice of attempting to offset a potential loss in one position by establishing an opposite position in another investment. Hedging strategies in general are usually intended to limit or reduce investment risk, but can also be expected to limit or reduce the potential for profit. For example, if the Fund has taken a defensive posture by hedging its portfolio, and stock prices advance, the return to investors will be lower than if the portfolio had not been hedged. No assurance can be given that any particular hedging strategy will be successful, or that the Investment Adviser will elect to use a hedging strategy at a time when it is advisable.

High Yield Debt Securities Risk

The risk that 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 generally 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

Certain investments made by the Fund may be illiquid, and consequently the Fund may not be able to sell such investments at prices that reflect the Investment Adviser's assessment of their value or the amount originally paid for such investments by the Fund. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale and other factors. Furthermore, the nature of the Fund's investments, especially those in financially distressed companies, may require a long holding period prior to profitability.

Restricted securities (i.e., securities acquired in private placement transactions) and illiquid securities may offer higher yields than comparable publicly traded securities. The Fund, however, may not be able to sell these securities when the Investment Adviser considers it desirable to do so or, to the extent they are sold privately, may have to sell them at less than the price of otherwise comparable securities. Restricted securities are subject to limitations on resale which can have an adverse effect on the price obtainable for such securities. Also, if in order to permit resale the securities are registered under the Securities Act at the Fund's expense, the Fund's expenses would be increased.

Interest Rate Risk

The risk that fixed income securities will decline in value because of changes in interest rates. When interest rates decline, the value of fixed rate securities already held by the 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.

On July 27, 2017, the head of the United Kingdom's Financial Conduct Authority announced a desire to phase out the use of the London Interbank Offered Rate ("LIBOR") by the end of 2021. Please refer to "LIBOR Transition and Associated Risk" for more information.

LIBOR Transition and Associated Risk

Certain instruments held by the Fund pay an interest rate based on the LIBOR, which is the average offered rate for various maturities of short-term loans between certain major international banks. LIBOR is expected to be phased out by the end of 2021. While the effect of the phase out cannot yet be determined, it may result in, among other things, increased volatility or illiquidity in markets for instruments based on LIBOR and changes in the value of such instruments.

Leverage Risk

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

Mortgage-Backed Securities Risk

The risk of investing in mortgage-backed securities, and includes interest rate risk, liquidity risk and credit risk, which may be heightened in connection with investments in loans to "subprime" borrowers. Certain mortgage-backed securities are also subject to prepayment risk. Mortgage-backed securities, because they are backed by mortgage loans, are also subject to risks related to real estate, and securities backed by private-issued mortgages may experience higher rates of default on the underlying mortgages than securities backed by government-issued mortgages. The Fund could lose money if there are defaults on the mortgage loans underlying these securities.

Non-Diversification Risk

The risk that an investment in the Fund could fluctuate in value more than an investment in a diversified fund. 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 investments 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-U.S. Securities Risk

The Fund may invest in non-U.S. securities. Investing in non-U.S. securities involves certain risks not involved in domestic investments, including, but not limited to: fluctuations in foreign exchange rates; future foreign economic, financial, political and social developments; different legal systems; the possible imposition of exchange controls or other foreign governmental laws or restrictions; lower trading volume; much greater price volatility and illiquidity of certain non-U.S. securities markets; different trading and settlement practices; less governmental supervision; changes in currency exchange rates; high and volatile rates of inflation; fluctuating interest rates; less publicly available information; and different accounting, auditing and financial record-keeping standards and requirements.

Options Risk

There are several risks associated with transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A transaction in options or securities may be unsuccessful to some degree because of market behavior or unexpected events.

When the Fund writes a covered call option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but retains the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation and once an option writer has received an exercise notice, it must deliver the underlying security in exchange for the strike price.

When the Fund writes a covered put option, the Fund bears the risk of loss if the value of the underlying stock declines below the exercise price minus the put premium. If the option is exercised, the Fund could incur a loss if it is required to purchase the stock underlying the put option at a price greater than the market price of the stock at the time of exercise plus the put premium the Fund received when it wrote the option. While the Fund's potential gain in writing a covered put option is limited to distributions earned on the liquid assets securing the put option plus the premium received from the purchaser of the put option, the Fund risks a loss equal to the entire exercise price of the option minus the put premium.

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. It is not known how long any negative impacts, or any future impacts of other significant events such as a substantial economic downturn, will last. Health crises caused by outbreaks of disease, such as the coronavirus, may exacerbate other preexisting 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 the Fund's ability to complete repurchase requests, and affect Fund performance. Any such impact could adversely affect the Fund's performance, the performance of the securities in which the Fund invests, lines of credit available to the Fund and may lead to losses on your investment in the 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.

Preferred Share Risk

The risk associated with the issuance of preferred shares to leverage the common shares. When preferred shares are issued, the NAV and market value of the common shares become more volatile, and the yield to the holders of common shares will tend to fluctuate with changes in the shorter-term dividend rates on the preferred shares. The Trust will pay (and the holders of common shares will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred shares, including higher advisory fees. Accordingly, the issuance of preferred shares may not result in a higher yield or return to the holders of the common shares. If the dividend rate and other costs of the preferred shares approach the net rate of return on the Trust's investment portfolio, the benefit of leverage to the holders of the common shares would be reduced. If the dividend rate and other costs of the preferred shares exceed the net rate of return on the Trust's investment portfolio, the leverage will result in a lower rate of return to the holders of common shares than if the Trust had not issued preferred shares.

Preferred Stock Risk

Preferred stock, which may include preferred stock in real estate transactions, represents an equity or ownership interest in an issuer that pays dividends at a specified rate and that has precedence over common stock in the payment of dividends. In the event an issuer is liquidated or declares bankruptcy, the claims of creditors and owners of bonds take precedence over the claims of those who own preferred and common stock. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the price of preferred stocks to decline. Preferred stock may have mandatory sinking fund provisions, as well as provisions allowing the stock to be called or redeemed prior to its maturity, which can have a negative impact on the stock's price when interest rates decline. Unlike interest on debt securities, preferred stock dividends are payable only if declared by the issuer's board. The value of convertible preferred stock can depend heavily upon the value of the security into which such convertible preferred stock is converted, depending on whether the market price of the underlying security exceeds the conversion price.

Real Estate Investment Trust Risk

Real estate investments are subject to various risk factors. Generally, real estate investments could be adversely affected by a recession or general economic downturn where the properties are located. Real estate investment performance is also subject to the success that a particular property manager has in managing the property.

Real Estate Market Risk

The Trust is exposed to economic, market and regulatory changes that impact the real estate market generally through its investment in NFRO REIT Sub, LLC (the "REIT Subsidiary"), which may cause the Trust's operating results to suffer. A number of factors may prevent the REIT Subsidiary's properties and other real estate-related investments from generating sufficient net cash flow or may adversely affect their value, or both, resulting in less cash available for distribution, or a loss, to us. These factors include: national, regional and local economic conditions; changing demographics; the ability of property managers to provide capable management and adequate maintenance; the quality of a property's construction and design; increases in costs of maintenance, insurance, and operations (including energy costs and real estate taxes); potential environmental and other legal liabilities; the level of financing used by the REIT Subsidiary and the availability and cost of refinancing; potential instability, default or bankruptcy of tenants in the properties owned by the REIT Subsidiary; the relative illiquidity of real estate investments in general, which may make it difficult to sell a property at an attractive price or within a reasonable time frame.

Senior Loans Risk

The risk that the issuer of a senior may fail to pay interest or principal when due, and changes in market interest rates may reduce the value of the senior loan or reduce the Fund's returns. The risks associated with senior loans are similar to the risks of high yield debt securities. Senior loans and other debt securities are also subject to the risk of price declines and to increases in interest rates, particularly long-term rates. Senior loans are also subject to the risk that, as interest rates rise, the cost of borrowing increases, which may increase the risk of default. In addition, the interest rates of floating rate loans typically only adjust to changes in short-term interest rates; long-term interest rates can vary dramatically from short-term interest rates. Therefore, senior loans may not mitigate price declines in a long-term interest rate environment. The Fund's investments in senior loans are typically below investment grade and are considered speculative because of the credit risk of their issuers.

Please refer to "Interest Rate Risk" for more information.

Short Sales Risk

Short sales by the Fund that are not made where there is an offsetting long position in the asset that it is being sold short theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. Short selling allows the Fund to profit from declines in market prices to the extent such decline exceeds the transaction costs and costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of securities to rise further, thereby exacerbating the loss. The Fund may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Fund might have difficulty purchasing securities to meet margin calls on its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

If other short positions of the same security are closed out at the same time, a "short squeeze" can occur where demand exceeds the supply for the security sold short. A short squeeze makes it more likely that the Fund will need to replace the borrowed security at an unfavorable price.

Structured Finance Securities Risk

A portion of the Trust's investments may consist of equipment trust certificates, collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations or similar instruments. Such structured finance securities are generally backed by an asset or a pool of assets, which serve as collateral. Depending on the type of security, the collateral may take the form of a portfolio of mortgage loans or bonds or other assets. The Trust and other investors in structured finance securities ultimately bear the credit risk of the underlying collateral. In some instances, the structured finance securities are issued in multiple tranches, offering investors various maturity and credit risk characteristics, often categorized as senior, mezzanine and subordinated/equity according to their degree of risk. The riskiest securities are the equity tranche, which bears the bulk of defaults from the bonds or loans serving as collateral, and thus may protect the other, more senior tranches from default. If there are defaults or the relevant collateral otherwise underperforms, scheduled payments to senior tranches of such securities take precedence over those of mezzanine tranches, and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. A senior tranche typically has higher ratings and lower yields than the underlying securities, and may be rated investment grade. Despite the protection from the equity tranche, other tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to previous defaults and the disappearance of protecting tranches, market anticipation of defaults and aversion to certain structured finance securities as a class.

Valuation Risk

Certain of the Fund's assets are fair valued, including the Fund's investment in equity issued by TerreStar Corporation ("TerreStar"). TerreStar is a nonoperating company that does not currently generate substantial revenue and which primarily derives its value from licenses for use of two spectrum frequencies, the license with respect to one of which was granted a conditional waiver by the FCC on April 30, 2020. The fair valuation of TerreStar involves significant uncertainty as it is materially dependent on estimates of the value of both spectrum licenses.

Gain Contingency

Claymore Holdings, LLC, a partially-owned affiliate of the Fund, is engaged in ongoing litigation that could result in a possible gain contingency to the Fund. The probability, timing, and potential amount of recovery, if any, are unknown.

Note 9. Investment Transactions

Purchases & Sales of Securities

The cost of purchases and the proceeds from sales of investments, other than short-term securities and short-term options, for the year ended December 31, 2020, were as follows:

U.S Government Securities		Other Securities	
Purchases	Sales	Purchases	Sales
$—	$71,181,642	$411,604,347	$589,883,233

Note 10. Affiliated Issuers and Other Affiliate Matters

Under Section 2(a)(3) of the 1940 Act, as a portfolio company is defined as "affiliated" if a fund owns five percent or more of its outstanding voting securities or if the portfolio company is under common control. The table below shows affiliated issuers of the Fund as of December 31, 2020:

Issuer	Shares at December 31, 2019	Beginning Value as of December 31, 2019 $	Purchases at Cost $	Proceeds from Sales $	Net Amortization (Accretion) of Premium/ (Discount) $	Net Realized Gain/(Loss) on Sales of Affiliated Issuers $	Change in Unrealized Appreciation/ (Depreciation) $	Ending Value as of December 31, 2020 $	Shares at December 31, 2020	Affiliated Income $
Majority Owned, Not Consolidated										
Allenby (Common Stocks)	1,393,678	1	71,020	—	—	—	(71,020)	1	1,464,698	—
Claymore (Common Stocks)	9,370,190	9	859,090	—	—	—	(859,089)	10	10,229,279	—
Other Affiliates										
CCS Medical, Inc. (U.S. Senior Loans & Common Stocks)	58,920,016	47,805,911	6,440,371	—	—	—	(9,485,926)	44,760,356	65,360,387	6,373,772
EDS Legacy Partners (U.S. Senior Loans)	57,000,000	56,829,000	—	—	—	—	(6,800,100)	50,028,900	57,000,000	3,868,910
Highland Global Allocation Fund (Registered Investment Company)	—	—	197,609	(17,654)	—	—	137,723	317,678	48,649	40,865

Issuer	Shares at December 31, 2019	Beginning Value as of December 31, 2019 $	Purchases at Cost $	Proceeds from Sales $	Net Amortization (Accretion) of Premium/ (Discount) $	Net Realized Gain/(Loss) on Sales of Affiliated Issuers $	Change in Unrealized Appreciation/ (Depreciation) $	Ending Value as of December 31, 2020 $	Shares at December 31, 2020	Affiliated Income $
LLV Holdco LLC (U.S. Senior Loans & Common Stocks)	13,442,392	10,753,914	333,130	—	(58,675)	—	8,133,016	19,161,385	13,810,470	67,106
NEXLS LLC (LLC Interest)	—	—	6,733,992	—	—	—	1	6,733,993	192	—
NexPoint Real Estate Finance (Common Stocks)	—	—	218,170	—	—	—	73,078	291,248	17,630	21,156
NexPoint Residential Trust (Common Stocks)	—	—	5,371,314	(114,283)	—	—	1,026,892	6,283,923	148,521	24,045
NexPoint Strategic Opportunities Fund (Registered Investment Company)	989,143	17,517,723	1,740,630	—	—	—	(7,087,313)	12,171,040	1,156,943	—
NexPoint Storage Partners, Inc. (Common Stocks)	—	—	18,047,494	—	—	—	1,699,243	19,746,737	18,568	—
NFRO REIT SUB, LLC (Common Stocks)	4,328,483	95,747,521	100,103,982	(9,599,985)	—	—	(3,984,945)	182,266,573	9,610,479	—
NexPoint Real Estate Finance Operating Partnership, L.P., NREF OP II (LLC Interest)	—	—	33,729,452	(10,621,618)	—	—	(3,957,592)	19,150,242	1,159,216	1,617,470
Omnimax International, Inc. (U.S. Senior Loans, Common Stocks & Warrants)	9,629,768	8,152,216	684,807	(4,118,050)	254,448	(7,458,253)	2,484,832	—	—	825,789
SFR WLIF I, II, III, LLC (LLC Interest)	90,000,000	88,777,470	—	(25,478,981)	—	—	(10,509,585)	52,788,904	64,521,018	6,493,613
Total	245,073,670	325,583,765	174,531,061	(49,950,571)	195,773	(7,458,253)	(29,200,785)	413,700,990	224,546,050	19,332,726

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 Fund through a transfer of personnel, equipment and/or facilities from HCMLP either to the Investment Adviser or to a third-party service provider.

Note 11. New Accounting Pronouncement

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 consolidated 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 consolidated financial statements.

Note 12. Asset Coverage

The Fund is required to maintain 300% asset coverage with respect to amounts outstanding (excluding short-term borrowings) under its various leverage facilities. Additionally, the Fund is required to maintain 200% asset coverage with respect to the preferred share issuance as well as its various leverage facilities. Asset coverage is calculated by subtracting the Fund's total liabilities, not including any amount representing bank borrowings and senior securities, from the Fund's total assets and dividing the result by the principal amount of the borrowings outstanding. As of the dates indicated below, the Fund's debt outstanding and asset coverage was as follows:

Date	Amount Outstanding Excluding Preferred Shares	% of Asset Coverage of Indebtedness Excluding Preferred Shares	Amount Outstanding Including Preferred Shares	% of Asset Coverage of Indebtedness Including Preferred Shares[2]
12/31/2020	200,000,000	575.25%	345,000,000	375.50%
12/31/2019	419,796,600	337.13%	564,796,600	276.25%
12/31/2018[1]	496,141,100	306.80%	496,141,100	306.80%
6/30/2018	498,563,423	317.70%	498,563,423	317.70%
6/30/2017	N/A	N/A	N/A	N/A
6/30/2016	N/A	N/A	N/A	N/A
6/30/2015	51,500,000	1641.40%	51,500,000	1641.40%
6/30/2014	60,000,000	1577.60%	60,000,000	1577.60%
6/30/2013	N/A	N/A	N/A	N/A
6/30/2012	89,000,000	718.40%	89,000,000	718.40%
6/30/2011	135,000,000	659.90%	135,000,000	659.90%

1 For the six-month period ended December 31, 2018. Effective April 11, 2019, the Fund had a fiscal year change from June 30 to December 31 (Note 1).

2 As referenced in Note 1, the Fund issued $145mm in preferred shares subject to the 200% Asset Coverage of Indebtedness requirements under the 1940 Act.

Note 13. Unconsolidated Significant Subsidiaries

In accordance with Regulation S-X and GAAP, the Fund is not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which the Fund has a controlling interest unless the business of the controlled subsidiary consists of providing services to the Fund. In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Fund evaluates its unconsolidated controlled subsidiaries as significant subsidiaries under the respective rules. As of December 31, 2020, NFRO REIT Sub, LLC was considered a significant unconsolidated subsidiary under Regulation S-X Rule 4 08(g). This subsidiary is wholly owned by the Fund. Based on the requirements under Regulation S-X Rule 4-08(g), the summarized consolidated financial information of these unconsolidated subsidiaries is presented below:

	NFRO REIT Sub, LLC December 31, 2020 $
Balance Sheet:	
Current Assets	4,504,000
Noncurrent Assets	299,488,000
Total Assets	303,992,000
Current Liabilities	12,943,000
Noncurrent Liabilities	138,018,000
Total Liabilities	150,961,000
Preferred Stock	1,000
Non-Controlling interest (in consolidated) investmensts)	104,000
Invested Equity	152,926,000
Total Equity	153,031,000

	NFRO REIT Sub, LLC For the Year Ended December 31, 2020 $
Summary of Operations:	
Net Sales	1,359,000
Gross Profit (Loss)	(300,000)
Net Income (Loss)	134,000
Net Income (Loss) attributable to non-controlling interest (in condolidated investmensts), preferred shares, and other comprehensive income	464,000

Note 14. Subsequent Events

The Investment Adviser has evaluated the impact of all subsequent events on the Fund through the date the consolidated financial statements were issued, and has determined that there were no such subsequent events to report which have not already been recorded or disclosed in these consolidated financial statements and accompanying notes except as noted below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of Highland Income Fund:

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of assets and liabilities, including the consolidated investment portfolio, of Highland Income Fund (the "Fund") as of December 31, 2020, the related consolidated statements of operations, cash flows, and changes in net assets, the related consolidated notes, and the consolidated financial highlights for the year then ended (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2020, the results of its operations and its cash flows, the changes in net assets, and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Fund's financial statements and financial highlights for the years ended December 31, 2019, and prior, were audited by other auditors whose report dated April 10, 2020, expressed an unqualified opinion on those financial statements and financial highlights.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2020, by correspondence with the custodian, agent banks, transfer agents, issuers and brokers; when replies were not received from brokers, we performed other auditing procedures. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Fund's auditor since 2020**.**

Cohen & Company, Ltd.

COHEN & COMPANY, LTD.
Cleveland, Ohio
March 3, 2021

Investment Objective and Strategy Overview

The Fund's investment objective is to provide a high level of current income, consistent with preservation of capital.

The Fund seeks to achieve its objective by investing directly and indirectly (e.g., through derivatives that are the economic equivalent of direct investments) in the following categories of securities and instruments: (i) floating rate loans and other securities deemed to be floating rate investments; (ii) investments in securities or other instruments directly or indirectly secured by real estate, including real estate investment Funds ("REITs"), preferred equity, securities convertible into equity securities and mezzanine debt; and (iii) other instruments, including, but not limited to, secured and unsecured fixed-rate loans and corporate bonds, distressed securities, mezzanine securities, structured products (including but not limited to mortgage-backed securities, collateralized loan obligations and asset-backed securities), convertible and preferred securities, equities (public and private), and futures and options.

The Fund will invest at least 25% of its assets in investments in securities or other instruments directly or indirectly secured by real estate, including REITs, preferred equity, securities convertible into equity securities and mezzanine debt.

Floating Rate Investments. Floating rate investments are debt obligations of companies or other entities, the interest rates of which float or vary periodically based upon a benchmark indicator of prevailing interest rates. Floating rate investments may include, by way of example, floating rate debt securities, money market securities of all types, repurchase agreements with remaining maturities of no more than 60 days, collateralized loan obligations and asset backed securities. The reference in the Fund's investment objective to capital preservation does not indicate that the Fund may not lose money. HCMFA seeks to employ strategies that are consistent with capital preservation, but there can be no assurance that the Adviser will be successful in doing so. In making floating rate investments for the Fund, the Fund's Adviser will seek to purchase instruments that it believes are undervalued or will provide attractive income, while attempting to minimize losses.

Floating rate loans in which the Fund invests are expected to be adjustable rate senior loans ("Senior Loans") to domestic or foreign corporations, partnerships and other entities that operate in a variety of industries and geographic regions ("Borrowers"). Senior Loans are business loans that have a right to payment senior to most other debts of the Borrower. Senior Loans generally are arranged through private negotiations between a Borrower and several financial institutions (the "Lenders") represented in each case by one or more such Lenders acting as agent (the "Agent") of the several Lenders. On behalf of the Lenders, the Agent is primarily responsible for negotiating the loan agreement ("Loan Agreement") that establishes the relative terms and conditions of the Senior Loan and rights of the Borrower and the Lenders.

The Fund may invest in securities of any credit quality. Senior Loans are typically below investment grade securities (also known as "high yield securities" or "junk securities"). Such securities are rated below investment grade by a nationally recognized statistical rating organization ("NRSRO") or are unrated but deemed by the Adviser to be of comparable quality. The Fund may invest without limitation in below investment grade or unrated securities, including in insolvent borrowers or borrowers in default.

The Fund may invest in participations ("Participations") in Senior Loans, may purchase assignments ("Assignments") of portions of Senior Loans from third parties, and may act as one of a group of Lenders originating a Senior Loan ("Primary Lender"). Senior Loans often are secured by specific assets of the Borrower, although the Fund may invest without limitation in Senior Loans that are not secured by any collateral. When the Fund acts as a Primary Lender, the Fund or the Adviser could be subject to allegations of lender liability. Senior Loans in which the Fund invests generally pay interest at rates that are periodically redetermined by reference to a base lending rate plus a spread.

Real Estate Investments. The Fund defines securities of issuers conducting their principal business activities in the real estate industry to include common stock, convertible or non-convertible preferred stock, warrants, convertible or non-convertible secured or unsecured debt, and partnership or membership interests issued by:

- commercial mortgage-backed securities ("CMBS"), residential mortgage-backed securities ("RMBS') and other real estate credit investments, which include existing first and second mortgages on real estate, either originated or acquired in the secondary market, and secured, unsecured and/or convertible notes offered by real estate operating companies ("REOCs") and REITs;
- publicly traded REITs managed by affiliated or unaffiliated asset managers and their foreign equivalents ("Public REITs");
- REOCs;
- private real estate investment funds managed by affiliated or unaffiliated institutional asset managers ("Private Real Estate Investment Funds");

- registered closed-end funds that invest principally in real estate (collectively, "Public Investment Funds");
- real estate exchange traded funds ("ETFs"); and
- publicly-registered non-traded REITs ("Non-Traded REITs") and private REITs, generally wholly-owned by the Fund or wholly-owned or managed by an affiliate.

REITs are pooled investment vehicles that invest primarily in income-producing real estate or real estate-related loans or interests, and REOCs are companies that invest in real estate and whose shares trade on public exchanges. Foreign REIT equivalents are entities located in jurisdictions that have adopted legislation substantially similar to the REIT tax provisions in that they provide for favorable tax treatment for the foreign REIT equivalent and require distributions of income to shareholders. The Fund may enter into certain real estate and real-estate related investments through its wholly-owned REIT subsidiary, NFRO REIT Sub, LLC (the "REIT Subsidiary"). With respect to the Fund's real estate investments, the Adviser seeks to: (i) recognize and allocate capital based upon where the Adviser believes we are in the current real estate cycle, and as a result (ii) minimize drawdowns during market downturns and maximize risk adjusted returns during all market cycles, though there can be no assurance that this strategy will achieve this objective. The Fund will rely on the expertise of the Adviser and its affiliates to determine the appropriate structure for structured credit investments, which may include bridge loans, common and preferred equity or other debt-like positions, as well as the acquisition of such instruments from banks, servicers or other third parties.

Preferred equity and mezzanine investments in real estate transactions come in various forms which may or may not be documented in the borrower's organizational documents. Generally, real estate preferred equity and/or mezzanine investments are typically junior to first mortgage financing but senior to the borrower's or sponsor's equity contribution. The investments are typically structured as an investment by a third-party investor in the real estate owner or various affiliates in the chain of ownership in exchange for a direct or indirect ownership interest in the real estate owner entitling it to a preferred/priority return on its investment. Sometimes, the investment is structured much like a loan where (i) "interest" on the investment is required to be paid monthly by the "borrower" regardless of available property cash flow; (ii) the entire investment is required to be paid by a certain maturity date; (iii) default rate "interest" and penalties are assessed against the "borrower" in the event payments are not made timely; and (iv) a default in the repayment of investment potentially results in the loss of management and/or ownership control by the "borrower" in the company in favor of the investor or other third-party.

Other Investments. The Fund may invest up to 15% of its net assets in entities that are excluded from registration under the 1940 Act by virtue of section 3(c)(1) and 3(c)(7) of the 1940 Act (such as private equity funds or hedge funds). This limitation does not apply to any collateralized loan obligations, certain of which may rely on Section 3(c)(1) or 3(c)(7) of the 1940 Act.

In addition, the Fund may invest in equity securities of companies of any market capitalization, market sector or industry. Equity securities of U.S. or non-U.S. issuers in which the Fund may invest include common stocks, preferred stocks, convertible securities, depositary receipts and warrants to buy common stocks. The Fund may invest in securities issued by other investment companies, including investment companies that are advised by the Adviser or its affiliates, to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC, and exchange-traded funds ("ETFs"). Fees and expenses of such investments will be borne by shareholders of the investing fund (the Fund), and the Adviser voluntarily waives the higher of the two fees for the portion of the Fund's management fee attributable to the Fund's investment in the affiliated investment company.

The Fund's investment in fixed income securities may include convertible securities. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible income securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value. Convertible securities rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. Depending on the relationship of the conversion price to the market value of the underlying securities, convertible securities may trade more like equity securities than debt instruments.

The Fund may invest without limitation in warrants and may also use derivatives, primarily swaps (including equity, variance and volatility swaps), options and futures contracts on securities, interest rates, non-physical commodities and/or currencies, as substitutes for direct investments the Fund can make. The Fund may also use derivatives such as swaps, options (including options on futures), futures, and foreign currency transactions (e.g., foreign currency swaps, futures and forwards) to any extent deemed by the Adviser to be in the best interest of the Fund, and to the extent permitted by the Investment Company Act of 1940, as amended (the "1940 Act"), to hedge various investments for risk management and speculative purposes.

The Fund may also engage in short sales of securities and may seek additional income by making secured loans of its portfolio securities.

The Fund may engage in securities lending by making secured loans of its portfolio securities amounting to not more than one-third of its total assets, thereby realizing additional income.

The Fund may invest in illiquid and restricted securities. Illiquid securities are those that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities.

The Fund may invest without limitation in securities (including loans) of non-U.S. issuers, including emerging market issuers. Such securities (including loans) may be denominated in U.S. dollars, non-U.S. currencies or multinational currency units. Except as otherwise expressly noted in the Statement of Additional Information ("SAI"), all percentage limitations and ratings criteria apply at the time of purchase of securities.

The Fund may borrow an amount up to 33 1/3% of its total assets (including the amount borrowed) and may use leverage in the form of preferred shares in an amount up to 50% of the Fund's total assets (including the amount borrowed. The Fund may borrow for investment purposes and for temporary, extraordinary or emergency purposes. To the extent the Fund borrows more money than it has cash or short-term cash equivalents and invests the proceeds, the Fund will create financial leverage. The use of borrowing for investment purposes increases both investment opportunity and investment risk.

When adverse market, economic, political or currency conditions domestically or abroad occur, the Fund may temporarily invest all or a portion of its total assets in defensive investments. Such investments may include fixed-income securities, high quality money market instruments, cash and cash equivalents. To the extent the Fund takes a temporary defensive position, it may not achieve its investment objective.

The Fund is a non-diversified fund as defined in the 1940 Act, but it intends to adhere to the diversification requirements applicable to regulated investment companies ("RICs") under Subchapter M of the Internal Revenue Code of 1986, as amended. The Fund is not intended to be a complete investment program.

Tax Information

For shareholders that do not have a December 31, 2020 tax year end, this notice is for informational purposes only. For shareholders with a December 31, 2020 tax year end, please consult your tax adviser as to the pertinence of this notice. For the fiscal year ended December 31, 2020, the Fund is designating the following items with regard to earnings for the year.

Return of Capital	Long-Term Capital Gain Distribution	Ordinary Income Distribution	Total Distribution
52.51%	0.00%	47.49%	100.00%

Qualified Dividends and Corporate Dividends Received Deduction(1)	Qualified Dividend Income (15% tax rate for QDI)(2)	Interest Related Dividends(3)	U.S. Government Interest(4)	Qualifying Business Income(5)
3.72%	3.38%	52.67%	0.00%	0.23%

(1) The percentage in this column represents the amount of "Qualifying for Corporate Receivable Deduction Dividends" and is reflected as a percentage of ordinary income distributions.
(2) The percentage in this column represents the amount of "Qualifying Dividend Income" and is reflected as a percentage of "Ordinary Income Distributions." It is the intention of the Fund to designate the maximum amount permitted by law.
(3) The percentage in this column represents the amount of "Interest Related Dividends" and is reflected as a percentage of ordinary income distributions exempt from U.S. withholding tax when paid to foreign investors.
(4) The percentage in this column represents the amount of "Short-Term Capital Gain Dividend" as created by the American Jobs Creation Act of 2004 and is reflected as a percentage of short-term capital gain distributions that is exempt from U.S. withholding tax when paid to foreign investors.
(5) The percentage of this column represents that amount of ordinary dividend income that qualified for 20% Business Income Deduction.

The information reported herein may differ from the information and distributions taxable to the shareholder for the calendar year ended December 31, 2020. Complete information will be computed and reported with your 2020 Form 1099-DIV.

Additional Portfolio Information

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

Changes of Independent Registered Public Accounting Firms

On June 8, 2020, the Fund dismissed PricewaterhouseCoopers LLP (“PwC”) as the Fund’s independent registered public accounting firm, effective on such date. The decision to dismiss PwC was approved by the audit committee and by the full Board. On June 18, 2020, the Fund approved the appointment of Cohen & Company Ltd. (“Cohen”) as the Fund’s independent registered public accounting firm. Cohen was engaged by the Fund on June 25, 2020.

PwC’s report on the financial statements for the fiscal years ended December 31, 2019 and December 31, 2018 did not contain any adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Fund’s fiscal years ended December 31, 2019 and December 31, 2018 and the subsequent interim period through June 8, 2020, during which PwC served as the Fund’s independent registered public accounting firm, there were no: (1) disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events (as described in Item 304(a)(1)(v) of Regulation S-K).

The Fund provided PwC with a copy of the disclosures proposed to be made in this N-CSR and requested that PwC furnish the Fund with a letter addressed to the Commission stating whether it agrees with the statements made by the Fund’s in response to Item 304(a) of Regulation S-K, and, if not, stating the respects in which it does not agree. The PwC letter is attached hereto to as an exhibit.

During the fiscal years ended December 31, 2019 and December 31, 2018 and the subsequent interim period through June 8, 2020, neither Management, the Fund nor anyone on its behalf, consulted Cohen regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Fund and no written report or oral advice was provided to the Fund by Cohen or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Dividend Reinvestment Plan

Unless the registered owner of Common Shares elects to receive cash by contacting Maxim Group LLC (“Maxim” or the “Plan Agent”), as agent for shareholders in administering the Plan, a registered owner will receive newly issued Common Shares for all dividends declared for Common Shares of the Fund. If a registered owner of Common Shares elects not to participate in the Plan, they will receive all dividends in cash paid by check mailed directly to them (or, if the shares are held in street or other nominee name, then to such nominee) by Maxim, as dividend disbursing agent. Shareholders may elect not to participate in the Plan and to receive all dividends in cash by sending written instructions or by contacting Maxim, as dividend disbursing agent, at the address set forth below.

Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by contacting the Plan Agent before the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend. Some brokers may automatically elect to receive cash on the shareholders' behalf and may reinvest that cash in additional Common Shares of the Fund for them. The Plan Agent will open an account for each shareholder under the Plan in the same name in which such shareholder's Common Shares are registered.

Whenever the Fund declares a dividend payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Agent through receipt of additional unissued but authorized Common Shares from the Fund ("newly issued Common Shares"). The number of newly issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the lesser of (i) the net asset value per Common Share determined on the Declaration Date and (ii) the market price per Common Share as of the close of regular trading on the New York Stock Exchange (the "NYSE") on the Declaration Date.

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants. In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Plan. There will be no brokerage charges with respect to Common Shares issued directly by the Fund.

The automatic reinvestment of dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Accordingly, any taxable dividend received by a participant that is reinvested in additional Common Shares will be subject to federal (and possibly state and local) income tax even though such participant will not receive a corresponding amount of cash with which to pay such taxes. Participants who request a sale of shares through the Plan Agent are subject to a $2.50 sales fee and pay a brokerage commission of $0.05 per share sold. The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan should be directed to the Plan Agent.

Approval of Highland Income Fund 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 Fund's 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.

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 Fund, 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 and ongoing reporting modernization efforts.

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 Adviser and its affiliates had not been materially impacted by the Highland Capital Management LP ("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 Income 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. The Board reviewed the peer group and universe, each of which was limited to bank loan funds and constructed by FUSE. The Board then considered that the Income Fund had outperformed the Credit Suisse Leveraged Loan USD Index for the ten-year period and had underperformed its index and peer group median for the five-year period, but outperformed the peer group median for the one- and three-year periods. The Board also took into account management's discussion of the Fund's performance, including that the Fund's performance does not generally move with the market and the differences in the Fund's strategy from the funds in its Peer Group. The Board also noted management discussion of actions previously taken and potential further actions to be taken to address the Fund's discount.

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 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 were higher than its peer group median but that its advisory fee was the lowest of its peer group median. The Board of Trustees took into account management's discussion of the Fund's expenses. The Board of Trustees also took into consideration the amounts waived and/or reimbursed, if any, where expense caps or advisory fee waivers had been implemented.

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.

Trustees and Officers

The Board is responsible for the overall management of the Fund, including supervision of the duties performed by the Investment Adviser. The names and birth dates of the Trustees and Officers of the Fund, the year each was first elected or appointed to office, their principal business occupations during the last five years, the number of funds overseen by each Trustee and other directorships they hold are shown below. The business address for each Trustee and Officer of the Fund is c/o Highland Capital Management Fund Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, TX 75201.

The "Highland Fund Complex,", as referred to herein consists of: each series of Highland Funds I ("HFI"), each series of Highland Funds II ("HFII"), Highland Global Allocation Fund ("GAF"), Highland Income Fund ("HFRO"), NexPoint Strategic Opportunities Fund ("NHF"), NexPoint Real Estate Strategies Fund ("NRESF"), and NexPoint Capital, Inc. (the "BDC"), as closed-end management investment company that has elected to be treated as a business development company under the 1940 Act.

Name and Date of Birth	Position(s) with the Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in the Highland Fund Complex Overseen by the Trustee	Other Directorships/ Trusteeships Held During the Past Five Years	Experience, Qualifications, Attributes, Skills for Board Membership
			Independent Trustees			
Dr. Bob Froehlich (4/28/1953)	Trustee	3 year term (expiring at 2023 annual meeting); Trustee since August 2017.	Retired.	11	Trustee of ARC Realty Finance Trust, Inc. (from January 2013 to May 2016); Director of KC Concessions, Inc. (since January 2013); Trustee of Realty Capital Income Funds Trust (from January 2014 to December 2016); Director of American Realty Capital Healthcare Trust II (from January 2013 to June 2016); Director, American Realty Capital Daily Net Asset Value Trust, Inc. (from November 2012 to July 2016); Director of American Sports Enterprise, Inc. (since January 2013); Director of Davidson Investment Advisors (from July 2009 to July 2016); Chairman and owner, Kane County Cougars Baseball Club (since January 2013); Advisory Board of Directors, Internet Connectivity Group, Inc. (from January 2014 to April 2016); Director of AXAR Acquisition Corp. (formerly AR Capital Acquisition Corp.) (from October 2014 to October 2017); Director of The Midwest League of Professional Baseball Clubs, Inc.; Director of Kane County Cougars Foundation, Inc.; Director of Galen Robotics, Inc.; Chairman and Director of FC Global Realty, Inc. (from May 2017 to June 2018); and Chairman; Director of First Capital Investment Corp. (from March 2017 to March 2018); and Director and Special Advisor to Vault Data, LLC (since February 2018).	Significant experience in the financial industry; significant managerial and executive experience; significant experience on other boards of directors, including as a member of several audit committees.

Name and Date of Birth	Position(s) with the Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in the Highland Fund Complex Overseen by the Trustee	Other Directorships/ Trusteeships Held During the Past Five Years	Experience, Qualifications, Attributes, Skills for Board Membership
			Independent Trustees			
Ethan Powell (6/20/1975)	Trustee; Chairman of the Board	3 year term (expiring at 2022 annual meeting); Trustee since August 2017; Chairman of the Board since December 2013.	Principal and CIO of Brookmont Capital Management, LLC since May 2020; CEO, Chairman and Founder of Impact Shares LLC since December 2015; Trustee/Director of the Highland Fund Complex from June 2012 until July 2013 and since December 2013.	11	Trustee of Impact Shares Funds I Trust	Significant experience in the financial industry; significant executive experience including past service as an officer of funds in the Highland Fund Complex; significant administrative and managerial experience.
Bryan A. Ward (2/4/1955)	Trustee	3 year term (expiring at 2022 annual meeting); Trustee since August 2017.	Senior Advisor, CrossFirst Bank since April 2019; Private Investor, BW Consulting, LLC since 2014.	11	Director of Equity Metrix, LLC	Significant experience in the financial industry; significant executive experience including past service as an officer of funds in the Highland Fund Complex; significant administrative and managerial experience.

Name and Date of Birth	Position(s) with the Trust	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in the Highland Fund Complex Overseen by the Trustee	Other Directorships/ Trusteeships Held During the Past Five Years	Experience, Qualifications, Attributes, Skills for Board Membership
			Interested Trustee			
John Honis[2] (6/16/1958)	Trustee	3 year term (expiring at 2021 annual meeting); Trustee since August 2017.	President of Rand Advisors, LLC since August 2013.	11	Manager of Turtle Bay Resort, LLC (August 2011- December 2018); Manager of American Home Patient (November 2011 to February 2016).	Significant experience in the financial industry; significant managerial and executive experience, including experience as president, chief executive officer or chief restructuring officer of five telecommunication firms; experience on other boards of directors.

1 On an annual basis, as a matter of Board policy, the Governance and Compliance Committee reviews each Trustee's performance and determines whether to extend each such Trustee's service for another year. Effective June 2013, the Board adopted a retirement policy wherein the Governance and Compliance Committee shall not recommend the continued service as a Trustee of a Board member who is older than 80 years of age at the time the Governance and Compliance Committee reports its findings to the Board.

2 In light of certain relationships between Mr. Honis and historically affiliated entities of the Adviser, including HCMLP, arising out of HCMLP's pending Chapter 11 proceedings, Mr. Honis is treated as an Interested Trustee of the Trust effective January 28, 2020. From May 1, 2015 to January 28, 2020, Mr. Honis was treated as an Independent Trustee of the Trust.

Name and Date of Birth	Position(s) with the Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
		Officers	
Frank Waterhouse (4/14/1971)	Treasurer and Principal Accounting Officer	Indefinite Term; Treasurer since May 2015; Principal Accounting Officer since October 2017.	Partner and Chief Financial Officer of HCMLP; Treasurer of the Highland Fund Complex since May 2015; Principal Financial Officer October 2017 to February 2021; Principal Executive Officer February 2018 to February 2021.
Brian Mitts (8/26/1970)	Principal Financial Officer and Principal Executive Officer	Indefinite Term; Principal Financial Officer and Principal Executive Officer since February 2021.	Chief Financial Officer, Executive Vice President-Finance, Principal Financial Officer and Principal Accounting Officer of NexPoint Real Estate Strategies Fund since December 2017; Chief Financial Officer, Executive Vice President-Finance, Secretary and Treasurer of NexPoint Real Estate Finance, Inc. since February 2020; Director of NexPoint Real Estate Finance, Inc. since June 2019; Chief Operations Officer of the NexPoint Advisors, L.P. real estate platform; Director of NexPoint Residential Trust, Inc. (NYSE: NXRT) since September 2014; Chief Financial Officer, Executive Vice President-Finance and Treasurer of NXRT since March 2015; Chief Financial Officer, Executive VP-Finance, Treasurer and Corporate Secretary of NexPoint Hospitality Trust since December 2018; Chief Financial Officer and Financial and Operations Principal of NexPoint Securities, Inc., from November 2013 to October 2017.
Jason Post (1/9/1979)	Chief Compliance Officer	Indefinite Term; Chief Compliance Officer since September 2015.	Chief Compliance Officer for Highland Capital Management Fund Advisors, L.P. ("HCMFA") and NexPoint since September 2015; Chief Compliance Officer and Anti-Money Laundering Officer of the Highland Fund Complex since September 2015. Prior to his current role at HCMFA and NexPoint, Mr. Post served as Deputy Chief Compliance Officer and Director of Compliance for HCM.
Dustin Norris (1/6/1984)	Executive Vice President	Indefinite Term: Executive Vice President since April 2019.	Head of Distribution and Chief Product Strategist at NexPoint since March 2019; President of NexPoint Securities, Inc. since April 2018; Head of Distribution at HCMFA from November 2017 until March 2019; Chief Product Strategist at HCMFA from September 2015 to March 2019; Officer of the Highland Fund Complex since November 2012.
David Willmore (2/11/1985)	Secretary	Indefinite Term: Secretary since February 2021	Vice President of Finance for NexPoint Real Estate Finance, Inc. and NexPoint Residential Trust, Inc. since February 2020; Senior Manager at NexPoint Residential Trust, Inc. since March 2019; Senior Manager at Highland Capital Management, L.P. from February 2017 to March 2019.

IMPORTANT INFORMATION ABOUT THIS REPORT

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

Transfer Agent
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

Underwriter
NexPoint Securities, Inc.
2515 McKinney Avenue, Suite 1100
Dallas, TX 75201

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 Highland Income Fund (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 1-800-357-9167 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 their portfolio securities, and the Fund's proxy voting records for the most recent 12-month period ended December 31, are available (i) without charge, upon request, by calling 1-800-357-9167 and (ii) on the Securities and Exchange Commission's website at http://www.sec.gov.

The Fund files its complete schedules of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year as an exhibit to its report on Form N-PORT within sixty days after the end of the period. The Fund's Form N-PORT are available on the Commission's website at http://www.sec.gov and also may be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the Public Reference Room may be obtained by calling 1-800-SEC-0330. Shareholders may also obtain the Form N-PORT by visiting the Fund's website at www.highlandfunds.com.

The Statement of Additional Information includes additional information about the Fund's Trustees and is available upon request without charge by calling 1-800-357-9167.

Highland Funds
c/o American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

Highland Income Fund

Annual Report, December 31, 2020

www.highlandfunds.com