Highland Capital Management

Q2 2019

GLOBAL ALLOCATION FUND

MARKET REVIEW

PERFORMANCE SUMMARY

The Highland Global Allocation Fund (the "Fund," ticker: HGLB) had a total market return of -10.57% and a NAV return of -4.69% during the second quarter of 2019. These compare to a return of 3.74% for the FTSE All World Index during the same period. Positive contributors were Argentina Debt and Equity and market hedges. Detractors to performance were primarily Vistra Energy and master limited partnerships ("MLP").

The Fund officially listed as a Closed-End Fund in February and began trading on the New York Stock Exchange (ticker: HGLB) on February 19. Shortly after conversion the Fund instituted an 8.5% level distribution policy and changed the distribution frequency from quarterly to monthly. Additionally, the Fund announced plans for its share repurchase program. Through July 10, 2019 the Fund had completed $10 million in repurchases of the Fund's shares.

After a strong first quarter the Fund had a disappointing second quarter. Several of the themes that did well at the start of the year, reversed course in the second quarter. Additionally the Fund saw its discount to NAV widen despite the Fund's enhanced distribution policy and share repurchases. Vistra and Energy MLPs posted a strong first quarter returning 14.3% and 16.8% respectively.[1] However they gave up those gains and Vistra was down 12.6% while MLP's were flat in the second quarter. The Fund's second largest holding, TerreStar, did not meaningfully contribute to performance. As of March 31, 2019, TerreStar was marked at $285.62 per share. During the conversion process the Fund sold approximately $48 million of TerreStar equity. The sales were to two separate unaffiliated institutional investors at $350 per share.

TOTAL RETURN ANALYSIS (%)*

AS OF 6/30/2019	Incept.	YTD	1-YR	3-YR	5-YR	10-YR	Since Incept.
HGLB NAV	1.05.98	3.14	5.11	5.81	1.03	8.80	5.76
HGLB Market Price		-17.14	-15.57	-1.65	-3.30	6.44	4.69
FTSE All World		16.36	6.11	12.12	6.73	10.71	6.56

**Comparison of fund returns to the FTSE All World may not be meaningful prior to the investment strategy change on April 9, 2013.*

TOP HOLDINGS (% OF PORTFOLIO)[1]

Vistra Energy Corp	26.4
TerreStar Corp	14.8
Republic of Argentina	11.1
Energy Transfer LP	7.1
Fieldwood Energy	6.0

Performance results reflect the contractual waivers and/or reimbursements of fund expenses by the Advisor. Absent this limitation, performance results would have been lower. The Expense Cap expired on January 31, 2019.

The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please visit our website at www.highlandfunds.com.

Note: Effective April 9, 2013, Highland Core America Equity Fund was renamed Highland Global Allocation Fund. At the same time, Highland Capital Management Fund Advisors, L.P. became the sole Adviser to the Fund and the Fund no longer utilizes a sub-adviser. In addition to these changes, the Fund's investment strategies were revised and the Fund will no longer invest at least 80% of its assets in domestic equity securities. For more information, please view the Fund's prospectus at highlandfunds.com or call 877.665.1287.

Effective on February 13, 2019, the Highland Global Allocation Fund converted from an open-end fund to a closed-end fund, and began trading on the NYSE under the symbol HGLB on February 19, 2019. The performance data presented above reflects that of Class Z shares of the Fund when it was an open-end fund, HCOYX. Month-end returns since March 2019 reflect market prices. The closed-end Fund pursues the same investment objective and strategy as it did before its conversion.

Vistra Energy

Vistra Energy is an integrated power producer headquartered in Texas. The company arose out of the vestiges of the TXU bankruptcy when its merchant power / retail generation business restructured and later merged with competitor Dynegy. We believe this is an example of a unique and misunderstood business in an overlooked industry. We are attracted to its ample cash flow generation, multiple avenues for value creation and strong leadership team.

Management reaffirmed its 2019 guidance on its 1Q call. The company is expected to generate free cash flow before growth investments of $2.1-$2.3 billion this year, which represents a 66% conversion of EBITDA to free cash flow. At the company's market cap at quarter end, this free cash flow represents a yield of 17.5%. We find this free cash flow yield to be highly attractive given the company's size and scale and integrated position within the power value chain.[1]

Free cash flow generation is one thing, but what a management team does with that cash is another. This management team is focused on creating value for shareholders through a balanced capital allocation strategy. The company has completed over $1bn of buybacks under its $1.75bn repurchase program, recently initiated a quarterly dividend of $0.125 per share which management expects to grow at ~6-8%, and expects to achieve a ~2.5x net debt / EBITDA target by YE 2020.[1]

Beyond the company's attractive free cash flow position and capital allocation policy we think there are other avenues for value creation. The company recently announced an attractive tuck-in acquisition which should provide upside to the company's 2019 guidance.

Energy MLPs

We remain constructive on the midstream sector despite near term weakness in NGL prices and a more constrained upstream production growth forecast. We expect US shale volumes to continue to grow despite the reduction in rig counts, which should support midstream fundamentals. The sector has undergone a significant transformation over the past several years towards a focus on shareholder returns, corporate simplification, returns on invested capital, and a reduction in leverage. We think this renewed focus on capital discipline combined with an underlying healthy fundamental backdrop should work well for the sector over time.

One interesting dynamic we have witnessed this year is the outperformance of midstream C-Corps vs companies structured as MLPs. For example, Kinder Morgan ("KMI") returned 39.0% during the first half of the year vs the Alerian MLP Index ("AMZ") return of 12.9%. This outperformance could be a reflection of broader investor interest returning to the sector and gravitating towards large cap C-Corp names first.

Despite these positive factors, midstream MLPs appear cheap relative to history and relative to other yield-oriented asset classes. The median MLP yields 9.3% which is a 24.7% discount relative to its five year average of 7.0%, and trades at an estimated 2020 EV/EBITDA multiple of 9.7x which is a 20.7% discount relative to its five year average of 12.2x. Meanwhile, Utilities trade at an 11.2x EV/EBITDA multiple which is a 10% premium to its five year average and REITs trade at a 17.7x multiple which is a 4% discount.[2]

We have a favorable outlook on long-term midstream going forward due to healthy underlying fundamentals combined with attractive valuation levels. The sector offers investors a combination of attractive current yield with the opportunity for capital appreciation via disciplined capital allocation and multiple expansion.

Outlook

While the second quarter was certainly challenging, the Fund has successfully managed short-term periods of underperformance before. We remain confident in the Fund's themes going forward and believe that the share repurchases will be beneficial to the Fund.

1.Bloomberg and Company Reporting
2.Source: Wells Fargo, "Midstream Monthly Abridged – July 2019", 7/3/19

RISK CONSIDERATIONS

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. Each Fund's investments are concentrated in the energy infrastructure industry with an emphasis on securities issued by MLPs, which may increase price fluctuation. Energy infrastructure companies are subject to risks specific to the industry such as fluctuations in commodity prices, reduced volumes of natural gas or other energy commodities, environmental hazards, changes in the macroeconomic or the regulatory environment or extreme weather.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership, which could reduce or eliminate distributions paid by MLPs to the Fund. Additional management fees and other expenses are associated with investing in MLP funds. The Fund is subject to certain MLP tax risks and risks associated with accounting for its deferred tax liability which could materially reduce the net asset value. An investment in the Fund does not offer tax benefits of a direct investment in an MLP.

Illiquid and Restricted Securities Risk Certain investments made by the Funds are, and others may be, illiquid, and consequently the Funds 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 Funds. 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 Funds' 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 Funds, 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 a Fund's expense, the Fund's expenses would be increased. A high percentage of illiquid securities in a Fund creates risk that such a Fund may not be able to redeem its shares without causing significant dilution to remaining shareholders. **Focused Investment Risk** is the risk that although the Fund is a diversified fund, it may invest in securities of a limited number of issuers in an effort to achieve a potentially greater investment return than a fund that invests in a larger number of issuers. As a result, price movements of a single issuer's securities will have a greater impact on the Fund's net asset value, causing it to fluctuate more than that of a more widely diversified fund. MLP Risk is the risk of investing in MLP units, which involves some risks that differ from an investment in the equity securities of a company. The Fund currently holds and may in the future hold a significant investment in MLP units. Holders of MLP units have limited control and voting rights on matters affecting the partnership. Holders of units issued by an MLP are exposed to a remote possibility of liability for all of the obligations of that MLP in the event that a court determines that the rights of the holders of MLP units to vote to remove or replace the general partner of that MLP, to approve amendments to that MLP's partnership agreement, or to take other action under the partnership agreement of that MLP would constitute "control" of the business of that MLP, or a court or governmental agency determines that the MLP is conducting business in a state without complying with the partnership statute of that state. Holders of MLP units are also exposed to the risk that they will be required to repay amounts to the MLP that are wrongfully distributed to them. Additionally: • A sustained reduced demand for crude oil, natural gas and refined petroleum products could adversely affect MLP revenues and cash flows. • Changes in the regulatory environment could adversely affect the profitability of MLPs. Investments in MLP units also present special tax risks. See "MLP Tax Risk" in the prospectus. **Credit Risk.** The risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty of a derivatives contract or repurchase agreement, is unable or unwilling (or is perceived to be unable or unwilling) to make a timely payment of principal and/ or interest, or to otherwise honor its obligations. **Currency Risk.** The risk that the values of foreign investments may be affected by changes in the currency rates or exchange control regulations. **Derivatives Risk.** Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. Derivatives may involve leverage, as described in more detail below, and the Fund's exposure to derivatives may be significant on a notional basis even where the derivatives are not significant on a market value basis. **Foreign and Emerging Markets Risk.** The Fund may invest in foreign and emerging market securities which involves certain risks such as currency volatility, political and social instability and reduced market liquidity. **Growth Investing Risk.** The risk of investing in growth stocks that may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing company's growth potential. **Leverage Risk.** The risk associated with the use of leverage for investment purposes to create opportunities for greater total returns. Any investment income or gains earned with respect to the amounts borrowed that are in excess of the interest that is due on the borrowing will augment the Fund's income. Conversely, if the investment performance with respect to the amounts borrowed fails to cover the interest on such borrowings, the value of the Fund's shares will decrease more quickly than would otherwise be the case. Interest payments and fees incurred in connection with such borrowings will reduce the amount of net income available for payment to Fund shareholders. **Value Investing Risk.** The risk of investing in undervalued stocks that may not realize their perceived value for extended periods of time or may never realize their perceived value.

The FTSE All-World Index Series is the Large/Mid Cap aggregate of 2,800 stocks from the FTSE Global Equity Index Series. It covers 90-95% of the investable market capitalization. Unlike the Fund, the index is not an investment, does not incur fees or expenses, and is not professionally managed. It is not possible to invest directly in the index.

Alerian MLP Index is a composite of the 50 most prominent Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. Unlike the Fund, the index is not an investment, does not incur fees or expenses, and is not professionally managed. It is not possible to invest directly in the index.

The information herein has been prepared by the Investment Adviser, is based upon unaudited information, and has not been independently audited or verified. This summary is for informational purposes only and is subject to change. This Fact Sheet contains information about prior investments made by the Adviser of the Fund. This information was prepared by the Adviser based on its experience in the industry and on assumptions of fact and opinion as to future events which the Adviser believed to be reasonable when made. There can be no assurance that the Adviser and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange and frequently trade at prices lower than their net asset value, which may increase an investor's risk of loss. Net Asset Value (NAV) is total assets less total liabilities, which includes preferred shares, divided by the number of common shares outstanding. At the time of sale, your shares may have a market price that is above or below NAV, and may be worth more or less than your original investment. For additional information, please contact your investment adviser or visit our website www.highlandfunds.com.

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