HIGHLAND CAPITAL MANAGEMENT

Highland Funds I

Highland Healthcare Opportunities Fund
NexPoint Merger Arbitrage Fund
(formerly, Highland Merger Arbitrage Fund)

Annual Report
June 30, 2021

Highland Funds I

Highland Healthcare Opportunities Fund
NexPoint Merger Arbitrage Fund

TABLE OF CONTENTS

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.

Performance Review

For the twelve months ended June 30, 2021, the Highland Healthcare Opportunities Fund (the "Fund") Class Z Shares returned a total 18.55%. The Fund underperformed the Morningstar Open-End Fund Long/Short Category (the "Category") by (4.36%), ranking in the mid quartile of the Category, and underperformed the S&P 500 Index ("S&P 500") by (20.72%) over the same twelve-month period. The XLV Healthcare Sector Index (the "XLV") returned 25.86% and the IBB Biotech Sector Index (the "IBB") returned 19.72% over the same period.

Manager's Discussion

Performance in the healthcare sector was relatively strong during the reporting period but weaker than the overall equity market, with the XLV generating a 27.83% total return compared to 40.90% for the bellwether S&P 500. This underperformance has been a tale of two halves, with both the XLV (14.29%) and IBB (10.93%) underpacing the 22.26% total return of the S&P 500 in the second half of 2020. The underperformance extended into the first half of 2021. Typically considered a more-defensive sector with recession-resistant business models for large cap healthcare, these stocks have provided attractive downside protection through the COVID-19 pandemic. But with the re-opening of the U.S. economy via the successful introduction of COVID vaccines, the XLV experienced solid performance at 11.84% during the first half of 2021 along with the 15.25% total return performance of the broader market S&P 500 over the same period. Furthermore, the race to get to a herd immunity threshold for vaccinations administered to Americans and globally has driven strong performance within the life sciences and biotechnology sectors, with the IBB generating 8.14% total return in the first half of 2021.

We continue to believe the environment for healthcare investment remains favorable. In the near-term, the potential regulatory concerns that weighed on the healthcare sector during the past two years such as meaningful limits on drug pricing or reimbursement constraints have not materialized. In addition, the Biden administration is largely supportive of healthcare. On July 9 of the current year, the White House released an "Executive Order on Promoting Competition in the American Economy" which outlined plans to curb rising drug prices, but without legislation mandates on capping drug prices. Rather it encourages greater market competition and expansion of generic and biosimilar medications. In addition, the $2T "American Jobs Plan", one part of the greater $6T "Infrastructure Bill" outlines plans to allocate $30B for future pandemic preparedness which includes greater research, development, and drug manufacturing capabilities. In addition, there are provisions for expansion of Medicare to Americans aged 60 versus the current age at 65 and older. This proposal is envisioned to increase access to medicines, especially for lower income Americans, but not necessarily lower drug spending per person. All of these proposals bode well for future growth of the healthcare sector.

These developments are on the back of long term demographic trends ongoing currently with the aging baby boomers which will favor the healthcare industry for many years to come. U.S. healthcare spending is estimated to have increased 4.6% in 2019 (4.4% in 2018) to $3.8 trillion ($3.65 trillion), or $11,582 per person ($11,121). This healthcare spending is expected to grow at a 5.5% compound annual growth rate to 19.4% of GDP (approximately $6 trillion) by 2027. Healthcare is seen to be driven by two major forces, demographic and economic factors, including government support. With the newly proposed expansion of Medicare, this overall healthcare spending growth forecast is a conservative estimate. Strong fundamental demand has driven consistent earnings growth for U.S. healthcare companies.

Over the past 20 years from 2001 to 2021, total return for the S&P 500 Healthcare Index ("S&P Healthcare") has grown at a 7.14% CAGR compared to 7.10% for the S&P 500, and healthcare earnings has had positive growth in all but 4 years over the past 20 years compared to 8 years for the broader S&P 500.

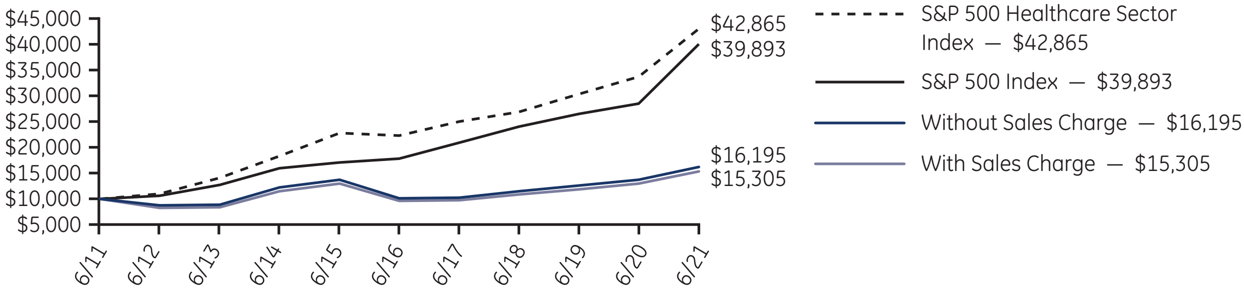
Although both the healthcare index and the broader S&P 500 have had strong historical performance, the S&P Healthcare currently trades at its average historical price-to-earnings multiple, while the broader S&P 500 currently trades at a 52% premium to its historical average multiple.

With the introduction of efficacious vaccines, we now have a realistic potential for resolution of the ongoing COVID-19 pandemic. While the specter of potential regulatory risk exists, we believe the likelihood of meaningful adverse structural change to the U.S. healthcare industry is low. We believe breakthroughs in biomedicine will continue to expand the long-term secular growth cycle via new product entry and innovative care models providing opportunities for additional investment. Therefore, we have invested in smaller cap biotech therapeutics stocks in preparation for the re-opening of the post-pandemic world, capturing the upswing of a re-starting of clinical programs stymied by the pandemic. This accounts for the underperformance of the fund versus the S&P 500, but we anticipate this is the growing pains as we restructured our portfolio toward smaller cap, high beta biotech stocks to capture the new catalysts on the near horizon into end of 2021 into 2022. These are growing pains toward anticipated high returns into the near future. Of course, past successes in this regard should not be a guarantee of future performance.

We believe the key to successful investment is to identify companies that will play a critical role in lowering healthcare costs and driving improved patient outcomes.

The S&P 500 Index is a stock market index that measures the stock performance of the 500 largest companies listed on stock exchanges in the United States. It is not possible to invest directly in an index. The returns of each index do not reflect the actual cost of investing in the instruments of which the index is comprised.

Growth of Hypothetical $10,000 Investment



Average Annual Total Returns						
	Class A		Class C		Class Z	
	Without Sales Charge	With Sales Charge	Without Sales Charge	With Sales Charge	Without Sales Charge	With Sales Charge
Year Ended	18.18%	11.67%	17.41%	16.41%	18.55%	NA
Five Year	9.80%	8.56%	9.10%	NA	10.21%	NA
Ten Year	4.94%	4.35%	4.28%	NA	5.34%	NA

"Without Sales Charge" returns do not include sales charges or contingent deferred sales charges ("CDSC"). "With Sales Charge" returns reflect the maximum sales charge of 5.50% on Class A Shares. Class A Shares bought without an initial sales charge in accounts aggregating $500,000 or more at the time of purchase are subject to a 1.00% CDSC if redeemed within eighteen months of purchase. The CDSC on Class C Shares is 1% within the first year for each purchase; there is no CDSC on Class C Shares thereafter.

Fees and Expenses: The total gross and net operating expenses of the Fund can be found in the Financial Highlights section of this report. Performance for prior periods results reflect any contractual waivers and/or reimbursements of fund expenses by the Adviser. Absent this limitation, performance results would have been lower.

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, maybe 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.

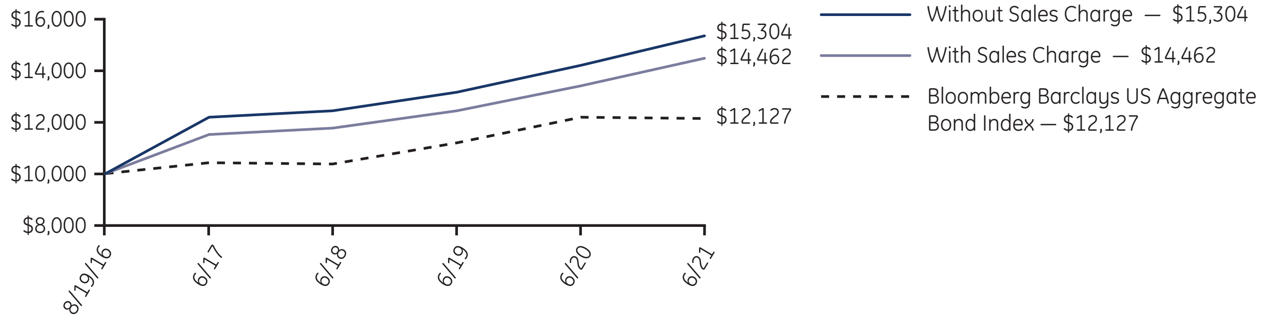
Performance Review

For the twelve-month period ended June 30, 2021, the NexPoint Merger Arbitrage Fund (the “Fund”) Class Z returned 8.43% compared to the Barclays US Aggregate Bond Index return of -0.33%, the S&P Merger Arbitrage Index return of 12.96%, the HFRI Merger Arbitrage Index return of 21.41%, and the S&P 500 Index return of 40.77%.

Manager’s Discussion

Much of the past year can be characterized as a recovery from the global pandemic that shook capital markets in the Spring of 2020, during which the Fund incurred a [-1.88%] drawdown in March 2020. Deal flow was very slow during the early months of the pandemic and tended to consist of a higher proportion of opportunistic or hostile approaches than we are used to seeing. However, as the economy recovered so did the merger arbitrage environment, and deal flow in our investable universe ramped at a rapid pace off of the lows in April of 2020, until deal flow finally returned to pre-pandemic levels in September 2020. Deal flow continued to improve into calendar year-end 2020 and has remained strong throughout the first half of calendar year 2021. We are encouraged by the level of activity as well as the deal spreads we have been seeing in the market. The Fund’s 8.43% return during fiscal year 2021 is above its average annual return since inception, and it is also noteworthy that returns were positive each month during this time period.

Growth of Hypothetical $10,000 Investment



Average Annual Total Returns	Class A		Class C		Class Z	
	Without Sales Charge	With Sales Charge	Without Sales Charge	With Sales Charge	Without Sales Charge	With Sales Charge
Year Ended	8.02%	2.06%	7.34%	6.34%	8.43%	NA
Since Inception[1]:	6.62%	5.39%	5.92%	5.92%	6.88%	NA

[1] (August 19, 2016) for Class A and C (January 20, 2015) for Class Z.

Returns shown in the chart and table do not reflect taxes that a shareholder would pay on Fund distributions or on the sale of the Fund shares.

"Without Sales Charge" returns do not include sales charges or contingent deferred sales charges ("CDSC"). "With Sales Charge" returns reflect the maximum sales charge of 5.50% on Class A Shares. Class A Shares bought without an initial sales charge in accounts aggregating $500,000 or more at the time of purchase are subject to a 1.00% CDSC if redeemed within eighteen months of purchase. The CDSC on Class C Shares is 1.00% within the first year for each purchase; there is no CDSC on Class C Shares thereafter.

Fees and Expenses: The total gross and net operating expenses of the Fund can be found in the Financial Highlights section of this report. Highland Capital Management Fund Advisors, L.P. (the "Investment Adviser") contractually agreed to limit the total annual operating expenses (exclusive of fees paid by the Fund pursuant to its distribution plan under Rule 12b-1 under the Investment Company Act of 1940, taxes, dividend expenses on short sales, interest payments, brokerage commissions and other transaction costs, acquired fund fees and expenses, and extraordinary expenses) to 1.50% of average daily net assets attributable to any class of the Fund. The fee waiver will continue through at least October 31, 2021. Performance results reflect any contractual waivers and/or reimbursements of fund expenses by the Investment Adviser. Absent this expense limitation, performance results would have been lower.

Performance results for Class Z shares also include performance from Highland Merger Arbitrage Fund, LP ("the MAF Predecessor Fund"). The MAF Predecessor Fund was not managed as a 1940 Act Fund so the expenses and ratios may be different. Stock and bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, factors related to a specific issuer or industry and, with respect to bond prices, changing market perceptions of the risk of default and changes in government intervention. These factors may also lead to increased volatility and reduced liquidity in the bond markets. The Fund invests in value stocks which involve the risk of investing in securities that are undervalued and may not realize their full potential. The Fund also invests in growth stocks that may be more volatile because they are more sensitive to market conditions. The Fund may invest in foreign securities which may cause more volatility and less liquidity due to currency changes, political instability and accounting differences. The Fund's investments in derivatives may involve more volatility and less liquidity because of the risk that an investment may not correlate to the performance of the underlying securities.

Mutual fund investing involves risk including the possible loss of principal.

The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's share 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.

Objective

Highland Healthcare Opportunities Fund seeks long-term capital appreciation.

Net Assets as of June 30, 2021

$24.4 million

Portfolio Data as of June 30, 2021

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

Industry Classifications as of 06/30/2021[1]	
Biotechnology	54.5%
Life Sciences Tools & Services	16.8%
Pharmaceuticals	12.9%
Healthcare Providers & Services	8.0%
Healthcare Technology	4.7%
Other Investments and Assets & Liabilities[2]	3.1%

Top 5 Holdings as of 6/30/2021(%)[1][3] Long Securities	
uniQure	8.9%
NextCure	7.7%
AbbVie, Inc.	6.9%
ATAI Life Sciences	6.8%
Organon	5.6%

(1) Sectors and holdings are calculated as a percentage of total net assets.

(2) Includes the Fund’s investment in cash equivalent investments.

(3) Excludes the Fund’s investment in cash equivalent investments.

Objective

NexPoint Merger Arbitrage Fund seeks to generate positive absolute returns.

Net Assets as of June 30, 2021

$209.7 million

Portfolio Data as of June 30, 2021

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

Sectors as of 6/30/2021(%)(1)	Long Exposure	Short Exposure	Net Exposure
Communication Services	0.2	(0.2)	—
Consumer Discretionary	0.6	(2.0)	(1.4)
Consumer Staples	1.0	—	1.0
Financials	18.8	(16.3)	2.5
Healthcare	29.7	(7.0)	22.7
Industrials	7.5	(3.0)	4.5
Information Technology	28.0	(0.7)	27.3
Materials	0.2	(0.3)	(0.1)
Real Estate	8.2	(5.3)	2.9
Special Purpose Acquisition Companies	11.7	—	11.7
Other Investments and Assets & Liabilities(2)	28.9	—	28.9

Top 5 Holdings as of 6/30/2021(%)(1) Long Securities	
Magellan Health	12.9
Talend	12.0
PRA Health Sciences, Inc.	8.6
Proofpoint	8.5
Athene Holding	5.7

Short Securities	
Apollo Global Management	(6.0)
Kimco Realty	(4.9)
ICON	(4.4)
SVB Financial Group	(3.6)
Herman Miller	(3.0)

(1) Sectors and holdings are calculated as a percentage of total net assets.

(2) Includes the Fund's investment in cash equivalent investments.

Amounts designated as "—" are 0%.

June 30, 2021

A guide to understanding each Fund's financial statements

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

As of June 30, 2021 — Highland Healthcare Opportunities Fund

Shares		Value ($)
Common Stocks - 96.9%		
HEALTHCARE - 96.9%		
Biotechnology - 54.5%		
15,000	AbbVie, Inc.	1,689,600
500,000	Abeona Therapeutics (a)	780,000
48,800	Amicus Therapeutics, Inc. (a)(b)	470,432
5,000	BioMarin Pharmaceutical (a)	417,200
50,000	Exelixis (a)	911,000
14,000	Galapagos ADR (a)	964,460
110,000	Hookipa Pharma (a)	1,007,600
12,000	Insmed (a)	341,520
320,203	Minerva Neurosciences, Inc. (a)(c)	742,871
234,708	NextCure (a)	1,884,705
7,500	Twist Bioscience (a)	999,375
70,000	uniQure (a)	2,156,000
50,000	Vor BioPharma (a)	932,500
		13,297,263
Healthcare Providers & Services - 8.0%		
969	Anthem, Inc.	369,964
2,000	Humana, Inc.	885,440
1,712	UnitedHealth Group, Inc.	685,553
		1,940,957
Healthcare Technology - 4.7%		
100,000	Convey Holding Parent (a)	1,138,000
Life Sciences Tools & Services - 16.8%		
90,000	ATAI Life Sciences (a)	1,665,000
30,000	Berkeley Lights (a)(c)	1,344,300
39,142	Singular Genomics Systems (a)	1,075,622
		4,084,922
Pharmaceuticals - 12.9%		
45,000	Nektar Therapeutics, Class A (a)	772,200
45,000	Organon (a)(b)	1,361,700
150,000	Paratek Pharmaceuticals, Inc. (a)	1,023,000
		3,156,900
		23,618,042
	Total Common Stocks (Cost $25,612,925)	23,618,042
Preferred Stock - 0.0%		
HEALTHCARE - 0.0%		
Healthcare Technology - 0.0%		
608,695	AMINO, Inc., Series C (a)(d)(e)(f)(g)	—
	Total Preferred Stock (Cost $3,499,996)	—

Units		Value ($)
Warrants - 0.0%		
HEALTHCARE - 0.0%		
Biotechnology - 0.0%		
4,752	Gemphire Therapeutics, Inc., Expires 03/15/2022 (a)(d)(f)	1
	Total Warrants (Cost $—)	1

Principal Amount ($)		
Repurchase Agreements (h)(i) - 4.0%		
249,000	Citigroup Global Markets 0.060%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $249,000 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $25 - $41,710, 0.000% - 6.500%, 07/01/2021 - 01/15/2059; with a total market value of $253,980)	249,000
249,000	Daiwa Capital Markets 0.050%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $249,000 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $0 - $33,200, 0.000% - 7.000%, 11/30/2021 - 07/01/2051; with a total market value of $253,980)	249,000
226,687	Morgan Stanley 0.050%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $226,687 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $0 - $35,571, 0.000% - 8.000%, 12/01/2023 - 07/01/2051; with a total market value of $231,221)	226,687
249,000	RBC Dominion Securities 0.050%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $249,000 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $0 - $21,348, 0.000% - 8.000%, 08/01/2021 - 04/15/2062; with a total market value of $253,980)	249,000
	Total Repurchase Agreements (Cost $973,687)	973,687

Shares		Value ($)
Cash Equivalent - 13.1%		
MONEY MARKET FUND (j) - 13.1%		
3,194,939	Dreyfus Treasury Obligations Cash Management, Institutional Class 0.010%	3,194,939
	Total Cash Equivalent (Cost $3,194,939)	3,194,939
Total Investments - 114.0% (Cost $33,281,547)		**27,786,669**
Other Assets & Liabilities, Net - (14.0)% (k)		**(3,411,447)**
Net Assets - 100.0%		**24,375,222**

(a) Non-income producing security.
(b) All or part of this security is pledged as collateral for short sales. The fair value of the securities pledged as collateral was $533,960.
(c) Securities (or a portion of securities) on loan. As of June 30, 2021, the fair value of securities loaned was $1,225,560. The loaned securities were secured with cash and/or securities collateral of $1,283,273. Collateral is calculated based on prior day's prices.
(d) Securities with a total aggregate value of $1, or 0.0% of net assets, were classified as Level 3 within the three-tier fair value hierarchy. Please see 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.
(e) There is currently no rate available.
(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 $1, or 0.0% of net assets, were fair valued under the Fund's valuation procedures as of June 30, 2021. Please see Notes to Financial Statements.
(g) 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 policies and 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
AMINO, Inc.	Preferred Stock	11/18/2016	$3,499,996	$0	0.0%

(h) Tri-Party Repurchase Agreement.
(i) This security was purchased with cash collateral held from securities on loan. The total value of such securities as of June 30, 2021 was $973,687.
(j) Rate shown is 7 day effective yield.
(k) As of June 30, 2021, $13,634 in cash was segregated or on deposit with the brokers to cover investments sold short and is included in "Other Assets & Liabilities, Net".

Shares		Value ($)
Common Stock - 94.1%		
COMMUNICATION SERVICES - 0.1%		
3,816	Madison Square Garden Entertainment (a)(b)	320,430
CONSUMER DISCRETIONARY - 0.6%		
67,123	Just Eat Takeaway.com ADR (b)	1,225,666
CONSUMER STAPLES - 1.0%		
41,870	Performance Food Group (b)	2,030,276
FINANCIALS - 18.8%		
13,440	10X Capital Venture Acquisition, Class A (b)	133,862
5,597	American River Bankshares	101,306
23,616	Aquesta Financial Holdings	483,892
30,000	Aries I Acquisition (b)	301,500
175,891	Athene Holding, Class A (b)(c)	11,872,642
7,312	BancorpSouth Bank	207,149
578,522	Boston Private Financial Holdings	8,533,200
33,796	Century Bancorp, Class A	3,852,744
12,479	Cortland Bancorp	333,813
2,043	County Bancorp (a)	69,380
112,131	First Choice Bancorp (c)	3,414,389
89,720	First Midwest Bancorp	1,779,148
1,717	M&T Bank	249,497
43,041	Mackinac Financial	850,490
60,288	Meridian Bancorp (c)	1,233,492
21,714	New York Community Bancorp (a)	239,288
15,859	Perpetual Federal Savings Bank	625,162
56,028	Premier Financial Bancorp	944,072
200,013	Select Bancorp (b)(c)	3,224,210
22,523	SouthCrest Financial Group	281,537
13,737	Webster Financial	732,732
		39,463,505
HEALTHCARE - 29.7%		
43,042	Alexion Pharmaceuticals (b)(c)	7,907,246
23,800	Biotech Acquisition Co, Class A	230,146
265,794	Constellation Pharmaceuticals (b)	8,983,837
288,150	Magellan Health (b)(c)	27,143,730
108,840	PRA Health Sciences, Inc. (b)	17,981,456
		62,246,415
INDUSTRIALS - 7.5%		
19,301	CAI International	1,080,856
152,233	Fly Leasing ADR (b)	2,578,827
410,853	Knoll (c)	10,678,070
57,800	Welbilt (b)	1,338,070
		15,675,823
INFORMATION TECHNOLOGY - 28.0%		
469,627	Cloudera Inc (b)	7,448,284
23,936	EXFO (b)	142,419
299	Marvell Technology	17,441
10,482	Maxim Integrated Products	1,104,384
118,000	Nuance Communications (b)(c)	6,423,920
102,280	Proofpoint (b)(c)	17,772,173
32,329	SharpSpring (b)	546,037
700	Sykes Enterprises (b)	37,590
INFORMATION TECHNOLOGY (continued)		
382,999	Talend ADR (b)(c)	25,124,734
		58,616,982
MATERIALS - 0.2%		
6,844	W R Grace	473,057
REAL ESTATE - 8.2%		
135,584	New Senior Investment Group , REIT	1,190,428
60,900	QTS Realty Trust, Class A , REIT	4,707,570
353,164	Weingarten Realty Investors , REIT	11,325,969
		17,223,967
	Total Common Stock (Cost $196,120,798)	197,276,121
Special Purpose Acquisition Companies - 11.7%		
6,188	7GC & Holdings, Class A (b)	60,024
7,545	ACE Convergence Acquisition, Class A (b)	75,111
200	Ajax I, Class A (b)	1,992
25,000	Altimeter Growth, Class A (b)	256,250
6,625	Apollo Strategic Growth Capital II (b)	66,250
10,154	B Riley Principal 150 Merger (a)(b)	102,759
5,000	Better World Acquisition Corp (b)	50,000
7,683	Biotech Acquisition Co (b)	77,598
30,024	Carney Technology Acquisition II, Class A (b)	291,233
1	Carney Technology Acquisition II (b)	10
3,000	CBRE Acquisition Holdings (b)	29,880
116,900	CC Neuberger Principal Holdings II, Class A (b)	1,156,141
15,100	CC Neuberger Principal Holdings III, Class A (b)	147,678
1,000	CC Neuberger Principal Holdings III (b)	9,990
32,010	CF Acquisition IV, Class A (a)(b)	310,177
1	CF Acquisition IV (b)	10
24,700	CF Acquisition VI (b)	246,753
2,352	CHP Merger, Class A (b)	23,402
50,100	Churchill Capital V, Class A (a)(b)	504,507
36,351	Class Acceleration, Class A (a)(b)	352,241
130,020	Cohn Robbins Holdings, Class A (b)(c)	1,280,697
1,000	Compute Health Acquisition (b)	10,220
20,000	Conx Corp, Class A	197,200
3,130	Corner Growth Acquisition (b)	31,613
60,739	Corner Growth Acquisition, Class A	591,598
30,000	Corner Growth Acquisition (b)	302,100
13,500	D8 Holdings Corp, Class A (b)	134,595
69,220	Data Knights Acquisition (b)	684,586
52	DHC Acquisition (b)	522
12,100	DPCM Capital (a)(b)	119,548
30,000	Dragoneer Growth Opportunities, Class A (b)	303,000
15,045	Dragoneer Growth Opportunities, Class A (b)	149,848
5,400	ECP Environmental Growth Opportunities (b)	54,540
54,979	Environmental Impact Acquisition, Class A (b)	539,344
162	Epiphany Technology Acquisition, Class A	1,576
24,000	Far Peak Acquisition Corp, Class A	238,800
20,100	FirstMark Horizon Acquisition, Class A	199,593

Shares		Value ($)
Special Purpose Acquisition Companies (continued)		
9,896	Fortress Value Acquisition IV, Class A (b)	97,080
3	Fortress Value Acquisition IV (b)	30
288,740	Forum Merger IV, Class A (b)	2,812,328
3	Forum Merger IV (b)	30
8,000	FS Development II, Class A (b)	80,000
30,000	Fusion Acquisition, Class A (b)	298,500
9,096	Gores Holdings VII, Class A (b)	90,050
4	Gores Holdings VII (b)	40
27,878	Gores Metropoulos II, Class A (a)(b)	275,713
1,000	Gores Technology Partners (b)	10,230
4,100	Gores Technology Partners II (b)	42,394
103,700	GS Acquisition Holdings II, Class A (b)	1,078,480
5,000	Hamilton Lane Alliance Holdings I (b)	50,450
1,760	Hamilton Lane Alliance Holdings I, Class A (b)	17,160
39,079	Haymaker Acquisition III (b)	391,962
116,800	Health Assurance Acquisition, Class A (b)	1,169,168
1,000	Hudson Executive Investment III (a)(b)	9,990
2,439	Ibere Pharmaceuticals (b)	24,512
10,000	IG Acquisition Corp, Class A (a)	97,400
8,600	Jack Creek Investment, Class A (b)	83,076
2,164	Jaws Mustang Acquisition (b)	21,770
1,486	Kludeln I Acquisition, Class A (b)	14,548
20,000	Lefteris Acquisition Corp, Class A	195,000
4,650	Live Oak Mobility Acquisition (b)	46,686
1	Locust Walk Acquisition (b)	10
38,599	Locust Walk Acquisition (b)	381,744
32,700	Lux Health Tech Acquisition, Class A (b)	323,403
12,735	Monument Circle Acquisition (b)	127,859
4,261	NavSight Holdings (b)	42,525
3,133	North Atlantic Acquisition, Class A (b)	30,453
10,000	Northern Star Investment II, Class A (a)	99,600
90,000	OceanTech Acquisitions I (b)	904,500
507	Orion Biotech Opportunities (b)	5,121
2,500	Peridot Acquisition, Class A (b)	30,450
20,401	Periphas Capital Partnering, Class A (b)	500,080
500	Pershing Square Tontine Holdings, Class A (b)	11,380
2,300	Pine Island Acquisition Corp, Class A (b)	22,379
5,753	Pioneer Merger, Class A (b)	57,012
14,300	Pivotal Investment III, Class A (b)	139,425
1,000	Pivotal Investment III (b)	10,000
40,000	Priveterra Acquisition (b)	398,800
1	PropTech Investment II (b)	10
38,142	PropTech Investment II, Class A (b)	371,503
18,800	Prospector Capital, Class A (b)	182,172
44,147	Qell Acquisition, Class A (b)	439,263
7,872	Queen's Gambit Growth Capital, Class A (b)	76,358
16,860	Reinvent Technology Partners Y (b)	170,117
35,441	Revolution Acceleration Acquisition, Class A (b)	353,347
10,000	Revolution Healthcare Acquisition (b)	100,300
12,779	RMG Acquisition III (b)	127,790
1,000	Slam (b)	9,980
91,200	Social Capital Hedosophia Holdings IV (b)	947,568
22,500	Social Capital Hedosophia Holdings VI, Class A (b)	229,500
40,000	Social Leverage Acquisition I, Class A (b)	388,760
42,205	Software Acquisition Group II, Class A (b)	419,940
23	Spartan Acquisition II (b)	230
20,518	Starboard Value Acquisition, Class A (b)	205,180
859	Sustainable Development Acquisition I (b)	8,745
10,000	Sustainable Opportunities Acquisition, Class A (b)	99,500
34,800	SVF Investment Corp, Class A (a)	343,824
46,854	Tailwind Acquisition, Class A (b)	467,134
30,000	Tastemaker Acquisition, Class A (b)	292,500
5,000	Thunder Bridge Capital Partners III, Class A (b)	49,950
3,646	TLG Acquisition One (b)	36,168
6,054	Tortoise Acquisition II (b)	60,722
35,420	Trebia Acquisition Corp, Class A (a)(b)	350,658
5,336	Tribe Capital Growth I (b)	53,840
13,500	Tuscan Holdings II (b)	135,675
	Total Special Purpose Acquisition Companies (Cost $24,583,558)	24,513,458
Contracts		
Purchased Call Options (b) - 0.1%		
	Total Purchased Call Options (Cost $285,288)	217,060
Shares		
Preferred Stock - 0.0%		
HEALTHCARE - 0.0%		
434,783	AMINO, Inc., Series C (b)(d)(e)(f)(g)	—
	Total Preferred Stock (Cost $2,500,002)	—
Number of Rights		
Rights - 0.0%		
INFORMATION TECHNOLOGY - 0.0%		
22,787	Zagg Inc (b)	2,051
	Total Rights (Cost $—)	2,051
Units		
Warrants - 0.0%		
SPECIAL PURPOSE ACQUISITION COMPANY - 0.0%		
3,094	7GC & Holdings, Expires 01/03/2027 (b)	2,816
3,333	Carney Technology Acquisition II, Expires 12/03/2027 (b)	3,066
69,220	Data Knights Acquisition, Expires 11/11/2027 (b)	33,710
3,733	Locust Walk Acquisition, Expires 01/03/2028 (b)	3,733
12,612	PropTech Investment II, Expires 01/03/2028 (b)	12,864
	Total Warrants (Cost $26,010)	56,189

As of June 30, 2021 — NexPoint Merger Arbitrage Fund

Principal Amount ($)		Value ($)
Repurchase Agreements (h)(i) - 0.4%		
249,000	Citigroup Global Markets 0.060%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $249,000 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $25 - $41,710, 0.000% - 6.500%, 07/01/2021 - 01/15/2059; with a total market value of $253,980)	249,000
249,000	Daiwa Capital Markets 0.050%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $249,000 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $0 - $33,200, 0.000% - 7.000%, 11/30/2021 - 07/01/2051; with a total market value of $253,980)	249,000
104,985	Deutsche Bank Securities 0.050%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $104,985 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $0 - $11,242, 1.500% - 5.500%, 03/01/2025 - 07/01/2051; with a total market value of $107,085)	104,985
249,000	RBC Dominion Securities 0.050%, dated 06/30/2021 to be repurchased on 07/01/2021, repurchase price $249,000 (collateralized by various U.S. Government Agency and U.S. Treasury Obligations, par value $0 - $21,348, 0.000% - 8.000%, 08/01/2021 - 04/15/2062; with a total market value of $253,980)	249,000
	Total Repurchase Agreements (Cost $851,985)	851,985

Shares		Value ($)
Cash Equivalent - 2.1%		
MONEY MARKET FUND (j) - 2.1%		
4,342,877	Dreyfus Treasury Obligations Cash Management, Institutional Class 0.010%	4,342,877
	Total Cash Equivalent (Cost $4,342,877)	4,342,877
Total Investments - 108.4% (Cost $228,710,518)		**227,259,741**
Securities Sold Short - (34.8)%		
Common Stock - (34.8)%		
COMMUNICATION SERVICES - (0.2)%		
(22,185)	MSG Networks (k)	(323,457)
CONSUMER DISCRETIONARY - (2.0)%		
(95,158)	Core-Mark Holding	(4,283,062)
FINANCIALS - (16.3)%		
(202,102)	Apollo Global Management, Class A	(12,570,744)
(3,214)	Bank of Marin Bancorp	(102,527)
(10,646)	Cadence BanCorp, Class A	(222,288)
(11,948)	Colony Bankcorp	(213,391)
(74,040)	Enterprise Financial Services	(3,434,716)
(11,774)	Farmers & Merchants Bancorp	(256,909)
(16,382)	Farmers National Banc	(254,085)
(81,612)	First Bancorp	(3,338,747)
(5,409)	Flagstar Bancorp	(228,638)
(16,579)	Independent Bank	(1,251,715)
(10,254)	Nicolet Bankshares (k)	(721,266)
(101,707)	Old National Bancorp	(1,791,060)
(32,640)	Peoples Bancorp	(966,797)
(14,554)	People's United Financial	(249,456)
(29,667)	Sterling Bancorp	(735,445)
(13,422)	SVB Financial Group (k)	(7,468,403)
(12,949)	United Community Banks	(414,497)
		(34,220,684)
HEALTHCARE - (7.0)%		
(91,431)	AstraZeneca, Inc. ADR	(5,476,717)
(44,899)	ICON (k)	(9,281,072)
		(14,757,789)
INDUSTRIALS - (3.0)%		
(131,507)	Herman Miller	(6,199,240)
INFORMATION TECHNOLOGY - (0.7)%		
(6,603)	Analog Devices	(1,136,772)
(299)	Marvell Technology	(17,441)
(2,400)	QAD, Class A	(208,848)
		(1,363,061)
MATERIALS - (0.3)%		
(31,051)	Forterra (k)	(730,009)
REAL ESTATE - (5.3)%		
(497,152)	Kimco Realty	(10,365,619)
(14,175)	Ventas	(809,393)
		(11,175,012)
	Total Common Stock (Proceeds $72,381,092)	(73,052,314)
Special Purpose Acquisition Companies - 0.0%		
(200)	Ajax I, Class A (k)	(1,992)
(2,500)	Peridot Acquisition, Class A (k)	(30,450)
	Total Special Purpose Acquisition Companies (Proceeds $27,691)	(32,442)
	Total Securities Sold Short - (34.8)% (Proceeds $72,408,783)	(73,084,756)
Other Assets & Liabilities, Net - 26.5% (l)		**55,520,043**
Net Assets - 100.0%		**209,695,028**

(a) Securities (or a portion of securities) on loan. As of June 30, 2021, the fair value of securities loaned was $1,383,544. The loaned securities were secured with cash and/or securities collateral of $1,413,318. Collateral is calculated based on prior day's prices.
(b) Non-income producing security.
(c) All or part of this security is pledged as collateral for short sales. The fair value of the securities pledged as collateral was $85,372,376.
(d) Securities with a total aggregate value of $0, or 0.0% of net assets, were classified as Level 3 within the three-tier fair value hierarchy. Please see 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.
(e) There is currently no rate available.
(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 $0, or 0.0% of net assets, were fair valued under the Fund's valuation procedures as of June 30, 2021. Please see Notes to Financial Statements.
(g) 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 policies and 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
AMINO, Inc.	Preferred Stock	11/18/2016	$2,500,002	$0	0.0%

(h) Tri-Party Repurchase Agreement.
(i) This security was purchased with cash collateral held from securities on loan. The total value of such securities as of June 30, 2021 was $851,985.
(j) Rate shown is 7 day effective yield.
(k) No dividend payable on security sold short.
(l) As of June 30, 2021, $72,385,080 in cash was segregated or on deposit with the brokers to cover investments sold short and is included in "Other Assets & Liabilities, Net".

As of June 30, 2021

NexPoint Merger Arbitrage Fund

Purchased options contracts outstanding as of June 30, 2021 were as follows:

Description	Exercise price	Counterparty	Expiration Date	Number of Contracts	Notional Value	Premium	Value
PURCHASED CALL OPTIONS:							
National Retail	$ 50.00	Jefferies	September 2021	150	$703,200	$ 20,413	$ 8,700
Microsoft	260.00	Jefferies	July 2021	14	379,260	9,275	16,660
American Airlines	20.00	Jefferies	July 2021	77	163,317	12,884	11,550
BP	30.00	Jefferies	January 2022	125	330,250	29,139	12,875
Danimer Scientific	20.00	Pershing	August 2021	75	187,875	18,941	46,500
Discovery	47.50	Jefferies	January 2022	50	153,400	37,578	2,600
Hershey	175.00	Pershing	August 2021	36	627,048	19,478	18,000
Carnival	32.50	Jefferies	January 2022	100	263,600	59,170	18,800
Marvell Technology	55.00	Jefferies	January 2023	36	209,988	40,677	45,000
Carnival	30.00	Jefferies	January 2023	75	197,700	37,733	36,375
						$285,288	$217,060

Written options contracts outstanding as of June 30, 2021 were as follows

Description	Exercise price	Counterparty	Expiration Date	Number of Contracts	Notional Value	Premium	Value
WRITTEN CALL OPTIONS:							
National Retail	$ 55.00	Pershing	September 2021	(150)	$ 703,200	$ (6,600)	$ (1,875)
QTS Realty Trust	80.00	Pershing	September 2021	(250)	1,932,500	(12,560)	(7,500)
Extended Stay America	19.65	Pershing	July 2021	(33)	55,440	(1,218)	(2,739)
Trebia Acquisition Corp	10.00	Pershing	August 2021	(105)	103,950	(1,040)	(1,050)
Better World Acquisition Corp	10.00	Pershing	July 2021	(50)	49,900	(2,347)	(250)
Carnival	40.00	Pershing	January 2023	(75)	197,700	(25,540)	(20,025)
Prospector Capital	10.00	Pershing	August 2021	(188)	182,360	(1,345)	(1,410)
Conx Corp	10.00	Pershing	October 2021	(200)	197,200	(4,087)	(4,500)
Microsoft	275.00	Pershing	July 2021	(14)	379,260	(3,636)	(2,618)
Dragoneer Growth Opportunities	10.00	Pershing	August 2021	(300)	303,000	(15,645)	(4,500)
DPCM Capital	10.00	Pershing	July 2021	(104)	102,752	(1,067)	(520)
D8 Holdings Corp	10.00	Pershing	July 2021	(135)	134,595	(1,283)	(675)
CC Neuberger Principal Holdings	10.00	Pershing	August 2021	(969)	958,341	(9,058)	(5,814)
American Airlines	25.00	Pershing	July 2021	(77)	163,317	(6,566)	(770)
BP	35.00	Pershing	January 2022	(125)	330,250	(14,473)	(4,750)
Social Capital Hedosophia Holdings	10.00	Pershing	July 2021	(225)	229,500	(4,537)	(4,950)
Cloudera Inc	16.00	Pershing	July 2021	(3)	4,758	(96)	(21)
SVF Investment Corp	10.00	Pershing	August 2021	(348)	339,300	(4,841)	(3,480)
Software Acquisition Group	10.00	Pershing	July 2021	(300)	298,500	(8,250)	(2,700)
IG Acquisition Corp	10.00	Pershing	October 2021	(100)	97,400	(2,267)	(1,750)
Danimer Scientific	25.00	Pershing	August 2021	(75)	187,875	(18,934)	(24,000)
Far Peak Acquisition Corp	10.00	Pershing	July 2021	(60)	59,700	(2,117)	(600)
Discovery	57.50	Pershing	January 2022	(50)	153,400	(24,228)	(1,625)
Cohn Robbins Holdings	10.00	Pershing	August 2021	(1,300)	1,280,500	(23,198)	(9,750)
Lefteris Acquisition Corp	10.00	Pershing	October 2021	(200)	195,000	(2,990)	(3,200)
Lux Health Tech Acquisition	10.00	Pershing	July 2021	(47)	46,483	(3,006)	(235)
Lux Health Tech Acquisition	10.00	Pershing	October 2021	(280)	276,920	(8,226)	(8,400)
Churchill Capital	10.00	Pershing	August 2021	(501)	504,507	(8,404)	(10,020)
Altimeter Growth	10.00	Pershing	July 2021	(150)	153,750	(18,442)	(4,500)
Altimeter Growth	10.00	Pershing	October 2021	(100)	102,500	(4,895)	(5,000)
Health Assurance Acquisition	10.00	Pershing	July 2021	(400)	400,400	(24,822)	(4,000)
Health Assurance Acquisition	10.00	Pershing	October 2021	(261)	261,261	(11,029)	(10,440)
Health Assurance Acquisition	10.00	Pershing	August 2021	(507)	507,507	(11,333)	(10,140)
Carnival	37.50	Pershing	January 2022	(100)	263,600	(44,428)	(11,300)
GS Acquisition Holdings Corp	10.00	Pershing	August 2021	(759)	789,360	(27,837)	(34,155)
GS Acquisition Holdings Corp	10.00	Pershing	July 2021	(278)	289,120	(9,398)	(11,676)
Pine Island Acquisition Corp	10.00	Pershing	October 2021	(10)	9,730	(289)	(175)
Pine Island Acquisition Corp	10.00	Pershing	August 2021	(13)	12,649	(51)	(65)
FirstMark Horizon Acquisition	10.00	Pershing	October 2021	(201)	199,593	(4,706)	(6,633)
Marvell Technology	65.00	Pershing	January 2023	(36)	209,988	(30,386)	(31,410)
Social Capital Hedosophia Holdings	10.00	Pershing	July 2021	(100)	103,900	(14,635)	(3,500)
Social Capital Hedosophia Holdings	10.00	Pershing	October 2021	(300)	311,700	(24,212)	(22,500)
Social Capital Hedosophia Holdings	10.00	Pershing	August 2021	(510)	529,890	(23,315)	(28,050)

As of June 30, 2021 **NexPoint Merger Arbitrage Fund**

Description	Exercise price	Counterparty	Expiration Date	Number of Contracts	Notional Value	Premium	Value
Pershing Square Tontine Holdings	$20.00	Pershing	August 2021	(5)	$ 11,380	$ (2,660)	$ (1,390)
Tuscan Holdings	10.00	Pershing	August 2021	(135)	135,675	(1,451)	(1,688)
						$(471,448)	$(316,349)

The Fund had the following swaps contracts, which did not require pledged collateral, open at June 30, 2021:

Underlying Instrument	Financing Rate	Payment Frequency	Counterparty	Expiration Date	Currency	Notional Amount ($)	Fair Value ($)	Upfront Premiums Paid (Received) ($)	Mark to Market ($)	Unrealized Appreciation/ (Depreciation) ($)
Long Equity TRS										
APN Property Group	1 Month AUD-BBR-BBSW plus 0.50%	Upon Maturity	Goldman Sachs	May 18, 2022	AUD	1,170,903	2,479,965	1,300,000	1,309,062	9,062
Arrow Global Group	1 Month GBP LIBOR plus 0.50%	Upon Maturity	Goldman Sachs	April 14, 2022	GBP	2,372,928	3,166,703	780,000	793,775	13,775
Bingo Industries	1 Month AUD-BBR-BBSW plus 0.50%	Upon Maturity	Goldman Sachs	May 24, 2022	AUD	250,632	324,719	73,355	74,087	732
Biotech Acquisition	1 Month USD LIBOR plus 0.50%	Upon Maturity	Goldman Sachs	June 28, 2022	USD	8,697	9,603	900	906	6
Boston Private Financial	1 Month USD LIBOR plus 0.50%	Upon Maturity	Goldman Sachs	June 29, 2022	USD	493,946	522,223	33,157	28,277	(4,880)
Deutsche Wohnen	1 Month EUR-EURIBOR plus 0.50%	Upon Maturity	Goldman Sachs	May 30, 2022	EUR	8,416,523	8,641,833	163,269	225,310	62,041
Gamesys Group PLC	1 Month GBP LIBOR plus 0.50%	Upon Maturity	Goldman Sachs	June 6, 2022	GBP	3,286,690	3,421,008	176,578	134,318	(42,260)
Kindred Biosciences	1 Month USD LIBOR plus 0.50%	Upon Maturity	Goldman Sachs	June 29, 2022	USD	911,437	1,014,193	99,724	102,756	3,032
Photon Control	1 Month CAD-CDOR plus 0.50%	Upon Maturity	Goldman Sachs	June 7, 2022	CAD	1,544,191	1,975,770	431,400	431,579	179
UDG Healthcare	1 Month GBP LIBOR plus 0.50%	Upon Maturity	Goldman Sachs	June 30, 2022	GBP	1,480,542	1,642,725	140,000	162,183	22,183
Total Long Equity TRS							23,198,742	3,198,383	3,262,253	63,870
Short Equity TRS										
Just Eat Takeaway	1 Day EUR-EONIA minus 0.50%	Upon Maturity	Goldman Sachs	April 26, 2022	EUR	(1,195,380)	(1,030,949)	(13,425)	164,431	177,856
SVB Financial Group	1 Day USD Federal Funds Rate minus 0.50%	Upon Maturity	Goldman Sachs	June 29, 2022	USD	(296,154)	(292,094)	(524)	4,060	4,584
Ventas	1 Day USD Federal Funds Rate minus 0.50%	Upon Maturity	Goldman Sachs	July 1, 2022	USD	(406,008)	(409,323)	(6,991)	(3,315)	3,676
Total Short Equity TRS							(1,732,366)	(20,940)	165,176	186,116
Total Return Swaps - Net							21,466,376	3,177,443	3,427,429	249,986

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

Currency Abbreviations:

AUD	Australian Dollar
CAD	Canadian Dollar
EUR	Euro
GBP	British Pound
USD	United States Dollar

Other Abbreviations:

ADR	American Depositary Receipt
BBSW	Bank Bill Swap Rate
CDOR	Canadian Dollar Offered Rate
EONIA	Euro Overnight Index Average
EURIBOR	Euro Interbank Offered Rate
LIBOR	London Interbank Offered Rate
PLC	Public Limited Company
REIT	Real Estate Investment Trust
TRS	Total Return Swap

As of June 30, 2021 **Highland Funds I**

	Highland Healthcare Opportunities Fund ($)	NexPoint Merger Arbitrage Fund ($)
Assets		
Investments, at value (Cost $29,112,921, and $223,515,656, respectively)†	23,618,043	222,064,879
Cash equivalents (Note 2)	3,194,939	4,342,877
Cash	1	9
Restricted Cash — Securities Sold Short (Note 2)	13,634	72,385,080
Foreign currency, at value	—	7,086
Unrealized gains on swap contracts	—	249,986
Repurchase Agreements, at value	973,687	851,985
Foreign tax reclaim receivable	3,286	3,263
Receivable for:		
Investments sold	1,042,051	9,489,049
Dividends and interest	11,260	176,132
Miscellaneous	—	14,135
Fund shares sold	1,824	995,891
Prepaid expenses and other assets	30,829	92,936
Total assets	28,889,554	310,673,308
Liabilities:		
Due to custodian	509,041	44,499
Securities sold short, at value (Proceeds $—, and $72,408,783, respectively) (Note 2)	—	73,084,756
Due to broker	137	5,167,383
Written options contracts, at value (Note 3)	—	316,349
Payable for:		
Investments purchased	2,869,458	20,644,762
Upon return of securities loaned (Note 4)	973,687	851,985
Audit fees	35,000	53,000
Reports to shareholders fees	34,095	77,159
Investment advisory and administration fees (Note 6)	25,120	114,490
Fund shares redeemed	16,751	402,176
Legal fees	12,890	9,598
Transfer agent fees	11,208	22,623
Accounting services fees	10,752	36,490
Distribution and shareholder servicing fees (Note 6)	8,264	27,451
Accrued dividends on securities sold short	—	119,168
Accrued expenses and other liabilities	7,929	6,391
Total liabilities	4,514,332	100,978,280
Net Assets	**24,375,222**	**209,695,028**

Amounts designated as "—" are $0.

As of June 30, 2021 **Highland Funds I**

	Highland Healthcare Opportunities Fund $	NexPoint Merger Arbitrage Fund $
Net Assets Consist of:		
Paid-in capital	203,470,188	207,998,047
Total distributable earnings (accumulated loss)	(179,094,966)	1,696,981
Net Assets	**24,375,222**	**209,695,028**
Investments, at cost	29,112,921	223,515,656
Repurchase Agreements, at cost	973,687	851,985
Cash equivalents, at cost (Note 2)	3,194,939	4,342,877
Foreign currency, at cost	—	7,300
Proceeds from securities sold short	—	72,408,783
Written options contracts, premiums received	—	471,448
† Includes fair value of securities on loan	1,225,560	1,383,544
Class A:		
Net assets	10,937,083	65,019,270
Shares outstanding ($0.001 par value; unlimited shares authorized)	598,747	3,210,712
Net asset value per share[a]	18.27	20.25
Maximum offering price per share[b][c]	19.33	21.43
Class C:		
Net assets	5,781,518	10,885,541
Shares outstanding ($0.001 par value; unlimited shares authorized)	342,984	549,235
Net asset value and offering price per share[a]	16.86	19.82
Class Z:		
Net assets	7,656,621	133,790,217
Shares outstanding ($0.001 par value; unlimited shares authorized)	400,659	6,501,321
Net asset value, offering and redemption price per share	19.11	20.58

(a) Redemption price per share is equal to net asset value per share less any applicable contingent deferred sales charge (“CDSC”).
(b) Purchases of $500,000 or more are subject to a 1.00% CDSC if redeemed within eighteen months of purchase.
(c) The sales charge is 5.50% for the Healthcare Opportunities Fund and Merger Arbitrage Fund. On sales of $1,000,000 or more, there is no sales charge and therefore the offering will be lower.

Amounts designated as “—” are $0.

STATEMENTS OF OPERATIONS

For the year ended June 30, 2021 — **Highland Funds I**

	Highland Healthcare Opportunities Fund ($)	NexPoint Merger Arbitrage Fund ($)
Investment Income:		
Income:		
Dividends from unaffiliated issuers	140,940	2,544,589
Less: Foreign taxes withheld	(1,895)	(87,762)
Securities lending income (Note 4)	2,982	20,322
Interest from unaffiliated issuers	9,631	4,911
Total income	151,658	2,482,060
Expenses:		
Investment advisory (Note 6)	259,816	1,199,309
Administration fees (Note 6)	53,415	—
Distribution and shareholder servicing fees: (Note 6)		
Class A	37,906	101,400
Class C	70,423	68,208
Accounting services fees (Note 6)	16,451	67,159
Transfer agent fees	55,639	212,253
Legal fees	32,572	64,181
Registration fees	61,808	67,243
Audit fees	43,162	68,236
Interest expense and commitment fees	—	117,106
Insurance	3,343	8,439
Trustees fees (Note 6)	6,721	29,259
Reports to shareholders	43,369	147,913
Custodian/wire agent fees	10,031	45,860
Pricing fees	949	11,895
Dividends and fees on securities sold short (Note 2)	—	277,170
Amortized merger costs	—	66,017
Other	1,397	15,299
Total operating expenses before waiver and reimbursement (Note 6)	697,002	2,566,947
Less: Expenses waived or borne by the adviser and administrator	—	(365,859)
Net operating expenses	697,002	2,201,088
Net investment income (loss)	(545,344)	280,972
Net Realized and Unrealized Gain (loss) on Investments		
Realized gain (loss) on:		
Investments from unaffiliated issuers	8,668,426	7,265,382
Securities sold short (Note 2)	—	(1,826,725)
Swap contracts (Note 3)	—	136,879
Written options contracts (Note 3)	—	653,808
Futures contracts (Note 3)	—	—
Foreign currency transactions	(10,732)	(61,288)
Net Change in Unrealized Appreciation (Depreciation) on:		
Investments in unaffiliated issuers	(3,789,336)	783,829
Securities sold short (Note 2)	—	(931,677)
Swap contracts (Note 3)	—	249,787
Written options contracts (Note 3)	—	155,099
Foreign currency translation	163	(1,900)
Net realized and unrealized gain (loss) on investments	4,868,521	6,423,194
Total increase in net assets resulting from operations	4,323,177	6,704,166

	Highland Healthcare Opportunities Fund	
	Year Ended June 30, 2021 ($)	Year Ended June 30, 2020 ($)
Increase (Decrease) in Net Assets		
Operations:		
Net investment loss	(545,344)	(669,232)
Net realized gain on investments, written options and foreign currency transactions	8,657,694	1,605,092
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency translation	(3,789,173)	717,456
Net increase from operations	4,323,177	1,653,316
Share transactions:		
Proceeds from sale of shares		
Class A	2,090,850	954,243
Class C	4,314	18,610
Class Z	1,165,301	1,519,719
Cost of shares redeemed		
Class A	(2,265,446)	(4,179,065)
Class C	(3,113,341)	(4,168,648)
Class Z	(2,230,334)	(15,586,343)
Net decrease from shares transactions	(4,348,656)	(21,441,484)
Total decrease in net assets	(25,479)	(19,788,168)
Net Assets		
Beginning of year	24,400,701	44,188,869
End of year	24,375,222	24,400,701

	Highland Healthcare Opportunities Fund	
	Year Ended June 30, 2021	Year Ended June 30, 2020
Class A:		
Shares Sold	117,762	67,249
Shares Redeemed	(126,926)	(294,982)
Net decrease in fund shares	(9,164)	(227,733)
Class C:		
Shares Sold	263	1,396
Shares Redeemed	(190,068)	(314,637)
Net decrease in fund shares	(189,805)	(313,241)
Class Z:		
Shares Sold	64,056	100,627
Shares Redeemed	(119,165)	(1,094,706)
Net decrease in fund shares	(55,109)	(994,079)

	NexPoint Merger Arbitrage Fund	
	Year Ended June 30, 2021 ($)	Year Ended June 30, 2020 ($)
Increase (Decrease) in Net Assets		
Operations:		
Net investment income (loss)	280,972	(397,450)
Net realized gain on investments, securities sold short, swap contracts, written options and foreign currency transactions	6,168,056	2,170,309
Net increase in unrealized appreciation on investments, securities sold short, swap contracts, written options and foreign currency translation	255,138	438,621
Net increase from operations	6,704,166	2,211,480
Distributions:		
Class A	(622,599)	(3,808)
Class C	(288,276)	(3,615)
Class Z	(2,654,364)	(92,578)
Total distributions	(3,565,239)	(100,001)
Increase in net assets from operations	3,138,927	2,111,479
Share transactions:		
Proceeds from sale of shares		
Class A	10,591,679	513,999
Class C	3,540,271	220,174
Class Z	101,696,452	2,159,341
Value of distributions reinvested		
Class A	547,112	3,804
Class C	271,136	2,863
Class Z	2,371,085	87,827
Cost of shares redeemed		
Class A	(12,501,026)	(463,958)
Class C	(4,059,910)	(335,659)
Class Z	(27,879,040)	(11,728,358)
Merger (Note 1)		
Class A	54,107,273	9,920,849
Class C	4,511,554	5,520,783
Class Z	7,946,219	28,072,702
Net increase from shares transactions	141,142,805	33,974,367
Total increase in net assets	144,281,732	36,085,846
Net Assets		
Beginning of year	65,413,296	29,327,450
End of year	209,695,028	65,413,296

	NexPoint Merger Arbitrage Fund	
	Year Ended June 30, 2021	Year Ended June 30, 2020
Class A:		
Shares Sold	527,964	26,724
Issued for distribution reinvested	27,942	198
Shares Redeemed	(623,593)	(24,376)
Shares contributed in merger (Note 1)	2,714,261	499,861
Net increase in fund shares	2,646,574	502,407
Class C:		
Shares Sold	179,484	11,668
Issued for distribution reinvested	14,100	150
Shares Redeemed	(205,583)	(17,791)
Shares contributed in merger (Note 1)	230,758	282,018
Net increase in fund shares	218,759	276,045
Class Z:		
Shares Sold	4,984,172	111,387
Issued for distribution reinvested	119,390	4,522
Shares Redeemed	(1,371,123)	(595,720)
Shares contributed in merger (Note 1)	392,723	1,397,897
Net increase in fund shares	4,125,162	918,086

For the Year Ended June 30, 2021 — **NexPoint Merger Arbitrage Fund**

	($)
Cash Flows Used in Operating Activities:	
Net increase in net assets resulting from operations	6,704,166
Adjustments to Reconcile Increase in Net Assets to Net Cash Flows Used in Operating Activities:	
Purchases of investment securities	(978,355,862)
Proceeds from disposition of investment securities	798,018,346
Purchases of securities sold short	323,952,869
Proceeds from securities sold short	(263,759,708)
Net proceeds received from written options contracts	1,125,256
Net realized (gain) loss on investments	(7,265,382)
Net realized (gain) loss on securities sold short, written options contracts, and foreign currency related transactions	1,234,205
Net change in unrealized (appreciation) depreciation on investments, securities sold short, written options contracts, swap contracts, and translation on assets and liabilities denominated in foreign currency	(255,138)
(Increase) decrease in receivable for investments sold	(7,567,490)
(Increase) decrease in dividends and interest receivable	(145,042)
(Increase) decrease in foreign tax reclaim receivable	80,356
(Increase) decrease in miscellaneous receivable	(14,135)
(Increase) decrease in prepaid expenses and other assets	(71,885)
Change in swap premium	(200)
Increase (decrease) in payable upon return of securities loaned	791,066
Increase (decrease) in payable for investments purchased	19,689,333
Increase (decrease) in payables to related parties	8,446
Increase (decrease) in payable for distribution and shareholder servicing fees	27,451
Increase (decrease) in payable to transfer agent fees	1,268
Increase (decrease) in accrued dividends on securities sold short	87,297
Increase (decrease) in accrued expenses and other liabilities	(18,986)
Net cash flow used in operating activities	(105,733,769)
Cash Flows Provided by Financing Activities:	
Distributions paid in cash, net of receivable	(375,906)
Payments of shares redeemed	(44,082,796)
Proceeds from shares sold	114,892,914
Merger transactions[(a)]	66,565,046
Net cash flow provided by financing activities	136,999,258
Effect of exchange rate changes on cash	(63,188)
Net increase in cash	31,202,301
Cash, Restricted Cash, Foreign Currency, Cash Equivalent, Due to Custodian, and Due to Broker:	
Beginning of year	40,320,869
End of year	71,523,170
End of Year Cash Balances:	
Cash	9
Restricted Cash	72,385,080
Foreign Currency	7,086
Cash equivalent	4,342,877
Due to custodian	(44,499)
Due to broker	(5,167,383)
End of year	71,523,170
Supplemental Disclosure of Cash Flow Information:	
Reinvestment of distributions	3,189,333
Cash paid during the year for interest expense and commitment fees	117,106

(a) Merger transactions include certain open receivables and payables, accrued income and expenses and cash that transferred upon the reorganization. See note 9.

Highland Healthcare Opportunities Fund, Class A

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

	For the Years Ended June 30,				
	2021	2020	2019	2018	2017
Net Asset Value, Beginning of Year	$ 15.46	$14.11	$ 12.96	$ 11.61	$ 11.50
Income from Investment Operations:					
Net investment loss[a]	(0.36)	(0.29)	(0.16)	(0.21)	(0.21)
Net realized and unrealized gain	3.17	1.64	1.31	1.62	0.32
Total from Investment Operations	2.81	1.35	1.15	1.41	0.11
Less Distributions Declared to shareholders:					
From net investment income	—	—	—	(0.06)	—
Total distributions declared to shareholders	—	—	—	(0.06)	—
Net Asset Value, End of Year[b]	$ 18.27	$15.46	$ 14.11	$ 12.96	$ 11.61
Total Return[b][c]	18.18%	9.57%	8.71%	12.23%	0.96%
Ratios to Average Net Assets/Supplemental Data:[d][e]					
Net Assets, End of Year (000's)	$10,937	$9,401	$11,788	$16,573	$30,967
Gross operating expenses[f]	2.62%	2.72%	2.24%	2.62%	2.72%
Net investment income (loss)	(2.03)%	(2.03)%	(1.11)%	(1.79)%	(1.82)%
Portfolio turnover rate	168%	51%	191%	489%	964%

(a) Per share data was calculated using average shares outstanding during the period.
(b) The Net Asset Value ("NAV") 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 at NAV assuming all distributions are reinvested and no initial sales charge or CDSC. 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) All ratios for the period have been annualized, unless otherwise indicated.
(e) Includes dividends and fees on securities sold short.
(f) Supplemental expense ratios are shown below:

	For the Years Ended June 30,				
	2021	2020	2019	2018	2017
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.62%	2.72%	2.24%	2.62%	2.72%
Interest expense and commitment fees	—%	—%	0.04%	0.32%	0.01%
Dividends and fees on securities sold short	—%	—%	0.05%	0.19%	0.70%

Highland Healthcare Opportunities Fund, Class C

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

	For the Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Net Asset Value, Beginning of Year	$14.36	$13.19	$ 12.19	$ 10.94	$ 10.90
Income from Investment Operations:					
Net investment loss[(a)]	(0.44)	(0.35)	(0.23)	(0.27)	(0.27)
Net realized and unrealized gain	2.94	1.52	1.23	1.52	0.31
Total from Investment Operations	2.50	1.17	1.00	1.25	0.04
Less Distributions Declared to shareholders:					
Total distributions declared to shareholders	—	—	—	—	—
Net Asset Value, End of Year[(b)]	$16.86	$14.36	$ 13.19	$ 12.19	$ 10.94
Total Return[(b)(c)]	17.41%	8.87%	8.03%	11.43%	0.37%
Ratios to Average Net Assets/Supplemental Data:[(d)(e)]					
Net Assets, End of Year (000's)	$5,781	$7,653	$11,157	$13,300	$22,805
Gross operating expenses[(f)]	3.27%	3.37%	2.89%	3.28%	3.37%
Net investment income (loss)	(2.69)%	(2.65)%	(1.74)%	(2.45)%	(2.47)%
Portfolio turnover rate	168%	51%	191%	489%	964%

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

(b) The Net Asset Value ("NAV") 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 at NAV assuming all distributions are reinvested and no initial sales charge or CDSC. 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) All ratios for the period have been annualized, unless otherwise indicated.

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

(f) Supplemental expense ratios are shown below:

	For the Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	3.27%	3.37%	2.89%	3.28%	3.37%
Interest expense and commitment fees	—%	—%	0.04%	0.32%	0.01%
Dividends and fees on securities sold short	—%	—%	0.05%	0.20%	0.70%

Highland Healthcare Opportunities Fund, Class Z

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

	For the Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Net Asset Value, Beginning of Year	$16.12	$14.65	$ 13.41	$ 12.04	$ 11.87
Income from Investment Operations:					
Net investment loss[(a)]	(0.31)	(0.23)	(0.10)	(0.19)	(0.18)
Net realized and unrealized gain	3.30	1.70	1.34	1.69	0.35
Total from Investment Operations	2.99	1.47	1.24	1.50	0.17
Less Distributions Declared to shareholders:					
From net investment income	—	—	—	(0.13)	—
Total distributions declared to shareholders	—	—	—	(0.13)	—
Net Asset Value, End of Year[(b)]	$19.11	$16.12	$ 14.65	$ 13.41	$ 12.04
Total Return[(b)(c)]	18.55%	10.03%	9.09%	12.58%	1.43%
Ratios to Average Net Assets/Supplemental Data:[(d)(e)]					
Net Assets, End of Year (000's)	$7,657	$7,348	$21,244	$26,677	$53,839
Gross operating expenses[(f)]	2.27%	2.37%	1.89%	2.34%	2.38%
Net investment income (loss)	(1.68)%	(1.54)%	(0.69)%	(1.52)%	(1.49)%
Portfolio turnover rate	168%	51%	191%	489%	964%

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

(b) The Net Asset Value ("NAV") 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 at NAV assuming all distributions are reinvested and no initial sales charge or CDSC. 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) All ratios for the period have been annualized, unless otherwise indicated.

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

(f) Supplemental expense ratios are shown below:

	For the Years Ended June 30,				
	2021	**2020**	**2019**	**2018**	**2017**
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.27%	2.37%	1.89%	2.34%	2.38%
Interest expense and commitment fees	—%	—%	0.04%	0.32%	0.01%
Dividends and fees on securities sold short	—%	—%	0.05%	0.26%	0.70%

NexPoint Merger Arbitrage Fund, Class A

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

	For the Years Ended June 30, 2021	2020	2019	2018[(a)]	For the Six Months Ended June 30, 2017	For the Period Ended December 31, 2016*
Net Asset Value, Beginning of Year/Period	$ 19.86	$ 18.49	$20.75	$21.65	$20.53	$20.00
Income from Investment Operations:						
Net investment income (loss)[(b)]	0.02	(0.29)	0.62	(0.20)	0.24	(0.22)
Net realized and unrealized gain	1.53	1.72	0.47	0.70	0.88	0.75
Total from Investment Operations	1.55	1.43	1.09	0.50	1.12	0.53
Less Distributions Declared to shareholders:						
From net investment income	—	—	(1.63)	(1.07)	—	—
From net realized gains	(1.16)	(0.06)	(0.71)	(0.33)	—	—[(h)]
From return of capital	—	—	(1.01)	—	—	—
Total distributions declared to shareholders	(1.16)	(0.06)	(3.35)	(1.40)	—	—[(h)]
Net Asset Value, End of Year/Period[(c)]	$ 20.25	$ 19.86	$18.49	$20.75	$21.65	$20.53
Total Return[(c)(d)(e)]	8.02%	7.76%	5.72%	2.53%	5.46%	2.66%
Ratios to Average Net Assets/Supplemental Data:[(f)(g)]						
Net Assets, End of Year/Period (000's)	$65,019	$11,201	$1,141	$1,019	$1,661	$ 121
Gross operating expenses[(i)]	2.69%	3.69%	5.31%	4.77%	6.40%	7.16%
Net investment income (loss)	0.12%	(1.50)%	3.20%	(0.98)%	2.30%	(3.00)%
Portfolio turnover rate	893%	958%	712%	401%	233%[(e)]	718%[(e)]

* Commenced operations on August 19, 2016.

(a) For the year ended December 31, 2017, the NexPoint Merger Arbitrage Fund had a fiscal year end change from December 31 to June 30.

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

(c) The Net Asset Value ("NAV") 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

(d) Total return is at NAV assuming all distributions are reinvested and no initial sales charge or CDSC. 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.

(e) Not annualized.

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

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

(h) Represents less than $0.005 per share.

(i) Supplemental expense ratios are shown below:

	For the Years Ended June 30, 2021	2020	2019	2018[(a)]	For the Six Months Ended June 30, 2017[(f)]	For the Period Ended December 31, 2016*[(f)]
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.32%	2.76%	4.45%	3.97%	5.05%	4.62%
Interest expense and commitment fees	0.12%	0.18%	0.73%	0.65%	—%	1.60%
Dividends and fees on securities sold short	0.28%	0.67%	2.01%	1.38%	3.19%	1.14%
Distribution fees and amortized merger costs	0.42%	0.41%	0.21%	0.54%	0.36%	0.38%

FINANCIAL HIGHLIGHTS

NexPoint Merger Arbitrage Fund, Class C

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

	For the Years Ended June 30,				For the Six Months Ended June 30,	For the Period Ended December 31,
	2021	2020	2019	2018[(a)]	2017	2016*
Net Asset Value, Beginning of Year/Period	$ 19.58	$18.36	$20.65	$21.52	$20.48	$20.00
Income from Investment Operations:						
Net investment income (loss)[(b)]	(0.09)[(c)]	(0.12)	0.56	(0.39)	0.05	(0.28)
Net realized and unrealized gain	1.49	1.40	0.39	0.77	0.99	0.76
Total from Investment Operations	1.40	1.28	0.95	0.38	1.04	0.48
Less Distributions Declared to shareholders:						
From net investment income	—	—	(1.56)	(0.92)	—	—
From net realized gains	(1.16)	(0.06)	(0.71)	(0.33)	—	—[(i)]
From return of capital	—	—	(0.97)	—	—	—
Total distributions declared to shareholders	(1.16)	(0.06)	(3.24)	(1.25)	—	—[(i)]
Net Asset Value, End of Year/Period[(d)]	$ 19.82	$19.58	$18.36	$20.65	$21.52	$20.48
Total Return[(d)(e)(f)]	7.34%	7.00%	5.00%	1.95%	5.08%	2.41%
Ratios to Average Net Assets/Supplemental Data:[(g)(h)]						
Net Assets, End of Year/Period (000's)	$10,886	$6,472	$ 999	$1,321	$1,094	$ 96
Gross operating expenses[(j)]	3.34%	4.34%	5.90%	5.51%	7.28%	8.15%
Net investment income (loss)	(0.44)%	(0.63)%	2.88%	(1.88)%	0.47%	(3.93)%
Portfolio turnover rate	893%	958%	712%	401%	233%[(f)]	718%[(f)]

* Commenced operations on August 19, 2016.

(a) For the year ended December 31, 2017, the NexPoint Merger Arbitrage Fund had a fiscal year end change from December 31 to June 30.

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

(c) The per share amount for net investment income (loss) between classes does not accord the aggregate net investment income for the period due to the size of Class C relative to the other classes.

(d) The Net Asset Value ("NAV") 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.

(e) Total return is at NAV assuming all distributions are reinvested and no initial sales charge or CDSC. 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.

(f) Not Annualized.

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

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

(i) Represents less than $0.005 per share.

(j) Supplemental expense ratios are shown below:

	For the Years Ended June 30,				For the Six Months Ended June 30,	For the Period Ended December 31,
	2021	2020	2019	2018[(a)]	2017[(g)]	2016*[(g)]
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.97%	3.41%	5.13%	4.72%	5.95%	5.62%
Interest expense and commitment fees	0.12%	0.18%	0.73%	0.65%	—%	1.39%
Dividends and fees on securities sold short	0.28%	0.67%	2.01%	1.53%	3.47%	1.69%
Distribution fees and amortized merger costs	1.07%	1.06%	0.89%	1.04%	0.98%	1.04%

FINANCIAL HIGHLIGHTS

NexPoint Merger Arbitrage Fund, Class Z

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

	For the Years Ended June 30,				For the Six Months Ended June 30,	For the Period Ended December 31,
	2021	2020	2019	2018[a]	2017	2016*
Net Asset Value, Beginning of Year/Period	$ 20.09	$ 18.65	$ 20.95	$ 21.76	$ 20.60	$ 20.05
Income from Investment Operations:						
Net investment income (loss)[b]	0.09	(0.26)	0.86	(0.18)	0.19	(0.12)
Net realized and unrealized gain	1.56	1.76	0.30	0.77	0.97	0.67
Total from Investment Operations	1.65	1.50	1.16	0.59	1.16	0.55
Less Distributions Declared to shareholders:						
From net investment income	—	—	(1.70)	(1.07)	—	—
From net realized gains	(1.16)	(0.06)	(0.71)	(0.33)	—	—[h]
From return of capital	—	—	(1.05)	—	—	—
Total distributions declared to shareholders	(1.16)	(0.06)	(3.46)	(1.40)	—	—[h]
Net Asset Value, End of Year/Period[c]	$ 20.58	$ 20.09	$ 18.65	$ 20.95	$ 21.76	$ 20.60
Total Return[c][d][e]	8.43%	8.07%	6.07%	2.93%	5.63%	2.76%
Ratios to Average Net Assets/Supplemental Data:[f][g]						
Net Assets, End of Year/Period (000's)	$133,790	$47,740	$27,187	$36,130	$27,291	$22,393
Gross operating expenses[i]	2.34%	3.34%	4.99%	4.59%	6.11%	6.04%
Net investment income (loss)	0.43%	(1.36)%	4.30%	(0.88)%	1.84%	(1.68)%
Portfolio turnover rate	893%	958%	712%	401%	233%[e]	718%[e]

* Commenced operations on August 19, 2016.

(a) For the year ended December 31, 2017, the NexPoint Merger Arbitrage Fund had a fiscal year end change from December 31 to June 30.

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

(c) The Net Asset Value ("NAV") 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.

(d) Total return is at NAV assuming all distributions are reinvested and no initial sales charge or CDSC. 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.

(e) Not annualized.

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

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

(h) Represents less than $0.005 per share.

(i) Supplemental expense ratios are shown below:

	For the Years Ended June 30,				For the Six Months Ended June 30,	For the Period Ended December 31,
	2021	2020	2019	2018[a]	2017 [f]	2016*[f]
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.97%	2.41%	4.25%	3.80%	4.75%	3.50%
Interest expense and commitment fees	0.12%	0.18%	0.73%	0.65%	—%	0.84%
Dividends and fees on securities sold short	0.28%	0.67%	2.01%	1.63%	3.22%	1.14%
Amortized merger costs	0.07%	0.06%	0.01%	0.02%	0.03%	0.02%

Note 1. Organization

Highland Funds I (the "Trust") was organized as a Delaware statutory trust on February 28, 2006. The Trust is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company with three portfolios that were offered as of June 30, 2021, each of which is non-diversified. This report includes information for the year ended June 30, 2021, for Highland Healthcare Opportunities Fund (the "Healthcare Opportunities Fund") and NexPoint Merger Arbitrage Fund (the "Merger Arbitrage Fund") (each a "Fund" and, collectively, the "Funds"). Highland/iBoxx Senior Loan ETF is reported separately.

On October 28, 2020, the Board of Trustees ("Board") unanimously approved an Agreement and Plan of Reorganization (the "Plan") for the reorganization of Highland Socially Responsible Equity Fund (the "Acquired Fund"), a series of Highland Funds II, into NexPoint Merger Arbitrage Fund (the "Acquiring Fund"). Under the Plan, the Acquired Fund was reorganized into the Acquiring Fund on March 2, 2021. The Acquiring Fund is the accounting survivor of the reorganization. See Note 9 for additional details on the merger Plan.

Fund Shares

Each Fund is authorized to issue an unlimited number of transferable shares of beneficial interest with a par value of $0.001 per share (each a "Share" and collectively, the "Shares"). Each Fund currently offers the following three share classes to investors, Class A, Class C, and Class Z Shares. Class A Shares are sold with a front-end sales charge. Class A and Class C Shares may be subject to a contingent deferred sales charge. Class Z Shares are sold only to certain eligible investors. Certain share classes have their own sales charge and bear class specific expenses, which include distribution fees and service fees.

Maximum sales load imposed on purchases of Class A Shares (as a percentage of offering price) is as follows:

Fund	%
Healthcare Opportunities Fund	5.50
Merger Arbitrage Fund	5.50

There is no front-end sales charge imposed on individual purchases of Class A Shares of $500,000 or more. The front-end sales charge is also waived in other instances as described in the Funds' prospectus. Purchases of $500,000 or more of Class A Shares at net asset value ("NAV") pursuant to a sales charge waiver are subject to a 1.00% contingent deferred sales charge ("CDSC") if redeemed within eighteen months of purchase. Class C shares may be subject to a CDSC. The maximum CDSC imposed on redemptions of Class C Shares for all Funds is 1.00% within the first year of purchase and 0.00% thereafter.

No front-end or CDSCs are assessed by the Trust with respect to Class Z Shares of all Funds.

Note 2. Significant Accounting Policies

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

Use of Estimates

The Funds are investment companies that follow 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 Funds' 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. ("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 financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

Determination of Class Net Asset Values

Each Fund's income, expenses (other than distribution fees and shareholder service fees) and realized and unrealized gains and losses are allocated proportionally each day among each Fund's respective share classes based upon the relative net assets of each share class. Expenses of the Trust, other than those incurred by a specific Fund are allocated pro rata among the Funds and their share classes. Certain class specific expenses (such as distribution and shareholder service fees) are allocated to the class that incurs such expense.

Valuation of Investments

The Funds' investments are recorded at fair value. In computing the Funds' net assets attributable to shares, securities with readily available market quotations on the New York Stock Exchange (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 and procedures adopted by the Funds' 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 Funds' 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 Funds have 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 Funds' net asset value, will be valued by the Funds at fair value, as determined by the Board or its designee in good faith in accordance with policies and 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 Funds' NAV will reflect the affected portfolio securities' fair value as determined by the Board or its designee in good faith as described above 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 Funds' 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 Funds. The NAV shown in the Funds' financial statements may vary from the NAV published by each 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.

Fair Value Measurements

The Funds have 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 Funds' 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 June 30, 2021, the Funds' investments consisted of common stocks, preferred stocks, repurchase agreements, special purpose acquisition companies, cash equivalents, rights, warrants, securities sold short, equity swaps, and options.

The fair value of the Funds' common stocks, preferred stocks, other registered investment companies, rights, warrants and options 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 Funds' 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 Funds 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 each Fund's assets and liabilities as of June 30, 2021 is as follows:

	Total value at June 30, 2021	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Healthcare Opportunities Fund				
Assets				
Common Stocks[1]	$23,618,042	$23,618,042	$ —	$—
Preferred Stock	—	—	—	—[2]
Warrants	1	—	—	1
Repurchase Agreements	973,687	973,687	—	—
Cash Equivalents	3,194,939	3,194,939	—	—
Total Assets	27,786,669	27,786,668	—	1
Total	$27,786,669	$27,786,668	$ —	$ 1

(1) See Investment Portfolio detail for industry breakout.
(2) This category includes securities with a value of zero.

	Total value at June 30, 2021	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Merger Arbitrage Fund				
Assets				
Common Stock[1]	$197,276,121	$197,276,121	$ —	$ —
Special Purpose Acquisition Companies	24,513,458	24,513,458	—	—
Purchased Call Options	217,060	217,060	—	—
Preferred Stock[1]	—	—	—	—[2]
Rights[1]	2,051	—	2,051	—
Warrants[1]	56,189	—	56,189	—
Repurchase Agreements	851,985	851,985	—	—
Cash Equivalents	4,342,877	4,342,877	—	—
Other Financial Instruments				
Total Return Swaps[3]	249,986	—	249,986	—
Total Assets	227,509,727	227,201,501	308,226	—
Liabilities				
Securities Sold Short				
Common Stock[1]	(73,052,314)	(73,052,314)	—	—
Special Purpose Acquisition Companies	(32,442)	(32,442)	—	—
Other Financial Instruments				
Written Call Options	(316,349)	(310,665)	(5,684)	—
Total Liabilities	(73,401,105)	(73,395,421)	(5,684)	—
Total	$154,108,622	$153,806,080	$302,542	$ —

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

The tables below set forth a summary of changes in the Healthcare Opportunities Fund's assets measured at fair value using significant unobservable inputs (Level 3) for the year ended June 30, 2021. The Merger Arbitrage Fund's Level 3 assets were valued at zero as of June 30, 2021.

	Balance as of June 30, 2020	Transfers into Level 3	Transfers out of Level 3	Accrued Discounts (Premiums)	Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Purchases	(Sales)	Balance as of June 30, 2021	Change in Unrealized Appreciation (Depreciation) from Investments Held at June 30, 2021
Healthcare Opportunities Fund										
Common Stocks	$40,405	$ —	$ —	$ —	$ —	$(40,405)	$ —	$ —	$—	$(40,405)
Preferred Stock[1]	—	—	—	—	—	—	—	—	—	—
Warrants	27,677	—	—	—	—	(27,676)	—	—	1	(27,676)
Total	$68,082	$ —	$ —	$ —	$ —	$(68,081)	$ —	$ —	$ 1	$(68,081)

(1) This category includes securities with a value of zero.

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.

For the year ended June 30, 2021, there were no transfers in or out of level 3. 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 06/30/2021 ($)	Valuation Technique	Unobservable Inputs	Input Value(s)
Healthcare Opportunities Fund				
Warrants	1	Black-Scholes	Long-Term Volatility	132.0%
Total	1			

The significant unobservable input used in the fair value measurement of the Healthcare Opportunities Fund's warrants is the volatility assumption. Significant increases (decreases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

Certain Illiquid Positions Classified as Level 3

As of June 30, 2021, the Healthcare Opportunities Fund held an investment in the preferred stock of AMINO, Inc. ("AMINO") valued at $0, or 0.0% of net assets. AMINO owns and operates a website that allows users to find doctors, compare experiences, and book an appointment in the United States.

The Funds may hold other illiquid positions that are classified as Level 3 that are not described here. Please see Note 7 for additional disclosure of risks from investments in illiquid securities.

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 is recorded on the accrual basis.

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

U.S. Federal Income Tax Status

Each Fund is treated as a separate taxpayer for U.S. federal income tax purposes. The Funds intend to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended, and will distribute substantially all of their 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 Funds intend to distribute, in each calendar year, all of their net investment income, capital gains and certain other amounts, if any, such that the Funds should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded. The Funds recognize interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statements of Operations.

The Investment Adviser has analyzed the Funds' 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 Funds' financial statements. The Funds' 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 Funds 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 Healthcare Opportunities Fund and Merger Arbitrage Fund intend to pay distributions from net investment income, if any, on an annual basis.

Statement of Cash Flows

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

Cash and Cash Equivalents

The Funds consider 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. The Funds also consider money market instruments that invest in cash equivalents to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay fund expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates fair 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 Funds 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 Statements 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 Funds 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. A Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any dividends or other payments received on such borrowed securities. In some circumstances, a Fund may be allowed by its prime broker to utilize proceeds from securities sold short to purchase additional investments, resulting in leverage. Securities and cash held as collateral for securities sold short are shown on the Investments Portfolios for each of the Funds. Cash held as collateral for securities sold short is classified as restricted cash on each Fund's Statement of Assets and Liabilities, as applicable. Restricted cash in the amount of $13,634 and $72,385,080 was held with the broker for the Healthcare Opportunities Fund and Merger Arbitrage Fund, respectively. Additionally, securities valued at $533,960 and $85,372,376 were posted in the Healthcare Opportunities Fund and Merger Arbitrage Fund's segregated accounts as collateral, respectively. A Fund's loss on a short sale could be unlimited in cases where the Fund is unable, for whatever reason, to close out its short position.

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 Funds are subject to equity securities risk, interest rate risk and currency risk in the normal course of pursuing their investment objectives. The Funds enter 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.

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 Funds may invest in interest rate, financial and stock or bond index futures contracts subject to certain limitations. The Funds invest in futures contracts to manage their exposure to the stock and bond markets and fluctuations in currency values. Buying futures tends to increase a Fund's exposure to the underlying instrument while selling futures tends to decrease a Fund's exposure to the underlying instrument, or economically hedge other Fund investments. With futures contracts, there is minimal counterparty credit risk to the Funds since futures contracts are exchange-traded and the exchange's clearinghouse, as counterparty to all traded futures, guarantees the futures against default. A 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 Funds are 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 Funds each day, depending on the daily fluctuation in the fair value of the underlying security. The Funds record an unrealized gain/(loss) equal to the daily variation margin. Should market conditions move unexpectedly, the Funds may not achieve the anticipated benefits of the futures contracts and may incur a loss. The Funds recognize a realized gain/(loss) on the expiration or closing of a futures contract.

During the year ended June 30, 2021, the Healthcare Opportunities Fund and Merger Arbitrage Fund did not invest in futures contracts.

Options

The Funds 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 Funds may hold options, write option contracts, or both.

If an option written by a Fund expires unexercised, a Fund realizes on the expiration date a capital gain equal to the premium received by a Fund at the time the option was written. If an option purchased by a Fund expires unexercised, a 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 a Fund desires. A 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. A 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 year ended June 30, 2021, the Merger Arbitrage 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 these Funds.

Swap Contracts

The Funds may use swaps as part of its investment strategy or to manage their exposure to interest, commodity, and currency rates as well as adverse movements in the debt and equity markets. Swap agreements are privately negotiated in the over-the-counter ("OTC") market or may be executed in a multilateral or other trade facility platform, such as a registered exchange ("centrally cleared swaps").

Total return swaps are agreements to exchange the return generated by one instrument for the return generated by another instrument; for example, the agreement to pay interest in exchange for a market or commodity-linked return based on a notional amount. To the extent the total return of the market or commodity-linked index exceeds the offsetting interest obligation, the Fund will receive a payment from the counterparty. To the extent it is less, the Fund will make a payment to the counterparty. Periodic payments received or made by the Fund are recorded in "Net realized gain (loss) on swap contracts" on the accompanying Statements of Operations and Changes in Net Assets as realized gains or losses, respectively. As of June 30, 2021, Merger Arbitrage Fund was party to open swap contracts having a net fair value of $249,986.

For the year ended June 30, 2021, the Healthcare Opportunities Fund did not invest in swap contracts.

Additional Derivative Information

The Funds are 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 Funds related to the derivatives.

The fair value of derivative instruments on the Statements of Assets and Liabilities have the following risk exposure at June 30, 2021:

	Fair Value	
Fund	Asset Derivative	Liability Derivative
NexPoint Merger Arbitrage Fund		
Equity Price Risk	$467,046[(1)(2)]	$316,349[(3)]

(1) Statement of Assets and Liabilities location: Investments, at value. Purchased options only.

(2) Statement of Assets and Liabilities location: Unrealized gains on swap contracts.
(3) Statement of Assets and Liabilities location: Written options contracts, at value.

To reduce counterparty credit risk with respect to over-the-counter ("OTC") transactions, the Funds have entered into master netting arrangements, established within the Funds' International Swap and Derivatives Association, Inc. ("ISDA") master agreements, which allows the Funds to make (or to have an entitlement to receive) a single net payment in the event of default (close-out netting) for outstanding payables and receivables with respect to certain OTC derivative positions for each individual counterparty. In addition, the Funds may require that certain counterparties post cash and/or securities in collateral accounts to cover their net payment obligations for those derivative contracts subject to ISDA master agreements. If the counterparty fails to perform under these contracts and agreements, the cash and/or securities will be made available to the Funds.

Certain ISDA master agreements include credit related contingent features which allow counterparties to OTC derivatives to terminate derivative contracts prior to maturity in the event the Funds' net assets decline by a stated percentage or the Funds fail to meet the terms of its ISDA master agreements, which would cause the Funds to accelerate payment of any net liability owed to the counterparty.

For financial reporting purposes, the Funds do not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Statements of Assets and Liabilities. Bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events.

Collateral terms are contract specific for OTC derivatives. For derivatives traded under an ISDA master agreement, the collateral requirements are typically calculated by netting the mark to market amount for each transaction under such agreement and comparing that to the value of any collateral currently pledged by the Fund or the Counterparty.

For financial reporting purposes, cash collateral that has been pledged to cover obligations of the Funds, if any, is reported in restricted cash on the Statements of Assets and Liabilities. Generally, the amount of collateral due from or to a party must exceed a minimum transfer amount threshold before a transfer has to be made. To the extent amounts due to the Funds from their counterparties are not fully collateralized, contractually or otherwise, the Funds bear the risk of loss from counterparty non-performance.

The following tables present derivative instruments that are subject to enforceable netting arrangements as of June 30, 2021:

				Gross Amounts Not Offset in the Statement of Assets and Liabilities		
Fund	Gross Amounts of Recognized Assets & Liabilities	Gross Amounts of Offset in the Statement of Assets & Liabilities	Net Amounts of Assets Presented in the Statement of Assets & Liabilities	Financial Instrument	Cash Collateral Received[(1)]	Net Amount
Merger Arbitrage Fund						
Swaps - Assets	$249,986	$ —	$249,986	$ —	$ —	$249,986

(1) For some counterparties, collateral exceeds the amounts presented in the Statement of Assets and Liabilities adjusted for counterparty netting. Where this is the case, collateral reported is limited to the amounts presented in the Statement of Assets and Liabilities adjusted for counterparty netting. As a result, the net amount presented above may not represent counterparty exposure.

The effect of derivative instruments on the Statements of Operations for the year ended June 30, 2021, is as follows:

Fund	Net Realized Gain/(Loss) on Derivatives	Net Change in Unrealized Appreciation/(Depreciation) on Derivatives
Merger Arbitrage Fund		
Equity Price Risk	$466,734[(1)(2)(3)]	$336,074[(4)(5)(6)]

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

The average monthly volume of derivative activity for the year ended June 30, 2021 is as follows:

Fund	Units/ Contracts	Appreciation/ (Depreciation)
Merger Arbitrage Fund		
Purchased Options Contracts	621	$ 130,219
Swap Contracts[(1)]	—	(12,028)
Written Options Contracts	(3,654)	(157,746)

(1) Swap Contracts average monthly volume is calculated using Appreciation/(Depreciation).

Amounts designated as "—" are $0.

Note 4. Securities Lending

Effective January, 7, 2020, the Investment Adviser 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 Funds under the Securities Lending Agreement ("SLA"), which permits a 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 Funds, with cash collateral of overnight maturities and non-cash collateral, which would be subject to offset as of June 30, 2021:

	Gross Amount of Recognized Assets (Value of Securities on Loan)	Value of Cash Collateral Received	Value of Non-Cash Collateral Received(1)	Net Amount
Healthcare Opportunities Fund	$1,225,560	$973,687	$251,873	$ —
Merger Arbitrage Fund	1,383,544	851,985	531,559	—

(1) Collateral received in excess of fair value of securities on loan is not presented in this table. The total collateral received by the Fund is disclosed in the Statements of Assets and Liabilities.

The value of loaned securities and related collateral outstanding at June 30, 2021 are shown in the Investment Portfolio. The value of the collateral held may be temporarily less than that required under the lending contract. As of June 30, 2021, the cash collateral was invested in repurchase agreements and the non-cash collateral consisted of U.S. Treasury Bills, Notes, Bonds and U.S. Treasury Inflation Indexed Bonds with the following maturities:

Remaining Contractual Maturity of the Agreements, as of June 30, 2021

	Overnight and Continuous	<30 Days	Between 30 & 90 Days	>90 Days	Total
Healthcare Opportunities Fund					
Repurchase Agreements	$973,687	$ —	$ —	$ —	$ 973,687
U.S. Government Securities	—	—	12,875	296,711	309,586
Total	$973,687	$ —	$12,875	$296,711	$1,283,273
Merger Arbitrage Fund					
Repurchase Agreements	$851,985	$ —	$ —	$ —	$ 851,985
U.S. Government Securities	—	11,682	8,002	541,649	561,333
Total	$851,985	$11,682	$ 8,002	$541,649	$1,413,318

Amounts designated as "—" are $0.

Each Fund could seek additional income by making secured loans of its portfolio securities through its custodian. Such loans would be in an amount not greater than one-third of the value of the Fund's total assets. BNY would charge a fund fees based on a percentage of the securities lending income. The market 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 Funds would receive 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 SLA, 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 Funds, as lenders, 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 Funds 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, each 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 timing and character of income and capital gain distributions are 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, losses deferred to off-setting positions, tax treatment of organizational start-up costs, losses deferred due to wash sale transactions, deferred losses from unsettled short transactions, capitalized dividend, passive foreign investment company, swap income, constructive sale gain, defaulted bonds, tax treatment of net operating loss and different treatment for gains and losses on paydowns for tax purposes. Reclassifications are made to the Funds' 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 NAV of the Funds. The calculation of net investment income per share in the Financial Highlights table excludes these adjustments.

As of June 30, 2021, permanent differences mainly resulting from net operating losses, remaining capital loss carryover subject to annual limitation, non-deductible expenses from partnership investments swap periodic payment reclass and merger adjustments were identified and reclassified amount the components of the Funds' net assets as follows:

	Distributable Earnings (Loss)	Paid-in-Capital
Healthcare Opportunities Fund	$ 639,647	$(639,647)
Merger Arbitrage Fund	(756,160)	756,160

At June 30, 2021, the Funds' most recent tax year end, components of distributable earnings (accumulated losses) on a tax basis is as follows:

	Undistributed Income	Undistributed Long-Term Capital Gain	Other Temporary Differences[1]	Accumulated Capital and Other Losses	Net Tax Appreciation/ (Depreciation)
Healthcare Opportunities Fund	$ —	$ —	$ (14,117)	$(172,883,298)	$(6,197,551)
Merger Arbitrage Fund	4,524,219	—	7,466,100	(7,462,456)	(2,830,882)

[1] Other temporary differences are comprised of organizational expenses and remaining capital loss carryover subject to annual limitation.

At June 30, 2021, the respective Funds had capital loss carryovers as indicated below. The capital loss carryovers are available to offset future realized capital gains. For Merger Arbitrage Fund the capital loss carryover may be subject to annual limitations.

Fund	No Expiration Short-Term	No Expiration Long-Term	Total
Healthcare Opportunities Fund	$163,495,814	$9,162,477	$172,658,291
Merger Arbitrage Fund	7,462,456	—	7,462,456

For fiscal ended June 30, 2021, Healthcare Opportunities Fund and Merger Arbitrage Fund utilized capital losses carryover from prior years in the amounts of $9,130,020 and $474,307, respectively.

The tax character of distributions paid during the years ended June 30 is as follows:

	Distributions Paid From:		
	Ordinary Income[1]	Long-Term Capital Gains	Return of Capital
Healthcare Opportunities Fund			
2021	$ —	$ —	$—
2020	—	—	—
Merger Arbitrage Fund			
2021	3,471,777	93,462	—
2020	100,001	—	—

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

The Federal tax cost and gross unrealized appreciation and depreciation on investments (including foreign currency and derivatives, if applicable) held by the Funds at June 30, 2021 were as follows:

	Gross Appreciation	Gross Depreciation	Net Appreciation/ (Depreciation)	Federal Tax Cost
Healthcare Opportunities Fund	$ 43,213	$(6,240,764)	$(6,197,551)	$ 33,984,235
Merger Arbitrage Fund	3,023,980	(5,854,862)	(2,830,882)	229,816,956

For Federal income tax purposes, the cost of investments owned at June 30, 2021 were different from amounts reported for financial reporting purposes primarily due to investments in partnerships, passive foreign investment company, capitalized dividend, constructive sale, straddle loss dereral, unsettled short sales, deferred short sale and deferred wash sale losses.

Qualified Late Year Ordinary and Post October Losses

Under current laws, certain capital losses realized after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. Late year ordinary losses realized on investment transactions from January 1, 2021 through June 30, 2021 and Late year specified losses from November 1, 2020 to June 30, 2021. For the fiscal year ended June 30, 2021, the Funds elected to defer the following losses:

Fund	Realized Capital Losses	Ordinary Losses
Healthcare Opportunities Fund	$ —	($225,007)
Merger Arbitrage Fund	—	—

Note 6. Advisory, Administration, Service and Distribution, Trustee, and Other Fees

Investment Advisory Fees

For its investment advisory services, each Fund pays the Investment Adviser a monthly fee, computed and accrued daily, based on an annual rate of the Funds' 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 each Fund's contractual advisory fee with the Investment Adviser for the year ended June 30, 2021:

Fund	Annual Fee Rate to the Investment Adviser
Healthcare Opportunities Fund	1.00%
Merger Arbitrage Fund	1.20%

Administration Fees

HCMFA provides administration services to the Healthcare Opportunities Fund for a monthly administration fee. For its services, the Investment Adviser receives a monthly administration fee, computed and accrued daily, at the annual rate of 0.20% of the Fund's Average Daily Managed Assets. Under a separate sub-administration agreement, HCMFA delegates certain administrative functions and pays the sub-administrator a portion of the fees it receives from each Fund. Effective October 1, 2018, HCMFA entered into an administrative services agreement with SEI Investments Global Funds Services ("SEI"), a wholly owned subsidiary of SEI Investments Company. Effective October 1, 2018, SEI also provides administration services to the Merger Arbitrage Fund for a monthly administration fee.

Service and Distribution Fees

NexPoint Securities, Inc. (the "Underwriter"), serves as the principal underwriter and distributor of each Fund's shares. The Underwriter receives the front-end sales charge imposed on the sale of Class A Shares and the contingent deferred sales charge ("CDSC") imposed on certain redemptions of Class A and Class C Shares. For the year ended June 30, 2021, the Underwriter received $647 and $10,795 of front end sales charges for Class A Shares of the Healthcare Opportunities Fund and the Merger Arbitrage Fund. The Underwriter did not receive CDSC fees for Class C Shares of the Healthcare Opportunities Fund and the Merger Arbitrage Fund.

The Funds have adopted a plan pursuant to Rule 12b-1 under the 1940 Act (the "12b-1 Plan") for Class A Shares and Class C Shares of the Funds, which requires the payment of a monthly fee to the Underwriter at an annual rate of the average daily net assets of each class as follows:

Fund	Class A Shares	Class C Shares
Healthcare Opportunities Fund	0.35%	1.00%
Merger Arbitrage Fund	0.35%	1.00%

For the year ended June 30, 2021, the Distribution and Service fees, which are included on the Statements of Operations for each class, were as follows:

Fund	Class A Fees	Class C Fees
Healthcare Opportunities Fund	$ 37,906	$70,423
Merger Arbitrage Fund	101,400	68,208

Expense Limits and Fee Reimbursements

For Merger Arbitrage Fund, the Investment Adviser contractually agreed to limit the total annual operating expenses (exclusive of fees paid by the Fund pursuant to its distribution plan under Rule 12b-1 under the 1940 Act, taxes, dividend expenses on short sales, interest payments, brokerage commissions and other transaction costs, acquired fund fees and expenses, and extraordinary expenses (collectively, the "Excluded Expenses")) to 1.50% of average daily net assets of the Fund (the "Expense Cap"). The Expense Cap will continue through at least October 31, 2021, and may not be terminated prior to this date without the action or consent of the Board of Trustees. Under the expense limitation agreement, the Investment Adviser may recoup waived and/or reimbursed amounts with respect to the Fund within thirty-six months of the date such amounts were waived or reimbursed, provided the Fund's total annual operating expenses, including such recoupment, do not exceed the Expense Cap in effect at the time of such waiver/ reimbursement.

There can be no assurance that these fee reductions will be sufficient to avoid any loss. On June 30, 2021, the amounts subject to possible future recoupment under the Fund's expense limitations were as follows:

	Year Ended June 30, 2021		
	2022	2023	2024
Merger Arbitrage Fund	$241,642	$276,874	$365,859

During the year ended June 30, 2021, the Investment Adviser did not recoup any amounts previously waived or reimbursed. During the year ended June 30, 2021, $282,878 of fees previously waived and or reimbursed by the Investment Adviser that were eligible for recoupment expired.

Fees Paid to Officers and Trustees

Each Trustee 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 Chairman of the Audit Committee and the Chairman of the Board each receive an additional annual payment of $10,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund Complex based on relative net assets. Trustees are reimbursed for actual out-of-pocket expenses relating to attendance at meetings. The "Highland Fund Complex" consists of all of the registered investment companies advised by the Investment Adviser or its affiliated advisers as of the date of this report 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.

The Funds pay no compensation to their officers, all of whom are employees of the Investment Adviser or one of its affiliates.

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.

Other Matters

HCMFA has entered into a Services Agreement (the "Services Agreement") with Skyview Group, Inc. ("Skyview"), effective February 25, 2021, pursuant to which HCMFA will receive administrative and operational support services to enable it to provide the required advisory services to the Fund. The Investment Adviser, and not the Funds, will compensate all Investment Adviser and Skyview personnel who provide services to the Fund.

Indemnification

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

Note 7. Disclosure of Significant Risks and Contingencies

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

Asset-Backed Securities Risk

The risk of investing in asset-backed securities, and includes interest rate risk, prepayment risk and the risk that the Funds could lose money if there are defaults on the loans underlying these securities.

Biotechnology Industry Risk

The risk that the Fund's investments in biotechnology companies is highly dependent on the development, procurement and/or marketing of drugs and may be valued based on the potential or actual performance of a limited number of products. A biotechnology company's valuation could be affected if one of its products proves unsafe, ineffective or unprofitable. Such companies may also be characterized by thin capitalization and limited markets, financial resources or personnel. The stock prices of companies involved in the biotechnology sector have been and will likely continue to be extremely volatile.

Convertible Securities Risk
The risk that the market value of convertible securities may fluctuate due to changes in, among other things, interest rates; other economic conditions; industry fundamentals; market sentiment; the issuer’s operating results, financial statements, and credit ratings; and the market value of the underlying common or preferred stock.

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

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

Credit Risk
The issuers of certain securities or the counterparties of a derivatives contract or repurchase contract might be unable or unwilling (or perceived as being unable or unwilling) to make interest and/or principal payments when due, or to otherwise honor its obligations. Debt securities are subject to the risk of non-payment of scheduled interest and/or principal. Non-payment would result in a reduction of income to the Fund, a reduction in the value of the obligation experiencing non-payment and a potential decrease in the Funds’ net asset value and the market price of the Funds’ shares.

Currency Risk
A portion of the Funds’ 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 Funds’ investment performance may be negatively affected by a devaluation of a currency in which the Funds’ investments are quoted or denominated. Further, the Funds’ 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 Funds seek 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 a fund establishes certain derivative instrument positions, such as certain futures and options contract positions, it will segregate liquid assets (such as cash, U.S. Treasury bonds or commercial paper) equivalent to the Fund’s outstanding obligations under the contract or in connection with the position. In addition, recent legislation has called for a new regulatory framework for the derivatives market. The impact of the new regulations are still unknown, but has the potential to increase the costs of using derivatives, may limit the availability of some forms of derivatives or the Funds’ ability to use derivatives, and may adversely affect the performance of some derivative instruments used by the Fund as well as the Funds’ ability to pursue its investment objective through the use of such instruments.

Emerging Markets Risk
The risk of investing in securities of issuers tied economically to emerging markets, which entails all of the risks of investing in securities of non-U.S. issuers detailed below under “Non-U.S. Securities Risk” to a heightened degree. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the markets for such securities and a lower volume of trading, resulting in lack of liquidity and in price volatility; (iii) greater fluctuations in currency exchange rates; and (iv) certain national policies that may restrict the Fund’s investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

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.

Extension Risk

The risk that when interest rates rise, certain obligations will be paid off by the obligor more slowly than anticipated, causing the value of these obligations to fall.

Financial Services Industry Risk

The risk associated with the fact that the Funds’ investments in senior loans (“Senior Loans”) are arranged through private negotiations between a borrower (“Borrower”) and several financial institutions. 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.

Financial Services Sector Risk

The risk associated with investments in the financial services sector. Such investments 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.

Fixed Income Market Risk

The risk that fixed income markets may, in response to governmental intervention, economic or market developments (including potentially a reduction in the number of broker-dealers willing to engage in market-making activity), or other factors, experience periods of increased volatility and reduced liquidity. During those periods, the Funds may experience increased levels of shareholder redemptions, and may have to sell securities at times when it would otherwise not do so, and at unfavorable prices. Fixed income securities may be difficult to value during such periods.

Hedging Risk

Each 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 a 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.

Illiquid and Restricted Securities Risk

The investments made by the Funds 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 Funds’ expense, the Funds’ expenses would be increased.

Industry Concentration-Healthcare Companies Risk

The risk that because the Highland Healthcare Opportunities (the “Fund”) normally invests at least 80% of the value of its assets in healthcare companies, the Fund's performance largely depends on the overall condition of the healthcare industry and the Fund is more susceptible to economic, political and regulatory risks or other occurrences associated with the healthcare industry than a fund that does not focus on healthcare companies. Healthcare companies, including biotechnology companies and pharmaceutical firms, may be significantly affected by product obsolescence, thin capitalization, limited product lines and markets, civil liability claims and legislative or regulatory activities, among other factors.

Industry and Sector Focus Risk

The risk that issuers in an industry or sector can react similarly to market, economic, political, regulatory, geopolitical, and other conditions. If the Investment Adviser invests a significant percentage of the Funds' assets in issuers within an industry or sector, the Funds' performance may be affected by conditions in that industry or sector.

Information Technology Sector Risk

The risk that the Fund may be impacted by risks faced by companies in the information technology sector. Information technology companies face intense competition and potentially rapid product obsolescence. They are also heavily dependent on intellectual property rights and may be adversely affected by the loss or impairment of those rights. Companies in the software industry may be adversely affected by, among other things, the decline or fluctuation of subscription renewal rates for their products and services and actual or perceived vulnerabilities in their products or services

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 Funds 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 that it will stop encouraging banks to provide the quotations needed to sustain LIBOR. The ICE Benchmark Administration Limited, the administrator of LIBOR, is expected to cease publishing most LIBOR maturities, including some US LIBOR maturities, on December 31, 2021, and the remaining and most liquid US LIBOR maturities on June 30, 2023. Before the end of 2021, it is expected that market participants will transition to the use of alternative reference or benchmark rates. However, although regulators have encouraged the development and adoption of alternative rates, such as the Secured Overnight Financing Rate ("SOFR"), there is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate.

It is expected that market participants will amend financial instruments referencing LIBOR to include fallback provisions and other measures that contemplate the discontinuation of LIBOR or other similar market disruption events, but neither the effect of the transition process nor the viability of such measures is known. To facilitate the transition of legacy derivatives contracts referencing LIBOR, the International Swaps and Derivatives Association, Inc. launched a protocol to incorporate fallback provisions. However, there are obstacles to converting certain longer term securities and transactions to a new benchmark or benchmarks and the effectiveness of one alternative reference rate versus multiple alternative reference rates in new or existing financial instruments and products has not been determined. Certain proposed replacement rates to LIBOR, such as SOFR, which is a broad measure of secured overnight US Treasury repo rates, are materially different from LIBOR, and changes in the applicable spread for financial instruments transitioning away from LIBOR will need to be made to accommodate the differences. Furthermore, the risks associated with the expected discontinuation of LIBOR and transition to replacement rates may be exacerbated if an orderly transition to an alternative reference rate is not completed in a timely manner. As market participants transition away from LIBOR, LIBOR's usefulness may deteriorate. The transition process may lead to increased volatility and illiquidity in markets that currently rely on LIBOR to determine interest rates. LIBOR's deterioration may adversely affect the liquidity and/or market value of securities that use LIBOR as a benchmark interest rate.

Leverage Risk

Each 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 Funds purchase securities with borrowed funds, their 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 Funds' use of leverage would result in a lower rate of return than if the Funds were not leveraged.

Lender Liability Risk

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

Limited Information Risk

The risk associated with the fact that the types of Senior Loans in which the Funds will invest historically may not have been rated by a NRSRO, have not been registered with the SEC or any state securities commission, and have not been listed on any national securities exchange. Although the Funds will generally have access to financial and other information made available to the Lenders in connection with Senior Loans, the amount of public information available with respect to Senior Loans will generally be less extensive than that available for rated, registered or exchange-listed securities. As a result, the performance of the Funds and its ability to meet its investment objective is more dependent on the analytical ability of the Investment Adviser than would be the case for an investment company that invests primarily in rated, registered or exchange-listed securities.

Liquidity Risk

The risk that low trading volume, lack of a market maker, large position size, or legal restrictions (including daily price fluctuation limits or "circuit breakers") limits or prevents the Funds from selling particular securities or unwinding derivative positions at desirable prices. At times, a major portion of any portfolio security may be held by relatively few institutional purchasers. Even if the Funds consider such securities liquid because of the availability of an institutional market, such securities may become difficult to value or sell in adverse market or economic conditions.

Management Risk

The risk associated with the fact that the Funds rely on the Investment Adviser's ability to achieve its investment objective. The Investment Adviser may be incorrect in its assessment of the intrinsic value of the companies whose securities the Funds hold, which may result in a decline in the value of fund shares and failure to achieve its investment objective. The Funds' portfolio managers use qualitative analyses and/or models. Any imperfections or limitations in such analyses and models could affect the ability of the portfolio managers to implement strategies.

Merger Arbitrage and Event-Driven Risk

The risk that the Adviser's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue or other event, will prove incorrect and that the Fund's return on the investment will be negative. Even if the Adviser's judgment regarding the likelihood of a specific outcome proves correct, the expected event may be delayed or completed on terms other than those originally proposed, which may cause the Fund to lose money. The Fund's expected gain on an individual arbitrage investment is normally considerably smaller than the possible loss should the transaction be unexpectedly terminated. The Fund's principal investment strategies are not specifically designed to benefit from general appreciation in the equity markets or general improvement in the economic conditions in the global economy. Accordingly, the Fund may underperform the broad equity markets under certain market conditions, such as during periods when there has been rapid appreciation in the equity markets. The Fund may also underperform the broad equity markets if it holds a significant portion of its assets in cash and money market instruments for an extended period of time due to a lack of merger arbitrage opportunities.

Mid-Cap Company Risk

The risk that investing in securities of mid-cap companies may entail greater risks than investments in larger, more established companies. Mid-cap companies tend to have more narrow product lines, more limited financial resources and a more limited trading market for their stocks, as compared with larger companies. As a result, their stock prices may decline significantly as market conditions change.

Non-Diversification Risk

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

Non-Payment Risk

The risk of non-payment of scheduled interest and/or principal with respect to debt instruments. Non-payment would result in a reduction of income to the Funds, a reduction in the value of the obligation experiencing non-payment and a potential decrease in the NAV of the Funds.

Non-U.S. Securities Risk

Non-U.S. securities risk is the risk associated with investing in non-U.S. issuers. Investments in securities of non-U.S. issuers involve certain risks not involved in domestic investments (for example, fluctuations in foreign exchange rates (for non-U.S. securities not denominated in U.S. dollars); future foreign economic, financial, political and social developments; nationalization; exploration or confiscatory taxation; smaller markets; different trading and settlement practices; less governmental supervision; and different accounting, auditing and financial recordkeeping standards and requirements) that may result in each Fund experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. These risks are magnified for investments in issuers tied economically to emerging markets, the economies of which tend to be more volatile than the economies of developed markets. In addition, certain investments in non-U.S. securities may be subject to foreign withholding and other taxes on interest, dividends, capital gains or other income or proceeds. Those taxes will reduce each Funds' yield on any such securities.

Ongoing Monitoring Risk

The risk associated with ongoing monitoring of the Agent. On behalf of the several Lenders, the Agent generally will be required to administer and manage the Senior Loans and, with respect to collateralized Senior Loans, to service or monitor the collateral. Financial difficulties of Agents can pose a risk to the Funds. Unless, under the terms of the loan, the Funds have direct recourse against the Borrower, the Funds may have to rely on the Agent or other financial intermediary to apply appropriate credit remedies against a Borrower.

Operational and Technology Risk

The risk that cyberattacks, disruptions, or failures that affect the Funds' service providers, counterparties, market participants, or issuers of securities held by the Funds may adversely affect the Funds and its shareholders, including by causing losses for the Funds or impairing Fund operations.

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

Payment-in-Kind (PIK) Securities Risk

The risk that the value of PIK securities held by the Fund may be more sensitive to fluctuations in interest rates than other securities. PIKs pay all or a portion of their interest or dividends in the form of additional securities. Federal tax law requires that the interest on PIK bonds be accrued as income to the Fund regardless of the fact that the Fund will not receive cash until such securities mature. Since the income must be distributed to shareholders, the Fund may be forced to liquidate other securities in order to make the required distribution.

Portfolio Turnover Risk

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

Prepayment Risk

The risk that during periods of falling interest rates, issuers of debt securities may repay higher rate securities before their maturity dates. This may cause the Funds to lose potential price appreciation and to be forced to reinvest the unanticipated proceeds at lower interest rates. This may adversely affect the NAV of the Funds' shares.

Regulatory Risk

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

Risk of Substantial Redemptions

The risk that if substantial numbers of shares in the Funds were to be redeemed at the same time or at approximately the same time, the Funds might be required to liquidate a significant portion of its investment portfolio quickly to meet the redemptions. The Funds might be forced to sell portfolio securities at prices or at times when it would otherwise not have sold them.

Securities Lending Risk

The Funds may make secured loans of its portfolio securities. Any decline in the value of a portfolio security that occurs while the security is out on loan is borne by the Funds, and will adversely affect performance. Also, there may be delays in recovery of securities loaned, losses in the investment of collateral, and loss of rights in the collateral should the borrower of the securities fail financially while holding the security.

Securities Market Risk

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

Shareholder Concentration Risk

The risk that large redemptions by a small number of large shareholders can harm remaining shareholders. Particularly large redemptions may affect asset allocation decisions and could adversely impact remaining Fund shareholders. Due to the ongoing liquidation of the Fund, certain material shareholders hold large amounts of shares of the Fund.

Short Sales Risk

Short sales by the Funds 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 Funds 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 Funds may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, a 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.

Small-Cap Company Risk

The risk that investing in the securities of small-cap companies either directly or indirectly through investments in ETFs, closed-end funds or mutual funds ("Underlying Funds") may pose greater market and liquidity risks than larger, more established companies, because of limited product lines and/or operating history, limited financial resources, limited trading markets, and the potential lack of management depth. In addition, the securities of such companies are typically more volatile than securities of larger capitalization companies.

Special Purpose Acquisition Companies Risk

A Fund may invest in stock of, warrants to purchase stock of, and other interests in special purpose acquisition companies or similar special purpose entities that pool funds to seek potential acquisition opportunities (collectively, "SPACs"). Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which are typically traded in the over-the-counter market, may be considered illiquid and/or may be subject to restrictions on resale. An investment in an SPAC is subject a variety of risks, including that (i) a significant portion of the monies raised by the SPAC for the purpose of identifying and effecting an acquisition or merger may be expended during the search for a target transaction; (ii) an attractive acquisition or merger target may not be identified at all and the SPAC will be required to return any remaining monies to shareholders; (iii) any proposed merger or acquisition may be unable to obtain the requisite approval, if any, of SPAC shareholders; (iv) an acquisition or merger once effected may prove unsuccessful and an investment in the SPAC may lose value; (v) the warrants or other rights with respect to the SPAC held by the Fund may expire worthless or may be repurchased or retired by the SPAC at an unfavorable price; (vi) the Fund will be delayed in receiving any redemption or liquidation proceeds from a SPAC to which it is entitled; (vii) an investment in an SPAC may be diluted by additional later offerings of interests in the SPAC or by other investors exercising existing rights to purchase shares of the SPAC; (viii) no or only a thinly traded market for shares of or interests in an SPAC may develop, leaving the Fund unable to sell its interest in an SPAC or to sell its interest only at a price below what the Fund believes is the SPAC interest's intrinsic value; and (ix) the values of investments in SPACs may be highly volatile and may depreciate significantly over time.

Swaps Risk

The use of swaps is a highly specialized activity which involves investment techniques, risk analyses and tax planning different from those associated with ordinary portfolio securities transactions. These transactions can result in sizeable realized and unrealized capital gains and losses relative to the gains and losses from a Funds' direct investments in securities.

Transactions in swaps can involve greater risks than if a Fund had invested in the reference assets directly since, in addition to general market risks, swaps may be leveraged and are also subject to illiquidity risk, counterparty risk, credit risk and pricing risk. However, certain risks may be reduced (but not eliminated) if a Fund invests in cleared swaps. Regulators also may impose limits on an entity's or group of entities' positions in certain swaps. Because bilateral swap agreements are two party contracts and because they may have terms of greater than seven days, these swaps may be considered to be illiquid. Moreover, a Fund bears the risk of loss of the amount expected to be received under a swap in the event of the default or bankruptcy of a swap counterparty. Many swaps are complex and valued subjectively. Swaps and other derivatives may also be subject to pricing or "basis" risk, which exists when the price of a particular derivative diverges from the price of corresponding cash market instruments. Under certain market conditions it may not be economically feasible to initiate a transaction or liquidate a position in time to avoid a loss or take advantage of an opportunity. If a swap transaction is particularly large or if the relevant market is illiquid, it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price, which may result in significant losses.

The value of swaps can be very volatile, and a variance in the degree of volatility or in the direction of securities prices from the Investment Adviser's expectations may produce significant losses in a Fund's investments in swaps. In addition, a perfect correlation between a swap and a reference asset may be impossible to achieve. As a result, the Investment Adviser's use of swaps may not be effective in fulfilling the Investment Adviser's investment strategies and may contribute to losses that would not have been incurred otherwise.

Tax Risk

The risk that the U.S. income tax rules may be uncertain when applied to specific arbitrage transactions, including identifying deferred losses from wash sales or realized gains from constructive sales, among other issues. Such uncertainty may cause the Fund to be exposed to unexpected tax liability.

Technology Sector Risk

The risk associated with investments in the technology sector. Technology related companies are subject to significant competitive pressures, such as aggressive pricing of their products or services, new market entrants, competition for market share, short product cycles due to an accelerated rate of technological developments, evolving industry standards, changing customer demands and the potential for limited earnings and/or falling profit margins. The failure of a company to adapt to such changes could have a material adverse effect on the company's business, results of operations, and financial condition. These companies also face the risks that new services, equipment or technologies will not be accepted by consumers and businesses or will become rapidly obsolete. These factors can affect the profitability of these companies and, as a result, the values of their securities. Many technology companies have limited operating histories.

Telecommunications Sector Risk

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

Undervalued Stocks Risk

The risk that an undervalued stock may decrease in price or may not increase in price as anticipated by the Investment Adviser if other investors fail to recognize the company's value or the factors that the Investment Adviser believes will cause the stock price to increase do not occur.

Note 8. 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 June 30, 2021, were as follows:

	U.S Government Securities[(1)]		Other Securities	
Fund	Purchases	Sales	Purchases	Sales
Healthcare Opportunities Fund	$ —	$ —	$ 42,113,511	$ 46,927,151
Merger Arbitrage Fund	—	—	979,144,843	796,908,185

(1) The Funds did not have any purchases or sales of U.S. Government Securities for the year ended June 30, 2021.

Note 9. Fund Merger

On October 28, 2020, the Board unanimously approved the Plan for the reorganization of the Highland Socially Responsible Equity Fund ("SRE"), series of Highland Funds II, into the Highland Merger Arbitrage Fund ("MAF"). The purpose of the reorganization was to provide shareholders of SRE with the opportunity for long-term growth in an investment vehicle that has historically experienced less volatility and to pursue the potential for greater efficiencies and the ability to spread fixed costs over a larger asset base. Accordingly, the Plan provided for the reorganization of SRE (the "Acquired Fund") into MAF (the "Acquiring Fund"). The transaction was tax-free, meaning that the SRE shareholders became shareholders of the MAF without realizing any gain or loss for federal income tax purposes.

The Reorganization occurred as of the close of business on March 2, 2021, whereby all of the assets of the Acquired Fund were transferred to the Acquiring Fund and shareholders of Class A, C, and Y of the Acquired Fund received A, C, and Z shares of the Acquiring Fund, respectively, in exchange for their share as follows:

Acquired Fund	Net Assets	Shares	Net Investment Income / (loss)	Net Realized Gain on Investments	Unrealized Loss on Investments
Highland Socially Responsible Equity Fund	$66,560,059	4,081,031	$128,684	$11,174,985	$(2,543,134)

Acquiring Fund	Shares Issued	Net Assets Prior to Merger	Net Assets After Merger
NexPoint Merger Arbitrage Fund	3,337,494	$77,221,956	$143,782,015

Assuming the Reorganization had been completed on July 1, 2020, the beginning of the annual reporting period of the Acquiring Fund, the Acquiring Fund's pro forma results of operations for the year ended June 30, 2021, are as follows:

Acquiring Fund	Net Investment Income / (loss)	Net Realized Gain on Investments	Unrealized Loss on Investments
NexPoint Merger Arbitrage Fund	$409,620	$17,343,038	$(1,366,163)

Because the combined investment portfolios have been managed as a single integrated portfolio since the reorganization was completed, it is not practicable to separate the amounts of revenue and earnings of the Acquired Fund that have been included in the Acquiring Fund's Statement of Operations since March 2, 2021.

For accounting and financial reporting purposes, the Acquiring Fund is the accounting survivor and as a result, the financial statements and financial highlights do not reflect the operations of the Acquired Fund. For financial reporting purposes, assets received and shares issued by the Acquired Fund were recorded at fair value; however, the cost basis of the investments received from Acquired Fund was carried forward to align ongoing reporting of the MAF's realized and unrealized gains and losses with amounts distributable to shareholders for tax purposes. MAF is the accounting survivor for performance purposes.

Note 10. Indemnification

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

Note 11. Subsequent Events

Management has evaluated the impact of all subsequent events on the Funds through the date the financial statements were issued, and has determined that there were no subsequent events to report which have not already been recorded or disclosed in these financial statements and accompanying notes other than detailed below.

On August 12, 2021, the Board approved updating the Merger Arbitrage Fund's annual distribution to quarterly distributions. Quarterly distributions will become effective Q3 2021.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of Highland Funds I:

Opinion on the Financial Statements

We have audited the accompanying statements of assets and liabilities, including the investment portfolios, of Highland Funds I comprising the funds listed below (the "Funds") as of June 30, 2021, the related statements of operations, changes in net assets, and cash fows, the related notes, and the financial highlights for each of the periods indicated below (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the Funds as of June 30, 2021, the results of their operations and its cash flows, the changes in net assets, and the financial highlights for each of the periods indicated below in conformity with accounting principles generally accepted in the United States of America.

Fund Name	Statements of Changes in Net Assets	Financial Highlights
Highland Healthcare Opportunities Fund	Statement of Operations for the year ended June 30, 2021	For the years ended June 30, 2021 and 2020
NexPoint Merger Arbitrage Fund (formerly, Highland Merger Arbitrage Fund)	Statements of Operations and Cash Flows for the year ended June 30, 2021	For the years ended June 30, 2021 and 2020

The Funds' financial highlights for the periods ended June 30, 2019, and prior, were audited by other auditors whose report dated August 30, 2019, expressed an unqualified opinion on those financial highlights.

Basis for Opinion

These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on the Funds' financial statements based on our audits. 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 Funds 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 audits 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 audits 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 June 30, 2021, by correspondence with the custodian, transfer agent, and brokers; when replies were not received from brokers, we performed other auditing procedures. Our audits 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 audits provide a reasonable basis for our opinion.

We have served as the Funds' auditor since 2020.

Cohen & Company, Ltd.

COHEN & COMPANY, LTD.
Cleveland, Ohio
August 30, 2021

Tax Information

For shareholders that do not have a June 30, 2021 tax year end, this notice is for informational purposes only. For shareholders with a June 30, 2021 tax year end, please consult your tax adviser as to the pertinence of this notice. For the fiscal year ended June 30, 2021, the following Funds are designating the following items with regard to earnings for the year.

	Return of Capital	Long-Term Capital Gain Distribution	Ordinary Income Distribution	Total Distribution
Healthcare Opportunities Fund	0.00%	0.00%	0.00%	0.00%
Merger Arbitrage Fund	0.00%	2.62%	97.38%	100.00%

	Dividends Received Deduction(1)	Qualified Dividend Income(2)	Interest Related Dividends(3)	Short-Term Capital Gain Dividends(4)
Healthcare Opportunities Fund	0.00%	0.00%	0.00%	0.00%
Merger Arbitrage Fund	9.99%	6.65%	16.98%	100.00%

(1) Qualifying dividends represent dividends which qualify for the corporate dividends received deduction and is reflected as a percentage of ordinary income distributions (the total of short-term capital gain and net investment income distributions).

(2) The percentage in this column represents the amount of "Qualifying Dividend Income" as created by the Jobs and Growth Tax Relief Reconciliation Act of 2003 and is reflected as a percentage of ordinary income distributions (the total of short-term capital gain and net investment income distributions). It is the intention of each of the aforementioned Funds to designate the maximum amount permitted by law.

(3) The percentage in this column represents the amount of "Interest Related Dividends" as created by the American Jobs Creation Act of 2004 and is reflected as a percentage of net investment distributions that is 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.

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 Funds 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 Funds, 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 Funds and one or more of such other accounts are 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 Funds and such other accounts. The Investment Adviser also may aggregate orders to purchase and sell securities for the Funds 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 Funds, in some cases these activities may adversely affect the price paid or received by the Funds or the size of the position obtained or disposed of by the Funds.

Disclosure of Fund Expenses

As a shareholder of a Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchases and redemption fees; and (2) ongoing costs, including management fees; distribution (12b-1) and service fees; and other Fund expenses. This example is intended to help you understand the ongoing costs (in dollars) of investing in your Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of $1,000 invested at the beginning of the period and held for the six-month period January 1, 2021 through June 30, 2021, unless otherwise indicated. This table illustrates your Fund's costs in two ways:

Actual Expenses: The first part of the table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by $1,000 (for example, an $8,600 account value divided by $1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes: The second part of the table provides information about hypothetical account values and hypothetical expenses based on your Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not your Fund's actual return. The actual expense ratio includes voluntary fee waivers or expense reimbursements by the Fund's investment adviser. The expense ratio would be higher had the fee waivers or expense reimbursements not been in effect. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in your Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads) or redemption fees. Therefore, the second part of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	Beginning Account Value 1/1/21	Ending Account Value 6/30/21	Annualized Expense Ratios(1)	Expenses Paid During Period(2)
Highland Healthcare Opportunities Fund				
Actual Fund Return				
Class A	$1,000.00	$ 995.10	2.43%	$12.02
Class C	1,000.00	991.80	3.08	15.21
Class Z	1,000.00	996.40	2.08	10.35
Hypothetical				
Class A	$1,000.00	$1,012.74	2.43%	$12.13
Class C	1,000.00	1,009.52	3.08	15.35
Class Z	1,000.00	1,014.43	2.08	10.44
NexPoint Merger Arbitrage Fund				
Actual Fund Return				
Class A	$1,000.00	$1,029.00	2.03%	$10.21
Class C	1,000.00	1,025.40	2.75	13.81
Class Z	1,000.00	1,030.60	1.56	7.85
Hypothetical				
Class A	$1,000.00	$1,014.73	2.03%	$10.14
Class C	1,000.00	1,011.16	2.75	13.71
Class Z	1,000.00	1,017.06	1.56	7.80

(1) Annualized, based on the Fund's most recent fiscal half-year expenses, including dividends on short positions and interest expenses, if any.

(2) Expenses are equal to the Fund's annualized expense ratio including interest expense and dividends on short positions, if any, multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half-year, divided by the number of days in the full fiscal year (181/365).

Changes of Independent Registered Public Accounting Firm

On June 8, 2020, the Funds dismissed PricewaterhouseCoopers LLP ("PwC") as the Funds' 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 Funds approved the appointment of Cohen & Company Ltd. ("Cohen") as the Funds' independent registered public accounting firm. Cohen was engaged by the Funds on June 25, 2020. During the Funds' year ended June 30, 2019 and the subsequent interim period through June 8, 2020, during which PwC served as the Funds' 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). PwC was not the auditor of the Funds for the year ended June 30, 2018.

The Funds provided PwC with a copy of the disclosures proposed to be made in this N-CSR and requested that PwC furnish the Funds with a letter addressed to the Commission stating whether it agrees with the statements made by the Funds 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 to as an exhibit.

During the year ended June 30, 2019 and the subsequent interim period through June 8, 2020, neither Management, the Funds 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 Funds and no written report or oral advice was provided to the Funds 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). The Funds provided PwC with a copy of the disclosure it is making in response to Item 304(a) of Regulation SK and requested that PwC furnish the Funds with letters addressed to the SEC, pursuant to Item 304(a) stating their agreement with the statements made and, if not, stating the respects in which they do not agree, including any new information, clarification of the Fund's expression of its view, or the respects in which it does not agree with the statements made by the Funds in response to Item 304(a).

Liquidity Risk Management Program

The Funds adopted and implemented a written liquidity risk management program (the "Program") as required by Rule 22e-4 under the 1940 Act, as amended (the "Liquidity Rule"). As required by the Liquidity Rule, the Program is designed to reasonably assess and manage the Funds' liquidity risk, taking into consideration the Funds' investment strategy and the liquidity of its portfolio investments during normal and reasonably foreseeable stressed conditions; its short and long-term cash flow projections; and its cash holdings and access to other funding sources.

The Board has appointed the Investment Adviser as the Program's administrator, and the Investment Adviser has delegated oversight of the Program to the cross-functional Liquidity Risk Management Committee (the "Committee"). The Committee includes representatives from compliance, accounting, operations, valuations, trading, and portfolio management departments, as well as employees of the Funds' service provider Skyview, and is responsible for the Program's administration and reporting to the Board on at least an annual basis regarding the Program's operation and effectiveness. The Committee executes the day-to-day investment management and security-level activities of the Funds in accordance with the requirements of the Program, subject to the supervision of the Investment Adviser and the Board.

The Committee: (1) reviews the day-to-day operations of the Program; (2) reviews and approve month-end liquidity classifications; (3) reviews quarterly testing and determinations, as applicable; and (4) review other Program related material. The Committee also conducts daily, monthly, quarterly, and annual quantitative and qualitative assessments of the Funds that is subject to the requirements of the Liquidity Rule and is a part of the Program to monitor investment performance issues, risks and trends. In addition, the Committee may conduct ad-hoc reviews and meetings as issues and trends are identified, including potential liquidity and valuation issues. The Committee also monitors global events, such as the COVID-19 coronavirus, that could impact the markets and liquidity of portfolio investments and their classifications.

In accordance with the Liquidity Rule, the Funds' portfolio investments is classified into one of four liquidity categories described below based on a determination of a reasonable expectation for how long it would take to convert the investment to cash (or sell or dispose of the investment) without significantly changing its market value.

- Highly liquid investments — cash or convertible to cash within three business days or less
- Moderately liquid investments — convertible to cash in three to seven calendar days
- Less liquid investments — can be sold or disposed of, but not settled, within seven calendar days
- Illiquid investments — cannot be sold or disposed of within seven calendar days

Liquidity classification determinations consider a variety of factors including various market, trading and investment specific considerations, as well as market depth, and generally utilize analysis from a third-party liquidity metrics service.

The Liquidity Rule places a 15% limit on a Funds' illiquid investments and requires Funds that do not primarily hold assets that are highly liquid investments to determine and maintain a minimum percentage of the Funds' net assets to be invested in highly liquid investments (highly liquid investment minimum or "HLIM"). The Program includes provisions reasonably designed to comply with the 15% limit on illiquid investments and for determining, periodically reviewing and complying with the HLIM requirement as applicable. The Liquidity Rule and the Program also require reporting to the Board and the U.S. Securities and Exchange Commission (on a non-public basis) if the Funds' holdings of illiquid investments exceed 15% of the Funds' assets.

At a meeting held on June 8, 2021, the Committee presented a report to the Board summarizing the results of its annual assessment of the adequacy and effectiveness of the Program's implementation (the "Report"). The Report covered the period from May 31, 2020 through May 31, 2021 (the "Period").

For the Trust, the Report stated, in relevant part, that during the Period:

- There were no material changes to the Program;
- Each Fund's investment strategy remained appropriate for an open-end fund;
- The Funds were able to meet requests for redemption without significant dilution of remaining investors' interests in the Funds;
- The Funds did not breach the 15% limit on illiquid investments;
- The Funds routinely used the expedited settlement facilities to raise cash during periods of unusual market volatility with no issues;
- The Funds have been designated as a primarily Highly Liquid Funds and
- There were no material liquidity events which occurred or were reported during this period applicable to the Funds, if any, and the Committee's actions to address such matter.

Overall, the Report concluded that the Program, as adopted and implemented, remained reasonably designed to assess and manage the Funds' liquidity risk, and is operating in a manner that is adequate and effective to manage the liquidity risk of The Funds.

Control Persons and Principal Shareholders

As of June 30, 2021, the Trustees and officers of each Fund as a group owned less than 1% of the then outstanding shares of each class of shares of each Fund.

Control persons are presumed to control a Fund for purposes of voting on matters submitted to a vote of shareholders due to their beneficial ownership of 25% or more of a Fund's outstanding voting securities. As of June 30, 2021, no person known to owned of record or beneficially 25% or more of the outstanding shares of a Fund.

A person who beneficially owns, either directly or indirectly, more than 25% of the voting securities of a Fund or acknowledges the existence of such control may be presumed to control the Fund. A control person could potentially control the outcome of any proposal submitted to the shareholders for approval, including changes to a Fund's fundamental policies or terms of the investment advisory agreement with the Adviser.

Trustees and Officers

The Board provides broad oversight of the operations and affairs of the Funds and protects the interests of shareholders. The Board has overall responsibility to manage and control the business affairs of the Funds, including the complete and exclusive authority to establish policies regarding the management, conduct and operation of the Funds' business. The names and birth dates of the Trustees and officers of the Funds, 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 Funds is c/o Highland Capital Management Fund Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 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"), a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act.

Trustees and Officers

Name and Date of Birth	Position(s) with the Fund	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in the Highland Funds 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	Indefinite Term; Trustee since December 2013.	Retired.	13	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 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 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); 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.

Trustees and Officers

Name and Date of Birth	Position(s) with the Fund	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in the Highland Funds 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	Indefinite Term; Trustee since December 2013; 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; Chief Product Strategist of HCMFA from 2012 until December 2015; Senior Retail Fund Analyst of Highland Capital Management, L.P. ("HCMLP") from 2007 until December 2015 and HCMFA from its inception until December 2015; Secretary of NHF from May 2015 until December 2015; Executive Vice President and Principal Executive Officer of HFI and HFII from June 2012 until December 2015; and Director of Kelly Strategic Management since August 2021.	13	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.

Trustees and Officers

Name and Date of Birth	Position(s) with the Fund	Term of Office[1] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in the Highland Funds Complex Overseen by the Trustee	Other Directorships/ Trusteeships Held During the Past Five Years	Experience, Qualifications, Attributes, Skills for Board Membership
			Independent Trustees			
Bryan A. Ward (2/4/1955)	Trustee	Indefinite Term; Trustee since December 2013; and Executive Vice President and Principal Executive Officer from June 2012 until December 2015.	Senior Advisor, CrossFirst Bank since April 2019; Private Investor, BW Consulting, LLC since 2014.	13	Director of Equity Metrix, LLC	Significant experience on this and/ or other boards of directors/ trustees; significant managerial and executive experience; significant experience as a management consultant.
			Interested Trustee			
John Honis[(2)] (6/16/1958)	Trustee	Indefinite Term; Trustee since July 2013.	President of Rand Advisors, LLC since August 2013.	13	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.

Trustees and Officers

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 prior affiliate 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 Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years
		Officers	
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 Fund Complex since November 2012.
Frank Waterhouse (4/14/1971)	Treasurer, Principal Accounting Officer, Principal Financial Officer and Principal Executive Officer	Indefinite Term; Treasurer since May 2015; Principal Accounting Officer since October 2017; Principal Executive Officer and Principal Financial Officer since April 2021.	Chief Financial Officer of Skyview Group, Inc. since February 2021; Chief Financial Officer and Partner of Highland Capital Management, L.P. ("HCMLP") from December 2011 and March 2015, respectively, to February 2021; Treasurer of the Fund Complex since May 2015; Principal Financial Officer October 2017 to February 2021; Principal Executive Officer February 2018 to February 2021.
Will Mabry (7/2/1986)	Assistant Treasurer	Indefinite Term; Assistant Treasurer since April 2021.	Director, Fund Analysis of Skyview Group, Inc. since February 2021. Prior to his current role at Skyview Group, Inc., Mr. Mabry served as Senior Manager — Fund Analysis, Manager — Fund Analysis, and Senior Fund Analyst for HCMLP.
Stephanie Vitiello (6/21/1983)	Secretary	Indefinite Term; Secretary since April 2021.	Chief Compliance Officer and Counsel of Skyview Group, Inc. since February 2021. Prior to her current role at Skyview Group, Inc., Ms. Vitiello served as Managing Director — Distressed, Assistant General Counsel, Associate General Counsel and In- House Counsel for HCMLP.
Jason Post (1/9/1979)	Chief Compliance Officer and Anti-Money Laundering Officer	Indefinite Term; Chief Compliance Officer and Anti-Money Laundering Officer since September 2015.	Chief Compliance Officer for HCMFA and NexPoint since September 2015; Chief Compliance Officer and Anti-Money Laundering Officer of the 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 HCMLP.

IMPORTANT INFORMATION ABOUT THIS REPORT

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

Transfer Agent
DST Asset Manager Solutions, Inc.
430 W. 7th Street, Suite 219424
Kansas City, Missouri 64105-1407

Underwriter
NexPoint Securities, Inc.
300 Crescent Court, Suite 700
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 Healthcare Opportunities Fund and NexPoint Merger Arbitrage Fund (collectively, the "Funds"). As of January 1, 2021, paper copies of the Funds' shareholder reports will no longer be sent by mail. Instead, the reports will be made available on https://www.highlandfunds.com/literature/, and you will be notified and provided with a link each time a report is posted to the website. You may request to receive paper reports from the Funds or from your financial intermediary free of charge at any time. For additional information regarding how to access the Funds' shareholder reports, or to request paper copies by mail, please call shareholder services at 1-877-665-1287.

A description of the policies and procedures that the Funds use to determine how to vote proxies relating to their portfolio securities, and the Funds' proxy voting records for the most recent 12-month period ended June 30, are available (i) without charge, upon request, by calling 1-877-665-1287 and (ii) on the Securities and Exchange Commission's website at http://www.sec.gov.

The Funds file their complete schedules of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-PORT within sixty days after the end of the period. The Funds' Forms 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 Funds' website at www.highlandfunds.com.

The Statements of Additional Information include additional information about the Funds' Trustees and are available upon request without charge by calling 1-877-665-1287.

THIS PAGE LEFT BLANK INTENTIONALLY

HIGHLAND CAPITAL MANAGEMENT

Highland Funds
c/o DST Asset Manager Solutions, Inc.
430 W 7th Street Suite 219424
Kansas City, MO 64105-1407

Highland Funds I

Annual Report, June 30, 2021

www.highlandfunds.com

HFI-AR-001-0900