HIGHLAND CAPITAL MANAGEMENT

Q3 2019

MLP MARKET REVIEW

MIDSTREAM PERFORMANCE

The Midstream Energy sector pulled back in the third quarter of 2019 while maintaining positive year to date performance. MLPs (as measured by the Alerian MLP Index, "AMZ") returned -5.09% while the Alerian Midstream Energy Index ("AMNA", a proxy for broader midstream performance including C-Corps) returned -1.96%. On a year to date basis, the AMZ returned 10.91% while the AMNA returned 21.29%, vs the broader S&P 500 Index which returned 20.55% and the S&P Oil & Gas Exploration and Production Select Industry Index (an index designed to largely measure the performance of U.S. exploration and production (E&P) companies), which returned -14.96%.

FUNDAMENTALS

While midstream energy companies generally produced strong earnings during the quarter, the sector experienced weakening investor sentiment due to a confluence of factors. On top of macro concerns such as trade war fears and an uncertain commodity price environment, the domestic upstream sector generated poor investment returns. The S&P Oil & Gas Exploration and Production Select Industry Index returned -17.69% during the quarter, significantly underperforming the S&P 500 Index which returned 1.70%. In short, domestic E&P companies underperformed the market, and this in turn cast a negative sentiment on their counterparts in the midstream sector.

We remain constructive on the long-term outlook for the midstream sector despite near term macro uncertainty and a weaker upstream market environment. The US operates as a low cost producer of hydrocarbons, which means that we expect US production volumes and export opportunities to continue to grow despite headline risks such as commodity price pressure or short-term reductions in upstream production budgets. The sector has undergone a significant transformation over the past several years towards a focus on shareholder returns, corporate simplification, returns on invested capital, and a reduction in leverage. We think this renewed focus on capital discipline combined with an underlying healthy fundamental backdrop should enable the sector to create value over time.

Despite these positive factors, midstream MLPs appear cheap relative to history and relative to other yield-oriented asset classes. The median MLP yields 10.1% which is a 30.5% discount relative to its five year average of 7.0%, and trades at an estimated 2020 EV/EBITDA multiple of 9.8x which is a 20.1% discount relative to its five year average of 12.2x. Meanwhile, Utilities trade at an 11.7x EV/EBITDA multiple which is a 15% premium to its five year average and REITs trade at a 17.3x multiple which is a 5% discount.

OUTLOOK

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

[1] Source: Wells Fargo, "Midstream Monthly Abridged – October 2019", 10/4/19

RISK CONSIDERATIONS

The information herein contains forward-looking statements. These forward-looking statements are based on our current expectations and assumptions regarding the fund's portfolio and performance, the economy and other future conditions and forecasts of future events, circumstances and results. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances. The fund's actual results may vary materially from those expressed or implied in its forward-looking statements.

MLP Risk is the risk of investing in MLP units, which involves some risks that differ from an investment in the equity securities of a company. The Fund intends to invest substantially in MLP units. Holders of MLP units have limited control and voting rights on matters affecting the partnership. Additionally, a sustained reduced demand for crude oil, natural gas and refined petroleum products could adversely affect MLP revenues and cash flows and changes in the regulatory environment could adversely affect the profitability of MLPs.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership, which could reduce or eliminate distributions paid by MLPs.

Credit Risk. The risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty of a derivatives contract or repurchase agreement, is unable or unwilling (or is perceived to be unable or unwilling) to make a timely payment of principal and/or interest, or to otherwise honor its obligations. **Currency Risk.** The risk that the values of foreign investments may be affected by changes in the currency rates or exchange control regulations. **Derivatives Risk.** Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Fund to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Fund. **Foreign and Emerging Markets Risk.** The Fund may invest in foreign and emerging market securities which involves certain risks such as currency volatility, political and social instability and reduced market liquidity. **Growth Investing Risk.** The risk of investing in growth stocks that may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing companies growth potential. **Leverage Risk.** The risk associated with the use of leverage for investment purposes to create opportunities for greater total returns. Any investment income or gains earned with respect to the amounts borrowed that are in excess of the interest that is due on the borrowing will augment the Fund's income. Conversely, if the investment performance with respect to the amounts borrowed fails to cover the interest on such borrowings, the value of the Fund's shares may decrease more quickly than would otherwise be the case. Interest payments and fees incurred in connection with such borrowings will reduce the amount of net income available for payment to Fund shareholders. **Value Investing Risk.** The risk of investing in undervalued stocks that may not realize their perceived value for extended periods of time or may never realize their perceived value.

S&P 500 Index is a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. The total return index series reflects both ordinary and special dividends.

Alerian MLP Index (AMZ) is a composite of the 50 most prominent Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

S&P Oil & Gas Exploration and Production Select Industry Index is comprises stocks in the S&P Total Market Index that are classified in the GICS oil and gas exploration and production sub-industry.

AMNA is a composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents are engaged in midstream activites involving energy commodities, is disseminated real-time on a price-return basis (AMEI) and on a total-return basis (AMEIX).

Utilities are measured/represented by the S&P 500 Utilities Index

REITs are measured/represented by the FTSE NAREIT Index

Index returns assume reinvestment of all dividends and distributions, if any. Indices are unmanaged, have no fees or costs and are not available for investment. The performance of the indices may be materially different from the individual performance attained by a specific investor. An investment cannot be made directly in an index.