# Highland Income Fund

**FACT SHEET**
**Q2 2021**

**On July 9, 2021, the Highland Income Fund announced the filing of a definitive proxy statement with the Securities and Exchange Commission (the "SEC") for a special meeting ("Special Meeting") of shareholders in connection with its proposal to convert the Fund from a registered investment company to a publicly traded diversified holding company(the "Holding Company"). The Special Meeting will be held on August 20, 2021 at 8:30 a.m. CDT to consider the proposal. Please visit www.hfroconversion.com or www.sec.gov for more information including the proxy statement.**

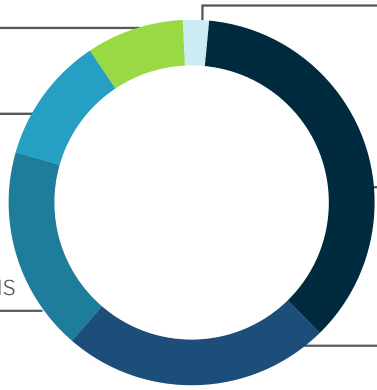
## ALTERNATIVES FOR INCOME-ORIENTED INVESTORS

- Seeks to provide a high level of income consistent with preservation of capital
- Focus on floating rate securities, real estate securities, secured and unsecured fixed-rate loans and corporate bonds, mezzanine securities, structured products, convertible and preferred securities and equities (public and private)
- Invest at least 25% of its assets in securities or other instruments directly or indirectly secured by real estate

### GENERAL INFORMATION

| | |
|---|---|
| Ticker | HFRO |
| CUSIP | 43010E404 |
| Inception Date | January 13, 2000 |
| Expense Ratio | 2.68[1] |
| Total Managed Assets (M) | $1,127 |
| Total Net Assets (M) | $982 |
| Fund Manager | Jim Dondero, *CFA, Co-Founder, President*<br>*Joe Sowin, CMT, CAIA, Co-CIO* |

### PORTFOLIO ALLOCATION[2]




### PORTFOLIO CHARACTERISTICS

| | |
|---|---|
| Number of Holdings | 121 |
| Monthly Distribution Rate Per Share | $0.077 |
| Distribution Rate (Price)[1] | 8.5% |
| Distribution Rate (NAV) | 6.7% |
| Regulatory Leverage (M) | $145 |
| Leverage Percentage | 12.9% |

### COMMON STOCK

| | |
|---|---|
| Shares Outstanding (Common) | 71,405,522 |
| Market Price | $10.91 |
| Net Asset Value (NAV) | $13.76 |
| Premium/(Discount) to NAV | (20.71%) |
| Average Daily Volume (3 mo) | 425,871 |

### TOP 10 EXPOSURES[2*]

| Investment | Equity | Debt | Preferred | Total |
|---|---|---|---|---|
| Creek Pine Holdings, LLC | 23.7% | - | - | 23.7% |
| SAFStor[3] | 11.2% | - | - | 11.2% |
| NexPoint Real Estate Finance[4] | 8.2% | - | - | 8.2% |
| Metro Goldwyn Mayer, Inc. | 6.2% | - | - | 6.2% |
| EDS Legacy Partners | 0.2% | - | 4.5% | 4.7% |
| IQHQ | 3.6% | - | - | 3.6% |
| CCS Medical | 0.1% | 2.8% | - | 2.9% |
| Grayson CLO | 2.7% | - | - | 2.7% |
| NEXLS LLC | 2.1% | - | - | 2.1% |
| SFR WLIF III, LC[3] | 2.1% | - | - | 2.1% |

*As of 6/30 the Fund had a short exposure of -18.55% and -3.37% in the S&P 500 E-mini and E-mini Russell 2000, respectively.

## ANNUALIZED RETURNS (%) AS OF 6/30/2021

| | Incept. | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| HFRO NAV | 1.13.00 | 6.88 | 16.27 | 3.64 | 5.48 | 5.30 |
| HFRO Market Price | | 10.67 | 48.99 | -3.67 | 1.61 | 3.35 |
| | | MARKET INDICES | | | | |
| CS Leverage Loan | | 3.48 | 11.67 | 4.36 | 5.04 | 4.52 |

The proposed conversion of HFRO to a diversified holding company is contingent upon an affirmative shareholder vote, regulatory approval, and the ability to reconfigure HFRO's portfolio such that it is no longer an investment company for purposes of the Investment Company Act of 1940 (the "1940 Act"). The conversion process could take approximately 24 months; and there can be no assurance that conversion of HFRO to a diversified holding company will be completed, improve HFRO's performance or reduce the common share discount to net asset value ("NAV").

In addition, actions taken in connection with the proposed conversion may adversely affect the financial condition, yield on investment, results of operations, cash flow, per share trading price of our securities, ability to satisfy debt service obligations, if any, and to make cash distributions to shareholders. Whether HFRO remains a registered investment company or converts to a diversified holding company, an investment in HFRO's securities, like an investment in any other public company, is subject to investment risk, including the possible loss of investment. For a discussion of certain other risks relating to our conversion to a holding company, see "Implementation of the Business Change Proposal and Related Risks" and "Appendix B: Risks Associated with the Business Change Proposal" in the proxy statement.

If the Proposals are approved by shareholders, HFRO will apply to the SEC for a Deregistration Order, but the timing for receiving the Deregistration Order is uncertain. Until the SEC issues a Deregistration Order, HFRO will continue to be registered as an investment company and will continue to be regulated under the 1940 Act. Pending the SEC's issuance of the Deregistration Order, the Adviser intends to begin realigning HFRO's portfolio consistent with its new business as a diversified holding company. The implementation period may last approximately two years, with full implementation not projected until approximately the middle of 2023. The foregoing time period is an estimate and may vary depending upon the length of the deregistration process with the SEC, tax considerations and the pace at which we will be able to transition certain of the Company's assets such that we will no longer be deemed an investment company under the 1940 Act. Any delay in receiving the Deregistration Order beyond the projected two-year implementation period may delay HFRO's ability to operate like a typical diversified holding company not subject to the 1940 Act and would delay the ability to realize the benefits the Adviser's anticipate to realize from becoming a diversified holding company.

**Note: Effective May 20, 2019, the Highland Floating Rate Opportunities Fund was renamed the Highland Income Fund. In addition to these changes, the Fund's investment strategies were revised and the Fund will no longer invest at least 80% of its assets in floating rate loans and other securities deemed to be floating rate instruments. For more information, please review the Fund's prospectus at highlandfunds.com or call 877-665.1287.**

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

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

If a Fund estimates that it has distributed more than its income and net realized capital gains in the current fiscal year; a portion of its distribution may be a return of capital. A return of capital may occur, for example, when some or all of a shareholder's investment is paid back to the shareholder. A return of capital distribution does not necessarily reflect a Fund's investment performance and should not be confused with "yield" or "income". When distributions exceed total return performance, the difference will reduce the Fund's net asset value per share. Although the character of income will note be determined until the end of the Fund's fiscal year, please refer to the section on the website for Section 19a notices that provide estimated amounts and sources of the fund's distributions, which should not be relied upon for tax reporting purposes. A Form 1099-DIV for the calendar year will be sent to shareholders to illustrate how the Fund's distributions should be reports for federal income tax purposes.

**The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please call 877-665-1287.**

**RISK CONSIDERATIONS**
**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. **Debt Securities Risk.** The Fund's ability to invest in high-yield debt securities generally subjects the Fund to greater risk than securities with higher ratings. Loans may not be considered 'securities' for purposes of the anti-fraud provisions under the federal securities laws and, as a result, as a purchaser of these instruments, a Fund may not be entitled to the anti-fraud protections of the federal securities laws. **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. **Liquidity Risk.** The risk that, due to low trading volume, lack of a market maker, large position size, or legal restrictions (including daily price fluctuation limits or "circuit breakers"), the Fund may not be able to sell particular securities or unwinding derivative positions at desirable prices. Because loan transactions often take longer to settle than transactions in other securities, the Fund may not receive the proceeds from the sale of a loan for a significant period of time. No assurance can be given that the Fund will have sufficient liquidity in the event of abnormally large redemptions. **Non-Diversification Risk.** As a non-diversified fund, the Fund may invest a larger portion of its assets in the securities of one or a few issuers than a diversified fund. **Non- Payment Risk.** Senior Loans, like other corporate debt obligations, 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 Senior Loan experiencing non-payment and a potential decrease in the NAV of the Fund. **Senior Loans Risk.** The risks associated with senior loans are similar to the risks of below investment grade securities in that they are considered speculative. In addition, as with any debt instrument, senior loans are also generally subject to the risk of price declines and to increases in prevailing interest rates. Senior loans are also subject to the risk that, as interest rates rise, the cost of borrowing increases, which may also increase the risk and rate of default. In addition, the interest rates of floating rate loans typically only adjust to changes in short-term interest rates; long term interest rates can vary dramatically from short term interest rates. Therefore, senior loans may not mitigate price declines in a rising long-term interest rate environment. **Short Sales Risk.** The risk of short sales theoretically involves unlimited loss potential since the market price of securities sold short may continuously increase.

**Credit Suisse (CS) Leveraged Loan Index** is designed to mirror the investable universe of the $US-denominated leveraged loan market. The index inception is January 1992. Total return of the index is the sum of three components: principal, interest, and reinvestment return. The cumulative return assumes that coupon payments are reinvested into the index at the beginning of each period. Unlike the Fund, the index is not an investment, does not incur fees or expenses, and is not professionally managed. It is not possible to invest directly in the index.

1. The Expense Ratio shown is reported in the Fund's Annual Report dated December 31, 2020. 2. Top Exposures: Creek Pine Holdings consist of approximately 1.1 million acres of timberlands located primarily in East Texas and is structured as a 10.25% preferred security (paid-in-kind). MGM is an equity position received through prior debt holdings. Pay-in-kind securities are financial instruments that pay investors in the form of additional securities rather than cash coupons. The securities used to pay the interest or dividends are usually identical to the underlying securities. Pay-in-kind securities tend to pay a higher rate of interest but are considered higher risk. Top Holdings are non-income producing, illiquid, and may be deemed an affiliate of Highland Capital Management Fund Advisors, L.P. (the "Adviser"). Current and future portfolio holdings are subject to change and risk. Top holdings are as a percentage of long-only market value. 3. Held in NFRO REIT SUB, LLC 4. On February 11, 2020, as part of the formation transaction for NexPoint Real Estate Finance (NYSE: NREF), certain assets held in HFRO, valued at $46 million, were contributed in exchange for operating partnership units of NREF. The NREF Op Units are convertible one-to-one for NREF Common shares and therefore are priced daily in HFRO using the NREF common share price.

**Source: SEI**