

NPORT-EX 2 Highland_GAF_Schedule_F.htm SCHEDULE F
INVESTMENT PORTFOLIO (unaudited)

As of December 31, 2020

Highland Global Allocation Fund

Shares	Value (\$)	Shares	Value (\$)
U.S. Equity — 39.7%		Non-U.S. Equity (continued)	
Communication Services — 25.1%		Information Technology — 1.2%	
169,531 TerreStar Corporation (a)(b)(c)(d)(e)	55,931,667	119,188 Avaya Holdings Corp. (e)(g)	2,282,450
Healthcare — 3.1%		5,000 StoneCo, Class A (e)(g)	419,600
77,700 Aerie Pharmaceuticals, Inc. (e)	1,049,727		2,702,050
61,625 Brookdale Senior Living, Inc. (e)	272,999	Utilities — 12.0%	
232,800 Heron Therapeutics, Inc. (e)(f)	4,927,212	202,250 Central Puerto ADR (e)(g)	546,075
17,200 Patterson	509,636	67,700 Pampa Energia ADR (e)(f)(g)	932,906
5,500 Surgery Partners, Inc. (e)	159,555	1,286,000 Vistra Energy Corp. (g)	25,282,760
	6,919,129		26,761,741
Materials — 1.6%		Total Non-U.S. Equity (Cost \$101,520,655)	
730,484 MPM Holdings, Inc. (e)	3,652,420		57,461,727
Real Estate — 9.9%		U.S. LLC Interest — 12.3%	
70,700 City Office, REIT	690,739	Real Estate — 12.3%	
963,568 GAF REIT (a)(b)(c)(e)	11,180,183	100 GAF REIT Sub II, LLC (a)(b)(c)(e)	4,049,537
66,300 Independence Realty Trust, Inc., REIT	890,409	523,388 NexPoint Real Estate Finance Operating Partnership, L.P. (c)	8,646,370
121,123 NexPoint Real Estate Finance (c)	2,000,952	124,046 NREF OP I, L.P., REIT (c)(e)	2,049,240
161,869 NexPoint Residential Trust, REIT (c)	6,848,677	6,773,494 SFR WLIF I, LLC (a)(b)(c)	5,514,640
10,241 Plymouth Industrial REIT, REIT	153,615	4,437,497 SFR WLIF II, LLC (a)(b)(c)	3,634,621
44,387 RAIT Financial Trust, REIT (a)(b)(e)	—	3,789,008 SFR WLIF III, LLC (a)(b)(c)	3,427,613
280,000 United Development Funding IV, REIT (a)(b)(e)	322,000	Total U.S. LLC Interest (Cost \$30,874,622)	
	22,086,575		27,322,021
Total U.S. Equity (Cost \$81,774,044)		U.S. Master Limited Partnerships — 10.0%	
	88,589,791	Energy — 10.0%	
Non-U.S. Equity — 25.8%		50,000 Crestwood Equity Partners (f)	949,000
Communication Services — 1.8%		1,558,690 Energy Transfer LP	9,632,704
77,866 Grupo Clarin, Class B (e)(g)	20,748	385,923 MPLX LP	8,355,233
189,945 Loral Space & Communications, Inc. (g)	3,986,945	236,900 Western Midstream Partners LP	3,273,958
	4,007,693	Total U.S. Master Limited Partnerships (Cost \$51,121,705)	
Consumer Discretionary — 3.1%			22,210,895
3,000 MercadoLibre, Inc. (e)(g)	5,025,660	Non-U.S. Registered Investment Companies — 8.6%	
718 Toys 'R' Us (a)(b)(e)(g)	179,450	10,000 BB Votorantim Highland Infrastructure LLC (a)(b)(c)	2,968,492
718 Tru Kids, Inc. (a)(b)(e)(g)	1,615,050	578,358 NexPoint Merger Arbitrage Fund, Class Z (c)	11,538,242
	6,820,160	436,131 NexPoint Strategic Opportunities Fund (c)	4,588,098
Energy — 6.9%		Total Non-U.S. Registered Investment Companies (Cost \$24,521,127)	
29,751 NextDecade Corp. (e)(f)(g)	62,180		19,094,832
53,200 Plains GP Holdings, Class A (g)	449,540		
131,600 Targa Resources (g)	3,471,608		
121 Transocean (e)(g)	279		

566,995	Williams Cos., Inc. (g)	<u>11,368,250</u>
		<u>15,351,857</u>
Financials — 0.2%		
188,858	Grupo Supervielle SA ADR (g)	<u>400,379</u>
Industrials — 0.6%		
38,549	American Airlines Group, Inc. (g)	607,918
65,931	GL Events (g)	<u>809,929</u>
		<u>1,417,847</u>

INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund**

<u>Principal Amount (\$)</u>	<u>Value (\$)</u>
U.S. Senior Loans (h) — 7.7%	
Communication Services — 7.4%	
TerreStar Corporation, Term Loan A, 16,464,708 11.000% PIK 02/25/22 (a)(b)(c)	16,464,708
Energy — 0.0%	
Fieldwood Energy LLC, Closing Date Loan, 2nd Lien, 23,743,431 VAR LIBOR USD 3 Month+7.250%, 04/11/23 (i)	34,428
Utilities — 0.3%	
Texas Competitive Electric Holdings Co. LLC, Extended Escrow Loan, (j) 471,039,553	706,560
Total U.S. Senior Loans (Cost \$51,484,432)	17,205,696
Non-U.S. Sovereign Bonds — 6.8%	
Argentine Republic Government International Bond 40,000,000 0.13%, 2.50%, 7/9/2021, 7/9/2041(g)(k)	15,180,000
90,699 1.00%, 7/9/2029 (g)	39,523
Total Non-U.S. Sovereign Bonds (Cost \$20,971,400)	15,219,523
Non-U.S. Asset-Backed Securities — 5.2%	
Acis CLO, Ltd., Series 2014-3A, Class E VAR ICE LIBOR USD 3 Month+4.750%, 4.96%, 2/1/2026 (g)(l)	3,450,400
Acis CLO, Ltd., Series 2014-5A, Class E1 VAR ICE LIBOR USD 3 3,500,000 Month+6.520%, 6.73%, 11/1/2026 (g)(l)	3,325,000
Acis CLO, Ltd., Series 2014-4A, Class F VAR ICE LIBOR USD 3 4,000,000 Month+5.150%, 5.36%, 5/1/2026 (g)(l)	2,590,000
Acis CLO, Ltd., Series 2014-4A, Class E VAR ICE LIBOR USD 3 2,500,000 Month+4.800%, 5.01%, 5/1/2026 (g)(l)	2,250,000
Pamco Cayman, Ltd., Series 1997-1A, Class B 7.91%, 8/6/2013 (a)(b)(g)(l) 311,866	64,806
Total Non-U.S. Asset-Backed Securities (Cost \$13,069,489)	11,680,206

<u>Units</u>	<u>Value (\$)</u>
U.S. Rights — 3.9%	
Utilities — 3.9%	
7,905,143 Texas Competitive Electric Holdings Co., LLC (e)	8,695,657
Total U.S. Rights (Cost \$22,029,102)	8,695,657
Shares	
U.S. Preferred Stock — 3.0%	
Energy — 0.3%	
103,539 Crestwood Equity Partners (m)	773,436
Real Estate — 2.7%	
365,838 Braemar Hotels & Resorts, REIT (e)(m)	5,943,843
Total U.S. Preferred Stock (Cost \$6,510,729)	6,717,279
Non-U.S. Master Limited Partnership — 0.6%	
Energy — 0.6%	
64,631 Enterprise Products Partners (g)	1,266,121
Total Non-U.S. Master Limited Partnerships (Cost \$1,816,777)	1,266,121
U.S. Exchange Traded Fund — 0.5%	
VelocityShares 3x Long Silver ETN linked to the S&P GSCI Silver Index 8,750	1,146,250
Total U.S. Exchange Traded Fund (Cost \$824,777)	1,146,250
Principal Amount (\$)	
U.S. Corporate Bonds & Notes — 0.5%	
Communication Services — 0.4%	
iHeartCommunications, Inc.	
317,929 6.38%, 05/01/26	340,780
584,493 8.38%, 05/01/27	624,984
	965,764
Energy — 0.0%	
Sable Permian Resources Land 290 7.38%, 11/01/21 (i)(l)	3
Real Estate — 0.1%	
CBL & Associates 400,000 5.95%, 12/15/26 (i)	159,122

INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund**

<u>Principal Amount (\$)</u>	<u>Value (\$)</u>	<u>Principal Amount (\$)</u>	<u>Value (\$)</u>
U.S. Corporate Bonds & Notes (continued)		U.S. Repurchase Agreements — 0.1%	
Utilities — 0.0%		RBC Dominion Securities	
Texas Competitive Electric Holdings Co., LLC		0.080%, dated 12/31/2020 to be repurchased on 01/04/2021,	
3,000,000 11.50%, 10/01/20 (i)(j)	4,500	repurchase price \$249,002 (collateralized by U.S. Government	
Total U.S. Corporate Bonds & Notes		obligations, ranging in par value \$0 - \$61,842, 0.000% - 6.000%,	
(Cost \$2,854,002)	1,129,389	249,000 01/05/2021 – 12/20/2050; with total market value \$253,980)(n)(o)	249,000
Units		Nomura Securities	
Non-U.S. Warrants — 0.2%		0.070%, dated 12/31/2020 to be repurchased on 01/04/2021,	
Communication Services — 0.0%		repurchase price \$64,759 (collateralized by U.S. Government	
1,109 iHeartCommunications, Inc., Expires 05/01/2039(e)(g)	13,077	obligations, ranging in par value \$0 - \$17,526, 0.000% - 8.500%,	
Industrials — 0.1%		64,758 01/31/2021 – 01/15/2056; with total market value \$66,053)(n)(o)	64,758
1,260,362 American Airlines Group, Inc. (e)(g)	189,054	Total U.S. Repurchase Agreements	
Information Technology — 0.1%		(Cost \$313,758)	313,758
38,742 Avaya Holdings, Expires 12/18/2022(e)(g)	127,849	Shares	
Total Non-U.S. Warrants		U.S. Cash Equivalent — 0.9%	
(Cost \$77,464)	329,980	Money Market Fund (p) — 0.9%	
U.S. Warrants — 0.1%		Dreyfus Treasury & Agency Cash Management, Institutional	
Healthcare — 0.1%		2,089,051 Class 0.030%	2,089,051
42,032 HLS Therapeutics, Inc., Expires 12/31/2049(a)(b)(e)	208,899	Total U.S. Cash Equivalent	
Total U.S. Warrants		(Cost \$2,089,051)	2,089,051
(Cost \$—)	208,899	Total Investments - 126.0%	280,907,780
Principal Amount (\$)		(Cost \$440,805,855)	
U.S. Asset-Backed Security — 0.1%			
CFCRE Commercial Mortgage Trust, Series C8, Class D			
250,000 3.00%, 6/15/2050 (l)	226,705		
Total U.S. Asset-Backed Security			
(Cost \$223,813)	226,705		
Non-U.S. Corporate Bonds & Notes — 0.0%			
Energy — 0.0%			
Ocean Rig UDW, Inc.			
37,083,000 7.25%, 04/01/19 (a)(b)(g)(i)(l)	—		
Total Non-U.S. Corporate Bonds & Notes			
(Cost \$28,728,908)	—		

INVESTMENT PORTFOLIO (unaudited)(concluded)**As of December 31, 2020****Highland Global Allocation Fund**

<u>Shares</u>	<u>Value (\$)</u>
Securities Sold Short — (10.0)%	
U.S. Exchange-Traded Fund — (4.0)%	
(48,450) ProShares UltraPro QQQ	(8,808,210)
Total U.S. Exchange-Traded Fund (Proceeds \$2,961,262)	(8,808,210)
U.S. Equity — (6.0)%	
Communication Services — (4.5)%	
(18,665) Netflix, Inc. (q)	(10,092,725)
Consumer Staples — (0.9)%	
(7,500) WD-40	(1,992,600)
Information Technology — (0.6)%	
(4,267) Coupa Software (q)	(1,446,129)
Total U.S. Equity (Proceeds \$4,323,796)	(13,531,454)
Total Securities Sold Short- (10.0)% (Proceeds \$7,285,058)	(22,339,664)
Other Assets & Liabilities, Net - (16.0)%	(35,641,444)
Net Assets - 100.0%	<u>222,926,672</u>

- (a) Securities with a total aggregate value of \$105,561,666, or 47.4% of net assets, were classified as Level 3 within the three-tier fair value hierarchy. Please see Notes to Investment Portfolio for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.
- (b) 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 \$105,561,666, or 47.4% of net assets, were fair valued under the Fund's valuation procedures as of December 31, 2020. Please see Notes to Investment Portfolio.
- (c) Affiliated issuer. Assets with a total aggregate market value of \$138,843,040, or 62.3% of net assets, were affiliated with the Fund as of December 31, 2020.
- (d) Restricted Securities. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Fund does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under the procedures established by the Board. Additional Information regarding such securities follows:

- (e) Non-income producing security.
- (f) Securities (or a portion of securities) on loan. As of December 31, 2020, the fair value of securities loaned was \$863,766. The loaned securities were secured with cash and securities collateral of \$885,470. Collateral is calculated based on prior day's prices.
- (g) As described in the Fund's prospectus, a company is considered to be a non-U.S. issuer if the company's securities principally trade on a market outside of the United States, the company derives a majority of its revenues or profits outside of the United States, the company is not organized in the United States, or the company is significantly exposed to the economic fortunes and risks of regions outside the United States.
- (h) Senior loans (also called bank loans, leveraged loans, or floating rate loans) in which the Fund invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread (unless otherwise identified, all senior loans carry a variable rate of interest). These base lending rates are generally (i) the Prime Rate offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Interbank Offered Rate ("LIBOR") or (iii) the Certificate of Deposit rate. As of December 31, 2020, the LIBOR USD 3 Month rate was 0.238%. Senior loans, while exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity maybe substantially less than the stated maturity shown.
- (i) The issuer is, or is in danger of being, in default of its payment obligation.
- (j) Represents value held in escrow pending future events. No interest is being accrued.
- (k) Step Bonds - Represents the current rate, the step rate, the step date and the final maturity date.
- (l) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transaction exempt from registration to qualified institutional buyers. At December 31, 2020, these securities amounted to \$11,906,914 or 5.3% of net assets.
- (m) Perpetual security with no stated maturity date.
- (n) Tri-Party Repurchase Agreement.
- (o) This security was purchased with cash collateral held from securities on loan. The total value of such securities as of December 31, 2020 was \$313,758.
- (p) Rate shown is 7 day effective yield.
- (q) No dividend payable on security sold short.

<u>Restricted Security</u>	<u>Security Type</u>	<u>Acquisition Date</u>	<u>Cost of Security</u>	<u>Fair Value at Period End</u>	<u>Percent of Net Assets</u>
TerreStar Corporation	U.S. Equity	11/14/2014	\$ 48,015,562	\$ 55,931,667	25.1%

NOTES TO INVESTMENT PORTFOLIO (unaudited)**As of December 31, 2020****Highland Global Allocation Fund****Organization**

Highland Funds II (the “Trust”) is a Massachusetts business trust organized on August 10, 1992. The Trust is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company. It comprises five portfolios (collectively the “Funds”) that are currently being offered. This report covers information for the period ended December 31, 2020 for Highland Global Allocation Fund (the “Fund”). Highland Socially Responsible Equity Fund, Highland Small-Cap Equity Fund, Highland Total Return Fund, and Highland Fixed Income Fund are reported separately.

Valuation of Investments

In computing the Fund’s 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 adopted by the Fund’s Board of Trustees (the “Board”). Typically, such securities will be valued at the mean between the most recently quoted bid and ask prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day may be priced by an independent pricing service. Generally, the Fund’s loan and bond positions are not traded on exchanges and consequently are valued based on a mean of the bid and ask price from the third-party pricing services or broker-dealer sources that the Investment Adviser has determined to have the capability which provide appropriate pricing services and which have been approved by the Board.

Securities for which market quotations are not readily available, or for which the Fund has determined that the price received from a pricing service or broker-dealer is “stale” or otherwise does not represent fair value (such as when events materially affecting the value of securities occur between the time when market price is determined and calculation of the Fund’s NAV) will be valued by the Fund at fair value, as determined by the Board or its designee in good faith in accordance with procedures approved by the Board, taking into account factors reasonably determined to be relevant including: (i) the fundamental analytical data relating to the investment; (ii) the nature and duration of restrictions on disposition of the securities; and (iii) an evaluation of the forces that influence the market in which these securities are purchased and sold. In these cases, the Fund’s NAV will reflect the affected portfolio securities’ fair value as determined in the judgment of the Board or its designee instead of being determined by the market. Using a fair value pricing methodology to value securities may result in a value that is different from a security’s most recent sale price and from the prices used by other investment companies to calculate their NAVs. Determination of fair value is uncertain because it involves subjective judgments and estimates.

There can be no assurance that the Fund’s valuation of a security will not differ from the amount that it realizes upon the sale of such security. Those differences could have a material impact to the Fund. The NAV shown in the Fund’s financial statements may vary from the NAV published by the Fund as of its period end because portfolio securities transactions are accounted for on the trade date (rather than the day following the trade date) for financial statement purposes.

Fair Value Measurements

The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of inputs to their fair value determination. The levels of fair value inputs used to measure the Fund’s investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment’s valuation. The three levels of the fair value hierarchy are described below:

NOTES TO INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund**

- Level 1 — Quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement;
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active, but are valued based on executed trades; broker quotations that constitute an executable price; and alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 inputs are either directly or indirectly observable for the asset in connection with market data at the measurement date; and
- Level 3 — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. In certain cases, investments classified within Level 3 may include securities for which the Fund has obtained indicative quotes from broker-dealers that do not necessarily represent prices the broker may be willing to trade on, as such quotes can be subject to material management judgment. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The Investment Adviser has established policies and procedures, as described above and approved by the Board, to ensure that valuation methodologies for investments and financial instruments that are categorized within all levels of the fair value hierarchy are fair and consistent. A Pricing Committee has been established to provide oversight of the valuation policies, processes and procedures, and is comprised of personnel from the Investment Adviser and its affiliates. The Pricing Committee meets monthly to review the proposed valuations for investments and financial instruments and is responsible for evaluating the overall fairness and consistent application of established policies.

As of December 31, 2020, the Fund's investments consisted of senior loans, asset-backed securities, bonds and notes, common stocks, preferred stocks, master limited partnerships, LLC interests, asset-backed securities, registered investment companies, cash equivalents, exchange-traded funds, rights, warrants, securities sold short, and repurchase agreements. The fair value of the Fund's loans, bonds and asset-backed securities are generally based on quotes received from brokers or independent pricing services. Loans, bonds and asset-backed securities with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Senior loans, bonds and asset-backed securities that are priced using quotes derived from implied values, indicative bids, or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

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

At the end of each calendar quarter, the Investment Adviser evaluates the Level 2 and 3 assets and liabilities for changes in liquidity, including but not limited to: whether a broker is willing to execute at the quoted price, the depth and consistency of prices from third party services, and the existence of contemporaneous, observable trades in the market. Additionally, the Investment Adviser evaluates the Level 1 and 2 assets and liabilities on a quarterly basis for changes in listings or delistings on national exchanges. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Fund's investments may fluctuate from period to period. Additionally, the fair value of investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values the Fund may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities.

NOTES TO INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund**

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

	Total value at December 31, 2020 (\$)	Level 1 Quoted Price (\$)	Level 2 Significant Observable Inputs (\$)	Level 3 Significant Unobservable Inputs (\$)
<u>Highland Global Allocation Fund</u>				
Assets				
U.S. Equity				
Communication Services	55,931,667	—	—	55,931,667
Healthcare	6,919,129	6,919,129	—	—
Materials	3,652,420	—	3,652,420	—
Real Estate	22,086,575	10,584,392	—	11,502,183
Non-U.S. Equity				
Communication Services	4,007,693	4,007,693	—	—
Consumer Discretionary	6,820,160	5,025,660	—	1,794,500
Energy	15,351,857	15,351,857	—	—
Financials	400,379	400,379	—	—
Industrials	1,417,847	1,417,847	—	—
Information Technology	2,702,050	2,702,050	—	—
Utilities	26,761,741	26,761,741	—	—
U.S. LLC Interest	27,322,021	—	10,695,610	16,626,411
U.S. Master Limited Partnerships				
Energy	22,210,895	22,210,895	—	—
Non-U.S. Registered Investment Companies	19,094,832	16,126,340	—	2,968,492
U.S. Senior Loans				
Communication Services	16,464,708	—	—	16,464,708
Energy	34,428	—	34,428	—
Utilities	706,560	—	706,560	—
Non-U.S. Sovereign Bonds	15,219,523	—	15,219,523	—
Non-U.S. Asset-Backed Securities	11,680,206	—	11,615,400	64,806
U.S. Rights				
Utilities	8,695,657	—	8,695,657	—
U.S. Preferred Stock				
Energy	773,436	773,436	—	—
Real Estate	5,943,843	—	5,943,843	—
Non-U.S. Master Limited Partnerships				
Energy	1,266,121	1,266,121	—	—
U.S. Exchange Traded Fund	1,146,250	1,146,250	—	—
U.S. Corporate Bonds & Notes				
Communication Services	965,764	—	965,764	—

Energy	3	—	3	—
Real Estate	159,122	—	159,122	—
Utilities	4,500	—	4,500	—
Non-U.S. Warrants				
Communication Services	13,077	—	13,077	—
Industrials	189,054	—	189,054	—
Information Technology	127,849	—	127,849	—

NOTES TO INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund**

	Total value at December 31, 2020 (\$)	Level 1 Quoted Price (\$)	Level 2 Significant Observable Inputs (\$)	Level 3 Significant Unobservable Inputs (\$)
U.S. Warrants				
Healthcare	208,899	—	—	208,899
U.S. Asset-Backed Security	226,705	—	226,705	—
Non-U.S. Corporate Bonds & Notes				
Energy	—	—	—	— (1)
U.S. Repurchase Agreements	313,758	—	313,758	—
U.S. Cash Equivalent	2,089,051	2,089,051	—	—
Total Assets	280,907,780	116,782,841	58,563,273	105,561,666
Liabilities				
Securities Sold Short				
U.S. Exchange-Traded Fund	(8,808,210)	(8,808,210)	—	—
U.S. Equity				
Communication Services	(10,092,725)	(10,092,725)	—	—
Consumer Staples	(1,992,600)	(1,992,600)	—	—
Information Technology	(1,446,129)	(1,446,129)	—	—
Total Liabilities	(22,339,664)	(22,339,664)	—	—
Total	258,568,116	94,443,177	58,563,273	105,561,666

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

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

	Balance as of September 30, 2020 \$	Transfers Into Level 3 \$	Transfers Out of Level 3 \$	Accrued Discounts (Premiums) \$	Distribution to Return Capital \$	Realized Gain (Loss) \$	Net Change in Unrealized Appreciation (Depreciation) \$	Net Purchases \$	Net Sales \$	Balance as of December 31, 2020 \$	Change in Unrealized Appreciation (Depreciation) from Investments held at December 31, 2020 \$
U.S. Equity											
Communication Services	56,831,877	—	—	—	—	—	(900,210)	—	—	55,931,667	(900,210)
Real Estate	7,823,137	—	—	—	(36,400)	—	715,446	3,000,000	—	11,502,183	715,446
Non-U.S. Equity											
Consumer Discretionary	—	1,794,500	—	—	—	—	—	—	—	1,794,500	—
U.S. LLC Interest	11,552,327	—	—	—	—	—	1,274,084	3,800,000	—	16,626,411	1,274,084
Non-U.S. Registered Investment Company	2,868,778	—	—	—	—	—	99,714	—	—	2,968,492	99,714
U.S. Senior Loans											
Communication Services	15,999,243	—	—	13	—	—	16,002	449,450	—	16,464,708	16,002
Non-U.S. Asset-Backed Securities	36,925	—	—	—	—	—	27,881	—	—	64,806	27,881

U.S. Warrants

Healthcare

Total

	<u>122,313</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>86,586</u>	<u>—</u>	<u>—</u>	<u>208,899</u>	<u>86,586</u>
	95,234,600	1,794,500	—	13	(36,400)	—	1,319,503	7,249,450	—	105,561,666	1,319,503

Investments designated as Level 3 may include assets valued using quotes or indications furnished by brokers which are based on models or estimates 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.

The Fund uses end of period market value in the determination of the amount associated with any transfers between levels.

NOTES TO INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund**

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:

<u>Category</u>	<u>Fair Value at 12/31/2020 \$</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Input Value(s)</u>
U.S. Equity	67,433,850	Multiples Analysis	Unadjusted Price/MHz-PoP	\$ 0.09 - \$0.95
		Discounted Cash Flow	Discount Rate	10.0% - 16.5%
		Transaction Indication of Value	Enterprise Value (\$mm)	\$ 771.00
			Transaction % of Par	87.5% - 103.0%
			Tender Offer	\$ 1.10
		Net Asset Value	N/A	N/A
Non-U.S. Equity	1,794,500		Cash Offer per Share	\$ 2,500.00
U.S. LLC Interest	16,626,411	Discounted Cash Flow	Discount Rate	1.28% - 5.93%
		Net Asset Value	N/A	N/A
Non-U.S. Registered Investment Companies	2,968,492	Net Asset Value	N/A	N/A
U.S. Senior Loans	16,464,708	Discounted Cash Flow	Discount Rate	11.00%
			Spread Adjustment	0.35%
Non-U.S. Asset-Backed Securities	64,806	Discounted Cash Flow	Discount Rate	21.0%
U.S. Warrants	208,899	Black-Sholes Model	Annualized Volatility	66.3%
Total	105,561,666			

The significant unobservable inputs used in the fair value measurement of the Fund's bank loan securities are: adjusted yield, swap rate, discount rate and spread adjustment. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. The significant unobservable inputs used in the fair value measurement of the Fund's common equity securities are: multiple of EBITDA, price/MHz-PoP multiple, risk discount, illiquidity discount, discount rate and size adjustment. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the risk discount is accompanied by a directionally opposite change in the assumption for the price/MHz-PoP multiple.

In addition to the unobservable inputs utilized for various valuation methodologies, the Investment Adviser frequently uses a combination of two or more valuation methodologies to determine fair value for a single holding. In such instances, the Investment Adviser assesses the methodologies and ascribes weightings to each methodology. The weightings ascribed to any individual methodology ranged from as low as 20% to as high as 80% as of December 31, 2020. The selection of weightings is an inherently subjective process, dependent on professional judgment. These selections may have a material impact to the concluded fair value for such holdings.

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.

Cash & Cash Equivalents

The Fund considers liquid assets deposited with a bank and certain short-term debt instruments of sufficient credit quality with original maturities of three months or less to be cash equivalents. The Fund also considers 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 market value. The value of cash equivalents denominated in foreign currencies is determined by converting to U.S. dollars on the date of the Statement of Assets and Liabilities.

NOTES TO INVESTMENT PORTFOLIO (unaudited)(continued)**As of December 31, 2020****Highland Global Allocation Fund****Securities Sold Short**

The Fund may sell securities short. A security sold short is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. 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 Investment Portfolio. Cash held as collateral for securities sold short is classified as restricted cash on the Statement of Assets and Liabilities, as applicable. Restricted cash in the amount of \$21,987,903 was due to the broker for the Fund.

Derivative Transactions

The Fund is subject to equity securities risk, interest rate risk and currency risk in the normal course of pursuing its investment objectives. The Fund enters into derivative transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, to gain market exposure for residual and accumulating cash positions and for managing the duration of fixed income investments.

Futures Contracts

A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. The Fund may invest in interest rate, financial and stock or bond index futures contracts subject to certain limitations. The Fund invests in futures contracts to manage its exposure to the stock and bond markets and fluctuations in currency values. Buying futures tends to increase the Fund's exposure to the underlying instrument while selling futures tends to decrease the Fund's exposure to the underlying instrument, or economically hedge other Fund investments. With futures contracts, there is minimal counterparty credit risk to the Fund since futures contracts are exchange-traded and the exchange's clearinghouse, as counterparty to all traded futures, guarantees the futures against default. 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 Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount, known as initial margin deposit. Subsequent payments, known as variation margins, are made or can be received by the Fund each day, depending on the daily fluctuation in the fair value of the underlying security. The Fund records an unrealized gain/(loss) equal to the daily variation margin. Should market conditions move unexpectedly, the Fund may not achieve the anticipated benefits of the futures contracts and may incur a loss. The Fund recognizes a realized gain/(loss) on the expiration or closing of a futures contract.

At December 31, 2020, the Fund did not hold futures contracts.

Options

The Fund may utilize options on securities or indices to varying degrees as part of its principal investment strategy. An option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option at a specified exercise or "strike" price. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. The Fund may hold options, write option contracts, or both. If an option written by the Fund expires unexercised, the Fund realizes on the expiration date a capital gain equal to the premium received by the Fund at the time the option was written.

NOTES TO INVESTMENT PORTFOLIO (unaudited)(concluded)**As of December 31, 2020****Highland Global Allocation Fund**

If an option purchased by the Fund expires unexercised, the Fund realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange-traded option may be closed out by an offsetting purchase or sale of an option of the same series (type, underlying security, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Fund desires. The Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or a capital loss if the cost of the closing option is more than the premium received from writing the option. 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. The Fund had transactions in written options for the period ended December 31, 2020.

Affiliated Issuers

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

Issuer	Shares at September 30, 2020	Beginning Value as of September 30, 2020	Purchases at Cost	Proceeds from Sales	Net Amortization (Accretion) of Premium/ (Discount)	Net Realized Loss on Sales of Affiliated Issuers	Change in Unrealized Appreciation/ (Depreciation)	Ending Value as of December 31, 2020	Shares at December 31, 2020	Affiliated Income
		\$	\$	\$	\$	\$	\$	\$		\$
Majority Owned, Not Consolidated										
None										
Other Affiliates										
Terrestar Corporation (U.S. Equity)	169,531	56,831,877	—	—	—	—	(900,210)	55,931,667	169,531	—
GAF REIT (U.S. Equity)	688,714	7,449,337	3,000,000	—	—	—	730,846	11,180,183	963,568	—
NexPoint Real Estate Finance (U.S. Equity)	121,123	1,778,086	—	—	—	—	222,866	2,000,952	121,123	48,449
NexPoint Residential Trust (U.S. Equity)	160,553	7,120,526	55,614	(45,628)	—	—	(281,835)	6,848,677	161,869	9,458
GAF REIT Sub II, LLC (U.S. LLC Interest)	—	—	3,800,000	—	—	—	249,537	4,049,537	100	—
NexPoint Real Estate Finance Operating Partnership, L.P. (U.S. LLC Interest)	523,388	7,683,336	—	—	—	—	963,034	8,646,370	523,388	—
NREF OP I, L.P. (U.S. LLC Interest)	124,046	1,820,995	—	—	—	—	228,245	2,049,240	124,046	—
SFR WLIF I, LLC (U.S. LLC Interest)	6,773,494	4,900,420	—	—	—	—	614,220	5,514,640	6,773,494	133,527
SFR WLIF II, LLC (U.S. LLC Interest)	4,437,497	3,229,788	—	—	—	—	404,833	3,634,621	4,437,497	88,005
SFR WLIF III, LLC (U.S. LLC Interest)	3,789,008	3,422,119	—	—	—	—	5,494	3,427,613	3,789,008	41,890
BB Votorantim Highland Infrastructure LLC (Non-U.S. Registered Investment Company)	10,000	2,868,778	—	—	—	—	99,714	2,968,492	10,000	—
NexPoint Merger Arbitrage Fund (U.S. Registered Investment Company)	546,382	11,184,445	639,195	—	—	—	(285,398)	11,538,242	578,358	618,188
NexPoint Strategic Opportunities Fund (U.S. Registered Investment Company)	436,131	3,776,894	—	—	—	—	811,204	4,588,098	436,131	70,420
Terrestar Corporation (U.S. Senior Loan)	16,015,258	15,999,243	449,450	—	13	—	16,002	16,464,708	16,464,708	458,599
Other Controlled										
None										
Total	33,795,125	128,065,844	7,944,259	(45,628)	13	—	2,878,552	138,843,040	34,552,821	1,468,536