NEXPOINT ADVISORS

Highland Income Fund

Annual Report
December 31, 2022

Highland Income Fund

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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.

As of December 31, 2022 **Highland Income Fund (NYSE: HFRO)**

Performance Overview

For the twelve-month period ended December 31, 2022, Highland Income Fund (the "Fund" or "HFRO") experienced a total market price return of 1.70% and a total NAV return of 3.39%. Over the same period, the Fund's benchmark, the Credit Suisse Leveraged Loan Index (the "Index"), returned -1.06%.

Top contributors to performance during the year included MGM Holdings, shorts and market hedges. Publicly traded real estate exposure was among the largest detractors to performance during the year.

Manager's Discussion

2022 has been eventful with respect to regulatory, geopolitical, and macroeconomic factors. Markets began 2022 under pressure stemming from concerns around rising inflation, stretched equity valuations, and the prospect of rising interest rates. The pressure continued into February as Russia invaded Ukraine, resulting in a backlash of economic sanctions that drove crude oil prices above $100 a barrel for the first time since 2014. This oil supply shock added to the fears that already existed in the market around rising inflation. Regardless of the regulatory, geopolitical, and macroeconomic environment — the Fund was able to adapt accordingly and outperformed its benchmark by a substantial margin.

We expect to see the uncertainty and unpredictability of the market, economy, and geopolitical environment continue, and therefore consider resiliency to be an important investment feature (and one that we believe is already well represented across the portfolio). In our view, the most compelling opportunities are in areas that either call for a more active approach to investment management or require specialized expertise to unlock value. In many cases, these investments not only have strong growth potential but we believe can also weather periods of market volatility, as they tend to be less driven by market forces.

In March 2022, we completed the $40 million common share buyback program. Over the six-month period the Fund repurchased $40 million common shares at a weighted average price per share of $11.32. Results of the buy-back are posted to the Fund website. (https://nexpointassetmgmt.com/income-fund/) under the "Monthly Repurchases" section.

Portfolio Discussion

MGM Holdings ("MGM") was a positive contributor to performance during the year. MGM owns one of the world's deepest libraries of premium film and television content, with more than 4,000 titles in the company's film content library including iconic film franchises like James Bond, Rocky, Creed, The Magnificent Seven, Thelma & Louise, and many others. MGM also has over 17,000 episodes of programming in the company's television content library, including hit shows like The Handmaid's Tale, Fargo, and Vikings. The company has collectively won more than 180 Academy Awards and 100 Emmys.

The Fund's initial investment was in the company's debt, which converted to equity when MGM emerged from bankruptcy in 2010. On May 26, 2021, MGM and Amazon issued a press release announcing that the companies had entered into a definitive merger agreement under which Amazon would acquire MGM for a purchase price of $8.45 billion. The transaction closed in March 2022 for $8.45 billion.

Throughout the last few years the Fund has increased its allocation to Self-Storage Real Estate through its investments in SAFStor and NexPoint Storage Partners. SAFStor is a vertically-integrated, volume-driven developer/owner of institutional-quality self-storage. The Company's focus is on mitigating market and development risk. Accordingly, we (1) employ a data-driven approach, (2) target a geographically-diverse portfolio, and (3) partner with best-in-class capital providers, general contractors and management partners, including Extra Space Storage, CubeSmart, and Life Storage. To date, SAFStor has developed, constructed and managed over 7 million square feet and 55,000 units of class-A storage located through the continental United States. NexPoint Storage is a real estate investment platform that specializes in the self-storage sector. A product of NexPoint's 2020 acquisition of Jernigan Capital, NexPoint Storage invests in newly built, multi-story, climate controlled, Class-A self-storage facilities — known as "Generation V" facilities—located in dense and growing markets throughout the United States. NexPoint Storage acquires and selectively develops GenV self-storage facilities.

In December 2022, NexPoint Storage Partners, Inc. announced that it became the sole owner of 29 new, well-located, and high-quality self-storage properties developed by SAFStor. The acquisition brings NexPoint Storage to a total asset value of approximately $1.7 billion with 71 wholly owned and operating properties and one additional property expected to open in February 2023.

The newly acquired properties are in high-density, high-growth submarkets in major U.S. markets and are expected to benefit from demographics very similar to those of the existing NexPoint Storage portfolio, including strong household incomes, a high percentage of renters, and barriers to new development. The markets of the newly acquired properties include Baltimore, Cleveland, Detroit, Houston, Miami/Ft. Lauderdale, Nashville, New Orleans, Philadelphia, and Washington D.C.

The Fund has increased its exposure to life Science real estate and in February 2023 NexPoint announced a proposal for a new life sciences district at the Former EDS campus. TxS District is a proposed 200-acre life sciences development in Plano, Texas. The project, named to signify "Technology x Science," is designed to foster innovation and collaboration among companies and institutions across the life science sector.

The project centers on the 91-acre main campus, which previously served as headquarters for Electronic Data Systems (EDS). The district would incorporate 109 additional acres in the Legacy neighborhood. In total, the project would create over 4 million square feet of lab, office, and therapeutic production space across four phases of construction.

Phases one and two propose transforming two existing buildings on the main campus into 970,000 square feet of world-class lab and office space and 120,000 square feet of amenity space. Initial site improvement plans also include a public park, an amphitheater, and connectivity to the nearby Legacy retail development.

We believe the proposed project can be achieved through a public-private partnership. The firm is engaging with the City of Plano about NexPoint's development plans and the project's impact on the surrounding area.

NexPoint is collaborating with CRB, a leading global provider of sustainable engineering, architecture, construction, and consulting solutions to the life sciences industry, to provide architectural and engineering services throughout the four proposed phases of construction.

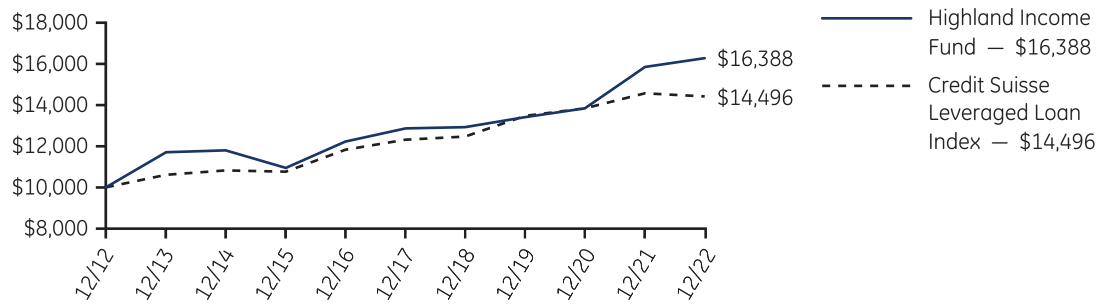
NexPoint engaged JLL as the project's leasing agent. JLL has a dedicated life sciences team that works across the country and has been involved in the development of some of the top life sciences ecosystems in the U.S.

NexPoint purchased the main campus in 2018 and has been acquiring the additional acreage since then. The firm has been involved in several life science deals including its investment in IQHQ, a life science REIT that operates in life science clusters on the East and West Coasts.

We appreciate the engagement and support from shareholders throughout 2022 and look forward to continuing to implement these initiatives in the year ahead.

As of December 31, 2022 **Highland Income Fund (NYSE: HFRO)**

Growth of Hypothetical $10,000 Investment



Average Annual Total Returns			
HFRO	1 Year	5 Year	10 Year
NAV	3.39%	4.99%	5.13%
Market Price	1.70%	-0.25%	2.73%

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.

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.nexpointassetmgmt.com.

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 may invest in foreign securities which may cause more volatility and less liquidity due to currency changes, political instability and accounting differences.

Objective

Highland Income Fund seeks to provide a high level of current income, consistent with preservation of capital.

Net Assets as of December 31, 2022

$946.0 million

Portfolio Data as of December 31, 2022

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

Quality Breakdown as of 12/31/2022(%)[1]	
BBB	0.59
BB	2.73
B	13.18
CCC	7.03
NR	76.47

Top 5 Sectors as of 12/31/2022(%)[1][2][3]	
Real Estate	69.7
Collateralized Loan Obligations	11.0
Healthcare	7.7
LLC Interest	6.2
Information Technology	5.5

Top 10 Holdings as of 12/31/2022(%)[1][2][3]	
NFRO REIT SUB, LLC (Common Stocks)	14.8
NFRO REIT SUB II, LLC (Common Stocks)	12.9
NFRO SFR REIT, LLC (Common Stocks)	7.5
NexPoint Real Estate Finance REIT (Common Stocks)	7.3
NexPoint SFR Operating Partnership, LP, 05/24/27 (U.S. Senior Loans)	6.7
EDS Legacy Partners 10.25%, 12/14/23 (U.S. Senior Loans)	6.3
IQHQ, Inc. (Common Stocks)	5.9
NEXLS LLC (LLC Interest)	5.2
NHT Operating Partnership LLC Secured Promissory Note, 5.50%, 02/14/27 (U.S. Senior Loans)	4.1
NexPoint Storage Partners, Inc. (Common Stocks)	4.1

(1) Quality is calculated as a percentage of total credit instruments held by the portfolio. Sectors and holdings are calculated as a percentage of total net assets. The quality ratings reflected were issued by Standard & Poors, a nationally recognized statistical rating organization. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Quality ratings reflect the credit quality of the underlying bonds in the Fund's portfolio and not that of the Fund itself. Credit quality ratings assigned by a rating agency are subjective opinions, not statements of fact, and are subject to change, including daily. The ratings assigned by credit rating agencies are but one of the considerations that the Fund's investment adviser incorporates into its credit analysis process, along with such other issuer specific factors as cash flows, capital structure and leverage ratios, ability to deleverage through free cash flow, quality of management, market positioning and access to capital, as well as such security-specific factors as the terms of the security (e.g., interest rate, and time to maturity) and the amount of any collateral.

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

(3) Excludes the Fund's investment in a cash equivalent.

A guide to understanding the Fund's financial statements

Investment Portfolio

The Investment Portfolio details all of the Fund's holdings and its 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.

Statement of Assets and Liabilities

This statement details the 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 the Fund's liabilities (including any unpaid expenses) from the total of the Fund's investment and noninvestment 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.

Statement of Operations

This statement reports income earned by the Fund and the expenses incurred by the Fund during the reporting period. The Statement of Operations also shows any net gain or loss the 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 the Fund's net increase or decrease in net assets from operations.

Statements of Changes in Net Assets

These statements detail how the 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 periods. 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 the 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 Fund, certain of its 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.

Shares		Value ($)
Common Stocks - 62.1%		
COMMUNICATION SERVICES - 1.2%		
97,600	Telesat (a)	732,000
96,700	Telesat, Class B (a)	725,250
27,134	TerreStar Corporation (a)(b)(c)(d)	9,887,358
		11,344,608
CONSUMER DISCRETIONARY - 0.0%		
1,450	Toys ‘R’ Us (a)(b)(c)	13,895
ENERGY - 0.0%		
1,118,286	Value Creation, Inc. (a)(b)(c)	—
GAMING/LEISURE - 0.6%		
34,512	LLV Holdco LLC - Series A, Membership Interest (a)(b)(c)(e)	5,565,738
436	LLV Holdco LLC - Series B, Membership Interest (a)(b)(c)(e)	70,257
		5,635,995
HEALTHCARE - 2.4%		
12,026,660	CCS Medical Inc. (a)(b)(c)(e)	22,261,348
MATERIALS - 0.2%		
299,032	MPM Holdings, Inc. (a)	1,495,160
REAL ESTATE - 57.7%		
1,474,379	Allenby (a)(b)(c)(e)	—
10,359,801	Claymore (a)(b)(c)(e)	—
844,371	Elme Communities, REIT	15,029,804
574,004	Healthcare Realty Trust, Class A, REIT	11,061,057
68,862	Independence Realty Trust, Inc., REIT	1,161,013
2,356,665	IQHQ, Inc. (b)(c)	55,593,727
1,275,616	NexPoint Diversified Real Estate Trust REIT (e)(o)	14,299,655
4,372,286	NexPoint Real Estate Finance REIT (e)	69,475,621
186,372	NexPoint Residential Trust, Inc., REIT (e)	8,110,910
32,203	NexPoint Storage Partners, Inc. (a)(b)(c)(e)	38,663,114
90,436,434	NFRO REIT SUB II, LLC (a)(b)(c)(e)	122,113,514
45,834,343	NFRO REIT SUB, LLC (a)(b)(c)(e)	139,917,765
2,843,308	NFRO SFR REIT, LLC (b)(c)(e)	71,134,542
		546,560,722
	Total Common Stocks (Cost $876,591,353)	587,311,728

Principal Amount ($)		Value ($)
U.S. Senior Loans (f) - 24.1%		
COMMUNICATION SERVICES - 0.9%		
8,538,103	TerreStar Corporation, Term Loan D, 1st Lien, 02/27/28 (b)(c)	8,488,582
61,901	TerreStar Corporation, Term Loan H, 1st Lien, 02/28/23 (b)(c)	61,542
66,346	TerreStar Corporation, Term Loan, 1st Lien, 02/28/23 (b)(c)	65,961
		8,616,085
ENERGY - 0.7%		
6,403,998	Quarternorth Energy Holding, Term Loan, 2nd Lien, 08/27/26	6,389,333
GAMING/LEISURE - 1.4%		
15,473,255	LLV Holdco LLC, Revolving Exit Loan, 12/31/23 (b)(c)(e)	13,833,090
HEALTHCARE - 3.0%		
16,657,339	Carestream Health Inc., Term Loan, 1st Lien, 09/30/27	12,742,864
15,501,667	CCS Medical Inc., Junior Credit Term Loan, 1st Lien, 01/04/27 (b)(c)(e)	15,408,657
		28,151,521
INFORMATION TECHNOLOGY - 6.3%		
61,411,237	EDS Legacy Partners, LIBOR USD 3 Month + 2.750%, 12/14/23 (b)(c)(e)	59,271,980
REAL ESTATE - 11.4%		
65,000,000	NexPoint SFR Operating Partnership, LP, 05/24/27 (b)(c)(e)	63,590,800
6,400,000	NHT Operating Partnership LLC Convertible Promissory Note, 09/30/42 (b)(c)(e)	5,798,400
42,777,343	NHT Operating Partnership LLC Secured Promissory Note, 02/14/27 (b)(c)(e)	38,769,231
		108,158,431
RETAIL - 0.4%		
3,843,933	GNC Holdings LLC, Term Loan, 2nd Lien, 10/07/26	3,570,052
	Total U.S. Senior Loans (Cost $264,405,146)	227,990,492
Collateralized Loan Obligations - 11.0%		
5,800,000	ACAS CLO, Series 2018-1A, Class FRR ICE LIBOR USD 3 Month + 7.910%, 12.10%, 10/18/2028 (g)(h)	3,016,387
2,000,000	Apex Credit CLO, Series 2019-1A, Class D ICE LIBOR USD 3 Month + 7.100%, 11.29%, 4/18/2032 (g)(h)	1,609,000
1,500,000	Atlas Senior Loan Fund, Series 2017- 8A, Class F ICE LIBOR USD 3 Month + 7.150%, 11.23%, 1/16/2030 (g)(h)	822,450
2,400,000	Atlas Senior Loan Fund XII, Series 2018-12A, Class E ICE LIBOR USD 3 Month + 5.950%, 10.27%, 10/24/2031 (g)(h)	1,560,000
1,250,000	Cathedral Lake CLO, Series 2017-1A, Class DR ICE LIBOR USD 3 Month + 7.250%, 11.33%, 10/15/2029 (g)(h)	855,750
2,000,000	Cathedral Lake VII, Series 2021-7RA, Class E ICE LIBOR USD 3 Month + 7.770%, 11.85%, 1/15/2032 (g)(h)	1,620,000
5,462,500	CIFC Funding, Series 2013-2A 0.00%, 10/18/2030 (g)(h)(i)	901,312
1,000,000	CIFC Funding, Series 2018-1A, Class ER2 ICE LIBOR USD 3 Month + 5.850%, 10.04%, 1/18/2031 (g)(h)	840,000

Principal Amount ($)		Value ($)
	Collateralized Loan Obligations (continued)	
3,000,000	CIFC Funding, Series 2015-1A 0.00%, 1/22/2031 (g)(h)(i)(j)	615,000
3,324,756	CIFC Funding, Series 2014-4RA 0.00%, 1/17/2035 (g)(h)(i)(j)	706,511
2,500,000	CIFC Funding, Series 2014-1A 0.00%, 1/18/2031 (g)(h)(i)	375,000
3,000,000	Covenant Credit Partners CLO III, Series 2017-1A, Class F ICE LIBOR USD 3 Month + 7.950%, 12.03%, 10/15/2029 (g)(h)	1,815,000
1,537,000	Dryden 36 Senior Loan Fund, Series 2019-36A, Class ER2 ICE LIBOR USD 3 Month + 6.880%, 10.96%, 4/15/2029 (g)(h)	1,335,038
4,000,000	Eaton Vance CLO, Series 2019-1A, Class F ICE LIBOR USD 3 Month + 8.250%, 12.33%, 4/15/2031 (g)(h)	3,120,000
36,203,269	FREMF Mortgage Trust, Series 2021-KF112, Class CS SOFR30A + 6.250%, 9.98%, 1/25/2031 (g)(h)(u)	36,203,269
5,450,000	Galaxy XXVI CLO, Series 2018-26A, Class F ICE LIBOR USD 3 Month + 8.000%, 12.66%, 11/22/2031 (g)(h)	3,924,000
1,000,000	GoldenTree Loan Management US CLO 3, Series 2018-3A, Class F ICE LIBOR USD 3 Month + 6.500%, 10.74%, 4/20/2030 (g)(h)	751,250
2,500,000	GoldenTree Loan Opportunities IX, Series 2018-9A, Class FR2 ICE LIBOR USD 3 Month + 7.640%, 12.05%, 10/29/2029 (g)(h)	1,976,667
2,125,000	ICG US CLO, Series 2022-1A, Class DJ TSFR3M + 5.730%, 7.84%, 7/20/2035 (g)(h)	1,989,552
4,000,000	Jay Park CLO, Ltd., Series 2018-1A, Class ER ICE LIBOR USD 3 Month + 7.350%, 11.59%, 10/20/2027 (g)(h)	3,380,000
3,000,000	KKR CLO 18, Series 2017-18, Class E ICE LIBOR USD 3 Month + 6.450%, 10.64%, 7/18/2030 (g)(h)	2,635,800
1,400,000	Madison Park Funding XX, Series 2018-20A, Class ER ICE LIBOR USD 3 Month + 5.300%, 9.66%, 7/27/2030 (g)(h)	1,166,760
2,350,000	Madison Park Funding XXIV, Series 2019-24A, Class ER TSFR3M + 7.462%, 11.42%, 10/20/2029 (g)(h)	2,179,860
2,000,000	Madison Park Funding XXIX, Series 2018-29A, Class F ICE LIBOR USD 3 Month + 7.570%, 11.76%, 10/18/2030 (g)(h)	1,613,000
1,000,000	Madison Park Funding XXX, Series 2018-30A, Class F ICE LIBOR USD 3 Month + 6.850%, 10.93%, 4/15/2029 (g)(h)	802,300
490,000	Magnetite VII, Ltd., Series 2018-7A, Class ER2 ICE LIBOR USD 3 Month + 6.500%, 10.58%, 1/15/2028 (g)(h)	406,700

Principal Amount ($)		Value ($)
	Collateralized Loan Obligations (continued)	
2,500,000	Man GLG US CLO, Series 2018-1A, Class DR ICE LIBOR USD 3 Month + 5.900%, 10.14%, 4/22/2030 (g)(h)	1,853,000
4,000,000	Northwoods Capital XII-B, Ltd., Series 2018-12BA, Class F ICE LIBOR USD 3 Month + 8.170%, 12.94%, 6/15/2031 (g)(h)	2,480,000
2,900,000	OHA Credit Partners XII, Series 2018- 12A, Class FR ICE LIBOR USD 3 Month + 7.680%, 12.00%, 7/23/2030 (g)(h)	2,319,130
3,110,000	OZLM XXII, Ltd., Series 2018-22A, Class E ICE LIBOR USD 3 Month + 7.390%, 11.47%, 1/17/2031 (g)(h)	1,866,000
2,000,000	Park Avenue Institutional Advisers CLO, Series 2021-2A, Class E ICE LIBOR USD 3 Month + 7.010%, 11.09%, 7/15/2034 (g)(h)	1,685,000
3,150,000	Saranac CLO III, Ltd., Series 2018-3A, Class ER ICE LIBOR USD 3 Month + 7.500%, 12.25%, 6/22/2030 (g)(h)	1,988,438
2,000,000	Symphony CLO XXVI, Series 2021-26A, Class ER ICE LIBOR USD 3 Month + 7.500%, 11.74%, 4/20/2033 (g)(h)	1,780,000
5,955,627	THL Credit Wind River, Series 2014-2A 0.00%, 1/15/2031 (g)(h)(i)(k)	1,235,793
2,200,000	TICP CLO I-2, Series 2018-IA, Class E ICE LIBOR USD 3 Month + 8.000%, 12.33%, 4/26/2028 (g)(h)	1,897,170
4,150,000	TICP CLO III-2, Series 2018-3R, Class F ICE LIBOR USD 3 Month + 7.980%, 12.22%, 4/20/2028 (g)(h)	3,569,000
1,000,000	Vibrant CLO 1X, Series 2018-9A, Class D ICE LIBOR USD 3 Month + 6.250%, 10.49%, 7/20/2031 (g)(h)	712,500
1,275,000	Voya CLO, Series 2018-2A, Class DR TSFR3M + 5.862%, 9.92%, 4/25/2031 (g)(h)	938,017
1,000,000	Webster Park CLO, Series 2018-1A, Class ER ICE LIBOR USD 3 Month + 7.750%, 11.99%, 7/20/2030 (g)(h)	795,000
3,000,000	Zais CLO 3, Ltd., Series 2018-3A, Class DR ICE LIBOR USD 3 Month + 6.910%, 10.99%, 7/15/2031 (g)(h)	1,995,000
3,300,000	Zais CLO 8, Ltd., Series 2018-1A, Class E ICE LIBOR USD 3 Month + 5.250%, 9.33%, 4/15/2029 (g)(h)	2,450,250
	Total Collateralized Loan Obligations (Cost $123,498,918)	103,784,904
Shares		
	LLC Interest - 6.2%	
882	NEXLS LLC (b)(c)(e)	49,601,366
10,000,000	SFR WLIF III, LLC (b)(c)(e)	9,408,770
	Total LLC Interest (Cost $43,294,362)	59,010,136

Units		Value ($)
Warrants - 4.0%		
ENERGY - 4.0%		
5,801	Arch Resources, Expires 10/08/2023 (a)	545,410
85,465	Quarternorth Energy Holding Inc. Tranche 1, Expires 08/27/2029 (a)	961,481
164,598	Quarternorth Energy Holding Inc. Tranche 2, Expires 08/27/2029 (a)	1,440,233
254,538	Quarternorth Energy Holding Inc. Tranche 3, Expires 08/27/2029 (a)	35,126,244
	Total Warrants (Cost $31,011,555)	38,073,368
Shares		
Preferred Stock - 3.5%		
FINANCIALS - 0.5%		
3,980	Eastland CLO 1.00% (b)(c)(l)	36,302
34,500	Eastland CLO II (a)(b)(c)(l)(m)	314,674
8,860	Gleneagles CLO, 12/30/2049 (a)(b)(c)(m)	303,119
40,000	Granite Point Mortgage Trust REIT 7.00% (l)(n)	686,000
62,600	Grayson CLO (b)(c)(l)(m)	549,569
150,977	NexPoint Real Estate Finance REIT 8.50% (e)(l)	2,818,544
12,553	Rockwall CDO, 08/01/2024 (a)(b)(c)(m)	62,507
4,800	Rockwall CDO (b)(c)(l)(m)	75
		4,770,790
HEALTHCARE - 2.4%		
414,378	Apnimed (b)(c)(l)(m)	4,600,010
2,361,111	Sapience Therapeutics Inc 8.00% (b)(c)(l)	7,815,277
3,440,476	Sapience Therapeutics Inc, Class B 8.00% (a)(b)(c)(l)	9,667,738
		22,083,025
REAL ESTATE - 0.6%		
325,976	Braemar Hotels & Resorts, Inc., REIT 5.50% (a)(l)	5,081,966
47,300	Wheeler Real Estate Investment Trust, REIT 8.75% (a)(l)(o)(p)	606,265
82,301	Wheeler Real Estate Investment Trust, REIT 9.00% (a)(l)	125,098
		5,813,329
	Total Preferred Stock (Cost $75,904,189)	32,667,144
Registered Investment Company - 0.0%		
48,649	Highland Global Allocation Fund (e)	458,274
	Total Registered Investment Company (Cost $120,412)	458,274
Exchange-Traded Funds - 1.3%		
109,265	Direxion Daily S&P 500 Bull 3X	6,786,449
293,675	ProShares UltraPro QQQ	5,080,578
	Total Exchange-Traded Funds (Cost $13,863,380)	11,867,027

Principal Amount ($)		Value ($)
Corporate Bonds & Notes - 0.4%		
COMMUNICATION SERVICES - 0.0%		
3,100	iHeartCommunications, Inc. 6.38%, 05/01/26	2,857
FINANCIALS - 0.4%		
4,000,000	South Street Securities Funding LLC 6.25%, 12/30/26 (h)	3,480,000
INDUSTRIALS - 0.0%		
7,500,000	American Airlines 12/31/49 (b)(c)(i)(k)(q)	—
UTILITIES - 0.0%		
15,222,107	Bruce Mansfield Pass-Through Trust 6.85%, 06/01/34 (k)	—
	Total Corporate Bonds & Notes (Cost $4,063,640)	3,482,857
Shares		
Master Limited Partnership - 0.2%		
ENERGY - 0.2%		
179,200	Energy Transfer L.P.	2,127,104
	Total Master Limited Partnership (Cost $1,869,174)	2,127,104
Units		
Rights - 0.0%		
UTILITIES - 0.0%		
4,933	Texas Competitive Electric Holdings Co., LLC (a)	6,228
	Total Rights (Cost $–)	6,228
Principal Amount ($)		
Repurchase Agreements (r)(s) - 0.0%		
153,719	Citigroup 4.300%, dated 12/30/2022 to be repurchased on 01/03/2023, repurchase price $153,792 (collateralized by U.S. Government and Treasury obligations, ranging in par value $499 - $79,992, 1.375% - 4.500%, 04/15/2025 - 11/01/2051; with total market value $156,925)	153,719
249,000	RBC 4.300%, dated 12/30/2022 to be repurchased on 01/03/2023, repurchase price $249,119 (collateralized by U.S. Government and Treasury obligations, ranging in par value $0 - $68,175, 2.000% -6.000%, 09/01/2024 - 10/20/2052; with total market value $253,980)	249,000
	Total Repurchase Agreements (Cost $402,719)	402,719

Shares		Value ($)
Cash Equivalent - 2.7%		
MONEY MARKET FUND (t) - 2.7%		
25,072,014	Dreyfus Treasury Obligations Cash Management, Institutional Class 4.170%	25,072,014
	Total Cash Equivalent (Cost $25,072,014)	25,072,014
Total Investments - 115.5%		**1,092,253,995**
(Cost $1,460,096,862)		
Securities Sold Short - (0.7)%		
Common Stocks - (0.7)%		
INFORMATION TECHNOLOGY - (0.7)%		
(41,100)	Texas Instruments, Inc.	(6,790,542)
	Total Common Stocks (Proceeds $4,920,256)	(6,790,542)
	Total Securities Sold Short - (0.7)% (Proceeds $4,920,256)	(6,790,542)
Other Assets & Liabilities, Net - (14.8)% (v)		**(139,475,776)**
Net Assets - 100.0%		**945,987,677**

(a) Non-income producing security.

(b) Securities with a total aggregate value of $752,868,908, or 79.6% 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.

(c) Represents fair value as determined by the Investment Adviser pursuant to the policies and procedures approved by the Board of Trustees (the "Board"). The Board has designated the Investment Adviser as "valuation designee" for the Fund pursuant to Rule 2a-5 of the Investment Company Act of 1940, as amended. The Investment Adviser 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 $752,868,908, or 79.6% of net assets, were fair valued under the Fund's valuation procedures as of December 31, 2022. Please see Notes to Financial Statements.

(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 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
TerreStar Corporation	Common Stocks	3/16/2018	$3,093,276	$9,887,358	1.0%

(e) Affiliated issuer. Assets with a total aggregate fair value of $750,571,576, or 79.3% of net assets, were affiliated with the Fund as of December 31, 2022.

(f) 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, 2022, the LIBOR USD 3 Month rates were 4.77%. 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.

(g) Variable or floating rate security. The rate shown is the effective interest rate as of period end. The rates on certain securities are not based on published reference rates and spreads and are either determined by the issuer or agent based on current market conditions; by using a formula based on the rates of underlying loans; or by adjusting periodically based on prevailing interest rates.

(h) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transactions exempt from registration to qualified institutional buyers. The Board has determined these investments to be liquid. At December 31, 2022, these securities amounted to $107,264,904 or 11.3% of net assets.

(i) No interest rate available.

(j) Interest only security ("IO"). These types of securities represent the right to receive the monthly interest payments on an underlying pool of mortgages. Payments of principal on the pool reduce the value of the "interest only" holding.

(k) The issuer is, or is in danger of being, in default of its payment obligation.

(l) Perpetual security with no stated maturity date.

(m) There is currently no rate available.

(n) Variable or floating rate security. The base lending rates are generally the lending rate offered by one or more European banks such as the LIBOR. The interest rate shown reflects the rate in effect December 31, 2022.

(o) Securities (or a portion of securities) on loan. As of December 31, 2022, the fair value of securities loaned was $389,253. The loaned securities were secured with cash and/or securities collateral of $402,719. Collateral is calculated based on prior day's prices.

(p) Step Coupon Security. Coupon rate will either increase (step-up bond) or decrease (step-down bond) at regular intervals until maturity. Interest rate shown reflects the rate currently in effect.

(q) Represents value held in escrow pending future events. No interest is being accrued.

(r) Tri-Party Repurchase Agreement.

(s) This security was purchased with cash collateral held from securities on loan. The total value of such securities as of December 31, 2022 was $402,719.

(t) Rate reported is 7 day effective yield.

(u) As of December 31, 2022, investments with a total aggregate value of $36,203,269 were fully or partially segregated with broker(s)/custodian as collateral for reverse repurchase agreements.

(v) As of December 31, 2022, $6,782,322 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 December 31, 2022 — Highland Income Fund

Reverse Repurchase Agreement outstanding as of December 31, 2022 was as follows:

Counterparty	Collateral Pledged	Interest Rate %	Trade Date	Repurchase Amount	Principal Amount	Value
Mizuho Securities	FREMF Mortgage Trust, Series 2021-KF103, Class CS, 02/01/2023	5.88	12/15/2022	$(21,722,000)	$(21,722,000)	$(21,722,000)
Total Reverse Repurchase Agreement					$(21,722,000)	$(21,722,000)

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

Other Abbreviations:

CDO	Collateralized Debt Obligation
ICE	Intercontinental Exchange
LIBOR	London Interbank Offered Rate
REIT	Real Estate Investment Trust
USD	United States Dollar

STATEMENT OF ASSETS AND LIABILITIES

As of December 31, 2022 **Highland Income Fund**

	Highland Income Fund $
Assets	
Investments from unaffiliated issuers, at value[(a)]	316,207,686
Affiliated investments, at value (Note 9)	750,571,576
Total Investments, at value (Cost $1,434,622,129)	1,066,779,262
Repurchase Agreements, at value	402,719
Cash equivalent (Note 2)	25,072,014
Cash	139,323
Restricted Cash — Securities Sold Short (Note 2)	6,782,322
Receivable for:	
Cash pledged as collateral on reverse repurchase agreements	1,870,000
Dividends and interest	28,046,175
Fund shares sold	124,115
Due from broker	6,886
Prepaid expenses and other assets	357,523
Total assets	1,129,580,339
Liabilities:	
Securities sold short, at value (Proceeds $4,920,256) (Note 2)	6,790,542
Reverse Repurchase Agreements (Note 3)	21,722,000
Payable for:	
Investments purchased	13,100,000
Investment advisory and administration fees (Note 6)	865,164
Collateral from securities loaned (Note 4)	402,719
Legal fees	344,730
Printing fees	159,135
Audit fees	155,000
Accrued expenses and other liabilities	297,123
Total liabilities	43,836,413
Mezzanine Equity:	
Cumulative preferred shares (Series A), net of deferred financing costs (Notes 1 and 2)	139,756,249
Net Assets	**945,987,677**
Net Assets Consist of:	
Paid-in capital	1,454,795,842
Total accumulated losses	(508,808,165)
Net Assets	**945,987,677**
Investments, at cost	363,409,113
Affiliated investments, at cost (Note 9)	1,071,213,016
Cash equivalents, at cost (Note 2)	25,072,014
Repurchase Agreements, at cost	402,719
Proceeds from securities sold short	4,920,256
Common Shares	
Shares outstanding ($0.001 par value; unlimited authorization)	68,121,308
Net asset value per share (Net assets/shares outstanding)	13.89

(a) Includes fair value of securities on loan 389,253

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2022 | **Highland Income Fund**

	Highland Income Fund $
Investment Income	
Income:	
Dividends from unaffiliated issuers	70,457,158
Dividends from affiliated issuers (Note 9)	6,270,395
Securities lending income (Note 4)	46,353
Interest from unaffiliated issuers	14,668,227
Interest from affiliated issuers (Note 9)	10,225,535
Interest paid in kind from unaffiliated issuers	905,745
Interest paid in kind from affiliated issuers (Note 9)	3,050,153
ROC reclass from affiliated issuers (Note 9)	(70,410)
Total income	105,553,156
Expenses:	
Investment advisory (Note 6)	7,269,814
Administration fees (Note 6)	2,339,062
Legal fees	1,056,052
Accounting services fees	691,901
Interest expense, commitment fees, and financing costs	384,897
Reports to shareholders	299,982
Trustees fees (Note 6)	223,384
Insurance	204,893
Dividends and fees on securities sold short (Note 2)	192,751
Audit fees	183,404
Pricing fees	173,437
Transfer agent fees	158,387
Registration fees	146,323
Conversion fees (Note 2)	138,426
Custodian/wire agent fees	28,790
Total operating expenses	13,491,503
Net investment income	92,061,653
Preferred dividend expenses	(7,793,750)
Net Realized and Unrealized Gain (Loss)	
Realized gain (loss) on:	
Investments from unaffiliated issuers	78,379,604
Investments in affiliated issuers (Note 9)	8,345,554
Securities sold short (Note 2)	7,121,644
Written options contracts (Note 3)	37,559
Futures contracts (Note 3)	41,918,345
Net realized gain	135,802,706
Net Change in Unrealized Appreciation (Depreciation) on:	
Investments	(146,548,259)
Investments in affiliated issuers (Note 9)	(49,911,663)
Securities sold short (Note 2)	2,725,741
Futures contracts (Note 3)	4,568,959
Net change in unrealized appreciation (depreciation)	(189,165,222)
Net realized and unrealized gain (loss)	(53,362,516)
Total increase in net assets resulting from operations	30,905,387

STATEMENTS OF CHANGES IN NET ASSETS

Highland Income Fund

	Year Ended December 31, 2022 ($)	Year Ended December 31, 2021 ($)
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	92,061,653	51,197,156
Preferred dividend expenses	(7,793,750)	(7,793,756)
Net realized gain (loss)	135,802,706	(81,417,609)
Net change in unrealized appreciation (depreciation)	(189,165,222)	168,217,003
Net increase from operations	30,905,387	130,202,794
Distributions Declared to Common Shareholders:		
Distributions	(35,874,540)	(15,595,827)
Return of capital	(27,155,040)	(50,110,849)
Total distributions:	(63,029,580)	(65,706,676)
Increase (decrease) in net assets from operations and distributions	(32,124,193)	64,496,118
Share transactions:		
Value of distributions reinvested	1,718,646	1,661,743
Shares repurchased of closed-end fund (Note 1)	(24,643,897)	(25,760,920)
Gains from the retirement of repurchased shares	5,422,282	4,870,013
Net decrease from shares transactions	(17,502,969)	(19,229,164)
Total increase (decrease) in net assets	(49,627,162)	45,266,954
Net Assets		
Beginning of year	995,614,839	950,347,885
End of year	945,987,677	995,614,839
Change in Common Shares:		
Issued for distribution reinvested	152,754	152,218
Shares redeemed (Note 1)	(1,679,705)	(1,854,281)
Net decrease in fund shares	(1,526,951)	(1,702,063)

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022 | **Highland Income Fund**

	$
Cash Flows Provided by Operating Activities:	
Net increase in net assets resulting from operations	30,905,387
Adjustments to Reconcile Net Increase in Net Assets Resulting from Operations to Net Cash Provided by Operating Activities:	
Purchases of investment securities from unaffiliated issuers	(293,297,707)
Purchases of investment securities from affiliated issuers	(601,190,765)
Interest paid in kind from unaffiliated issuers	(905,745)
Interest paid in kind from affiliated issuers	(3,050,153)
Proceeds from disposition of investment securities from unaffiliated issuers	330,382,156
Proceeds from disposition of investment securities from affiliated issuers	163,314,139
Paydowns at cost	104,825,104
Net (amortization) accretion of discount	(997,654)
Proceeds from return of capital of investment securities from affiliated issuers	192,675,501
Purchases of repurchase agreements, net	(246,362)
Purchases to cover securities sold short	(6,836,960)
Purchases to cover written options	(588,290)
Proceeds of written options	625,849
Net realized (gain) loss on Investments from unaffiliated issuers	(78,379,604)
Net realized (gain) loss on Investments from affiliated issuers	(8,345,554)
Net realized (gain) loss on written options and securities sold short	(7,159,203)
Net change in unrealized (appreciation) depreciation on investments, investments in affiliated issuers, and securities sold short	193,734,181
(Increase) Decrease in receivable for cash pledged as collateral on reverse repurchase agreements	(1,870,000)
(Increase) Decrease in receivable for investments sold and principal paydowns	580,003
(Increase) Decrease in receivable for dividends and interest	(12,829,428)
(Increase) Decrease in receivable for variation margin	712,785
(Increase) Decrease in due from broker	(6,886)
(Increase) Decrease in prepaid expenses and other assets	56,527
Increase (Decrease) in payable for investments purchased	(2,070,483)
Increase (Decrease) in payable to investment advisory	9,862
Increase (Decrease) in payable for upon return of securities loaned	246,362
Increase (Decrease) in payable for printing fees	50,025
Increase (Decrease) in payable for audit fees	155,000
Increase (Decrease) in payable for legal fees	132,011
Increase (Decrease) in accrued expenses and other liabilities	(171,382)
Net cash flow provided by operating activities	458,716
Cash Flows Used In Financing Activities:	
Distributions paid in cash, net of distributions reinvested	(61,310,934)
Payments on shares redeemed, net of payable	(19,221,615)
Proceeds from shares sold, net of receivable	(5,093)
Proceeds from reverse repurchase agreement	21,722,000
Net cash flow used in financing activities	(58,815,642)
Net decrease in cash	(58,356,926)
Cash, cash equivalents, restricted cash and due to/from broker:	
Beginning of year	90,350,585
End of year	31,993,659
End of year cash balances:	
Cash	139,323
Cash equivalent	25,072,014
Restricted cash	6,782,322
End of year	31,993,659
Supplemental disclosure of cash flow information:	
Reinvestment of distributions	1,718,646
Cash paid during the year for interest expense and commitment fees	384,897

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

	For the Years Ended December 31, 2022	2021	2020	2019	For the Period Ended December 31, 2018**	For the Year Ended June 30, 2018*‡
Net Asset Value, Beginning of Year/Period	$ 14.29	$ 13.32	$ 13.88	$ 14.28	$ 15.12	$ 15.01
Income from Investment Operations:						
Net investment income(a)	1.35	0.72	0.54	0.85	0.42	0.75
Preferred dividend expense	(0.11)	(0.11)	(0.11)	(0.05)	—	—
Net realized and unrealized gain (loss)	(0.80)	1.21	(0.10)	(0.29)	(0.80)	0.18
Total Income from Investment Operations	0.44	1.82	0.33	0.51	(0.38)	0.93
Less Distributions Declared to shareholders:						
From net investment income	(0.52)	(0.22)	(0.43)	(0.81)	(0.45)	(0.72)
From return of capital	(0.40)	(0.70)	(0.49)	(0.11)	(0.01)	(0.10)
Total distributions declared to shareholders	(0.92)	(0.92)	(0.92)	(0.92)	(0.46)	(0.82)
Capital Share Transactions:						
Retirement of Tendered Shares(a)	$ 0.08	$ 0.07	$ 0.03	$ 0.01	$ —	$ —
Net Asset Value, End of Year/Period(b)	$ 13.89	$ 14.29	$ 13.32	$ 13.88	$ 14.28	$ 15.12
Market Value, End of Year/Period	$ 10.30	$ 10.99	$ 10.28	$ 12.43	$ 12.80	$ 15.62
Market Value Total Return(c)	1.70%	16.35%	(8.29)%	4.30%	(15.44)%(d)	9.77%
Ratios based on Average Managed Assets						
Gross operating expenses(e)(f)	1.15%	1.44%	1.83%	2.28%	N/A	N/A
Net investment income(e)	7.87%	4.53%	2.89%	3.98%	N/A	N/A
Ratios to Average Net Assets / Supplemental Data:(g)(h)						
Net Assets, End of Year/Period (000's)	$945,988	$995,615	$950,348	$995,405	$1,026,412	$1,085,547
Gross operating expenses(e)(f)	1.32%	1.67%	2.68%	3.39%	3.10%	1.79%
Net investment income(e)	8.98%	5.26%	4.22%	5.93%	5.48%	4.98%
Portfolio turnover rate	45%	38%	22%	18%	27%(d)	177%
Average commission rate paid(i)	$ 0.0092	$ 0.0348	$ 0.0969	$ 0.0032	$ 0.0243	$ 0.0300

* Per share data prior to November 3, 2017 has been adjusted to give effect to an approximately 2 to 1 reverse stock split as part of the conversion to a closed-end fund.
** For the six-month period ended December 31, 2018. Effective April 11, 2019, the Fund had a fiscal year change from June 30 to December 31.
‡ Reflects the financial highlights of Class Z of the open-end fund prior to the conversion.
(a) Per share data was calculated using average shares outstanding during the period.
(b) The Net Asset Value 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 based on market value per share for periods after November 3, 2017. Distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Prior to November 3, 2017, total return is at net asset value assuming all distributions are reinvested. 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) Not annualized.
(e) Excludes 12b-1 fees from partial period operating as an open-end fund. Following the conversion on November 3, 2017, the Fund is no longer subject to 12b-1 fees.
(f) Includes dividends and fees on securities sold short.
(g) All ratios for the period have been annualized, unless otherwise indicated.
(h) Supplemental expense ratios are shown below.
(i) Represents the total dollar amount of commissions paid on portfolio transactions divided by total number of portfolio shares purchased and sold for which commissions were charged. The period prior to the Conversion Date is not presented.

Supplemental Expense Ratios:

	For the Years Ended December 31,				For the Period Ended December 31, 2018**	For the Year Ended June 30, 2018*‡
	2022	2021	2020	2019		
Ratios based on Average Managed Assets						
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.15%	1.44%	1.83%	2.28%	N/A	N/A
Interest expense and commitment fees, and preferred dividend expense	0.70%	0.74%	1.17%	1.27%	N/A	N/A
Dividends and fees on securities sold short	0.02%	0.02%	0.02%	0.01%	N/A	N/A
Ratios to Average Net Assets						
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	1.32%	1.67%	2.68%	3.39%	3.10%	1.79%
Interest expense and commitment fees, and preferred dividend expense	0.80%	0.86%	1.71%	1.90%	1.63%	0.49%
Dividends and fees on securities sold short	0.02%	0.02%	0.03%	0.01%	—%(j)	—%(j)
Borrowing at end of year/period:						
Aggregate Amount Outstanding Excluding Preferred Shares*	21,722,000	—	200,000,000	419,796,600	496,141,100	498,563,423
Asset Coverage Per $1,000*	44,549.75	—	5,751.74	3,371.16	3,068.79	3,177.35
Aggregate Amount Outstanding Including Preferred Shares*	166,722,000	145,000,000	345,000,000	564,796,600	496,141,100	498,563,423
Asset Coverage Per $1,000*	6,674.04	7,859.92	3,754.63	2,762.41	3,068.79	3,177.35

* See Note 10 for further details.

(j) Represents less than 0.005%.

Note 1. Organization

Highland Income Fund (the "Fund") is organized as an unincorporated business trust under the laws of The Commonwealth of Massachusetts. The Fund is registered with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940, as amended (the "1940 Act"), as a non-diversified, closed-end management investment company. On September 25, 2017, the Fund acquired the assets of Highland Floating Rate Opportunities Fund (the "Predecessor Fund"), a series of NexPoint Funds I (formerly Highland Funds I), a Delaware statutory trust. The Fund is the successor to the accounting and performance information of the Predecessor Fund.

On July 29, 2019, the Fund issued 5.4 million 5.375% Series A Cumulative Preferred shares (NYSE: HFRO.PR.A) with an aggregate liquidation value of $135 million. Subsequently on August 9, 2019, the underwriters exercised their option to purchase additional overallotment shares of $10mm, resulting in a total Preferred outstanding offering of $145mm.

The Series A Cumulative Preferred shares are perpetual, non-callable for five years, and have a liquidation preference of $25.00 per share. Distributions are scheduled quarterly, with payments beginning on September 30, 2019. Series A Preferred shares trade on the NYSE. Moody's Investors Service has assigned an A1 rating to the preferred shares.

On October 13, 2021, the Board authorized the repurchase of $40 million common shares over a six-month period. Under this program from October 2021 to March 2022, the Fund repurchased 3,533,986, at an average price of $11.29, for a total investment of $40.0 million. Upon retirement of the repurchased shares, the net asset value was $50.4 million, or $14.26 per share.

Note 2. Significant Accounting Policies

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

Use of Estimates

The Fund is an investment company that follows 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 Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which require NexPoint Asset Management, L.P. (formerly Highland Capital Management Fund Advisors, L.P.) ("NexPoint" 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 or 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.

Fund Valuation

The net asset value ("NAV") of the Fund's common shares is calculated daily on each day that the NYSE is open for business as of the close of the regular trading session on the NYSE, usually 4:00 PM, Eastern Time. The NAV is calculated by dividing the value of the Fund's net assets attributable to common shares by the numbers of common shares outstanding.

Valuation of Investments

Pursuant to Rule 2a-5 under the 1940 Act, the Board has designated NexPoint as the Fund's valuation designee to perform the fair valuation determination for securities and other assets held by the Fund. NexPoint acting through its "Valuation Committee," is responsible for determining the fair value of investments for which market quotations are not readily available. The Valuation Committee is comprised of officers of NexPoint and certain of NexPoint's affiliated companies and determines fair value and oversees the calculation of the NAV. The Valuation Committee is subject to Board oversight and certain reporting and other requirements intended to provide the Board the information it needs to oversee NexPoint's fair value determinations.

The Fund's investments are recorded at fair value. In computing the Fund's net assets attributable to shares, securities with readily available market quotations on the 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 NexPoint and approved by 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 to provide appropriate pricing services.

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 Valuation Committee in good faith in accordance with policies and procedures established by NexPoint and 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 Fund's NAV will reflect the affected portfolio securities' fair value as determined in the judgment of the Valuation Committee 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.

Deferred Financing Costs on the Preferred Stock

Deferred financing costs on the preferred shares consist of fees and expenses incurred in connection with the closing of the preferred stock offerings, and are capitalized at the time of payment. Based on ASC 480-10-S99, preferred stock that, by its terms, is contingently redeemable upon the occurrence of an event that is outside of the issuer's control should be classified as mezzanine equity; therefore, these costs are only amortized once it is probable the shares will become redeemable. As of December 31, 2022, the Fund is compliant with all contingent redemption provisions of the preferred offering, therefore the financing costs are currently unamortized until probable. Deferred financing costs of $5.2 million are presented net with the mezzanine equity on the Statement of Assets and Liabilities.

Issuer	Shares at December 31, 2021	Beginning Value as of December 31, 2021	Issuance Net Liquidation Value	Deferred Issuance Costs	Paydowns	Balance net of Deferred Financing Costs at December 31, 2022	Shares at December 31, 2022
Cumulative preferred shares (Series A)	5,800,000	$139,756,249	$145,000,000	$5,243,751	$—	$139,756,249	5,800,000

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:

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, 2022, the Fund's investments consisted of common stocks, U.S. senior loans, collateralized loan obligations, preferred stock, LLC interests, exchange-traded funds, warrants, registered investment companies, corporate bonds and notes, a master limited partnership, rights, repurchase agreements, a reverse repurchase agreement, and a cash equivalent. The fair value of the Fund's senior loans and bonds 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. Loans and bonds 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 futures contracts are valued based on the settlement price established each day by the board of trade or exchange on which they principally trade and are classified as Level 1 liabilities.

The fair value of the Fund's common stocks, registered investment companies, 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.

Reverse repurchase agreements are priced at their acquisition cost, and assessed for credit adjustments, which represent fair value. These investments will generally be categorized as Level 2 liabilities.

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 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 the Fund's assets and liabilities as of December 31, 2022, is as follows:

	Total value at December 31, 2022 ($)	Level 1 Quoted Price ($)	Level 2 Significant Observable Inputs ($)	Level 3 Significant Unobservable Inputs ($)
Highland Income Fund				
Assets				
Common Stocks				
Communication Services	11,344,608	1,457,250	—	9,887,358
Consumer Discretionary	13,895	—	—	13,895
Energy	—	—	—	—[1]
Gaming/Leisure	5,635,995	—	—	5,635,995
Healthcare	22,261,348	—	—	22,261,348
Materials	1,495,160	—	1,495,160	—
Real Estate	546,560,722	119,138,060	—	427,422,662

	Total value at December 31, 2022 ($)	Level 1 Quoted Price ($)	Level 2 Significant Observable Inputs ($)	Level 3 Significant Unobservable Inputs ($)
U.S. Senior Loans				
Communication Services	8,616,085	—	—	8,616,085
Energy	6,389,333	—	6,389,333	—
Gaming/Leisure	13,833,090	—	—	13,833,090
Healthcare	28,151,521	—	12,742,864	15,408,657
Information Technology	59,271,980	—	—	59,271,980
Real Estate	108,158,431	—	—	108,158,431
Retail	3,570,052	—	3,570,052	—
Collateralized Loan Obligations	103,784,904	—	103,784,904	—
LLC Interest	59,010,136	—	—	59,010,136
Warrants				
Energy	38,073,368	—	38,073,368	—
Preferred Stock				
Financials	4,770,790	2,818,544	686,000	1,266,246
Healthcare	22,083,025	—	—	22,083,025
Real Estate	5,813,329	5,813,329	—	—
Registered Investment Company	458,274	458,274	—	—
Exchange-Traded Funds	11,867,027	11,867,027	—	—
Corporate Bonds & Notes				
Communication Services	2,857	—	2,857	—
Financials	3,480,000	—	3,480,000	—
Industrials	—	—	—	—(1)
Utilities	—	—	—(1)	—
Master Limited Partnership				
Energy	2,127,104	2,127,104	—	—
Rights				
Utilities	6,228	—	6,228	—
Repurchase Agreements	402,719	402,719	—	—
Cash Equivalent	25,072,014	25,072,014	—	—
Total Assets	1,092,253,995	169,154,321	170,230,766	752,868,908
Liabilities				
Securities Sold Short				
Common Stocks				
Information Technology	(6,790,542)	(6,790,542)	—	—
Reverse Repurchase Agreement	(21,722,000)	—	(21,722,000)	—
Total Liabilities	(28,512,542)	(6,790,542)	(21,722,000)	—
Total	1,063,741,453	162,363,779	148,508,766	752,868,908

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

The table below sets forth a summary of changes in the Fund's assets measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2022.

	Balance as of December 31, 2021 $	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, 2022 $	Change in Unrealized Appreciation (Depreciation) from Investments held at December 31, 2022 $
Common Stocks											
Communication Services	9,098,844	—	—	—	—	—	788,514	—	—	9,887,358	788,514
Consumer Discretionary	31,683	—	—	—	(82,427)	—	64,639	—	—	13,895	63,639
Gaming/ Leisure	3,321,591	—	—	—	—	—	2,314,404	—	—	5,635,995	2,314,404
Healthcare	385,699	—	—	—	—	—	(24,095,605)	45,971,254	—	22,261,348	(24,095,605)
Real Estate	379,145,661	—	—	—	(190,163,539)	(509,145)	(21,111,900)	260,061,585	—	427,422,662	(21,294,900)
U.S. Senior Loans											
Communication Services	7,755,762	—	—	31	—	—	(45,453)	905,745	—	8,616,085	(45,453)
Gaming/ Leisure	16,635,684	—	—	—	—	(67,924,983)	63,017,931	3,533,154	(1,428,696)	13,833,090	(4,191,765)
Healthcare	48,880,946	—	—	—	—	—	20,545,024	40,848,841	(94,866,154)[1]	15,408,657	(25,270,184)
Information Technology	49,533,000	—	—	—	—	—	5,327,744	4,411,236	—	59,271,980	5,327,744
Real Estate	80,337,570	—	—	—	—	—	(6,018,912)	173,652,315	(139,812,542)[1]	108,158,431	(6,018,912)
Utilities	59,423	—	—	—	—	(1,840,163)	1,780,740	—	—	—	—
Collateralized Loan Obligations	1,471,635	—	(1,471,635)	—	—	—	—	—	—	—	—
LLC Interest	46,562,687	—	—	—	—	(333,599)	8,637,141	15,665,294	(11,521,387)	59,010,136	8,028,886
Preferred Stock											
Financials	133,611,395	24,278,638	—	—	375,432	92,371,672	(143,630,849)	—	(105,740,042)	1,266,246	(50,964,592)
Healthcare	—	—	—	—	—	—	913,012	21,170,013	—	22,083,025	913,012
Real Estate	249,514	—	—	—	—	111,635	—	—	(361,149)	—	—
Claims	52,138	—	—	—	—	(1,814,883)	1,762,745	—	—	—	—
Total	777,133,232	24,278,638	(1,471,635)	31	(189,870,534)	20,060,534	(89,750,825)	566,219,437	(353,729,970)	752,868,908	(114,445,212)

[1] Sales from paydowns. There was no realized gain (loss).

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.

Determination of fair value is uncertain because it involves subjective judgements 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 12/31/22 $	Valuation Technique	Unobservable Inputs	Range Input Value(s) (Average Input Value)
Common Stocks	465,221,258	Multiples Analysis	Unadjusted Price/MHz-PoP	$0.09 - $0.95 ($0.52)
			NAV / sh multiple	1.10x - 1.45x (1.28x)
			Revenue Multiples	0.32x -0.42x (0.37x)
		Net Asset Value	N/A	$28.00
		Liquidation Analysis	Recovery Rate	40% -100% (70%)
		Discounted Cash Flow	Discount Rate	8.75% -32.50% (15.70%)
			Capitalization Rate	5.13% - 9.50% (6.75%)
		Transaction Analysis	Multiple of EBITDA less CAPEX	12.50x - 15.00x (13.75x)
			Price per Sq. Ft.	$22.00 - $33.00 ($28.67)
		Transaction Indication of Value	Enterprise Value ($mm)	$872 -$969 ($920.50)
			Cost Price ($mm)	$56.20
U.S. Senior Loans	205,288,243	Discounted Cash Flow	Discount Rate	8.00%- 20.00% (11.18%)
		Volatility Analysis	Volatility	30.00% -60.00% 46.67%)
Preferred Stock	23,349,271	NAV Approach	Discount Rate	70.0%
		Option Pricing Model	Volatility	40% - 60% (50%)
		Transaction Indication of Value	Recap Price	$11.10
LLC Interest	59,010,136	Discounted Cash Flow	Discount Rate	4.73% - 14.00% (9.22%)
	752,868,908			

In addition to the unobservable inputs utilized for various valuation methodologies, the Fund frequently uses a combination of two or more valuation methodologies to determine fair value for a single holding. In such instances, the Fund assesses the methodologies and ascribes weightings to each methodology. The weightings ascribed to any individual methodology ranged from as low as 10% to as high as 90% as of December 31, 2022. The selection of weightings is an inherently subjective process, dependent on professional judgement. These selections may have a material impact to the concluded fair value for such holdings.

The significant unobservable inputs used in the fair value measurement of the Fund's Preferred Stock are the discount rate and volatility. Significant decreases (increases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Fund's U.S. Senior Loans are the discount rate and volatility. Significant decreases (increases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

The significant unobservable input used in the fair value measurement of the Fund's LLC interests is the discount rate. Significant decreases (increases) in any of those inputs in isolation could result in a significantly higher (lower) fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Fund's common stock are the unadjusted price/MHz-PoP multiple, EBITDA multiple, revenue multiple, discount rate, price per sq. ft., enterprise value, NAV per share multiple, and capitalization rate. 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.

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 and PIK are recorded on the accrual basis.

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

The Fund records distributions received from investments in real estate investment trusts ("REIT") and partnerships in excess of income from underlying investments as a reduction of cost of investments and/or realized gain. Such amounts are based on estimates if actual amounts are not available, and actual amounts of income, realized gain and return of capital may differ from the estimated amounts. The Fund adjusts the estimated amounts once the issuers provide information about the actual composition of the distributions.

U.S. Federal Income Tax Status

The Fund is treated as a separate taxpayer for U.S. federal income tax purposes. The Fund intends to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986 (the "Code"), as amended, and will distribute substantially all of its 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 Fund intends to distribute, in each calendar year, all of its net investment income, capital gains and certain other amounts, if any, such that the Fund should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in Statement of Operations. There were no interest or penalties during the year ended December 31, 2022.

The Investment Adviser has analyzed the Fund's 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 Fund's financial statements. The Fund's 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 Fund 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 Fund plans to pay distributions from net investment income monthly and net realized capital gains annually to common shareholders. To permit the Fund to maintain more stable monthly distributions and annual distributions, the Fund may from time to time distribute less than the entire amount of income and gains earned in the relevant month or year, respectively. The undistributed income and gains would be available to supplement future distributions. In certain years, this practice may result in the Fund distributing, during a particular taxable year, amounts in excess of the amount of income and gains earned therein. Such distributions would result in a portion of each distribution occurring in that year to be treated as a return of capital to shareholders. Shareholders of the Fund will automatically have all distributions reinvested in Common Shares of the Fund issued by the Fund in accordance with the Fund's Dividend Reinvestment Plan (the "Plan") unless an election is made to receive cash. The number of newly issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the dividend by the lesser of (i) the NAV per Common Share determined on the Declaration Date and (ii) the market price per Common Share as of the close of regular trading on the NYSE on the Declaration Date. Participants in the Plan requesting a sale of securities through the plan agent of the Plan are subject to a sales fee and a brokerage commission.

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 the Fund's Statement of Assets and Liabilities and includes cash on hand at its custodian bank and/or sub-custodian bank(s) cash equivalents, foreign currency and restricted cash held at broker(s).

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. 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 Fund 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 Statement 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 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. The Fund may have to pay a fee to borrow particular securities and is obligated to pay over any dividends or other payments received on such borrowed securities. In some circumstances, the Fund may be allowed by its prime broker to utilize proceeds from securities sold short to purchase additional investments, resulting in leverage. 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 $6,782,322 was held with the broker for the Fund. Securities valued at $39,693,247 were posted in the Fund's segregated account as collateral.

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.

Conversion Costs

In conjunction with the shareholder proposal to convert the Fund from an open-end fund to a C-Corporation (see Note 1), the Fund has incurred legal fees and other fees in preparation of this conversion. These conversion costs include both actual and estimated fees, and are included in the Statement of Operations as conversion fees.

Note 3. 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. The 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.

During the year ended December 31, 2022, the Fund entered into futures transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, and to gain market exposure for residual and accumulating cash positions. Cash held as collateral for futures contracts is shown on the Statement of Assets and Liabilities as "Restricted Cash — Futures." As of December 31, 2022, the Fund did not have any cash held as collateral for futures contract.

Options

The Fund 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 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. 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, if the cost of the closing option is more than the premium received from writing the option, a capital loss. The 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.

As of December 31, 2022, the Fund did not hold written options.

Reverse Repurchase Agreements

The Fund may engage in reverse repurchase agreement transactions with respect to instruments that are consistent with the Fund's investment objective or policies. This creates leverage for the Fund because the cash received can be used to purchase other securities.

A reverse repurchase transaction is a repurchase transaction in which the Fund is the seller of securities or other assets and agrees to repurchase them at a date certain or on demand. Pursuant to the Repurchase Agreement, the Fund may agree to sell securities or other assets to Mizuho Securities for an agreed upon price (the "Purchase Price"), with a simultaneous agreement to repurchase such securities or other assets from Mizuho Securities for the Purchase Price plus a price differential that is economically similar to interest. The price differential is negotiated for each transaction. This creates leverage for the Fund because the cash received can be used to purchase other securities.

At December 31, 2022, the Fund had investments in a reverse repurchase agreement with a gross value of $21,722,000, which is reflected as reverse repurchase agreements on the consolidated statement of assets and liabilities. The value of the related collateral exceeded the value of the reverse repurchase agreements at December 31, 2022. The collateral pledged for the reverse repurchase agreements includes Agency Collateralized Mortgage Obligations and cash, both of which are reflected on the consolidated statement of assets and liabilities. The Fund's average daily balance was $7,124,753 at a weighted average interest rate of 4.97% for the days outstanding.

Additional Derivative Information

The Fund is 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 Fund related to the derivatives.

The fair value of derivative instruments on the Statement of Assets and Liabilities have the following risk exposure at December 31, 2022:

	Fair Value	
Risk Exposure	Asset Derivative	Liability Derivative
Equity Price Risk	$—[1]	$—[1]

(1) As of December 31, 2022, the Fund did not have any outstanding derivatives. Includes cumulative unrealized depreciation of futures contracts as reported in the Investment Portfolio, if applicable, and within the components of net assets section of the Statement of Assets and Liabilities.

The effect of derivative instruments on the Statement of Operations for the year ended December 31, 2022, is as follows:

Risk Exposure	Net Realized Gain/(Loss) on Derivatives	Net Change in Unrealized Appreciation/ (Depreciation) on Derivatives
Equity Price Risk	$41,955,904[(1)]	$4,568,959[(2)]

(1) Statement of Operations location: Realized gain (loss) on futures and written options contracts.
(2) Statement of Operations location: Net change in unrealized appreciation (depreciation) on futures contracts.

The average monthly volume of derivative activity for the year ended December 31, 2022, is as follows:

Income Fund	Units/ Contracts	Appreciation/ (Depreciation)
Futures Contracts	—	$1,164,004

The Fund had insignificant levels of written options transactions during the year ended December 31, 2022.

Note 4. Securities Lending

Effective January, 7, 2020, the Fund 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 Fund under the Securities Lending Agreement ("SLA"), which permits the 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 Fund, with cash collateral of overnight maturities, which would be subject to offset as of December 31, 2022:

Gross Amount of Recognized Assets (Value of Securities on Loan)	Value of Cash Collateral Received[(1)]	Value of Non-Cash Collateral Received	Net Amount
$389,253	$389,253	$—	$—

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

Amounts designated as (—) are $0.

The value of loaned securities and related collateral outstanding at December 31, 2022 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 December 31, 2022, the cash collateral was invested in repurchase agreements with the following maturities:

Remaining Contractual Maturity of the Agreements, as of December 31, 2022

	Overnight and Continuous	<30 Days	Between 30 & 90 Days	>90 Days	Total
Repurchase Agreements	$402,719	$—	$—	$—	$402,719
Total	$402,719	$—	$—	$—	$402,719

Amounts designated as (—) are $0.

The 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 fair 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 Fund 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 SLAs, 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 Fund, as lender, 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 Fund 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, the 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 character of income and gains to be distributed is 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, tax treatment of organizational start-up costs, losses deferred due to wash sale transactions, and tax attributes from Fund reorganizations. Reclassifications are made to the Fund's 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 net investment income, realized gains or losses, or NAV of the Fund. The calculation of net investment income per share in the Financial Highlights table excludes these adjustments.

For the year ended December 31, 2022, permanent differences chiefly resulting from return of capital distributions paid by the Fund were identified and reclassified among the components of the Fund's net assets as follows:

Distributable Earnings (Accumulated Losses)	Paid-in-Capital
$4,877,268	$(4,877,268)

At December 31, 2022, the Fund's most recent tax year end, components of distributable earnings (accumulated losses) on a tax basis are as follows:

Other Temporary Losses	Accumulated Capital Losses	Unrealized Appreciation (Depreciation)(1)
$—	$(193,465,924)	$(315,342,241)

(1) Any differences between book-basis and tax-basis net unrealized appreciation/(depreciation) are primarily due to wash sales, non-taxable dividends, partnerships, PFICs, REIT basis adjustments and difference in premium amortization methods for book and tax.

As of December 31, 2022, the Fund has capital loss carryovers as indicated below. The capital loss carryovers are available to offset future realized capital gains to the extent provided in the Code and regulations promulgated thereunder. To the extent that these carryover losses are used to offset future capital gains, the gains offset will not be distributed to shareholders. During the year ended December 31, 2022, the Fund utilized $142,321,291 of capital carryforwards to offset capital gains.

No Expiration Short- Term	No Expiration Long-Term	Total
$—	$(193,465,924)	$(193,465,924)

The tax character of distributions paid during the last two fiscal years ended December 31, is as follows:

	Ordinary Income	Long-term Capital Gain	Return of Capital
2022	$35,874,540	$—	$27,155,040
2021	15,595,827	—	50,110,849

Amounts designated as (—) are $0.

Unrealized appreciation (depreciation) at December 31, 2022, based on cost of investments, securities sold short and foreign currency transactions for U.S. federal income tax purposes was:

Gross Appreciation	Gross Depreciation	Net Appreciation/ (Depreciation)	Cost
$131,976,649	$(447,318,890)	$(315,342,241)	$1,405,718,901

Qualified Late Year Ordinary and Post October Losses

Under current laws, certain capital losses and specified losses realized after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. For the fiscal year ended December 31, 2022, the Fund did not defer any qualified late year ordinary nor post October losses.

Note 6. Investment Advisory, Administration and Trustee Fees

For its investment advisory services, the Fund pays the Investment Adviser a monthly fee, computed and accrued daily, based on an annual rate of the Fund's 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). On occasion, the Investment Adviser voluntarily waives additional fees to the extent assets are invested in certain affiliated investments.

The table below shows the Fund's contractual advisory fee with the Investment Adviser for the year ended December 31, 2022:

Annual Fee Rate to the Investment Advisor	> 1 Billion	> 2 Billion
0.65%	0.60%	0.55%

Administration Fee

The Investment Adviser provides administrative services to the Fund. For its services, the Investment Adviser receives an annual fee, payable monthly, in an amount equal to 0.20% of the average weekly value of the Fund's Managed Assets. Under a separate sub-administration agreement, the Investment Adviser delegates certain administrative functions and pays the sub-administrator directly for these sub-administration services. Effective October 1, 2018, the Investment Adviser entered into an administrative services agreement with SEI Investments Global Funds Services, a wholly owned subsidiary of SEI Investments Company.

Fees Paid to Officers and Trustees

Each Trustee who oversees all of the funds in the NexPoint Fund Complex receives an annual retainer of $150,000 payable in quarterly installments and allocated among each portfolio in the NexPoint Fund Complex based on relative net assets. The annual retainer for a Trustee who does not oversee all of the funds in the NexPoint Fund Complex is prorated based on the portion of the $150,000 annual retainer allocable to the funds overseen by such Trustee. 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 NexPoint Fund Complex based on relative net assets. The "NexPoint 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 Fund pays no compensation to its officers, all of whom are employees of the Investment Adviser or one of its affiliates.

Trustees are reimbursed for actual out-of-pocket expenses relating to attendance at meetings.

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.

Expedited Settlement Agreements

On June 15, 2017 and May 14, 2019, the Fund entered into Expedited Settlement Agreements with two major dealers in the floating rate loan market, pursuant to which the Fund has the right to designate certain loans it sells to the dealer to settle on or prior to three days from the trade date in exchange for a quarterly fee (the "Expedited Settlement Agreements"). The Expedited Settlement Agreements are designed to reduce settlement times from the standard seven days to three days for eligible loans. For the year ended December 31, 2022, the Expedited Settlement Agreement was not used by the Fund.

While the Expedited Settlement Agreements are intended to provide the Fund with additional liquidity with respect to such loans, and may not represent the exclusive method of expedited settlement of such loans, no assurance can be given that the Expedited Settlement Agreements or other methods for expediting settlements will provide the Fund with sufficient liquidity in the event of abnormally large redemptions.

Other Matters

NexPoint has entered into a Services Agreement (the "Services Agreement") with Skyview Group ("Skyview"), effective February 25, 2021, pursuant to which NexPoint 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 Fund, will compensate all Investment Adviser and Skyview personnel who provide services to the Fund.

Effective July 12, 2022, certain Skyview personnel became dual-employees of NexPoint Services, Inc., a wholly-owned subsidiary of the Investment Adviser. The same services are being performed by the dual-employees. The Investment Adviser, and not the Fund, will compensate all Investment Adviser, Skyview, and dual-employee personnel who provide services to the Fund.

Indemnification

Under the Fund's 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 Fund's 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 Fund's investments expose the Fund to various risks, certain of which are discussed below. Please refer to the Fund's Prospectus and Statement of Additional Information for a full listing of risks associated with the Fund's investments.

Concentration in Real Estate Securities Risk

Although the Fund does not invest directly in real estate, the Fund will concentrate its investments in investment vehicles that invest principally in real estate and real estate related securities, its portfolio will be significantly impacted by the performance of the real estate market and may experience more volatility and be exposed to greater risk than a more diversified portfolio. The values of companies engaged in the real estate industry are affected by: (i) changes in general economic and market conditions; (ii) changes in the value of real estate properties; (iii) risks related to local economic conditions, overbuilding and increased competition; (iv) increases in property taxes and operating expenses; (v) changes in zoning laws; (vi) casualty and condemnation losses; (vii) variations in rental income, neighborhood values or the appeal of property to tenants; (viii) the availability of financing and (ix) changes in interest rates and leverage.

Counterparty Risk

Counterparty risk is the potential loss the Fund may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. Counterparty risk is measured as the loss the Fund would record if its counterparties failed to perform pursuant to the terms of their obligations to the Fund. Because the Fund may enter into over-the-counter forwards, options, swaps and other derivative financial instruments, the Fund may be exposed to the credit risk of its counterparties. To limit the counterparty risk associated with such transactions, the Fund conducts business only with financial institutions judged by the Investment Adviser to present acceptable credit risk.

Credit Risk

The value of debt securities owned by the Fund may be affected by the ability of issuers to make principal and interest payments and by the issuer's or counterparty's credit quality. If an issuer cannot meet its payment obligations or if its credit rating is lowered, the value of its debt securities may decline. Lower quality bonds are generally more sensitive to these changes than higher quality bonds. 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 Fund's net asset value and the market price of the Fund's shares.

Currency Risk

A portion of the Fund's 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 Fund's investment performance may be negatively affected by a devaluation of a currency in which the Fund's investments are quoted or denominated. Further, the Fund's 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 Fund seeks 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.

Effective August 19, 2022 (the "Compliance Date"), Rule 18f-4 under the 1940 Act (the "Derivatives Rule") replaced the asset segregation regime of Investment Company Act Release No. 10666 (Release 10666) with a new framework for the use of derivatives by registered funds. As of the Compliance Date, the SEC rescinded Release 10666 and withdrew no-action letters and similar guidance addressing a fund's use of derivatives and began requiring funds to satisfy the requirements of the Derivatives Rule. As a result, on or after the Compliance Date, the Fund will no longer engage in "segregation" or "coverage" techniques with respect to derivatives transactions and will instead comply with the applicable requirements of the Derivatives Rule. The Derivatives Rule mandates that a fund adopt and/or implement: (i) value-at-risk limitations (VaR); (ii) a written derivatives risk management program; (iii) new Board oversight responsibilities; and (iv) new reporting and recordkeeping requirements. In the event that a fund's derivative exposure is 10% or less of its net assets, excluding certain currency and interest rate hedging transactions, it can elect to be classified as a limited derivatives user (Limited Derivatives User) under the Derivatives Rule, in which case the fund is not subject to the full requirements of the Derivatives Rule. Limited Derivatives Users are excepted from VaR testing, implementing a derivatives risk management program, and certain Board oversight and reporting requirements mandated by the Derivatives Rule. However, a Limited Derivatives User is still required to implement written compliance policies and procedures reasonably designed to manage its derivatives risks.

Distressed and Defaulted Securities Risk

The Fund may invest in companies that are troubled, in distress or bankrupt. As such, they are subject to a multitude of legal, industry, market, environmental and governmental forces that make analysis of these companies inherently difficult. Further, the Investment Adviser relies on company management, outside experts, market participants and personal experience to analyze potential investments for the Fund. There can be no assurance that any of these sources will prove credible, or that the resulting analysis will produce accurate conclusions.

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. In addition to these risks, preferred stock and convertible securities are also subject to the risk that issuers will not make payments on securities held by the Fund, which could result in losses to the Fund. The credit quality of preferred stock and convertible securities held by the Fund may be lowered if an issuer's financial condition changes, leading to greater volatility in the price of the security.

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 Fund invests in shares of another investment company.

Financial Services Industry Risk

The risk associated with the fact that the Fund's investments in Senior Loans are arranged through private negotiations between a borrower ("Borrower") and several financial institutions. Investments in the financial services sector 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. 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.

Hedging Risk

The 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 the 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.

High Yield Debt Securities Risk

The risk that below investment grade securities or unrated securities of similar credit quality (commonly known as "high yield securities" or "junk securities") are more likely to default than higher rated securities. The Fund's ability to invest in high-yield debt securities generally subjects the Fund to greater risk than securities with higher ratings. Such securities are regarded by the rating organizations as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. The market value of these securities is generally more sensitive to corporate developments and economic conditions and can be volatile. Market conditions can diminish liquidity and make accurate valuations difficult to obtain.

Illiquid and Restricted Securities Risk

Certain investments made by the Fund may be illiquid, and consequently the Fund 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 Fund. 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 Fund's 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 Fund, 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 the Fund's expense, the Fund's expenses would be increased.

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 Fund 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, ceased publishing most LIBOR maturities, including some US LIBOR maturities, on December 31, 2021, and is expected to cease publishing the remaining and most liquid US LIBOR maturities on June 30, 2023. It is expected that market participants will transition to the use of alternative reference or benchmark rates prior to the applicable LIBOR cessation date. Additionally, although regulators have encouraged the development and adoption of alternative rates, such as the Secured Overnight Financing Rate ("SOFR"), the future utilization of LIBOR or of any particular replacement rate remains uncertain.

Although the transition process away from LIBOR has become increasingly well-defined in advance of the anticipated discontinuation dates, the impact on certain debt securities, derivatives and other financial instruments remains uncertain. It is expected that market participants will adopt alternative rates such as SOFR or otherwise 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. Further, uncertainty and risk remain regarding the willingness and ability of issuers and lenders to include alternative rates and revised provisions in new and existing contracts or instruments. To facilitate the transition of legacy derivatives contracts referencing LIBOR, the International Swaps and Derivatives Association, Inc. launched a protocol to incorporate fallback provisions. While the transition process away from LIBOR has become increasingly well-defined in advance of the expected LIBOR cessation dates, 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. Furthermore, the risks associated with the cessation of LIBOR and transition to replacement rates may be exacerbated if an orderly transition to alternative reference rates is not completed in a timely manner. 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 and these effects could be experienced until the permanent cessation of the majority of U.S. LIBOR rates in 2023. 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.

Alteration of the terms of a debt instrument or a modification of the terms of other types of contracts to replace LIBOR or another interbank offered rate ("IBOR") with a new reference rate could result in a taxable exchange and the realization of income and gain/loss for U.S. federal income tax purposes. The Internal Revenue Service ("IRS") has issued final regulations regarding the tax consequences of the transition from IBOR to a new reference rate in debt instruments and non-debt contracts. Under the final regulations, alteration or modification of the terms of a debt instrument to replace an operative rate that uses a discontinued IBOR with a qualified rate (as defined in the final regulations) including true up payments equalizing the fair market value of contracts before and after such IBOR transition, to add a qualified rate as a fallback rate to a contract whose operative rate uses a discontinued IBOR or to replace a fallback rate that uses a discontinued IBOR with a qualified rate would not be taxable. The IRS may provide additional guidance, with potential retroactive effect.

Leverage Risk

The 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 Fund purchases securities with borrowed funds, its 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 Fund's use of leverage would result in a lower rate of return than if the Fund were not leveraged.

Management Risk

The risk associated with the fact that the Fund relies 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 Fund holds, which may result in a decline in the value of fund shares and failure to achieve its investment objective.

Mortgage-Backed Securities Risk

The risk of investing in mortgage-backed securities, and includes interest rate risk, liquidity risk and credit risk, which may be heightened in connection with investments in loans to "subprime" borrowers. Certain mortgage-backed securities are also subject to prepayment risk. Mortgage-backed securities, because they are backed by mortgage loans, are also subject to risks related to real estate, and securities backed by private-issued mortgages may experience higher rates of default on the underlying mortgages than securities backed by government-issued mortgages. The Fund could lose money if there are defaults on the mortgage loans underlying these securities.

Non-Diversification Risk

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

Non-U.S. Securities Risk

The Fund may invest in non-U.S. securities. Investing in non-U.S. securities involves certain risks not involved in domestic investments, including, but not limited to: fluctuations in foreign exchange rates; future foreign economic, financial, political and social developments; different legal systems; the possible imposition of exchange controls or other foreign governmental laws or restrictions; lower trading volume; much greater price volatility and illiquidity of certain non-U.S. securities markets; different trading and settlement practices; less governmental supervision; changes in currency exchange rates; high and volatile rates of inflation; fluctuating interest rates; less publicly available information; and different accounting, auditing and financial recordkeeping standards and requirements.

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 the 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 the 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 Fund's 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 Fund risks 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 late 2019 and subsequently spread globally (“COVID-19”). This coronavirus has resulted, and may continue to result in, the closing of borders, enhanced health screenings, disruptions to healthcare service preparation and delivery, quarantines, cancellations, disruptions to supply chains and customer activity, as well as general anxiety and economic uncertainty. Health crises caused by outbreaks of disease, such as the coronavirus, may exacerbate other preexisting political, social and economic risks. The impact of this outbreak, and other epidemics and pandemics that may arise in the future, could continue to 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, and impact the Fund’s ability to complete repurchase requests. Any such impact could adversely affect the Fund’s performance, the performance of the securities in which the Fund invests, lines of credit available to the Fund and may lead to losses on your investment in the 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.

The United States responded to the coronavirus pandemic and resulting economic distress with fiscal and monetary stimulus packages, including the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) passed in late March 2020. The CARES Act provides for over $2.2 trillion in resources to small businesses, state and local governments, and individuals adversely impacted by the COVID-19 pandemic. In late December 2020, the government also passed a spending bill that included $900 billion in stimulus relief for the COVID-19 pandemic. Further, in March 2021, the government passed the American Rescue Plan Act of 2021, a $1.9 trillion stimulus bill to accelerate the United States’ recovery from the economic and health effects of the COVID-19 pandemic. In addition, in mid-March 2020, the U.S. Federal Reserve (the “Fed”) cut interest rates to historically low levels and announced a new round of quantitative easing, including purchases of corporate and municipal government bonds. The Fed also enacted various programs to support liquidity operations and funding in the financial markets, including expanding its reverse repurchase agreement operations, which added $1.5 trillion of liquidity to the banking system; establishing swap lines with other major central banks to provide dollar funding; establishing a program to support money market funds; easing various bank capital buffers; providing funding backstops for businesses to provide bridging loans for up to four years; and providing funding to help credit flow in asset-backed securities markets. In addition, the Fed extended credit to small- and medium-sized businesses. As the Fed “tapers” or reduces the amount of securities it purchases pursuant to quantitative easing, and/or if the Fed raises the federal funds rate, there is a risk that interest rates will rise, which could expose fixed-income and related markets to heightened volatility and could cause the value of a fund’s investments, and the fund’s NAV, to decline, potentially suddenly and significantly. As a result, the Fund may experience high redemptions and, as a result, increased portfolio turnover, which could increase the costs that the Fund incurs and may negatively impact the Fund’s performance. There is no assurance that the U.S. government’s support in response to COVID-19 economic distress will offset the adverse impact to securities in which the Fund may invest and future governmental support is not guaranteed.

Preferred Share Risk

The risk associated with the issuance of preferred shares to leverage the common shares. When preferred shares are issued, the NAV and market value of the common shares become more volatile, and the yield to the holders of common shares will tend to fluctuate with changes in the shorter-term dividend rates on the preferred shares. The Trust will pay (and the holders of common shares will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred shares, including higher advisory fees. Accordingly, the issuance of preferred shares may not result in a higher yield or return to the holders of the common shares. If the dividend rate and other costs of the preferred shares approach the net rate of return on the Fund’s investment portfolio, the benefit of leverage to the holders of the common shares would be reduced. If the dividend rate and other costs of the preferred shares exceed the net rate of return on the Fund’s investment portfolio, the leverage will result in a lower rate of return to the holders of common shares than if the Fund had not issued preferred shares.

Preferred Stock Risk

Preferred stock, which may include preferred stock in real estate transactions, represents an equity or ownership interest in an issuer that pays dividends at a specified rate and that has precedence over common stock in the payment of dividends. In the event an issuer is liquidated or declares bankruptcy, the claims of creditors and owners of bonds take precedence over the claims of those who own preferred and common stock. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the price of preferred stocks to decline. Preferred stock may have mandatory sinking fund provisions, as well as provisions allowing the stock to be called or redeemed prior to its maturity, which can have a negative impact on the stock's price when interest rates decline. Unlike interest on debt securities, preferred stock dividends are payable only if declared by the issuer's board. The value of convertible preferred stock can depend heavily upon the value of the security into which such convertible preferred stock is converted, depending on whether the market price of the underlying security exceeds the conversion price.

Real Estate Investment Trust Risk

Real estate investments are subject to various risk factors. Generally, real estate investments could be adversely affected by a recession or general economic downturn where the properties are located. Real estate investment performance is also subject to the success that a particular property manager has in managing the property.

Real Estate Market Risk

The Fund is exposed to economic, market and regulatory changes that impact the real estate market generally through its investment in NFRO REIT Sub, LLC, NFRO REIT Sub II, LLC, and NFRO SFR REIT, LLC (together the "REIT Subsidiaries"), which may cause the Fund's operating results to suffer. A number of factors may prevent the REIT Subsidiaries' properties and other real estate-related investments from generating sufficient net cash flow or may adversely affect their value, or both, resulting in less cash available for distribution, or a loss, to us. These factors include: national, regional and local economic conditions; changing demographics; the ability of property managers to provide capable management and adequate maintenance; the quality of a property's construction and design; increases in costs of maintenance, insurance, and operations (including energy costs and real estate taxes); potential environmental and other legal liabilities; the level of financing used by each REIT Subsidiary and the availability and cost of refinancing; potential instability, default or bankruptcy of tenants in the properties owned by each REIT Subsidiary; the relative illiquidity of real estate investments in general, which may make it difficult to sell a property at an attractive price or within a reasonable time frame.

Securities Lending Risk

The Fund 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 Fund, 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.

Senior Loans Risk

The risk associated with Senior Loans, which are typically below investment grade and are considered speculative because of the credit risk of their issuers. As with any debt instrument, Senior Loans are generally subject to the risk of price declines and as interest rates rise, the cost of borrowing increases, which may increase the risk 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. The secondary market for loans is generally less liquid than the market for higher grade debt. Less liquidity in the secondary trading market could adversely affect the price at which the Fund could sell a loan, and could adversely affect the NAV of the Fund's shares. The volume and frequency of secondary market trading in such loans varies significantly over time and among loans. Declines in interest rates may increase prepayments of debt obligations and require the Fund to invest assets at lower yields. No active trading market may exist for certain Senior Loans, which may impair the ability of the Fund to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded Senior Loans.

Short Sales Risk

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

If other short positions of the same security are closed out at the same time, a "short squeeze" can occur where demand exceeds the supply for the security sold short. A short squeeze makes it more likely that the Fund will need to replace the borrowed security at an unfavorable price.

Structured Finance Securities Risk

A portion of the Fund's investments may consist of equipment trust certificates, collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations or similar instruments. Such structured finance securities are generally backed by an asset or a pool of assets, which serve as collateral. Depending on the type of security, the collateral may take the form of a portfolio of mortgage loans or bonds or other assets. The Fund and other investors in structured finance securities ultimately bear the credit risk of the underlying collateral. In some instances, the structured finance securities are issued in multiple tranches, offering investors various maturity and credit risk characteristics, often categorized as senior, mezzanine and subordinated/equity according to their degree of risk. The riskiest securities are the equity tranche, which bears the bulk of defaults from the bonds or loans serving as collateral, and thus may protect the other, more senior tranches from default. If there are defaults or the relevant collateral otherwise underperforms, scheduled payments to senior tranches of such securities take precedence over those of mezzanine tranches, and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. A senior tranche typically has higher ratings and lower yields than the underlying securities, and may be rated investment grade. Despite the protection from the equity tranche, other tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to previous defaults and the disappearance of protecting tranches, market anticipation of defaults and aversion to certain structured finance securities as a class.

Valuation Risk

Certain of the Fund's assets are fair valued, including the Fund's investment in equity issued by TerreStar Corporation ("TerreStar"). TerreStar is a nonoperating company that does not currently generate substantial revenue and which primarily derives its value from licenses for use of two spectrum frequencies, the license with respect to one of which was granted a conditional waiver by the FCC on April 30, 2020. The fair valuation of TerreStar involves significant uncertainty as it is materially dependent on estimates of the value of both spectrum licenses.

Gain Contingency

Claymore Holdings, LLC, a partially-owned affiliate of the Fund, is engaged in ongoing litigation that could result in a possible gain contingency to the Fund. The probability, timing, and potential amount of recovery, if any, are unknown.

Note 8. Investment Transactions

Purchases & Sales of Securities

The cost of purchases and the proceeds from sales of investments, other than short-term securities for the year ended December 31, 2022, were as follows:

U.S Government Securities		Other Securities	
Purchases	Sales	Purchases	Sales
$—	$—	$625,142,978	$500,400,792

Note 9. Affiliated Issuers

Under Section 2(a)(3) of the 1940 Act, 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 the Fund as of December 31, 2022:

Issuer	Shares at December 31, 2021	Beginning Value as of December 31, 2021 $	Purchases at Cost $	Proceeds from Sales $	Distribution to Return of Capital $	Net Realized Gain/(Loss) on Sales $	Change in Unrealized Appreciation/(Depreciation) $	Ending Value as of December 31, 2022 $	Shares at December 31, 2022	Affiliated Income $
Majority Owned, Not Consolidated										
Allenby (Common Stocks)	1,474,379	—	—	—	—	—	—	—	1,474,379	—
Claymore (Common Stocks)	10,359,801	—	—	—	—	—	—	—	10,359,801	—
Other Affiliates										
CCS Medical, Inc. (U.S. Senior Loans & Common Stocks)	72,299,652	40,766,645	85,754,878	(101,386,296)	—	—	12,534,778	37,670,005	27,528,327	577,484
EDS Legacy Partners (U.S. Senior Loans)	57,000,000	49,533,000	4,411,237	—	—	—	5,327,743	59,271,980	61,411,237	4,308,176

Issuer	Shares at December 31, 2021	Beginning Value as of December 31, 2021 $	Purchases at Cost $	Proceeds from Sales $	Distribution to Return of Capital $	Net Realized Gain/ (Loss) on Sales* $	Change in Unrealized Appreciation/ (Depreciation) $	Ending Value as of December 31, 2022 $	Shares at December 31, 2022	Affiliated Income $
Highland Global Allocation Fund (Registered Investment Company)	48,649	441,246	—	—	(29,817)	—	46,845	458,274	48,649	17,470
Highland Income Fund (Registered Investment Company)	9,600	105,504	19,033,778	(25,301,659)	—	6,160,372	2,005	—	—	—
LLV Holdco LLC (U.S. Senior Loans & Common Stocks)	13,247,111	19,078,993	3,533,154	(1,272,062)(a)	—	—	(1,871,000)	19,469,085	15,508,203	3,881,591
NEXLS LLC (LLC Interest)	763	35,315,956	5,665,294	—	—	—	8,620,116	49,601,366	882	—
NexPoint Diversified Real Estate Trust REIT (Common Stocks)	1,156,943	15,711,286	1,641,249	—	—	—	(3,052,880)	14,299,655	1,275,616	711,967
NexPoint Real Estate Finance REIT (Common Stocks & Preferred Stock)	552,534	10,636,280	87,142,412	—	—	—	(25,484,527)	72,294,165	4,523,263	4,989,861
NexPoint Residential Trust, Inc. (Common Stocks)	153,276	12,849,127	1,524,948	—	(163,901)	—	(6,099,264)	8,110,910	186,372	1,471
NexPoint SFR Operating Partnership, LP (U.S. Senior Loans)	—	—	65,000,000	—	—	—	(1,409,200)	63,590,800	65,000,000	2,681,250
NexPoint Storage Partners, Inc. (Common Stocks)	18,568	25,868,009	18,995,600	—	—	—	(6,200,495)	38,663,114	32,203	—
NFRO REIT SUB II, LLC, NFRO REIT SUB, LLC, NFRO SFR REIT, LLC (Common Stocks)	106,355,853	310,315,649	241,215,043	—	(190,163,540)	—	(28,201,331)	333,165,821	139,114,085	—
NexPoint Real Estate Finance Operating Partnership, L.P., NREF OP II (LLC Interest)	624,311	12,017,981	11,521,327	(23,832,735)	—	(174,807)	468,234	—	—	—
NHT Operating Partnership LLC Convertible Promissory Note (U.S. Senior Loans)	—	—	6,400,000	—	—	—	(601,600)	5,798,400	6,400,000	121,333
NHT Operating Partnership LLC Secured Promissory Note (U.S. Senior Loans)	—	—	42,777,343	—	—	—	(4,008,112)	38,769,231	42,777,343	1,705,854
SFR WLIF I, III, LLC (LLC Interest)	11,854,986	11,246,731	10,000,000	(11,521,387)	—	(333,599)	17,025	9,408,770	10,000,000	479,216
Total	275,156,426	543,886,407	604,616,263	(163,314,139)	(190,357,258)	5,651,966	(49,911,663)	750,571,576	385,640,360	19,475,673

(a) Denotes paydown.
* Excludes capital gain distributions of $2,693,588 included in realized gain (loss) on investments from affiliated issuers on the Statement of Operations.

Note 10. Asset Coverage

The Fund is required to maintain 300% asset coverage with respect to amounts outstanding (excluding short-term borrowings) under its various leverage facilities. Additionally, the Fund is required to maintain 200% asset coverage with respect to the preferred share issuance as well as its various leverage facilities. Asset coverage is calculated by subtracting the Fund's total liabilities, not including any amount representing bank borrowings and senior securities, from the Fund's total assets and dividing the result by the principal amount of the borrowings outstanding. As of the dates indicated below, the Fund's debt outstanding and asset coverage was as follows:

Date	Amount Outstanding Excluding Preferred Shares $	Asset Coverage of Indebtedness Excluding Preferred Shares %	Amount Outstanding Including Preferred Shares $	Asset Coverage of Indebtedness Including Preferred Shares[2] %
12/31/2022	21,722,000	4,454.98	166,722,000	667.40
12/31/2021	N/A	N/A	145,000,000	785.99
12/31/2020	200,000,000	575.25	345,000,000	375.50
12/31/2019	419,796,600	337.13	564,796,600	276.25
12/31/2018[1]	496,141,100	306.80	496,141,100	306.80
6/30/2018	498,563,423	317.70	498,563,423	317.70
6/30/2017	N/A	N/A	N/A	N/A
6/30/2016	N/A	N/A	N/A	N/A
6/30/2015	51,500,000	1,641.40	51,500,000	1,641.40
6/30/2014	60,000,000	1,577.60	60,000,000	1,577.60
6/30/2013	N/A	N/A	N/A	N/A

1 For the six-month period ended December 31, 2018. Effective April 11, 2019, the Fund had a fiscal year change from June 30 to December 31.

2 As referenced in Note 1, the Fund issued $145mm in preferred shares subject to the 200% Asset Coverage of Indebtedness requirements under the 1940 Act.

Note 11. Unconsolidated Significant Subsidiaries

In accordance with Regulation S-X and GAAP, the Fund is not permitted to consolidate any subsidiary or other entity that is not an investment company, including those in which the Fund has a controlling interest unless the business of the controlled subsidiary consists of providing services to the Fund. In accordance with Regulation S-X Rules 3-09 and 4-08(g), the Fund evaluates its unconsolidated controlled subsidiaries as significant subsidiaries under the respective rules. As of December 31, 2022, NFRO REIT Sub, LLC, NFRO REIT Sub II, LLC, and NFRO SFR REIT, LLC were considered significant unconsolidated subsidiaries under Regulation S-X Rule 4-08(g). This subsidiary is wholly owned by the Fund. Based on the requirements under Regulation S-X Rule 4-08(g), the summarized financial information of these unconsolidated subsidiaries is presented below:

	NFRO REIT Sub, LLC December 31, 2022 $	NFRO REIT Sub II, LLC December 31, 2022 $
Balance Sheet:		
Current Assets	26,251,000	188,000
Noncurrent Assets	285,967,000	134,882,000
Total Assets	312,218,000	135,070,000
Current Liabilities	20,358,000	—
Noncurrent Liabilities	160,232,000	—
Total Liabilities	180,590,000	—
Preferred Stock	1,000	104,000
Non-Controlling interest (in consolidated investments)	3,642,000	—
Invested Equity	127,985,000	134,966,000
Total Equity	131,628,000	135,070,000

	NFRO REIT Sub, LLC For the Year Ended December 31, 2022 $	NFRO REIT Sub II, LLC For the Year Ended December 31, 2022 $
Summary of Operations:		
Net Sales	9,478,000	(4,640,000)
Gross Profit (Loss)	(1,767,000)	(4,648,000)
Net Income (Loss)	(2,554,000)	44,544,000
Net Income (Loss) attributable to non-controlling interest (in consolidated investments), preferred shares, and other comprehensive income	147,000	—

Note 12. Subsequent Events

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of
Highland Income Fund:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Highland Income Fund (the "Fund") as of December 31, 2022, the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the related notes, and the financial highlights for each of the three years in the period then ended (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2022, the results of its operations and its cash flows for the year then ended, the changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

The Fund's financial highlights for the years ended December 31, 2019, and prior, were audited by other auditors whose report dated April 10, 2020, expressed an unqualified opinion on those financial highlights.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's 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 Fund 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 December 31, 2022, by correspondence with the custodian, agent banks, transfer agents, issuers 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 Fund's auditor since 2020.

Cohen & Company, Ltd.

COHEN & COMPANY, LTD.
Cleveland, Ohio
March 3, 2023

Investment Objective and Strategy Overview

The Fund's investment objective is to provide a high level of current income, consistent with preservation of capital.

The Fund seeks to achieve its objective by investing directly and indirectly (e.g., through derivatives that are the economic equivalent of direct investments) in the following categories of securities and instruments: (i) floating rate loans and other securities deemed to be floating rate investments; (ii) investments in securities or other instruments directly or indirectly secured by real estate, including real estate investment trusts ("REITs"), preferred equity, securities convertible into equity securities and mezzanine debt; and (iii) other instruments, including, but not limited to, secured and unsecured fixed-rate loans and corporate bonds, distressed securities, mezzanine securities, structured products (including but not limited to mortgage-backed securities, collateralized loan obligations and asset-backed securities), convertible and preferred securities, equities (public and private), and futures and options.

The Fund will invest at least 25% of its assets in investments in securities or other instruments directly or indirectly secured by real estate, including REITs, preferred equity, securities convertible into equity securities and mezzanine debt.

Floating Rate Investments. Floating rate investments are debt obligations of companies or other entities, the interest rates of which float or vary periodically based upon a benchmark indicator of prevailing interest rates. Floating rate investments may include, by way of example, floating rate debt securities, money market securities of all types, repurchase agreements with remaining maturities of no more than 60 days, collateralized loan obligations and asset backed securities. The reference in the Fund's investment objective to capital preservation does not indicate that the Fund may not lose money. NexPoint seeks to employ strategies that are consistent with capital preservation, but there can be no assurance that the Investment Adviser will be successful in doing so. In making floating rate investments for the Fund, the Fund's Investment Adviser will seek to purchase instruments that it believes are undervalued or will provide attractive income, while attempting to minimize losses.

Floating rate loans in which the Fund invests are expected to be adjustable rate senior loans ("Senior Loans") to domestic or foreign corporations, partnerships and other entities that operate in a variety of industries and geographic regions ("Borrowers"). Senior Loans are business loans that have a right to payment senior to most other debts of the Borrower. Senior Loans generally are arranged through private negotiations between a Borrower and several financial institutions (the "Lenders") represented in each case by one or more such Lenders acting as agent (the "Agent") of the several Lenders. On behalf of the Lenders, the Agent is primarily responsible for negotiating the loan agreement ("Loan Agreement") that establishes the relative terms and conditions of the Senior Loan and rights of the Borrower and the Lenders.

The Fund may invest in securities of any credit quality. Senior Loans are typically below investment grade securities (also known as "high yield securities" or "junk securities"). Such securities are rated below investment grade by a nationally recognized statistical rating organization ("NRSRO") or are unrated but deemed by the Investment Adviser to be of comparable quality. The Fund may invest without limitation in below investment grade or unrated securities, including in insolvent borrowers or borrowers in default.

The Fund may invest in participations ("Participations") in Senior Loans, may purchase assignments ("Assignments") of portions of Senior Loans from third parties, and may act as one of a group of Lenders originating a Senior Loan ("Primary Lender"). Senior Loans often are secured by specific assets of the Borrower, although the Fund may invest without limitation in Senior Loans that are not secured by any collateral. When the Fund acts as a Primary Lender, the Fund or Investment the Adviser could be subject to allegations of lender liability. Senior Loans in which the Fund invests generally pay interest at rates that are periodically re-determined by reference to a base lending rate plus a spread.

Real Estate Investments. The Fund defines securities of issuers conducting their principal business activities in the real estate industry to include common stock, convertible or non-convertible preferred stock, warrants, convertible or non-convertible secured or unsecured debt, and partnership or membership interests issued by:

- commercial mortgage-backed securities ("CMBS"), residential mortgage-backed securities ("RMBS") and other real estate credit investments, which include existing first and second mortgages on real estate, either originated or acquired in the secondary market, and secured, unsecured and/or convertible notes offered by real estate operating companies ("REOCs") and REITs;
- publicly traded REITs managed by affiliated or unaffiliated asset managers and their foreign equivalents ("Public REITs");
- REOCs;
- private real estate investment funds managed by affiliated or unaffiliated institutional asset managers ("Private Real Estate Investment Funds");

- registered closed-end funds that invest principally in real estate (collectively, "Public Investment Funds");
- real estate exchange traded funds ("ETFs"); and
- publicly-registered non-traded REITs ("Non-Traded REITs") and private REITs, generally wholly-owned by the Fund or wholly-owned or managed by an affiliate.

REITs are pooled investment vehicles that invest primarily in income-producing real estate or real estate-related loans or interests, and REOCs are companies that invest in real estate and whose shares trade on public exchanges. Foreign REIT equivalents are entities located in jurisdictions that have adopted legislation substantially similar to the REIT tax provisions in that they provide for favorable tax treatment for the foreign REIT equivalent and require distributions of income to shareholders. The Fund may enter into certain real estate and real-estate related investments through its wholly-owned REIT subsidiaries, NFRO REIT Sub, LLC, NFRO REIT Sub II, LLC, and NFRO SFR REIT, LLC (together the "REIT Subsidiaries"). With respect to the Fund's real estate investments, the Investment Adviser seeks to: (i) recognize and allocate capital based upon where the Investment Adviser believes we are in the current real estate cycle, and as a result (ii) minimize drawdowns during market downturns and maximize risk adjusted returns during all market cycles, though there can be no assurance that this strategy will achieve this objective. The Fund will rely on the expertise of the Investment Adviser and its affiliates to determine the appropriate structure for structured credit investments, which may include bridge loans, common and preferred equity or other debt-like positions, as well as the acquisition of such instruments from banks, servicers or other third parties.

Preferred equity and mezzanine investments in real estate transactions come in various forms which may or may not be documented in the borrower's organizational documents. Generally, real estate preferred equity and/or mezzanine investments are typically junior to first mortgage financing but senior to the borrower's or sponsor's equity contribution. The investments are typically structured as an investment by a third-party investor in the real estate owner or various affiliates in the chain of ownership in exchange for a direct or indirect ownership interest in the real estate owner entitling it to a preferred/priority return on its investment. Sometimes, the investment is structured much like a loan where (i) "interest" on the investment is required to be paid monthly by the "borrower" regardless of available property cash flow; (ii) the entire investment is required to be paid by a certain maturity date; (iii) default rate "interest" and penalties are assessed against the "borrower" in the event payments are not made timely; and (iv) a default in the repayment of investment potentially results in the loss of management and/or ownership control by the "borrower" in the company in favor of the investor or other third-party.

Other Investments. The Fund may invest up to 15% of its net assets in entities that are excluded from registration under the 1940 Act by virtue of section 3(c)(1) and 3(c)(7) of the 1940 Act (such as private equity funds or hedge funds). This limitation does not apply to any collateralized loan obligations, certain of which may rely on Section 3(c)(1) or 3(c)(7) of the 1940 Act.

In addition, the Fund may invest in equity securities of companies of any market capitalization, market sector or industry. Equity securities of U.S. or non-U.S. issuers in which the Fund may invest include common stocks, preferred stocks, convertible securities, depositary receipts and warrants to buy common stocks. The Fund may invest in securities issued by other investment companies, including investment companies that are advised by the Investment Adviser or its affiliates, to the extent permitted by applicable law and/or pursuant to exemptive relief from the SEC, and exchange-traded funds ("ETFs"). Fees and expenses of such investments will be borne by shareholders of the investing fund (the Fund), and the Investment Adviser voluntarily waives the higher of the two fees for the portion of the Fund's management fee attributable to the Fund's investment in the affiliated investment company.

The Fund's investment in fixed income securities may include convertible securities. A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to nonconvertible income securities in that they ordinarily provide a stable stream of income with generally higher yields than those of common stocks of the same or similar issuers, but lower yields than comparable nonconvertible securities. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value. Convertible securities rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. Depending on the relationship of the conversion price to the market value of the underlying securities, convertible securities may trade more like equity securities than debt instruments.

The Fund may invest without limitation in warrants and may also use derivatives, primarily swaps (including equity, variance and volatility swaps), options and futures contracts on securities, interest rates, non-physical commodities and/or currencies, as substitutes for direct investments the Fund can make. The Fund may also use derivatives such as swaps, options (including options on futures), futures, and foreign currency transactions (e.g., foreign currency swaps, futures and forwards) to any extent deemed by the Investment Adviser to be in the best interest of the Fund, and to the extent permitted by the Investment Company Act of 1940, as amended (the "1940 Act"), to hedge various investments for risk management and speculative purposes.

The Fund may also engage in short sales of securities and may seek additional income by making secured loans of its portfolio securities.

The Fund may engage in securities lending by making secured loans of its portfolio securities amounting to not more than one-third of its total assets, thereby realizing additional income.

The Fund may invest in illiquid and restricted securities. Illiquid securities are those that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Fund has valued the securities.

The Fund may invest without limitation in securities (including loans) of non-U.S. issuers, including emerging market issuers. Such securities (including loans) may be denominated in U.S. dollars, non-U.S. currencies or multinational currency units. Except as otherwise expressly noted in the Statement of Additional Information ("SAI"), all percentage limitations and ratings criteria apply at the time of purchase of securities.

The Fund may borrow an amount up to 33 1/3% of its total assets (including the amount borrowed) and may use leverage in the form of preferred shares in an amount up to 50% of the Fund's total assets (including the amount borrowed. The Fund may borrow for investment purposes and for temporary, extraordinary or emergency purposes. To the extent the Fund borrows more money than it has cash or short-term cash equivalents and invests the proceeds, the Fund will create financial leverage. The use of borrowing for investment purposes increases both investment opportunity and investment risk.

When adverse market, economic, political or currency conditions domestically or abroad occur, the Fund may temporarily invest all or a portion of its total assets in defensive investments. Such investments may include fixed-income securities, high quality money market instruments, cash and cash equivalents. To the extent the Fund takes a temporary defensive position, it may not achieve its investment objective.

The Fund is a non-diversified fund as defined in the 1940 Act, but it intends to adhere to the diversification requirements applicable to regulated investment companies ("RICs") under Subchapter M of the Internal Revenue Code of 1986, as amended. The Fund is not intended to be a complete investment program.

Tax Information

For shareholders that do not have a December 31, 2022 tax year end, this notice is for informational purposes only. For shareholders with a December 31, 2022 tax year end, please consult your tax adviser as to the pertinence of this notice. For the fiscal year ended December 31, 2022, the Fund is designating the following items with regard to earnings for the year.

Return of Capital	Long-Term Capital Gain Distribution	Ordinary Income Distribution	Total Distribution
43.08%	0.00%	56.92%	100.00%

Qualified Dividends and Corporate Dividends Received Deduction(1)	Qualified Dividend Income (15% tax rate for QDI)(2)	Interest Related Dividends(3)	U.S. Government Interest(4)	Qualifying Business Income(5)
0.45%	0.58%	42.21%	0.00%	13.58%

(1) The percentage in this column represents the amount of "Qualifying for Corporate Receivable Deduction Dividends" and is reflected as a percentage of ordinary income distributions.
(2) The percentage in this column represents the amount of "Qualifying Dividend Income" and is reflected as a percentage of "Ordinary Income Distributions." It is the intention of the Fund to designate the maximum amount permitted by law.
(3) The percentage in this column represents the amount of "Interest Related Dividends" and is reflected as a percentage of ordinary income distributions exempt from U.S. withholding tax when paid to foreign investors.
(4) "U.S. Government Interest" represents the amount of interest that was derived from direct U.S. Government obligations and distributed during the fiscal year. This amount is reflected as a percentage of total ordinary income distributions (the total of short term capital gain and net investment income distributions). Generally, interest from direct U.S. Government obligations is exempt from state income tax. However, for shareholders who are residents of California, Connecticut and New York, the statutory threshold requirements were not satisfied to permit exemption of these amounts from state income.
(5) The percentage of this column represents that amount of ordinary dividend income that qualified for 20% Business Income Deduction.

The information reported herein may differ from the information and distributions taxable to the shareholder for the calendar year ended December 31, 2022. Complete information will be computed and reported with your 2022 Form 1099-DIV.

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

Dividend Reinvestment Plan

Unless the registered owner of Common Shares elects to receive cash by contacting American Stock Transfer & Trust Company (“AST” or the “Plan Agent”), as agent for shareholders in administering the Plan, a registered owner will receive newly issued Common Shares for all dividends declared for Common Shares of the Fund. If a registered owner of Common Shares elects not to participate in the Plan, they will receive all dividends in cash paid by check mailed directly to them (or, if the shares are held in street or other nominee name, then to such nominee) by AST, as dividend disbursing agent.

Shareholders may elect not to participate in the Plan and to receive all dividends in cash by sending written instructions or by contacting AST, as dividend disbursing agent, at the address set forth below.

Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by contacting the Plan Agent before the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend. Some brokers may automatically elect to receive cash on the shareholders’ behalf and may reinvest that cash in additional Common Shares of the Fund for them. The Plan Agent will open an account for each shareholder under the Plan in the same name in which such shareholder’s Common Shares are registered.

Whenever the Fund declares a dividend payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Agent through receipt of additional unissued but authorized Common Shares from the Fund (“newly issued Common Shares”). The number of newly issued Common Shares to be credited to each participant’s account will be determined by dividing the dollar amount of the dividend by the lesser of (i) the net asset value per Common Share determined on the Declaration Date and (ii) the market price per Common Share as of the close of regular trading on the New York Stock Exchange (the “NYSE”) on the Declaration Date. The Plan Agent maintains all shareholders’ accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants. In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder’s name and held for the account of beneficial owners who participate in the Plan. There will be no brokerage charges with respect to Common Shares issued directly by the Fund.

The automatic reinvestment of dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. Accordingly, any taxable dividend received by a participant that is reinvested in additional Common Shares will be subject to federal (and possibly state and local) income tax even though such participant will not receive a corresponding amount of cash with which to pay such taxes. Participants who request a sale of shares through the Plan

Agent are subject to a $2.50 sales fee and pay a brokerage commission of $0.05 per share sold. The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. All correspondence concerning the Plan should be directed to the Plan Agent at American Stock Transfer & Trust Company, LLC 6201 15th Avenue Brooklyn, NY 11219; telephone (718) 921-8200.

Shareholder Loyalty Program

To promote loyalty and long-term alignment of interests among the Company's shareholders, the Investment Adviser offers an incentive to shareholders that buy and hold the Company's common shares for a period of at least twelve months through its Shareholder Loyalty Program (the "Program"). To participate in the Program, existing shareholders must open an account (the "Account") with the Program's administrator, Maxim Group, LLC ("Maxim"). Subsequently, if a participant makes contributions to the Account during a defined trading period to purchase shares, the Investment Adviser will make a corresponding contribution equal to 2% of the participant's contributions. For example, if a participant contributes $10,000 to the Account during a defined trading period to purchase shares, the Investment Adviser will make a corresponding contribution of $200, to purchase additional shares for the participant (the "Bonus Shares"). In addition, Program participants will not be required to pay any customary selling commissions or distribution fees on the purchase of shares under the Program. The Investment Adviser will bear the costs of brokerage fees in connection with the Program. While the portion of the Company's common shares that are acquired through the participant's contribution will vest immediately, Bonus Shares will not vest until the first anniversary of the date that the Bonus Shares were purchased. Vested shares will be held in the Account and Bonus Shares will be held in an account at Maxim for the conditional benefit of the shareholder. Under the Program, Participants must purchase a minimum of $10,000 worth of shares in the initial subscription and $5,000 in each Subsequent subscription, unless the Investment Adviser, in its sole discretion, decides to permit subscriptions for a lesser amount. If the Company's common shares are trading at a discount, Maxim will purchase common shares on behalf of participants in open-market purchases. If the Company's common shares are trading at a premium, Maxim may purchase common shares on behalf of participants in open market purchases or the Company may sell common shares to the shareholder Loyalty Program by means of a prospectus or otherwise. All dividends received on shares that are purchased under the Program will be automatically reinvested through the Program. A participant's interest in a dividend paid to the holder of a vested share will vest immediately. A participant's interest in a dividend paid to the holder of a Bonus Share will vest at the same time that the Bonus Share's vesting requirements are met. In addition, for dividends paid to holders of shares that were purchased with a participant's contributions, the Investment Adviser will take a corresponding contribution to the amount of the reinvested dividend equal to 2% of the dividend amount. Maxim maintains all shareholders' accounts in the Program and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Shares in the account of each Program participant will be held by Maxim on behalf of the Program participant, and each shareholder proxy will include those shares purchased or received pursuant to a Program. Maxim will forward all proxy solicitation materials to participants and vote proxies for shares held under the Program in accordance with the instructions of the participants. In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, Maxim will administer the Program on the basis of the number of common shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Program. The Company and the Investment Adviser reserve the right to amend or terminate the Program. To help align the interests of the Investment Adviser's employees with the interests of the Company's shareholders, the Investment Adviser offers a similar program to its employees. Participants in the Program should be aware that their receipt of Bonus Shares under the Program constitutes taxable income to them. In addition, such participants owe taxes on that portion of any distribution that constitutes taxable income in respect of shares of our common stock held in their Program accounts, whether or not such shares of common stock have vested in the hands of the participants. To the extent any payments or distributions under the Program are subject to U.S. federal, state or local taxes, the Company, any participating affiliate of the Company or the agent for the Program may satisfy its tax withholding obligation by (1) withholding shares of Stock allocated to the participant's account, (2) deducting cash from the participant's account or (3) deducting cash from any other compensation the participant may receive. Program participants should consult their tax advisers regarding the tax consequences to them of participating in the Program. The Program may create an incentive for shareholders to invest additional amounts in the Company. Because the Investment Adviser's management fee is based on a percentage of the assets of the Company, the Program will result in increased net revenues to the Investment Adviser if the increase in the management fee due to the increased asset base offsets the costs associated with establishing and maintaining the Program.

Approval of Highland Income Fund Advisory Agreement.

The Fund has retained NexPoint Asset Management, L.P. (the "Investment Adviser") to manage the assets of the Fund pursuant to an investment advisory agreement between the Investment Adviser and the Fund (the "Agreement"). The Agreement has been approved by the Fund's Board of Trustees, including a majority of the Independent Trustees. The Agreement continues in effect from year-to-year, provided that such continuance is specifically approved at least annually by the vote of holders of at least a majority of the outstanding shares of the Fund or by the Board of Trustees and, in either event, by a majority of the Independent Trustees of the Fund casting votes virtually at a meeting called for such purpose.

During a telephonic meeting with the Investment Adviser held on August 19, 2022, and separately with independent counsel on September 1, 2022, the Board of Trustees considered information bearing on the continuation of the Agreement for an additional one-year period. The Board of Trustees further discussed and considered information with respect to the continuation of the Agreement at Board meetings held telephonic on September 15-16, 2022 and in person on September 28, 2022.

On March 25, 2020, as a result of health and safety measures put in place to combat the global COVID-19 pandemic, the Securities and Exchange Commission issued an exemptive order (the "Order") pursuant to Sections 6(c) and 38(a) of the Investment Company Act of 1940, as amended (the "1940 Act"), that temporarily exempts registered investment management companies from the in-person voting requirements under the 1940 Act, subject to certain requirements, including that votes taken pursuant to the Order are ratified at the next in-person meeting. The Board determined that reliance on the Order was necessary or appropriate due to the circumstances related to current or potential effects of COVID-19. Following in person and telephonic review and discussion of the Agreement and information provided by the Adviser discussed above, at a telephonic meeting held on October 21, 2022, the Board of Trustees, including the Independent Trustees, approved the continuance of the Agreement for a one-year period commencing on November 1, 2022. As part of its review process, the Board of Trustees requested, through Fund counsel and independent legal counsel, and received from the Investment Adviser, various information and written materials, including: (1) information regarding the financial soundness of the Investment Adviser and the profitability of the Agreement to the Investment Adviser; (2) information on the advisory, legal and compliance personnel of the Investment Adviser, including ongoing updates regarding the Highland Capital Management L.P. ("HCMLP") bankruptcy; (3) information regarding the role of Skyview Group ("Skyview") as a service provider to the Investment Adviser pursuant to the services agreement between Skyview and the Investment Adviser (the "Skyview Services Agreement") to assist the Investment Adviser in providing certain services to the Fund pursuant to the Agreement and the Administration Services Agreement between the Investment Adviser and the Fund, as well as information regarding the Investment Adviser's oversight role over Skyview; (4) information on the internal compliance procedures of each of the Investment Adviser, including policies and procedures for personal securities transactions, conflicts of interest and with respect to cybersecurity, business continuity and disaster recovery; (5) comparative information showing how the Fund's fees and operating expenses compare to those of other accounts of the Investment Adviser, if any, with investment strategies similar to those of the Fund; (6) information on the investment performance of the Fund, including comparisons of the Fund's performance against that of other registered investment companies and comparable funds managed by the Investment Adviser that follow investment strategies similar to those of the Fund; (7) information regarding brokerage and portfolio transactions; and (8) information on any legal proceedings or regulatory audits or investigations affecting the Investment Adviser, including potential claims in the HCMLP bankruptcy. After the August 2022 meeting and throughout the annual contract renewal process, including at the September 15-16, 2022 and September 28, 2022 Board meetings, the Board of Trustees requested that the Investment Adviser provide additional information and written responses regarding various matters in connection with the Board of Trustee's review and consideration of the Agreement. It was further noted that throughout the process, the Board of Trustees, including separately the Independent Trustees, had also met in executive sessions to further discuss the materials and information provided.

In addition, the Board of Trustees received an independent report from FUSE Research Network ("FUSE"), an independent third-party provider of investment company data, relating to the Fund's performance and expenses compared to the performance and expenses of a group of funds deemed by FUSE to be comparable to the Fund (the "peer group"), and to a larger group of comparable funds (the "peer universe").

The Board of Trustees discussed the materials and information provided by the Investment Adviser in detail over the course of multiple meetings, including the Investment Adviser's responses to the Board of Trustees' specific written questions, comparative fee and performance information and information concerning the Investment Adviser's business and financial condition. The factors considered and the determinations made by the Board of Trustees in connection with the approval of the renewal of the Agreement with the Investment Adviser are set forth below but are not exhaustive of all matters that were discussed by the Board of Trustees.

The Board of Trustees' evaluation process with respect to the Investment Adviser is an ongoing one. In this regard, the Board of Trustees also took into account discussions with management and information provided to the Board of Trustees at meetings of the Board of Trustees over the course of the year and in past years with respect to the services provided by the Investment Adviser to the Fund, including quarterly performance reports prepared by management containing reviews of investment results and prior presentations from the Investment Adviser with respect to the Fund. The information received and considered by the Board of Trustees in connection with the Board's determination to approve the continuance of the Agreement was both written and oral.

The Board of Trustees reviewed various factors that were discussed in a legal memorandum provided by independent counsel regarding trustee responsibilities in considering the Agreement, the detailed information provided by the Investment Adviser and other relevant information. The Board of Trustees also considered other factors (including conditions and trends prevailing generally in the economy, the securities markets, and the effect of the COVID-19 pandemic on the Fund and the industry). Some of the factors that figured particularly in the Board of Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. In addition, the Board of Trustees' conclusions may be based in part on its consideration of the advisory arrangements in prior years and on the Board of Trustees' ongoing regular review of fund performance and operations throughout the year. The Board of Trustees' conclusions as to the approval of the Agreement were based on a comprehensive consideration of all information provided to the Board of Trustees without any single factor being dispositive in and of itself.

Throughout the process, the Board of Trustees had the opportunity to ask questions of and request additional information from the Investment Adviser. The Board of Trustees was assisted by legal counsel for the Trust and the Independent Trustees were also separately assisted by independent legal counsel throughout the process. The Board of Trustees also met separately without representatives of the Investment Adviser present. The Independent Trustees were advised by and met in executive sessions with their independent legal counsel at which no representatives of management were present to discuss the proposed continuation of the Agreement.

The nature, extent, and quality of the services to be provided by the Investment Adviser.

The Board of Trustees considered the Investment Adviser's services as investment manager to the Fund.

The Board of Trustees considered the portfolio management services to be provided by the Investment Adviser under the Agreement and the activities related to portfolio management, including use of technology, research capabilities and investment management staff. The Board of Trustees also considered the relevant experience and qualifications of the personnel providing advisory services, including the background and experience of the members of the Fund's portfolio management team. The Board of Trustees reviewed the management structure, assets under management and investment philosophies and processes of the Investment Adviser, including with respect to liquidity management. The Board of Trustees also reviewed and discussed information regarding the Investment Adviser's compliance policies, procedures and personnel, including compensation arrangements, and with respect to valuation, cybersecurity, business continuity and disaster recovery. The Board of Trustees also considered the Investment Adviser's risk management and monitoring processes. The Board of Trustees took into account the terms of the Agreement and considered that, the Investment Adviser, subject to the direction of the Board of Trustees, is responsible for providing advice and guidance with respect to the Fund and for managing the investment of the assets of the Fund. The Board of Trustees also took into account that the scope of services provided to the Fund and the undertakings required of the Investment Adviser in connection with those services, including with respect to its own and the Fund's compliance programs, had expanded over time as a result of regulatory, market and other developments. The Board of Trustees also considered operational, staffing and organizational changes with respect to the Investment Adviser over the prior year, including in connection with the transitions of certain shared services arrangements and the fact that there were no material operational or compliance issues with respect to the Fund or decrease in the level and quality of services provided to the Fund as a result. The Board of Trustees also considered the Investment Adviser's legal and regulatory history. The Board of Trustees also considered the Investment Adviser's current litigation matters related to the HCMLP bankruptcy and took into account the Investment Adviser's representation that such matters would not impact the quality and level of services the Investment Adviser will provide to the Fund under the Agreement.

The Investment Adviser's services in coordinating and overseeing the activities of the Fund's other service providers, as well of the services provided by Skyview to the Investment Adviser under the Skyview Services Agreement, were also considered. The Board of Trustees also evaluated the expertise and performance of the personnel of the Investment Adviser who performed services for the Fund throughout the year. They also considered the quality of the Investment Adviser's compliance oversight program with respect to the Fund's service providers. The Board of Trustees also considered both the investment advisory services and the nature, quality and extent of any administrative and other non-advisory services, including shareholder servicing and distribution support services that are provided to the Fund and its shareholders by the Investment Adviser and its affiliates, as well as considered the services provided by Skyview to the Investment Adviser under the Skyview Services Agreement. The Board of Trustees noted that the level and quality of services to the Fund by the Investment Adviser and its affiliates had not been materially impacted by the HCMLP bankruptcy and took into account the Investment Adviser's representations that the level and quality of the services provided by the Investment Adviser and their affiliates, as well as of those services provided by Skyview to the Investment Adviser under the Skyview Services Agreement, would continue to be provided to the Fund at the same or higher level and quality.

The Board of Trustees also considered the significant risks assumed by the Investment Adviser in connection with the services provided to the Fund, including entrepreneurial risk and ongoing risks including investment, operational, enterprise, litigation, regulatory and compliance risks with respect to the Fund. The Board of Trustees also noted various cost savings initiatives that had been implemented by the Investment Adviser with respect to the Fund and the other funds in the Highland complex over the years. The Board of Trustees considered the Investment Adviser's financial condition and financial wherewithal. The Board of Trustees also considered the financial condition and operations of the Investment Adviser during the COVID-19 pandemic and noted that there had been no material disruption of the Investment Adviser's services to the Fund and that the Investment Adviser had continued to provide the same level, quality and extent of services to the Fund.

The Board of Trustees also noted that on a regular basis it receives and reviews information from the Fund's Chief Compliance Officer (CCO) regarding the Fund's compliance policies and procedures established pursuant to Rule 38a-1 under the 1940 Act. The Board of Trustees also took into account the CCO's ongoing reports concerning the CCO's oversight of the risk assessment processes.

In considering the nature, extent, and quality of the services provided by the Investment Adviser, the Board of Trustees also took into account its knowledge of the Investment Adviser's management and the quality of the performance of its duties, through discussions and reports and interactions during the preceding year and in past years.

The Board of Trustees concluded that the Investment Adviser had the quality and depth of personnel and investment methods essential to performing its duties under the Agreement, and that the nature and the quality of such advisory services supported the approval of the Agreement.

The Investment Adviser's historical performance.

In considering the Fund's performance, the Board of Trustees noted that it reviews at its regularly scheduled meetings information about the Fund's performance results. The Board of Trustees considered the performance of the Fund as described in the quarterly and other reports provided by management over the course of the year. The Board of Trustees noted that the Investment Adviser reviewed with the Board of Trustees on at least a quarterly basis detailed information about the Fund's performance results, portfolio composition and investment strategies. The Board of Trustees reviewed the historical performance of the Fund over various time periods and reflected on previous discussions regarding matters bearing on the Investment Adviser's performance at its meetings throughout the year. The Board of Trustees discussed the historical performance of the Fund and considered the relative performance of the Fund and its portfolio management team as compared to that of the Fund's peer group as selected by FUSE, as well as comparable indices. Among other data, the Board of Trustees also received data with respect to the Fund's leverage, discounts and distribution rates as compared to its peer group.

The Board of Trustees reviewed and considered the FUSE report, which provided a statistical analysis comparing the Fund's investment performance, expenses and fees to those of comparable funds for various periods ended June 30, 2022 and management's discussion of the same, including the effect of current market conditions on the Fund's more-recent performance. The Board of Trustees also received a review of the data contained in the FUSE report from representatives of FUSE. The Board of Trustees noted that while it found the data provided by FUSE, the independent third-party data provider, generally useful, it recognized its limitations, including in particular that the data may vary depending on the end date selected and the results of the performance comparisons may vary depending on the selection of the peer group. The Board of Trustees also took into account management's discussion of the category in which the Fund was placed for comparative purposes, including any differences between the Fund's investment strategy and the strategy of the funds in the Fund's respective category, as well as compared to the peer group selected by FUSE. The Board of Trustees also took into account its discussions with management over the course of the year regarding factors that contributed to the performance of the Fund, including presentations with the Fund's portfolio managers.

Among other data relating specifically to the Fund's performance, the Board took note of the peer group of tactical allocation funds and FUSE's explanation of the same that a peer group of tactical allocation funds better reflects the Fund's objective of seeking to provide a high level of current income through investment in a highly diverse set of securities and using a wide array of strategies.

The Board of Trustees then considered that the Fund had outperformed its benchmark, the Credit Suisse Leveraged Loan USD Index, as well as its peer group median for the one-, three-, five-, and ten-year periods ended June 30, 2022. The Board also took into account management's discussion of the Fund's performance, including its recent performance differences in the Fund's strategy from the funds in its peer group. The Board also noted management discussion of actions previously taken and potential further actions to be taken to address the Fund's discount.

The Board of Trustees concluded that the Fund's overall performance and other relevant factors supported the continuation of the Agreement with respect to the Fund for an additional one-year period.

The costs of the services to be provided by the Investment Adviser and the profits to be realized by the Investment Adviser and its affiliates from the relationship with the Fund.

The Board of Trustees also gave consideration to the fees payable under the Agreement, the expenses the Investment Adviser incur in providing advisory services and the profitability to the Investment Adviser from managing the Fund, including: (1) information regarding the financial condition of the Investment Adviser and regarding profitability from the relationship with the Fund; (2) information regarding the total fees and payments received by the Investment Adviser for its services and, with respect to the Investment Adviser, whether such fees are appropriate given economies of scale and other considerations; (3) comparative information showing (a) the fees payable under the Agreement versus the investment advisory fees of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund and (b) the expense ratios of the Fund versus the expense ratios of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund; and (4) information regarding the total fees and payments received and the related amounts waived and/or reimbursed by the Investment Adviser for administrative services with respect to the Fund under separate agreements and whether such fees are appropriate. The Board of Trustees took into account the management fee structure, including that management fees for the Fund were based on the Fund's total managed assets.

Among other data, the Board of Trustees considered that the Fund's total net expenses were higher than its peer group median and that the Fund's net management fees (the Fund's actual advisory fee plus actual administrative fee) were lower than those of its peer group median. The Board of Trustees also took into account management's discussion of the Fund's expenses.

The Board of Trustees also considered the so-called "fallout benefits" to the Investment Adviser with respect to the Fund, such as the reputational value of serving as Investment Adviser to the Fund, potential fees paid to the Investment Adviser's affiliates by the Fund or portfolio companies for services provided, including administrative services provided to the Fund by the Investment Adviser pursuant to separate agreements, the benefits of scale from investment by the Fund in affiliated funds, and the benefits of research made available to the Investment Adviser by reason of brokerage commissions (if any) generated by the Fund's securities transactions. The Board of Trustees concluded that the benefits received by the Investment Adviser and its affiliates were reasonable in the context of the relationship between the Investment Adviser and the Fund.

After such review, the Board of Trustees determined that the profitability to the Investment Adviser and its affiliates from their relationship with the Fund was not excessive.

The extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of shareholders.

The Board of Trustees also considered the effect of the Fund's growth in assets under management on its fees. The Board of Trustees noted that breakpoints recently have been added to the Fund's advisory fee schedule. The Board of Trustees also took into account the Adviser's discussion of the fee structure, including that the Fund also benefits from a waiver of a portion of its advisory and administration fees, which the Investment Adviser believes can be more effective than breakpoints at controlling overall costs borne by shareholders. The Board of Trustees also noted the FUSE report, which compared fees among peers, and included the Fund's contractual fee schedule at different asset levels. The Board of Trustees noted that the Fund's contractual advisory fee is lower than its peer group at all asset levels. The Board of Trustees noted that, if the Fund's assets increase over time, The Board of Trustees also generally noted that, if the Fund's assets increase over time, the Fund may realize other economies of scale if assets increase proportionally more than certain other fixed expenses. The Board of Trustees concluded that the fee structure is reasonable, and with respect to the Investment Adviser, should result in a sharing of economies of scale in view of the information provided. The Board of Trustees determined to continue to review the ways and extent to which economies of scale might be shared between the Investment Adviser, on the one hand, and shareholders of the Fund, on the other.

Conclusion.

Following a further discussion of the factors above, it was noted that in considering the approval of the Agreement, no single factor was determinative to the decision of the Board of Trustees. Rather, after weighing all factors and conside rations, including those discussed above, the Board of Truste es, including separately, the Independent Trustees, unanimously agreed that the Agreement, including the advis ory fee to be paid to the Investment Adviser, is fair and reas onable to the Fund in light of the services that the Investment Adviser provides, the expenses that it incurs and the reasonably foreseeable asset levels of the Fund.

Trustees and Officers

The Board provides broad oversight of the operations and affairs of the Fund and protects the interests of shareholders. The Board has overall responsibility to manage and control the business affairs of the Fund, including the complete and exclusive authority to establish policies regarding the management, conduct and operation of the Fund's business. The names and birth dates of the Trustees and officers of the Fund, 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 Fund is c/o NexPoint Asset Management, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 75201.

The "NexPoint Fund Complex," as referred to herein consists of: each series of NexPoint Funds I ("NFI"), each series of NexPoint Funds II ("NFII"), Highland Global Allocation Fund ("GAF"), Highland Income Fund ("HFRO"), 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.

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 NexPoint Fund 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	Trustee since December 2013; 3 year term (expiring at 2023 annual meeting).	Retired.	8	Director of KC Concessions, Inc. (since January 2013); Director of American Sports Enterprise, Inc. (since January 2013); Chairman and owner, Kane County Cougars Baseball Club (since January 2013); Director of The Midwest League of Professional Baseball Clubs, Inc. (from January 2013 to December 2021); Director of Kane County Cougars Foundation, Inc. (since January 2013); Director of Galen Robotics, Inc. (since August 2016); 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); Director and Special Advisor to Vault Data, LLC (since February 2018); and Director of American Association of Professional Baseball, Inc. (since February 2021).	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.

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 NexPoint Fund 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	Trustee since December 2013; Chairman of the Board since December 2013; 3 year term (expiring at 2025 annual meeting).	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 NexPoint Fund Complex from June 2012 until July 2013 and since December 2013; and Director of Kelly Strategic Management since August 2021.	8	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 NexPoint Fund Complex; significant administrative and managerial experience.
Bryan A. Ward (2/4/1955)	Trustee	Trustee since inception in 2006; 3 year term (expiring at 2025 annual meeting).	Business Development Banker, CrossFirst Bank since January 2023 (President-Dallas from October 2020 until January 2023 and Senior Advisor from April 2019 until October 2022), Private Investor, BW Consulting, LLC since 2014; and Anderson Consulting/ Accenture 1991-2013.	8	None.	Significant experience on this and/ or other boards of directors/ trustees, Audit Committee Chair; significant managerial and executive experience; significant experience as a management consultant.

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 NexPoint Fund Complex Overseen by the Trustee	Other Directorships/ Trusteeships Held During the Past Five Years	Experience, Qualifications, Attributes, Skills for Board Membership
			Independent Trustees			
Dorri McWhorter (6/30/1973)	Trustee	Trustee since May 2022; 3 year term (expiring at 2023 annual meeting).	President & CEO, YMCA of Metropolitan Chicago (2021- Present); Chief Executive Officer, YWCA Metropolitan Chicago (2013- 2021).	8	Board Director of William Blair Funds (since 2019); Board Director of Skyway Concession Company, LLC (since 2018); Board Director of Illinois CPA Society (2017-2022); Board Director of Lifeway Foods, Inc. (since 2020); Board Director of Green Thumb Industries, Inc. (February 2022 to October 2022); Member of Financial Accounting Standards Advisory Council (since 2021); Board Director of LanzaTech Global, Inc. (since 2023).	Significant managerial and executive experience, including experience as president and chief executive officer; significant background and experience in financial accounting; significant experience on other boards of directors, including for other registered investment companies.
			Interested Trustee			
John Honis (6/16/1958)	Trustee	Trustee since July 2013; 3 year term (expiring at 2024 annual meeting).	President of Rand Advisors, LLC (August 2013 - August 2022); President of Valience Group, LLC since July 2021.	8	Manager of Turtle Bay Resort, LLC (August 2011 – December 2018)	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.

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. 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.

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
			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 NexPoint from November 2017 until March 2019; Chief Product Strategist at NexPoint from September 2015 to March 2019; Officer of the NexPoint 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 since February 2021; Chief Financial Officer and Partner of NexPoint Asset Management, L.P. (“NexPoint”) from December 2011 and March 2015, respectively, to February 2021; Treasurer of the NexPoint 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 since February 2021. Prior to his current role at Skyview Group, Mr. Mabry served as Senior Manager – Fund Analysis, Manager – Fund Analysis, and Senior Fund Analyst for HCMLP.
Stephanie Vitiello (6/21/1983)	Secretary, Chief Compliance Officer and Anti-Money Laundering Officer	Indefinite Term; Secretary since April 2021; Chief Compliance Officer and Anti-Money Laundering Officer since November 2021.	Chief Compliance Officer, Anti-Money Laundering Officer and Counsel of Skyview Group since February 2021. Prior to her current role at Skyview Group, Ms. Vitiello served as Managing Director – Distressed, Assistant General Counsel, Associate General Counsel and In- House Counsel for HCMLP.
Rahim Ibraham (8/17/1989)	Assistant Secretary	Indefinite Term; Assistant Secretary since November 2021.	Counsel and Compliance Manager at Skyview Group since March 2022. Prior to his current role at Skyview Group, Mr. Ibrahim served as a Compliance Analyst for Skyview Group from May 2021 to March 2022; Compliance Associate for Loring, Wolcott & Coolidge Trust, LLC from October 2019 until May 2021; Corporate Paralegal at Maples Group from April 2018 to October 2019; Associate Engagement Specialist-Compliance at Eze Software Group from June 2017 to April 2018.

Investment Adviser
NexPoint Asset Management, L.P.
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Dallas, TX 75201

Transfer Agent
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6201 15th Avenue
Brooklyn, NY 11219

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 Global Allocation Fund (the "Fund"). As of January 1, 2021, paper copies of the Fund's shareholder reports will no longer be sent by mail. Instead, the reports will be made available on https://www.nexpointassetmgmt.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 Fund or from your financial intermediary free of charge at any time. For additional information regarding how to access the Fund's shareholder reports, or to request paper copies by mail, please call shareholder services at 1-800-357-9167.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to their portfolio securities, and the Fund's proxy voting records for the most recent 12-month period ended June 30, are available (i) without charge, upon request, by calling 1-800-357-9167 and (ii) on the Securities and Exchange Commission's website at http://www.sec.gov.

The Fund files its complete schedules of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year as an exhibit to its report on Form N-PORT within sixty days after the end of the period. The Fund's Form 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 Fund's website at www.nexpointassetmgmt.com.

The Statement of Additional Information includes additional information about the Fund's Trustees and is available upon request without charge by calling 1-800-357-9167.

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American Stock Transfer & Trust Company, LLC
6201 15th Avenue
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Highland Income Fund

Annual Report, December 31, 2022