

INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2021

Highland Global Allocation Fund

<u>Units</u>	<u>Value (\$)</u>	<u>Principal Amount (\$)</u>	<u>Value (\$)</u>
U.S. Warrants (continued)		U.S. Corporate Bonds & Notes — 0.4%	
Energy (continued)		Communication Services — 0.3%	
245,732		iHeartCommunications, Inc.	
		317,929	330,201
		6.38%, 05/01/26 (f)	
		584,493	617,005
		8.38%, 05/01/27 (f)	
			947,206
		Real Estate — 0.1%	
		133,283	133,804
		CBL & Associates HoldCo II 10.00%, 11/15/29 (m)	
		Total U.S. Corporate Bonds & Notes (Cost \$2,079,040)	
			1,081,010
		U.S. Asset-Backed Security — 0.1%	
		CFCRE Commercial Mortgage Trust, Series C8, Class D	
		250,000	225,772
		3.00%, 6/15/2050 (n)	
		Total U.S. Asset-Backed Security (Cost \$224,324)	
			225,772
U.S. Rights — 4.2%		Non-U.S. Sovereign Bonds — 4.1%	
Utilities — 4.2%		Argentine Republic Government International Bond	
7,905,143		90,699	33,106
		1.00%, 7/9/2029 (h)	
		2.50%, 3.50%, 7/9/2022,	
		29,000,000	10,280,500
		7/9/2041 (h)(k)	
		Total Non-U.S. Sovereign Bonds	
			10,313,606
		(Cost \$16,235,368)	
Shares		Non-U.S. Warrants — 0.1%	
U.S. Preferred Stock — 2.0%		Communication Services — 0.0%	
Real Estate — 2.0%		1,109 iHeartCommunications, Inc., Expires 05/01/2039 (a)(h)	
239,774			20,516
		1,260,362 American Airlines Group, Inc. (a)(h)	
			—
		Information Technology — 0.1%	
		Avaya Holdings,	
		38,742	108,478
		Expires 12/18/2022 (a)(h)	
		Total Non-U.S. Warrants	
			128,994
		(Cost \$77,464)	
Non-U.S. Master Limited Partnership — 0.7%		Principal Amount (\$)	
Energy — 0.7%		Non-U.S. Asset-Backed Security — 0.0%	
78,631		Pamco Cayman, Ltd., Series 1997-1A, Class B 7.91%,	
		295,080	84,200
		8/6/2013 (b)(c)(h)(m)(n)	
		Total Non-U.S. Asset-Backed Security	
			84,200
		(Cost \$200,654)	

INVESTMENT PORTFOLIO (unaudited) (concluded)

As of December 31, 2021

Highland Global Allocation Fund

- (a) Non-income producing security.
- (b) Securities with a total aggregate value of \$111,312,821, or 43.8% of net assets, were classified as Level 3 within the three-tier fair value hierarchy. Please see Notes to Investment Portfolio for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.
- (c) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. The Board considers fair valued securities to be securities for which market quotations are not readily available and these securities may be valued using a combination of observable and unobservable inputs. Securities with a total aggregate value of \$111,312,821, or 43.8% of net assets, were fair valued under the Fund's valuation procedures as of December 31, 2021. Please see Notes to Investment Portfolio.
- (d) Affiliated issuer. Assets with a total aggregate fair value of \$162,551,272, or 63.9% of net assets, were affiliated with the Fund as of December 31, 2021.
- (e) 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 Period End | Percent of Net Assets |
|-----------------------|---------------|------------------|------------------|--------------------------|-----------------------|
| TerreStar Corporation | U.S. Equity | 11/14/2014 | \$48,015,562 | \$56,848,831 | 22.4% |
- (f) All or part of this security is pledged as collateral for short sales. The fair value of the securities pledged as collateral was \$102,180,029.
- (g) Securities (or a portion of securities) on loan. As of December 31, 2021, the fair value of securities loaned was \$322,592. The loaned securities were secured with cash and/or securities collateral of \$332,140. Collateral is calculated based on prior day's prices.
- (h) As described in the Fund's prospectus, a company is considered to be a non-U.S. issuer if the company's securities principally trade on a market outside of the United States, the company derives a majority of its revenues or profits outside of the United States, the company is not organized in the United States, or the company is significantly exposed to the economic fortunes and risks of regions outside the United States.
- (i) 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. 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 may be substantially less than the stated maturity shown.
- (j) Represents value held in escrow pending future events. No interest is being accrued.
- (k) Step Bonds - Represents the current rate, the step rate, the step date and the final maturity date.
- (l) Perpetual security with no stated maturity date.
- (m) The issuer is, or is in danger of being, in default of its payment obligation.
- (n) 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, 2021, these securities amounted to \$309,972 or 0.1% of net assets.
- (o) Tri-Party Repurchase Agreement.
- (p) This security was purchased with cash collateral held from securities on loan. The total value of such securities as of December 31, 2021 was \$71,990.
- (q) Rate shown is 7 day effective yield.
- (r) No dividend payable on security sold short.

NOTES TO INVESTMENT PORTFOLIO (unaudited)

As of December 31, 2021

Highland Global Allocation Fund

Organization

Highland Funds II (the "Trust") is a Massachusetts business trust organized on August 10, 1992. The Trust is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company. It comprises two portfolios (collectively the "Funds") that are currently being offered. This report covers information for the period ended December 31, 2021 for Highland Global Allocation Fund (the "Fund"). Highland Small-Cap Equity Fund is reported separately.

Valuation of Investments

In computing the Fund's net assets attributable to shares, securities with readily available market quotations on the New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotation (NASDAQ) or other nationally recognized exchange, use the closing quotations on the respective exchange for valuation of those securities. Securities for which there are no readily available market quotations will be valued pursuant to policies adopted by the Fund's Board of Trustees (the "Board"). Typically, such securities will be valued at the mean between the most recently quoted bid and ask prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day may be priced by an independent pricing service. Generally, the Fund's loan and bond positions are not traded on exchanges and consequently are valued based on a mean of the bid and ask price from the third-party pricing services or broker-dealer sources that the Investment Adviser has determined to have the capability which provide appropriate pricing services and which have been approved by the Board.

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

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

Fair Value Measurements

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

NOTES TO INVESTMENT PORTFOLIO (unaudited) (continued)**As of December 31, 2021****Highland Global Allocation Fund**

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

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

As of December 31, 2021, the Fund's investments consisted of senior loans, asset-backed securities, bonds and notes, common stocks, preferred stocks, master limited partnerships, LLC interests, registered investment companies, cash equivalents, exchange-traded funds, rights, warrants, securities sold short, and repurchase agreements. The fair value of the Fund's loans, bonds and asset-backed securities are generally based on quotes received from brokers or independent pricing services. Loans, bonds and asset-backed securities with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Senior loans, bonds and asset-backed securities that are priced using quotes derived from implied values, indicative bids, or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

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

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

NOTES TO INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2021

Highland Global Allocation Fund

differ materially from the values the Fund may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of the levels are recognized at the value at the end of the period. A summary of the inputs used to value the Fund's assets as of December 31, 2021 is as follows

	Total value at December 31, 2021 (\$)	Level 1 Quoted Price (\$)	Level 2 Significant Observable Inputs (\$)	Level 3 Significant Unobservable Inputs (\$)
Highland Global Allocation Fund				
Assets				
U.S. Equity				
Communication Services	62,294,554	5,445,723	—	56,848,831
Healthcare	3,617,235	3,617,235	—	—
Materials	3,652,420	—	3,652,420	—
Real Estate	51,594,920	37,437,313	—	14,157,607
Non-U.S. Equity				
Communication Services	47,210	47,210	—	—
Consumer Discretionary	4,060,883	4,045,200	—	15,683
Energy	6,959,908	6,959,908	—	—
Financials	368,273	368,273	—	—
Industrials	1,304,599	1,304,599	—	—
Information Technology	1,751,222	1,751,222	—	—
Utilities	17,739,335	17,739,335	—	—
U.S. LLC Interest	20,687,014	—	2,387,886	18,299,128
U.S. Master Limited Partnerships				
Energy	19,021,305	19,021,305	—	—
U.S. Senior Loans				
Communication Services	18,397,787	—	—	18,397,787
Utilities	473,395	—	—	473,395
U.S. Warrants				
Energy	13,029,288	—	13,029,288	—
U.S. Rights				
Utilities	10,790,520	—	10,790,520	—
Non-U.S. Sovereign Bonds	10,313,606	—	10,313,606	—
U.S. Preferred Stock				
Real Estate	4,987,299	4,987,299	—	—
Non-U.S. Master Limited Partnerships				
Energy	1,726,737	1,726,737	—	—
U.S. Corporate Bonds & Notes				
Communication Services	947,206	—	947,206	—
Real Estate	133,804	—	133,804	—
U.S. Asset-Backed Security	225,772	—	225,772	—
Non-U.S. Warrants				
Communication Services	20,516	—	20,516	—
Industrials	—	—	— ⁽¹⁾	—
Information Technology	108,478	—	108,478	—

NOTES TO INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2021

Highland Global Allocation Fund

	Total value at December 31, 2021 (\$)	Level 1 Quoted Price (\$)	Level 2 Significant Observable Inputs (\$)	Level 3 Significant Unobservable Inputs (\$)
Non-U.S. Asset-Backed Securities	84,200	—	—	84,200
U.S. Exchange-Traded Funds	11,763,098	11,763,098	—	—
Non-U.S. Registered Investment Company	3,036,190	—	—	3,036,190
U.S. Registered Investment Companies	12,211,652	12,211,652	—	—
U.S. Repurchase Agreement	71,990	71,990	—	—
U.S. Cash Equivalent	5,552,251	5,552,251	—	—
Total Assets	286,972,667	134,050,350	41,609,496	111,312,821
Liabilities				
Securities Sold Short				
U.S. Exchange-Traded Funds	(26,895,363)	(26,895,363)	—	—
U.S. Equity				
Communication Services	(11,244,542)	(11,244,542)	—	—
Consumer Discretionary	(2,126,000)	(2,126,000)	—	—
Consumer Staples	(1,223,200)	(1,223,200)	—	—
Information Technology	(337,121)	(337,121)	—	—
Total Liabilities	(41,826,226)	(41,826,226)	—	—
Total	245,146,441	92,224,124	41,609,496	111,312,821

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

The tables below set forth a summary of changes in the Fund's assets measured at fair value using significant unobservable inputs (Level 3) for the period ended December 31, 2021.

	Balance as of September 30, 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) \$	Purchases \$	Sales \$	Balance as of December 31, 2021 \$	Change in Unrealized Appreciation (Depreciation) from Investments held at December 31, 2021 \$
U.S. Equity											
Communication Services	57,255,705	—	—	—	—	—	(406,874)	—	—	56,848,831	(406,874)
Real Estate	13,260,162	—	—	—	—	—	897,445	—	—	14,157,607	897,445
Non-U.S. Equity											
Consumer Discretionary	52,141	—	—	—	—	—	(36,458)	—	—	15,683	(36,458)
U.S. LLC Interest	18,373,752	—	—	—	—	—	(74,624)	—	—	18,299,128	(74,624)
U.S. Senior Loans											
Communication Services	17,895,565	—	—	—	—	—	502,222	—	—	18,397,787	502,222
Utilities	235,520	—	—	—	—	—	237,875	—	—	473,395	237,875
Non-U.S. Asset-Backed Security	74,799	—	—	—	—	—	26,186	—	(16,785)	84,200	26,186
Non-U.S. Registered Investment Company	3,235,150	—	—	—	—	—	(198,960)	—	—	3,036,190	(198,960)
Total	110,382,794	—	—	—	—	—	946,812	—	(16,785)	111,312,821	946,812

Investments designated as Level 3 may include assets valued using quotes or indications furnished by brokers which are based on models or estimates without observable inputs and may not be executable prices. In light of the developing market conditions, the Investment Adviser continues to search for observable data points and evaluate broker quotes and indications received for portfolio investments.

For the three months ended December 31, 2021, there were no positions that transferred in to or out of Level 3. Determination of fair value is uncertain because it involves subjective judgments and estimates that are unobservable.

NOTES TO INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2021

Highland Global Allocation Fund

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category	Fair Value at 12/31/2021 \$	Valuation Technique	Unobservable Inputs	Input Value(s) (Arithmetic Mean)
U.S. Equity/Non-U.S. Equity	71,022,121	Multiples Analysis	Unadjusted Price/MHz-PoP	\$0.09 - \$0.95 (\$0.52)
		Discounted Cash Flow	Discount Rate	14.5% - 16.5% (15.5%)
		Transaction Indication of Value	Enterprise Value (\$mm)	\$841.00
			Cost Price (\$mm)	\$4.40
			Offer Price per Share	\$1.10
		Net Asset Value	N/A	N/A
U.S. LLC Interest	18,299,128	Liquidation Analysis	Recovery Rate	75% - 100% (94%)
		Discounted Cash Flow	Discount Rate	1.49% - 5.43% (3.46%)
		Net Asset Value	N/A	N/A
U.S. Senior Loans	18,871,182	Transaction Indication of Value	Cost Price (\$mm)	\$4.84
		Discounted Cash Flow	Discount Rate	11.0%
		Third Party Indication of Value	Broker Quote	Various
Non-U.S. Asset-Backed Securities	84,200	Discounted Cash Flow	Discount Rate	21.0%
Non-U.S. Registered Investment Companies	3,036,190	Net Asset Value	N/A	N/A
	111,312,821			

The significant unobservable inputs used in the fair value measurement of the Fund's bank loan and asset-backed securities are the discount rate and broker quote indication of value. A Significant increase (decrease) in these inputs in isolation could result in a significantly lower (higher) fair value measurement. The significant unobservable inputs used in the fair value measurement of the Fund's LLC interests are: discount rate and cost price. A significant increase (decrease) 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 equity securities are: unadjusted price/MHz-PoP multiple, discount rate, enterprise value, cost price, tender offer per share, and recovery rate. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement.

In addition to the unobservable inputs utilized for various valuation methodologies, the Investment Adviser frequently uses a combination of two or more valuation methodologies to determine fair value for a single holding. In such instances, the Investment Adviser assesses the methodologies and ascribes weightings to each methodology. The weightings ascribed to any individual methodology ranged from as low as 25% to as high as 75% as of December 31, 2021. 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.

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.

NOTES TO INVESTMENT PORTFOLIO (unaudited) (continued)

As of December 31, 2021

Highland Global Allocation Fund

Cash & Cash Equivalents

The Fund considers liquid assets deposited with a bank and certain short-term debt instruments of sufficient credit quality with original maturities of three months or less to be cash equivalents. The Fund also considers money market instruments that invest in cash equivalents to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay Fund expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value. The value of cash equivalents denominated in foreign currencies is determined by converting to U.S. dollars on the date of the Statement of Assets and Liabilities.

Securities Sold Short

The Fund may sell securities short. A security sold short is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. When the Fund sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. A Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any dividends or other payments received on such borrowed securities. In some circumstances, a Fund may be allowed by its prime broker to utilize proceeds from securities sold short to purchase additional investments, resulting in leverage. Securities and cash held as collateral for securities sold short are shown on the Investment Portfolio. Cash held as collateral for securities sold short is classified as restricted cash on the Statement of Assets and Liabilities, as applicable. Restricted cash in the amount of \$20,063,419 was due to the broker for the Fund.

Derivative Transactions

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

Futures Contracts

A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. The Fund may invest in interest rate, financial and stock or bond index futures contracts subject to certain limitations. The Fund invests in futures contracts to manage its exposure to the stock and bond markets and fluctuations in currency values. Buying futures tends to increase the Fund's exposure to the underlying instrument while selling futures tends to decrease the Fund's exposure to the underlying instrument, or economically hedge other Fund investments. With futures contracts, there is minimal counterparty credit risk to the Fund since futures contracts are exchange-traded and the exchange's clearinghouse, as counterparty to all traded futures, guarantees the futures against default. A Fund's risks in using these contracts include changes in the value of the underlying instruments, non-performance of the counterparties under the contracts' terms and changes in the liquidity of the secondary market for the contracts. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they principally trade.

Upon entering into a financial futures contract, the Fund is required to pledge to the broker an amount of cash and/or other assets equal to a certain percentage of the contract amount, known as initial margin deposit. Subsequent payments, known as variation margins, are made or can be received by the Fund each day, depending on the daily fluctuation in the fair value of the underlying security. The Fund records an unrealized gain/(loss) equal to the daily variation margin. Should market conditions move unexpectedly, the Fund may not achieve the anticipated benefits of the futures contracts and may incur a loss. The Fund recognizes a realized gain/(loss) on the expiration or closing of a futures contract.

At December 31, 2021, the Fund did not hold futures contracts.

Options

The Fund may utilize options on securities or indices to varying degrees as part of its principal investment strategy. An option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy

NOTES TO INVESTMENT PORTFOLIO (unaudited) (continued)**As of December 31, 2021****Highland Global Allocation Fund**

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 a capital loss if the cost of the closing option is more than the premium received from writing the option. A Fund will realize a capital gain from a closing sale transaction if the premium received from the sale is more than the original premium paid when the option position was opened or a capital loss if the premium received from a sale is less than the original premium paid. The Fund had transactions in written options for the period ended December 31, 2021.

NOTES TO INVESTMENT PORTFOLIO (unaudited) (concluded)

As of December 31, 2021

Highland Global Allocation Fund

Affiliated Issuers

Under Section 2(a)(3) of the Investment Company Act of 1940, as amended, a portfolio company is defined as "affiliated" if a fund owns five percent or more of its outstanding voting securities or if the portfolio company is under common control. The table below shows affiliated issuers of each Fund as of December 31, 2021:

Issuer	Shares at September 30, 2021	Beginning Value as of September 30, 2021 \$	Purchases at Cost \$	Proceeds from Sales \$	Distribution to Return of Capital \$	Net Amortization (Accretion) of Premium/ (Discount) \$	Net Realized Gain (Loss) on Sales of Affiliated Issuers \$	Change in Unrealized Appreciation (Depreciation) \$	Ending Value as of December 31, 2021 \$	Shares at December 31, 2021	Affiliated Income \$
Majority Owned, Not Consolidated											
None											
Other Affiliates											
Terrestar Corporation (U.S. Equity)	169,531	57,255,705	—	—	—	—	—	(406,874)	56,848,831	169,531	—
GAF REIT (U.S. Equity)	963,568	12,963,362	—	—	—	—	—	908,645	13,872,007	963,568	—
NexPoint Real Estate Finance (U.S. Equity)	644,511	12,555,074	—	—	—	—	—	(148,237)	12,406,837	644,511	306,143
NexPoint Residential Trust, Inc. (U.S. Equity)	164,942	10,206,611	62,561	—	(50,280)	—	—	3,671,152	13,890,044	165,593	12,478
GAF REIT Sub II, LLC (U.S. LLC Interest)	100	4,049,578	—	—	—	—	—	(557)	4,049,021	100	—
NREF OP I, L.P. (U.S. LLC Interest)	124,046	2,416,416	—	—	—	—	—	(28,530)	2,387,886	124,046	49,618
SFR WLIF I, LLC (U.S. LLC Interest)	6,773,494	6,502,737	—	—	—	—	—	(76,777)	6,425,960	6,773,494	133,526
SFR WLIF II, LLC (U.S. LLC Interest)	4,437,497	4,285,837	—	—	—	—	—	(50,601)	4,235,236	4,437,497	88,005
SFR WLIF III, LLC (U.S. LLC Interest)	3,789,008	3,535,600	—	—	—	—	—	53,311	3,588,911	3,789,008	41,284
Terrestar Corporation (U.S. Senior Loan)	17,895,565	17,895,565	502,222	(9)	—	—	—	9	18,397,787	18,397,787	512,395
NexPoint Event Driven Fund (U.S. Exchange-Traded Fund)	—	—	11,011,080	—	—	—	—	189,830	11,200,910	706,236	—
BB Votorantim Highland											
Infrastructure LLC (Non-U.S. Registered Investment Company)											
	10,000	3,235,150	—	—	—	—	—	(198,960)	3,036,190	10,000	—
Highland Income Fund (U.S. Registered Investment Company)											
	334,005	3,597,234	—	—	—	—	—	73,481	3,670,715	334,005	77,155
NexPoint Diversified Real Estate Trust (U.S. Registered Investment Company)											
	549,863	7,648,594	—	—	—	—	—	(181,455)	7,467,139	549,863	82,480
NexPoint Merger Arbitrage Fund (U.S. Registered Investment Company)											
	585,733	12,030,966	24,557	(11,011,080)	—	353,124	—	(323,769)	1,073,798	52,949	802,811
Other Controlled											
None											
Total	<u>36,441,863</u>	<u>158,178,429</u>	<u>11,600,420</u>	<u>(11,011,089)</u>	<u>(50,280)</u>	<u>353,124</u>	<u>—</u>	<u>3,480,668</u>	<u>162,551,272</u>	<u>37,118,188</u>	<u>2,105,895</u>