

Item 1

Cover Page

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This brochure provides information about the qualifications and business practices of Highland Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 901-761-9500 or dspivey@highlandcap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Highland Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2

Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published "Amendments to Form ADV," which amends the disclosure document that all advisors provide to clients as required by SEC Rules. This Brochure dated May 12, 2011 is a new document prepared according to the SEC's new requirements and rules. As such, this document is materially different in structure and requires certain new information that previous brochures did not require.

In the future, this Item will discuss specific material changes that are made to this Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure. We will further provide clients with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting us at 901-761-9500.

N/A.

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Item 4 Advisory Business

Highland Capital Management, LLC (“Highland Capital”), formed as Highland Corp in 1987, is an investment advisory firm specializing in managing equity and fixed income portfolios. Our firm services clients in the private, corporate and public sector. As of 12/31/2010, Highland Capital had \$1,412,306,457 of assets managed on a discretionary basis and \$834,369 of assets managed on a non-discretionary basis.

We provide continuous advice as to the investment of client funds and tailor our advisory services to the individual needs of clients. As such, we take into consideration the nature and amount of client assets and investments, client risk tolerance, and liquidity requirements in providing individualized advisory services. Our firm does not provide personal financial planning services. Sometimes clients may impose investment restrictions on their accounts. We welcome the opportunity to accommodate any special client needs.

It is important to us that we hear from our clients often. We want to make sure that our clients’ current investment strategies meet their needs.

Some of our clients use “wrap fee programs” of unaffiliated broker-dealers (the “Program Sponsor”). Currently we participate in one wrap fee program through Wells Fargo Advisors. We manage these portfolios just like other portfolios, except we are not able to select the broker-dealer to execute the security trade. Highland Capital does not sponsor any wrap fee programs.

Each Program Sponsor may offer different services. Typically, they include:

- Providing a list of approved advisers;
- Monitoring and evaluating performance of client investment accounts;
- Executing client trades without any commissions;
- Providing performance reporting;
- Providing custody of client investments; and
- Determining if a program is suitable for you.

We do not negotiate brokerage commissions in wrap fee programs. We are not able to give any assurances that we will be able to obtain the best price or execution quality for client trades within these programs. The Program Sponsor lumps all of the services, including trades, into one fee that is charged to clients. Our fee may or may not be included in the Program Sponsor fee. Clients should be aware that the wrap fee charged by a Program Sponsor may exceed the cost for paying for these services separately.

Item 5 Fees and Compensation

Highland Capital calculates fees based upon the market value of client assets under management. Our fees are subject to negotiation and are payable quarterly by calculating

the market value of client assets on the last day of business in a calendar quarter.

Clients have the option to pay their fee one quarter in advance. Upon termination of an account, the client will receive a prorated portion of their prepaid fees. The fee will be prorated based on the number of days between closing date and next billing quarter date. For example, if a client pre-paid their fees through June 30 and the account closed May 31, we would refund the portion of the fees from the closing date to June 30.

Below is the standard fee schedule for Highland Capital.

- Fixed Income Accounts

<u>Market Value of Assets Managed</u>	<u>Rate Per Annum</u>
First \$10,000,000	0.375%
In Excess of \$10,000,000	0.25%
Highland has a minimum annual fee of \$3,750	

- Institutional Short-Term Accounts

<u>Market Value of Assets Managed</u>	<u>Rate Per Annum</u>
First \$50,000,000	0.125%
Next \$100,000,000	0.100%
Next \$150,000,000	0.075%
Over \$250,000,000	Negotiable
Highland has a minimum annual fee of \$10,000.	

- Equity Accounts

<u>Market Value of Assets Managed</u>	<u>Rate Per Annum</u>
First \$5,000,000	1.00%
Next \$10,000,000	0.75%
In Excess of \$15,000,000	0.50%
Highland has a minimum annual fee of \$3,750	

Below is an example of how we calculate a quarterly fee.

Type of Investment	Market Value	Rate	Qtr	Fee
Equity	1,000,000	x 1.000%	÷ 4	= \$2,500.00
Fixed Income	1,000,000	x 0.375%	÷ 4	= \$ 937.50
Cash	25,000	x 0.375%	÷ 4	= \$ 23.44
Total Fee:				\$3,460.94

Clients can pay fees two different ways. Clients can send a check to Highland Capital or we can bill the client's custodian for payment from client assets. Clients may select their

preferred method of fee payment. We will always send clients an invoice and an account statement each quarter.

Clients will incur other fees, in addition to the fees charged by Highland Capital. Broker-dealers will charge commissions on each investment trade, which become part of the cost of the trade. Please review **Item 12** for more information about our brokerage practices.

Some custodians charge clients a custody fee, which is described in the custody agreement.

Highland Capital is also a sub-investment adviser to First Tennessee Advisory Services Inc. ("FTAS"). FTAS has an agreement with the ir clients granting FTAS the authority to retain us to manage some or all of the ir clients' assets. FTAS will review and recommend to their client an investment strategy or asset allocation. FTAS monitors client account performance to ensure that the chosen strategy is still suitable to client needs. FTAS provides all client reporting. We select the brokers-dealer for all investment trades. We invoice FTAS for their sub-advisory fee each quarter for each account managed in this program. This fee is calculated on the total assets under management.

Below is our fee schedule for accounts we manage under the FTAS program.

- Equity Accounts

<u>Market Value of Assets Managed</u>	<u>Rate Per Annum</u>
First \$5,000,000	1.00%
Next \$10,000,000	0.75%
In Excess of \$15,000,000	0.50%
<i>Account Minimum is \$250,000</i>	

- Fixed Income Accounts

<u>Market Value of Assets Managed</u>	<u>Rate Per Annum</u>
First \$10,000,000	0.25%
In Excess of \$10,000,000	0.20%
In excess of \$20,000,000	Negotiable
<i>Account Minimum is \$500,000</i>	

Item 6 Performance-Based Fees & Side-By-Side Management

Highland Capital does not accept any performance-based fees.

Item 7 Types of Clients

Highland Capital services institutional and individual clients. Our clients are individuals, charitable organizations, state or municipal government entities, hospitals, pension and profit sharing plans, and trusts.

Highland Capital does not have account size minimums, except for acceptance of accounts from the First Tennessee Advisory Services program. See **Item 5** for a list of account minimums.

Item 8 Methods of Analysis, Investment Strategies & Risk of Loss

Equity Securities

Highland Capital's equity investment philosophy is geared toward identifying and investing in equities that we believe will generate above market returns with below market risks. Our strategy is to:

- Focus on the larger capitalized companies within the S&P 500 with strong financial characteristics;
- Purchase shares when prices represent excellent value, selling at the lower range of historic P/E valuation; and
- Place emphasis not only on upside potential, but also protecting downside risk.

Our investment process utilizes proprietary models in conjunction with a detailed research process to select the companies to invest in from the S&P 500 for our equity portfolios. We rely on our Research Analyst to scrutinize market segments and present in our opinion the most attractive opportunities to our Investment Committee, who makes the ultimate investment decisions. The Investment Committee also reviews client portfolio allocations among market sectors given the current business cycle. The process ends with the identification of approximately 50 equity securities that we call our Core Portfolio.

Our key steps to the equity selection process include:

- Screening for companies with strong financial characteristics.
 - Our goal is to own companies that have proven over time to be better at growing their business than the average company in the S&P 500.
 - We make use of a proprietary quantitative screening process, which measures a variety of financial characteristics, including:
 - Sales per share growth;
 - Operating margins;
 - Earnings per share growth;
 - Return on Invested Capital; and
 - Excess Cash Flow utilization.
 - We analyze a full decade of financial statistics to determine how a company performs in both good and bad economic periods. Key metrics include:
 - Solid business models or proprietary franchise positions;
 - Deep and adept management;

- Strong balance sheets;
- Financial flexibility; and
- Strong end product markets.
- Qualitative factors (analysis that goes beyond the numbers).
 - We focus on those companies where our research strengths can add the greatest incremental value.
 - We also look for companies where management's financial interest is aligned with its investors.
 - Companies with market capitalizations less than \$2 billion will usually be eliminated from consideration, unless trading liquidity is adequate.
- Relative Valuation
 - Focus on identifying investment opportunities with favorable risk/reward characteristics. Our entry point is determined by:
 - Tracking 3 & 6-year range of relative price/earnings, relative price/cash flow, price/sales and price/book;
 - Historical stock valuation on an absolute and relative basis;
 - Analyzing downside risk as well as upside potential; and
 - Developing return and risk parameters based on current earnings per share forecasts.
- Core Portfolio
 - A majority of the Investment Committee must vote in the affirmative for a stock idea to make it into the clients' portfolio.
 - Approximately 45-55 stocks comprise an equity portfolio.
 - Over-weight sectors exist in higher quality groups.
 - Multi-year holding periods allow earnings growth to compound, with historic average annual turnover below 35%
- Monitoring stocks to determine if they still meet the investment criteria of the Core Portfolio. We sell stocks when:
 - Better alternative opportunities are identified;
 - Stocks becomes overpriced;
 - Stock weighting becomes excessive; and
 - Company or sector fundamentals begin to deteriorate.

Risks of Investing in Equity Securities

Our analysis of both the earning potential and the relative valuation of a company can be wrong, resulting in a significant loss of principal. As an investor in securities, your value of the holdings may go down due to a financial crisis of the company or industry you are invested in, or in general the U.S. and/or Global economy could impact the value of your holdings significantly.

Fixed Income Securities

Highland Capital's objective is achieving returns that are above the market average while holding volatility at or below that of the market over an interest rate cycle. Although we believe that accurately forecasting interest rates is very difficult, we recognize that there are broad, recurring trends which are identifiable and which closely follow the economic cycle. These trends occur because interest rates reflect the supply and demand for money, which ebbs and flows over a business cycle. Bond yields are most likely to decline during recessions when business activity is contracting and competition for money is weak. Conversely, rates rise during expansions when increased demand for money and concerns about inflation start to emerge. Portfolio maturity and duration (risk) are monitored and adjusted to reflect the appropriate stage of the business cycle. Our strategy seeks to have the most exposure to the bond market in terms of maturity and duration when rates are high on a cyclical basis and when a recession is either imminent or underway. Likewise, portfolio maturity and duration are reduced in the expansion phase when rates are most likely to rise. The range of portfolio maturities and duration is flexible, varying with the relative value of the bond market and with specific needs and risk tolerances of our clients.

Managing income is an important ingredient in our fixed income philosophy. While movements in bond prices are important in the short run, income is the major component of return in the long term. Our strategy strives to construct and maintain portfolios with yields in excess of the market. This enables our clients to maximize the benefits from compounding of interest. In addition, the higher yields serve to cushion the impact of price declines in periods of rising interest rates. Our strategy implies an overweighting in non-government fixed-income securities and requires that all segments of the capital markets be monitored in order to capitalize on yield differentials that develop because of market inefficiencies.

Credit quality is a necessary consideration in our fixed income decision-making process. While most managers consider bonds as investments, in truth they are loans for fixed periods of time at fixed rates of interest. No sound lending institution should provide loans without making informed judgments concerning the credit worthiness of the borrower and the appropriate rate of interest to charge. We feel the same way about "lending" our clients money. In addition, we believe that there is no reasonable rate of interest that will compensate for the loss of principal through default. As a result, we focus the majority of our credit attention on investment grade securities. This provides greater security against credit risks and enhances market liquidity. As with any investment strategy, there is a risk of loss that clients should be prepared to bear.

Risks of Investing in Fixed Income Securities

Each investor in the fixed income market should be aware that the issuer of the bond may default and not be able to pay back the principal amount invested, as well as the outstanding interest owed. Issuers of bonds may be impacted by economic

difficulties resulting in decreased revenues that would have been used to pay back the bond. Additionally, the bond market is not very liquid and there may not be any investor interest in the bond your account holds; therefore, the price of your investment may decrease and we may not be able to sell it.

Item 9 Disciplinary Information

There are no legal or disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

The President of Highland Capital has a family member that is a registered representative of a broker-dealer. Fixed income investments are sometimes purchased or sold to or from this broker-dealer. This family member receives a commission on the trades executed; therefore, this relationship may create a potential conflict of interest. On the sale side, Highland Capital uses a uniform approach for obtaining bids for security sales from all broker-dealers, including the related broker-dealer. The broker with the best price for the client will be selected, and Highland maintains all bidding documentation. On the purchase side, several criteria have to exist before a bond is purchased from a broker-dealer, including:

- Price of Bond;
- Interest Rate;
- Credit Rating;
- Amount Available for Purchase; and.
- Bond Yield.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Highland Capital maintains a Code of Ethics that requires our employees to pre-clear all personal security trades with the designated compliance officer. The code allows our employees to buy and sell securities we are buying and selling for our client accounts. It also allows them to buy and sell other securities not on our list. If our employees choose to trade opposite of what we are trading for our client accounts, special circumstances must be present before such a trade is approved. Examples include:

1. No client is harmed as a result of the transaction;
2. Not approving the sale would result in a significant financial detriment to the employee; and
3. The employee is not unfairly advantaged as a result of the transaction.

Each personal trade is evaluated individually before approval to ensure this employee trade will not harm our clients. Our code also requires each of our employees to report each quarter all of their personal security trades to the designated compliance officer. Any violations of the code are reported immediately to the President of Highland.

Clients may request a copy of our Code of Ethics by contacting the Chief Compliance Officer at 901.761.9500.

We also have a policy in place to discourage our employees from contributing to political campaigns in return for business from political entities. The policy limits the contribution amount and requires reporting of these contributions to our Chief Compliance Officer. Any contributions exceeding the amount allowed by the SEC's Investment Adviser Act Rule 206(4)-5 would be grounds for termination. This policy also prevents us from receiving adviser fees from clients that would have benefited from this political contribution.

Item 12 Brokerage Practices

Highland Capital submits all security trades through established and reputable brokers at commissions comparable to those normally charged by other brokers. In selecting broker-dealers, we consider factors such as execution capability, the broker's perceived financial stability, the broker's responsiveness to our transaction requests and the broker's clearance and settlement capability.

Research services provided by the broker for the benefit of our clients may also be considered. Brokers provide research services in the form of software and research reports on economic trends, industries, and individual firms. When we obtain research services through client commissions, we receive a benefit because we do not have to produce or pay for the research, products or services. We may pay a broker who provides research services commissions that are higher than another broker might have charged, but that ordinarily will not be higher than the generally prevailing rate if we determine in good faith that the commissions are reasonable in relation to the research services provided. The research services may be useful in servicing any of our accounts, but not all of the research may be useful to the account for which the particular transaction was effected.

The commissions paid to the brokers are used to pay third parties and/or brokers for the research products identified in the table below. Some of the products are used for both investment research and for client record keeping purposes and other non-research purposes. We make a good faith effort to determine the percentage of such products and services that are considered research. The portion of the costs of such products or services attributable to research services may be paid through brokerage commission generated by client transactions. Our firm pays the portion of the costs attributable to non-research usage.

Below is a table of products/services purchased with soft dollars this last calendar year.

Product Name	Product Description
Interactive Data Pricing	Service provides pricing for all the investments our clients hold.
Bloomberg	Provides comprehensive fundamental research on companies, industries, and the economy for both equity and fixed income investing as well as price quotes.
Interactive Data BondEdge	Provides fixed income analytics for risk management.
Options Price Reporting Authority	This is the fee to obtain prices of listed option securities through our Bloomberg and Quote Stream Pro applications.
New York Stock Exchange Fees	This is the fee to obtain prices of listed securities through our Bloomberg and Quote Stream Pro applications.
Quote Stream Pro	Product is used by analysts and portfolio managers to follow financial stock market data and market news on current and future holdings of our clients.
Thomson Reuters Knowledge	Provides broker-dealer research reports on companies we follow.
Thomson Reuters Baseline	Application provides equity fundamental data and street research. This service was discontinued on November 30, 2010.
Telemet	Product is used by analysts and portfolio managers to follow financial stock market data and market news on current and future holdings of our clients. This service was discontinued on February 28, 2010 and replaced with Quote Stream Pro.
Thomson Reuters Portia	Portia is a portfolio management and performance software application. It allows Portfolio managers to analyze client performance in relation to indexes and the current economic environment. A portion of the system is used for non-research services and such portion of the cost is paid for in cash. We use this application to produce client statements and other internal reports used by our operational staff.
Strategis	Provides research reports on the economy and different industries.
Thomson Reuters Open Trader	Software application is used to conduct what-if scenarios of proposed security trades. The system allows the portfolio manager to send the trade electronically to the trader to execute the trades. The portfolio managers also use the report function to identify and evaluate current holdings of portfolios. A portion of this system is used for non-research services and such portion of the cost is paid for by us.

Directed Brokerage

Some of our clients have established relationships with particular brokers or brokerage firms when they become advisory clients. Clients may use the investment consulting services of these brokers and brokerage firms for the purpose of manager evaluation, asset allocation advice, establishment of objectives and risk parameters, performance monitoring, participating in account review meetings and other similar services. In addition, the brokerage firm may also provide custody of client assets. In these circumstances, the negotiation of brokerage fees is typically a matter of negotiation between the client and the client's broker.

The execution costs for such client directed accounts might be higher than what our other clients pay. It may also prevent our clients from achieving a better execution of their trade. Typically, we are able to receive a better price and execution on security trades. We are able to do this by grouping all of our client trades together and submitting one large batch order. This gives us an advantage on price negotiation.

If clients want to continue using their specified broker and want better pricing, we will be happy to contact their broker and try to negotiate better pricing.

Cross-Trading

Sometimes we are asked to liquidate fixed income securities for our clients. When a liquidation request is received, our portfolio managers look at the securities they are going to sell to determine if it would be appropriate for another existing account. If it is deemed a fit for another account, the security is placed out to bid with broker-dealers. Once the highest bid is obtained, the security is sold out of liquidating account at the highest bid rate and sold to the other account. The security is transferred between the two accounts.

If the accounts have different custodians, or if the custodian is unable to transfer securities as described above, the portfolio manager will obtain three bids for the security from unaffiliated dealers. The portfolio manager will sell the security to the dealer with the highest bid and repurchase the security from the same dealer for the purchasing account, plus a mark-up.

Aggregating Orders

We may execute securities transactions on behalf of a number of accounts at the same time, generally referred to as "block trades". When executing block trades, securities are allocated among accounts using procedures that we consider fair and equitable. Participation of an account in the allocation is based on considerations such as investment objectives, restrictions and time horizon, availability of cash and the amount of existing holdings of the securities (or substitutes) in the account. Generally, various forms of pro rata allocations are used, however, certain factors may result in an account receiving

more or less than its pro rata share due to factors such as cash availability, diversification requirements and investment objectives, time horizons and particular restrictions on an account. If multiple trades for a specific security are made with the same broker in a single day, each account participating in the order will be allocated an average weighted price obtained from the executing broker. Accounts with directed brokerage instructions will be excluded from block trades. When a small number of shares in a public offering are allocated to Highland Capital, it may allocate disproportionately taking into consideration the performance of the accounts and the account sizes.

Item 13 Review of Accounts

Highland Capital's portfolio managers review each investment advisory account to tailor its asset mix, diversification, and income to the client's current needs. In addition, individual meetings with our clients are held at regular intervals selected by the client, or at irregular intervals at the request of the client, to discuss individual portfolio results and objectives. Our portfolio managers attempt to meet with each client at least once each year. The securities in each portfolio are checked each business day in respect to price fluctuations and news events in which our clients have an interest. The advisor also looks at broad economic trends and monetary policy. Managers routinely review investment requirements and investment conditions. Significant changes in market conditions, the economic environment, and the outlook for industry or stock groups will trigger the review of accounts.

In the event of a turbulent market, we will increase the frequency of our reviews of client portfolios. Any material adverse information concerning securities held in a portfolio will result in a careful examination and possible sale of said securities. Any materially favorable information concerning securities will be a factor in determining the purchase of those securities provided the other fundamental and technical factors support a purchase of those securities.

We also send investment holdings and transaction statements to our clients four times a year. The statements are sent out after each calendar quarter-end.

Item 14 Client Referrals and Other Compensation

Highland Capital had a solicitation agreement with the Trust Division of First Tennessee Bank National Association (the "Bank"), formerly a related entity to Highland Capital by common ownership, which terminated on April 29, 2011, in connection with the change of control of Highland. Under the terminated agreement, Highland Capital continues to pay certain eligible Bank Trust Division employees an incentive for referred clients to Highland Capital. The amount of the referral fee paid is 5% of annual fees received by Highland Capital from the client's account established pursuant to the referral.

Highland Capital also had a solicitation agreement with First Tennessee Brokerage, Inc. (FTBR), formerly a related entity to Highland Capital by common ownership, which

terminated on April 29, 2011, in connection with a change of control of Highland Capital. Under the terminated agreement, Highland Capital continues to pay FTBR employees 25% of the annual investment advisory fee received by our firm from the client account.

Item 15 Custody

Highland Capital does not maintain custody of client funds or investment securities. All client assets are in control of the client's qualified custodian. Each time an investment trade is executed for a client account, we inform the custodian of the transaction. The custodian settles the investment trade between the broker-dealer and the client's account.

Each quarter Highland Capital provides clients with statements outlining the transactions that occurred in their account during the quarter. We encourage our clients to compare the account statements received from us to the statements they receive from the client's custodian for accuracy.

Custodians require clients to contact them directly if they want to make a payment to a third party. Custodians also require clients to notify them if clients have a change of address. This procedure ensures the safety of client investments.

Item 16 Investment Discretion

Highland Capital's advisory contracts give us discretion to supervise and direct, on a continuing basis, as agent and attorney-in-fact on behalf of the client, without prior consultation with the client, the investment, and reinvestment of all assets.

If a client has specific investment policies or restrictions, that information should be provided to us.

All new clients are required to sign our advisory contract, which describes our responsibilities for managing the client's portfolio.

Item 17 Voting Client Securities

Highland Capital has been given the authority to vote proxies on behalf of our clients under the terms of our Investment Management Agreement. We maintain proxy voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6, to ensure that proxies are voted in the best interests of our clients. Our proxy voting guidelines address, but are not limited to, the following issues:

- Ensuring the Board of Directors serves the interest of shareholders;
- Transparency and integrity of financial reporting;
- The link between executive compensation and performance;
- Governance structure and the shareholder franchise; and
- Compensation, environmental, social and governance shareholder initiatives.

Clients may obtain a complete copy of our proxy voting policy and information on how we voted their securities by contacting the Compliance Officer at 901-761-9500, or by email at dspivey@highlandcap.com.

Currently, a third party vendor, Broadridge, votes our clients' proxies in compliance with our approved guidelines. Broadridge also maintains the proxy voting record for each of our client accounts.

Clients that want certain proxies to be voted against our guidelines must forward this request to their portfolio manager.

Sometimes there may be proxy issues that create a conflict of interest. Each year, we identify any issues that might create a conflict of interest during the proxy voting process. Examples of conflicts of interest include:

- Highland Capital manages an account for a company whose management is soliciting proxies.
- Highland Capital has a material relationship with a proponent of a proxy proposal and this business relationship may influence how the proxy vote is cast.
- Highland Capital or its principals have a business or personal relationship with participants in a proxy contest, corporate directors or candidates for directorships.

Since we allow Broadridge to vote all the proxies, potential conflicts of interest are reduced. We do have the ability to over-ride the proxy votes if we choose. If this occurs, the Chief Compliance Officer would be notified of the request and would research the issue and make a determination regarding the presence or absence of any actual or potential conflict of interest. If a conflict of interest exists, the client's consent would be obtained before voting in a manner other than specified in the guideline. We will provide the client with sufficient information regarding the shareholder vote and our conflict so that the client can make an informed decision whether or not to consent.

Item 18 Financial Information

Highland Capital does not require or solicit prepayment of client fees. We do offer clients the option of prepaying fees one quarter in advance, as described in Item 5, but not six months or more in advance.

Item 19 Requirements for State-Registered Advisers

Because Highland Capital is registered with the SEC, this Item is not applicable.