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This brochure provides information about the qualifications and business practices of Highland Associates, Inc. If you have any questions about the contents of this brochure, please contact us at (205) 933-8664, or by email at jwatts@highlandassoc.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.

Registration as an investment adviser does not imply a certain level of skill or training.

Additional information about Highland Associates, Inc. is available on the SEC's website at www.adviserinfo.sec.gov.

March 30, 2012

Material Changes

Annual Update

Highland Associates, Inc. is providing this information as part of our annual updating amendment which contains material changes from our last annual update. This section discusses only material changes since the last annual update which most recently occurred on March 28, 2011.

Material Changes since the Last Update

This Brochure, dated March 30, 2012, contains two material changes from our last annual update.

First, this Brochure provides additional detail regarding a discretionary asset management platform (the “Discretionary Platform”) that Highland Associates, Inc. provides to certain clients.

Second, this Brochure provides basic information regarding the advisory services that Highland Associates, Inc. provides to two registered investment companies, Redmont Resolute Fund I and Redmont Resolute Fund II (collectively, the “Mutual Funds”). Highland Associates, Inc. is providing the information regarding the Mutual Funds contained in this Brochure in response to the required items in Form ADV Part 2A. Shareholders and prospective shareholders of the Mutual Funds should not rely on the information concerning the Mutual Funds contained in this Brochure, but should instead consult the prospectus for the applicable Mutual Fund.

Table of Contents

<u>Material Changes</u>	2
<u>Advisory Business</u>	4
<u>Fees and Compensation</u>	9
<u>Performance-Based Fees</u>	11
<u>Types of Clients</u>	12
<u>Methods of Analysis, Investment Strategies and Risk of Loss</u>	12
<u>Disciplinary Information</u>	14
<u>Other Financial Industry Activities and Affiliations</u>	15
<u>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</u>	17
<u>Brokerage Practices</u>	18
<u>Review of Accounts</u>	18
<u>Client Referrals and Other Compensation</u>	20
<u>Custody</u>	20
<u>Investment Discretion</u>	20
<u>Voting Client Securities</u>	21
<u>Financial Information</u>	21

Advisory Business

Firm Description

Highland Associates, Inc. was founded in 1987 in Birmingham, Alabama as an independent, fee-based consulting firm. We organized our firm specifically to assist not-for-profit health care organizations develop, implement and maintain treasury and investment management programs, including asset/liability analysis, policy development, asset allocation, manager search/selection and performance monitoring.

Highland Associates, Inc. was born out of the collective vision and foresight of its three founding principals, combining their unique skills and experience from pension consulting and health care finance to develop a process for managing health care investment portfolios.

The primary factor differentiating us from other investment consultants is our focus on not-for-profit health care organizations. Highland Associates, Inc. has a former hospital CFO on its staff. As a result, we have an intimate understanding of the business and its unique issues, which makes our experience not only relevant, but critical. These experiences have allowed us to develop a proprietary model that calculates the operating liabilities of a health care organization in a manner that is conducive to the development of portfolio policy and strategy.

Principal Owners

The principal owners of Highland Associates, Inc. are William T. Mills III, Charles D. Perry, Jr., William A. Terry and John R. Doody, Jr.

Types of Advisory Services

Highland Associates, Inc. provides investment consulting services for two broad categories of investable assets. These categories are Non-Pension Assets (which includes high net worth individuals, trusts, estates and charitable foundations, corporations, healthcare and related institutions, deferred compensation plans, endowments/foundations, and family limited partnerships and similar entities) and Pension Fund Assets. Highland Associates, Inc. engages in the following five major analytical activities:

A. Policy Development:

For Non-Pension Assets Only: Highland Associates, Inc. prepares a capital plan with each client which analyzes sources and uses of capital. In this process Highland Associates, Inc. develops a risk profile for each client. Based upon this risk profile Highland Associates, Inc. identifies a range of portfolio goals and objectives. Utilizing an asset allocation model, Highland Associates, Inc. identifies a portfolio asset allocation consistent with the client's risk profile and capital plan. All of the analysis performed is

incorporated into an investment policy which Highland Associates, Inc. proposes to the client as a means of governing the investment activities of the client.

For Pension Fund Assets Only: Highland Associates, Inc. reviews each client's pension plan and conducts a complete pension simulation (with the assistance of actuaries) in order to identify a range of asset allocations which conform appropriately to future liability growth. The data developed in this analysis and related simulations serve as the basis for the Highland Associates, Inc.'s recommendation of a complete pension plan investment policy.

B. Manager Search: Highland Associates, Inc. develops criteria for each client to use in identifying fund managers suitable for the investment policy described above. Highland Associates, Inc. screens eligible managers against certain objective criteria and ranks eligible managers quantitatively. Highland Associates, Inc. also performs quality assessments of managers through the use of questionnaires and review of available information from or relating to the manager. Highland Associates, Inc. coordinates manager interviews and assists in each client's selection of managers through appropriate suggestions.

C. Portfolio Implementation: After the client has selected managers, Highland Associates, Inc. negotiates fund manager contracts for the benefit of the client. Also, Highland Associates, Inc. proposes an appropriate asset allocation for clients' funds among the managers selected in order to optimize the resulting investment portfolio.

D. Performance Monitoring: On a quarterly basis Highland Associates, Inc. reviews with each client the performance of its investment portfolio. The review typically consists of a quantitative review of the entire portfolio and of each segment of the portfolio as compared to the governing investment policy. A qualitative review and due diligence update is also provided for each component of the portfolio. Highland Associates, Inc. also evaluates the need for any reallocation or re-balancing of the investment account assets among investment managers in order to remain in compliance with the investment guidelines of the client.

E. Annual Policy Update: Since underlying financial conditions of each client will change from time to time, Highland Associates, Inc. performs revisions of each client's policy on an annual basis. Each client's capital plan is changed and the client's risk profile adjusted in accordance with the client's revised policy and risk profile. Highland Associates, Inc. undertakes any changes necessary to ensure the investment portfolio conforms with the revised policy. Also, all quarterly monitoring activities are intended to conform with the revised policy.

Discretionary Asset Management Platform

In addition to the advisory services described above, Highland Associates, Inc. is currently offering to its existing and prospective clients the option to participate in a discretionary asset management platform (the "Discretionary

Platform”). In addition to the other advisory services described above, for clients choosing to participate in the Discretionary Platform, Highland Associates, Inc. has full investment authority and discretion to allocate and rebalance assets among fund managers, including the ability to terminate relationships with such fund managers and/or establish relationships with new fund managers. Highland Associates, Inc. will make such decisions at such times as Highland Associates, Inc. deems appropriate and without prior consultation with the client, subject only to any applicable investment guidelines set forth in that client’s advisory agreement with Highland Associates, Inc.

Highland Associates, Inc. works with the client’s management and/or governing board or committee to determine risk, budget, policy and allocation ranges. Highland Associates, Inc. does not have the discretion with the Discretionary Platform to select individual securities for investment by its clients.

Highland Associates, Inc.’s Investment Committee (the “IC”) and the Consulting Team (the “CT”) assigned to the particular client have the following roles in the Discretionary Platform:

A. Investment Committee Roles:

1. Model Portfolios. The IC establishes model portfolios and directs the inclusion or elimination of asset classes from the portfolios based on the following broad categories:

- a. Endowment and foundation
- b. Healthcare operating portfolio
- c. Pension

2. Targets and Tolerances. The IC determines the overweight/underweight target and tolerances within each asset class in order to determine tactical shifts.

3. Review. The IC reviews discretionary clients for guideline compliance and performance criteria prior to initial funding and after initial funding on a quarterly basis.

4. Due Diligence. The IC develops and coordinates documentation of due diligence efforts on a list of managers for use in the discretionary model.

B. Consulting Team Roles and Responsibilities:

1. Guidelines and Policy. The CT develops guidelines and policies for each client based on individual needs and the following:

- a. The client’s responses to a survey concerning the client’s objectives and constraints (the “Risk Survey”).

b. The client's statement of the clients' investment policy (the "Investment Policy Statement"). If the client does not have a current formal Investment Policy Statement, Highland Associates, Inc. may assist the client in creating one.

c. Company Model (if applicable for Healthcare Operating clients).

2. Implementation. The CT implements tactical asset allocation shifts outlined by the IC in utilizing the client investment policy as a guideline.

3. Portfolio Monitoring. The CT submits a request to the IC as to why the CT believes the account should be out of compliance with the IC recommendation prior to moving the portfolio out of compliance. The CT submits quarterly monitoring documents to the IC covering asset allocation and account performance. The CT revisits, annually for the first three years and then tri-annually, the client's portfolio objectives and portfolio constraints. In the event that the client is out of compliance with any model portfolio shifts, the CT submits documents to the IC explaining the variation.

5. Trading. The CT coordinates all trades with the Portfolio Operations Manager, who will then notify the custodian of the trades.

6. IC Reporting. The CT submits quarterly compliance and performance reports to the IC for oversight. The reports include asset allocation compliance and account performance.

C. Client Roles and Responsibilities: Actions that are the responsibility of the client and should be coordinated by the CT with each client are listed below.

1. Risk Survey. The client will complete the Risk Survey to aid in the determination of the objectives and constraints of the portfolio(s).

2. Investment Policy Statement. The client will provide an existing approved Investment Policy Statement for the portfolio(s) under advisement.

3. Approval. The client will approve any new or updated Investment Policy Statement for the portfolio(s) under advisement and approve the asset classes and allowable ranges for each asset class prior to investment.

D. Ongoing Portfolio Monitoring. The CT monitors the account once the portfolio has been implemented. The CT monitors asset allocation, account performance, portfolio objectives and portfolio constraints. The CT notifies the IC of any changes and submits documentation if it is appropriate for the client to be out of compliance.

Tailored Relationships

Highland Associates, Inc. is actively engaged in rendering financial consulting services to its clients, which services include proposing overall investment goals and objectives suitable for each client's cash position and financial strategy, proposing for each client an efficient and suitable asset allocation mix of asset types, consulting on general cash management, and performing manager searches and custodial audits.

Pursuant to the advisory agreement entered into between Highland Associates, Inc. and each client, the client may impose restrictions on investing in certain securities or types of securities.

Mutual Funds

In addition to the above, Highland Associates, Inc. provides investment advisory services to two registered investment companies, Redmont Resolute Fund I and Redmont Resolute Fund II (collectively, the "Mutual Funds"). Each Mutual Fund is a non-diversified investment portfolio of Financial Investors Trust, an open-end series management investment company organized as a Delaware statutory trust. Each Mutual Fund is structured as a fund-of-funds. Under normal circumstances, each Mutual Fund pursues its objective by investing primarily in a managed portfolio of other open-end investment companies registered under the Investment Company of 1940, as amended, that use alternative or hedging strategies. Each Mutual Fund may also invest in closed-end funds, exchange-traded funds and exchange-traded notes, which provide exposure to hedging or alternative strategies. Each Mutual Fund has an investment management agreement with Highland Associates, Inc. that establishes investment criteria and other restrictions and guidelines that govern the relationship between such Mutual Fund and Highland Associates, Inc.

For purposes of this Brochure, the term "clients" refers to the accounts of any individual or entity that Highland Associates, Inc. has agreed to manage for investment purposes. The term "clients" does not refer to the investors in the Mutual Funds because Highland Associates, Inc. manages the accounts of these entities as a whole, rather than the accounts of each of the investors. Although the Investment Advisers Act of 1940, as amended, uses the term "client" in multiple contexts, this Brochure distinguishes between Highland Associates, Inc.'s clients and the investors in the Mutual Funds. In addition, because Highland Associates, Inc. is not required to deliver a Brochure to the Mutual Funds, several items of this Brochure do not describe the services that Highland Associates, Inc. provides to the Mutual Funds. Such items include "Methods of Analysis, Investment Strategies and Risk of Loss," "Review of Accounts" and "Custody." For additional information regarding the Mutual Funds, please consult the applicable Mutual Fund's prospectus.

Asset Management

As of December 31, 2011, Highland Associates, Inc. managed \$1,724,723,677 of client assets on a discretionary basis and \$12,919,518,843 of client assets on a non-discretionary basis. Assets managed on a discretionary basis *and* assets managed on a non-discretionary basis are included in computing "assets under management" required for

Item 5.F in Part 1A of Highland Associates, Inc.'s Form ADV. With respect to assets managed on a non-discretionary basis, these assets are included in computing "assets under management" because Highland Associates, Inc. has continuing or regular supervisory or management responsibility.

Fees and Compensation

Description

Highland Associates, Inc. charges its clients the following fees based on assets under management for the services that it provides:

A. Institutional Clients (Non-Discretionary):

<u>Client Assets under Management (in Millions)</u>	<u>Annualized Fees</u>
\$0-\$25	\$75,000
\$26-\$50	.15%
\$51-\$75	.10%
Over \$75	.05%

The minimum annual fee for institutional clients (non-discretionary) is \$75,000 (subject to termination as set forth below). All fees are negotiable.

B. Institutional Clients (Discretionary Platform):

<u>Client Assets under Management (in Millions)</u>	<u>Annualized Fees</u>
\$0-\$200	.20%
\$200-\$300	.17%
\$300-\$400	.14%
\$400-\$500	.12%
\$500-\$750	.11%
\$750-1,000	.09%
Over \$1,000	.08%

The minimum annual fee for institutional clients (discretionary) is \$150,000 (subject to termination as set forth below). All fees are negotiable.

C. Individual Clients:

<u>Client Assets under Management (in Millions)</u>	<u>Annualized Fees</u>
\$0-\$5	.50%
\$6-\$20	.35%
\$21-\$40	.15%
Over \$40	.10%

The minimum annual fee for individual clients is \$50,000 (subject to termination as set forth below). All fees are negotiable.

Termination of Advisory Agreement

A client may terminate Highland Associates, Inc. at any time during the term of the engagement by notifying Highland Associates, Inc. in accordance with the terms of the advisory agreement. The client shall be liable for all monthly fee payments which relate to periods prior to the termination of the agreement, but shall not be liable for any remaining fees which otherwise would be due and payable to Highland Associates, Inc.

Fee Billing

Fees are payable monthly in arrears from the contract date at the rate of one twelfth (1/12) of the annual fee based on the fee schedule above. Within ten (10) business days after the last day of each month, Highland Associates, Inc. will send a written invoice to the client.

At the specific request of a client, Highland Associates, Inc. may, in its sole discretion, agree to bill that client in advance or on a quarterly basis.

Other Fees

At all times, all clients shall bear the economic liability associated with employing the services of fund managers and custodians and shall pay all fund manager and custodian fees, as well as brokerage and other transaction costs associated with investing in securities. For more information regarding brokerage fees, please refer to the section of this Brochure entitled "Brokerage Practices."

In addition, from time to time, clients may ask Highland Associates, Inc. to do ad hoc projects that are not directly related to services described above. In these instances a one-time fee may be negotiated with clients for these services.

Fees – Mutual Funds

Each of the Mutual Funds (Redmont Resolute Fund I and Redmont Resolute Fund II) pays Highland Associates, Inc. an investment advisory fee monthly in arrears, based on a percentage of assets under management.

Redmont Resolute Fund I pays Highland Associates, Inc. a fee equal to 0.50% of assets under management¹.

Redmont Resolute Fund II pays Highland Associates, Inc. a fee equal to 0.50% of assets under management. Highland Associates, Inc. has agreed contractually to waive the total amount of Redmont Resolute Fund II's 0.50% management fees. This agreement is in effect through August 31, 2016. Highland Associates, Inc. may not discontinue this waiver without the approval by Redmont Resolute Fund II's Board of Trustees.

The monthly fees are calculated based on the applicable Mutual Fund's average daily net asset values for the applicable month. Further information related to the calculation of management fees and other expenses for the Mutual Funds can be found in the prospectus for each Mutual Fund.

Performance-Based Fees

While Highland Associates, Inc. does not charge its clients performance-based fees, please see the section of this Brochure entitled "Other Financial Industry Activities and Affiliations." As described in that section, certain principals of Highland Associates, Inc. are members of several entities formed to develop and manage several private funds formed to pursue certain alternative investment strategies. In the event that a client requested to invest in one of these private funds, the principals of Highland Associates, Inc., may receive a portion of the management and performance fees paid by such client or by the private fund to the management entity of such fund.

¹ Highland Associates, Inc. has agreed contractually to limit the amount of Redmont Resolute Fund I's total annual expenses, exclusive of 12b-1 Fees, Shareholder Service Fees, Acquired Fund Fees and Expenses, brokerage expenses, interest expenses, taxes and extraordinary expenses, to 1.90% of Redmont Resolute Fund I's average daily net assets. This agreement is in effect through August 31, 2016. Highland Associates, Inc. will be permitted to recover, on a class-by-class basis, expenses it has borne through the agreement described above to the extent that the Redmont Resolute Fund I's expenses in later periods fall below the annual rates set forth in the relevant agreement. Redmont Resolute Fund I will not be obligated to pay any such deferred fees and expenses more than three years after the end of the fiscal year in which the fees and expense were deferred. Highland Associates, Inc. may not discontinue this waiver without the approval by Redmont Resolute Fund I's Board of Trustees.

Types of Clients

Description

Highland Associates, Inc. provides investment advice to high net worth individuals, pension and profit sharing plans, trusts, estates and charitable foundations, corporations, healthcare and related institutions, deferred compensation plans, endowments/foundations, and family limited partnership and similar entities.

In addition, as described elsewhere in this Brochure, Highland Associates, Inc. provides investment advisory services to Redmont Resolute Fund I and Redmont Resolute Fund II (the “Mutual Funds”).

For purposes of this Brochure, the term “clients” refers to the accounts of any individual or entity that Highland Associates, Inc. has agreed to manage for investment purposes. The term “clients” does not refer to the investors in the Mutual Funds because Highland Associates, Inc. manages the accounts of these entities as a whole, rather than the accounts of each of the investors. Although the Investment Advisers Act of 1940, as amended, uses the term “client” in multiple contexts, this Brochure distinguishes between Highland Associates, Inc.’s clients and the investors in the Mutual Funds.

Account Minimums

Other than for the Mutual Funds, Highland Associates, Inc. does not have any requirements regarding minimum account size. Please consult the prospectus for each Mutual Fund for information regarding minimum investment requirements for the Mutual Funds.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Highland Associates Inc.’s analysis methods are based on the evaluation, comparison, and modeling of the historical investment characteristics and alternative asset types and fund managers. Highland Associates, Inc. evaluates alternative asset types and managers using the principals of modern portfolio theory, including an evaluation of their respective market volatilities, alphas, betas, standard deviation, and relative value based on this evaluation. Highland Associates, Inc. assigns each investment alternative or manager, or combination of alternatives or managers, a relative value based on this evaluation. Highland Associates, Inc. then uses these relative values to structure a diversified, “efficient” portfolio that matches the client’s individual capital structure, liquidity requirements and investment objectives with the probable range of returns of the efficient portfolio.

For information regarding the analysis methods used to advise the Mutual Funds, please consult the prospectus for each Mutual Fund.

Investment Strategies

Highland Associates, Inc. employs a static asset allocation strategy to implement its investment advice. Static asset allocations are based on comparisons of the historical investment characteristics of numerous, diverse asset types and managers. Highland Associates, Inc. establishes the appropriate portfolio asset allocation percentages for each client by using statistical modeling techniques, factoring in standard deviation, risk correlation, and Sharpe's Index. Highland Associates, Inc. adjusts its statistical data from time to time to recognize any known or perceived management discipline or manager personnel changes.

For information regarding the investment strategies used to advise the Mutual Funds, please consult the prospectus for each Mutual Fund.

General Risk

No assurance can be given that Highland Associates, Inc.'s methods of analysis and investment strategies will achieve favorable risk-adjusted returns in a variety of capital market conditions. The profitability of Highland Associates, Inc.'s investment strategies will depend to a great extent on correct assessments of the future course of the price movements of securities and other investments. There can be no assurance that Highland Associates, Inc. will be able to predict accurately such price movements. The securities markets have in recent years been characterized by volatility and unpredictability. In addition to market risk, there is unpredictability as to changes in general economic conditions, which may affect the profitability of Highland Associates, Inc.'s investment strategies. In addition, other investment advisors may use differing or additional methods of analysis that Highland Associates, Inc. does not use.

Underperformance in an Upward Trending Market

In general, Highland Associates, Inc.'s methods of analysis and investment strategies may cause it to embrace strategies which are, relative to the larger universe of possible investment strategies, somewhat conservative. As a result, in an upward trending market, it is possible that Highland Associates, Inc.'s investment returns will lag the returns that may be achieved with a less conservative strategy.

Liquidity Risk

It is expected that certain of the securities in which Highland Associates, Inc. recommends that its clients invest will have limited liquidity. This lack of liquidity, together with changes in market conditions, may adversely affect the ability of clients to react to adverse developments affecting their portfolios.

Concentration of Investments

Highland Associates, Inc. may allocate a client's portfolio to a limited number of investment alternatives or managers. As a result of this limited number of investments, the aggregate return of a client's portfolio may be substantially adversely affected by the unfavorable performance of even a single investment.

Risks Related to Dependence on Other Asset Managers

Highland Associates, Inc.'s investment strategies rely in part on allocating portions of a client's portfolio to other asset managers. As a result, the performance of the portfolio of a client of Highland Associates, Inc. will depend on the investment success of such asset managers. In general, Highland Associates, Inc. will not have control or discretion concerning any investment, reinvestment, or distribution policies of such asset managers.

Risk of Loss

Although Highland Associates, Inc. makes every effort to preserve each client's capital and achieve real growth of wealth, investing in securities involves risk of loss that each client should be prepared to bear.

Other Risks May Be Disclosed in Specific Disclosure Documents

The risks described above are intended to summarize risks involved in Highland Associates, Inc.'s methods of analysis and investment strategies. Please note, however, that for each investment that a client makes, the client may receive a specific disclosure document that contains additional risk factors. For example, a client investing in a mutual fund would receive a prospectus for such mutual fund. Likewise, a client investing in a private fund, including the private funds described in the section of this Brochure entitled "Other Financial Industry Activities and Affiliations", would receive a Private Placement Memorandum (or other similar disclosure document). These disclosure documents, which are (except in the case of Redmont Resolute Fund I and Redmont Resolute Fund II) prepared and delivered by parties other than Highland Associates, Inc., would typically set forth detailed risk factors relating to the specific investment of which a client should be aware.

Disciplinary Information

As a regulated entity, Highland Associates, Inc. is subject to routine examination by various state and federal governmental agencies in the ordinary course of business, including the U.S. Securities and Exchange Commission and the U.S. Department of Labor.

Other Financial Industry Activities and Affiliations

Financial Industry Activities

Highland Associates, Inc. is actively engaged in rendering financial consulting services to its clients, which services include proposing overall investment goals and objectives suitable for each client's cash position and financial strategy, proposing for each client an efficient and suitable asset allocation mix of asset types, consulting on general fund administration, and performing manager searches and custodial audits.

As discussed elsewhere in this Brochure, Highland Associates, Inc. also provides investment advisory services to the Mutual Funds. Highland Associates, Inc. does not invest client assets in Redmont Resolute Fund I or recommend investment in Redmont Resolute Fund I to its clients. However, Highland Associates, Inc. may invest client assets in or recommend investment in Redmont Resolute Fund II to its clients. As Highland Associates, Inc. receives a management fee from Redmont Resolute Fund II, it may have an incentive to invest client assets in Redmont Resolute Fund II or to recommend investment in Redmont Resolute Fund II to its clients. Highland Associates, Inc. addresses such conflicts of interest by having agreed contractually to waive the total amount of Redmont Resolute Fund II's 0.50% management fees. This agreement is in effect through August 31, 2016. Highland Associates, Inc. may not discontinue this waiver without the approval by Redmont Resolute Fund II's Board of Trustees.

Some of Highland Associates, Inc.'s employees are registered representatives of ALPS Distributors, Inc., which is the distributor of the Mutual Funds.

Affiliations

The principal owners of Highland Associates, Inc. (William T. Mills III, Charles D. Perry, Jr., William A. Terry and John R. Doody, Jr.) are members of several entities formed to develop and manage several private funds that pursue certain alternative investment strategies. In addition, in certain of these private funds, Mr. Mills, Mr. Perry, Mr. Terry and Mr. Doody own an interest in the fund itself. Specific information regarding their involvement with these private funds is as follows:

- **Highland Strategies, LLC:** Mr. Mills, Mr. Perry, Mr. Terry and Mr. Doody are members of Highland Strategies, LLC, an Alabama limited liability company. Highland Strategies, LLC was formed to develop certain alternative investment strategies primarily for its institutional healthcare clients. Highland Strategies, LLC is a member of Carpathia Management LLC. The managing member of Carpathia Management LLC is Solus Alternative Asset Management LP. Carpathia Management LLC is the fund manager of *Highland Sola Fund, Ltd.* Highland Strategies, LLC also is a member of K2/Highland Management Company, LLC. The managing member of K2/Highland Management LLC is K2/D&S

Management Company, LLC. K2/Highland Management Company, LLC is the fund manager of *K2/Highland Overseas Fund, Ltd.* In addition, Highland Strategies, LLC is a limited partner of CMS Entrepreneurial IV-TE Associates, L.P. CMS Entrepreneurial IV-TE Associates, L.P. is the general partner and fund manager of *CMS Entrepreneurial Real Estate Fund IV – TE, L.P.*

- **Highland Fund Management Company, LLC:** Mr. Mills, Mr. Perry and Mr. Terry are members of Highland Fund Management Company, LLC. Highland Fund Management Company, LLC is the manager of *Highland Enhanced Variable Rate Fund, Ltd.*, the investments of which are managed by a third party investment manager.
- **APV Fund Manager, LLC:** Mr. Mills, Mr. Perry and Mr. Terry are members of APV Fund Manager, LLC. APV Fund Manager, LLC is involved in the management of *Arlington Private Value Fund, LLC*, the investments of which are managed by a primary investment adviser and an investment sub-adviser, neither of which is affiliated with Highland Associates, Inc.
- **Highland Good Steward Management, LLC:** Mr. Mills, Mr. Perry, Mr. Terry and Mr. Doody are members of Highland Good Steward Management, LLC, an investment adviser registered with the SEC. Highland Good Steward Management, LLC is the fund manager of *The Good Steward Enhanced Fund Ltd.*, a Cayman Islands exempted company (the “Enhanced Fund”) and *The Good Steward Global Bond Fund, Ltd.*, a Cayman Islands exempted company (the “Bond Fund”). The investments of the Enhanced Fund and the Bond Fund are each managed by a third party investment adviser.

In the event that a Highland Associates, Inc. client requests to invest in one of these private funds, Mr. Mills, Mr. Perry, Mr. Terry and Mr. Doody may receive a portion of the management fees paid by such client or by the private fund to the management entity of such fund. In certain cases, a portion of the fee income which the management entity receives may be rebated to clients that invest in any of these private funds. The terms and amounts of such rebate will be set forth in a separate agreement with the client. In any event, Highland Associates, Inc. will disclose to each of its clients who request to invest in these private funds the relationship between these entities and Highland Associates, Inc., the fee structure and other relevant terms.

Nevertheless, clients should be aware that the receipt by Mr. Mills, Mr. Perry, Mr. Terry and Mr. Doody of a portion of the management fees as described above may present a conflict of interest in that they will have an incentive to recommend that clients of Highland Associates, Inc. invest in these private funds. Highland Associates, Inc. maintains a Code of Ethics that addresses, among other things, conflicts of interest and participation in client transactions. Highland Associates, Inc.’s Code of Ethics is described in the next section of this Brochure.

Additionally, Mr. Mills, Mr. Perry and Mr. Terry each owns approximately 32% of the equity stock of Highland Information Services, Inc., an entity formerly registered as a broker-dealer.

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

Code of Ethics

Highland Associates, Inc. maintains a Code of Business Conduct and Ethics (the “Code of Ethics”) that addresses, among other things, compliance with laws, conflicts of interest, reports of securities transactions and holdings, discrimination and harassment, confidentiality, protection and proper use of Highland Associates, Inc.’s company assets, payments to government personnel, reporting of illegal activity, and gifts and gratuities. The purpose of this Code of Ethics is to set out basic principles to guide employees, officers and directors in making sound judgments regarding compliance with the laws and other ethical business conduct. Highland Associates, Inc. will provide a copy of its Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

Please see the section of this Brochure entitled “Other Financial Industry Activities and Affiliations.” As described in that section, certain principals of Highland Associates, Inc. are members of several entities formed to develop and manage several private funds formed to pursue certain alternative investment strategies. See “Other Financial Industry Activities and Affiliations” for a detailed discussion of the conflicts of interest that result and a discussion of how Highland Associates, Inc. addresses these conflicts.

Personal Trading

Highland Associates, Inc. and various related persons may invest in the same securities (or related securities such as warrants, options and futures) that Highland Associates, Inc. recommends to clients. This would happen only in very limited circumstances, such as the purchase of shares in registered mutual funds managed by money managers that Highland Associates, Inc. recommends to its clients, given that Highland Associates, Inc. typically does not recommend individual securities to its clients. However, Highland Associates, Inc.’s Code of Ethics (described above) requires employees, officers and directors to report, on a quarterly basis, all securities transactions made by such persons and their families. Such report is to be made to Mr. Terry, the Chief Compliance Officer of Highland Associates, Inc.

Brokerage Practices

Selecting Brokerage Firms

Highland Associates, Inc. does not recommend broker-dealers for client transactions, nor does Highland Associates, Inc. advise its clients regarding the reasonableness of broker-dealer compensation (e.g., commissions) for client transactions.

Soft Dollars

Highland Associates, Inc. does not receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (“soft dollar benefits”).

Directed Brokerage

Highland Associates, Inc.’s clients are responsible for directing their own brokerage. As a result, Highland Associates, Inc. is unable to aggregate orders to reduce transaction costs. This arrangement may cost clients more money than if Highland Associates, Inc. were responsible for directing brokerage.

Review of Accounts

Periodic Reviews

Highland Associates, Inc. reviews each client’s account no less frequently than quarterly, and issues written quarterly investment performance reports. Investment performance reports describe the client’s investment portfolio performance over the preceding quarterly period and any deviation from Highland Associates, Inc.’s projected portfolio performance. Highland Associates, Inc. also reviews each client’s investment portfolio on a quarterly basis for deviation from Highland Associates, Inc.’s statistical model of historical investment performance. Highland Associates, Inc. reviews accounts more frequently than quarterly on an “as needed” or “as requested” basis. Highland Associates, Inc.’s triggering factor for an “as needed” review is either a material change in a client’s financial information or investment objectives, a statistically significant deviation in portfolio performance from projections, or a market shift affecting the client’s portfolio. The triggering factor for an “as requested” review is the request of a client.

Each client’s portfolio is reviewed by no fewer than two reviewers quarterly, with the possibility of additional reviewers. The reviewers are the Consultants of Highland Associates, Inc. The function of each reviewer is to evaluate the portfolio performance of a client’s account, focusing on the nature and performance of its investment holdings, its then current net asset value, individual and aggregate, current income levels, and gains and losses. The reviewer also evaluates a client’s portfolio performance relative to Highland Associates, Inc.’s projections and

statistical model of historical investment performance. Highland Associates, Inc. instructs all reviewers to determine, in addition to the above, that investment managers managing the investment in the client's portfolio are following their historical disciplines, with instructions to highlight adherence to, or deviation from, them. Highland Associates, Inc. anticipates that each reviewer will be responsible for approximately 15 client reviews quarterly.

Nature and Frequency of Reports

Highland Associates, Inc. prepares monthly written reports of the accounts of each client for which Highland Associates, Inc. provides investment consulting services. These reports list the net asset value of the client's investments as of an appraisal date, and return and benchmark calculations. Highland Associates, Inc. also delivers quarterly investment performance reports to all of its clients showing the performance of their respective investment portfolios during the preceding quarter (such reports are described in more detail above under the heading "Periodic Reviews"). Highland Associates, Inc. reviews these quarterly reports with clients and makes recommendations regarding necessary portfolio adjustments, if any. Highland Associates, Inc. also provides each client with annual updates to its capital plan. At the same time Highland Associates, Inc. updates the capital plan, it will also conduct an investment policy review with the client to determine whether the client's plan and investment portfolio continue to match the client's investment objectives and capital structure. Highland Associates, Inc. also interviews the client annually in order to identify material changes in its financial information, cash requirements, and investment objectives in order to rebalance the client's investment portfolio.

This rebalanced portfolio will incorporate changes in the client's capital plan, investment policies, and the general market conditions.

The table below describes the reports which Highland Associates, Inc. delivers to its clients:

<u>Activity</u>	<u>Timing</u>
Capital Plan	Initial
Portfolio Design	Initial
Investment Policy	Initial
Investment Performance Report	Quarterly
Annual Capital Plan Update	Annually
Annual Portfolio Review	Annually
Annual Investment Policy Review	Annually

Client Referrals and Other Compensation

Incoming Referrals

Highland Associates, Inc. does not compensate any third parties for client referrals.

Referrals Out

No third parties compensate Highland Associates, Inc. for client referrals.

Custody

Account Statements

Clients will receive quarterly or more frequent account statements directly from a qualified custodian, such as a broker-dealer or bank. Clients should carefully review such account statements. In addition, clients should compare the statements that they receive from such qualified custodian to the monthly reports of accounts that such clients receive from Highland Associates, Inc. (which are described in the section of this Brochure entitled “Review of Accounts”).

Please consult the prospectus for each Mutual Fund for information regarding account statements provided to investors in the Mutual Funds.

Investment Discretion

Discretionary Authority for Trading

Please see the section of this Brochure entitled “Advisory Services” under the heading “Discretionary Asset Management Platform.” As described in that section, a client may choose to participate in Highland Associates, Inc.’s Discretionary Platform. Each client participating in the Discretionary Platform will enter into an advisory agreement pursuant to which it grants discretionary authority to Highland Associates, Inc. A client may limit the authority granted to Highland Associates, Inc. by means of the investment guidelines to be set forth in the client’s advisory agreement.

Clients not participating in the Discretionary Platform should be aware of certain disadvantages and risks related to the Discretionary Platform. Highland Associates, Inc. may be able to purchase or sell assets for discretionary clients more quickly than is possible for non-discretionary clients. For example, if Highland Associates, Inc. moves all of its discretionary client assets away from a certain fund manager, and then recommends this allocation to its

non-discretionary clients, such non-discretionary clients may be forced to redeem at a lower price than if they had been able to redeem at the same time as the discretionary clients.

Voting Client Securities

Proxy Votes

Highland Associates, Inc. does not have the authority to vote client securities. Clients will receive their proxies and other solicitation directly from their custodian or transfer agent, or (to the extent set forth in an agreement between a fund manager and a client) from a fund manager.

Please consult the prospectus for each Mutual Fund for information regarding the proxy voting policies and procedures used by Highland Associates, Inc. in advising the Mutual Funds.

Financial Information

Financial Condition

Highland Associates, Inc. is not aware of any financial condition that would impair our ability to meet contractual obligations to clients.