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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](mailto: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](http://www.adviserinfo.sec.gov).

January 30, 2015

# Material Changes

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## Annual Update

Highland Associates, Inc. (“Highland”) is providing this information as part of our annual updating amendment which contains material changes from our last update. This section discusses only material changes since the last update which most recently occurred on March 25, 2014.

## Material Changes since the Last Update

This Brochure, dated January 30, 2015, updates the list of Highland’s principal owners set forth in the “Advisory Business” section of this Brochure.

In September of 2008, Highland created a 5-year, equity-based incentive plan that resulted in granting stock ownership to key employees (the “Leadership Group”). The objective of the stock ownership plan is to retain key individuals and enable such employees to participate in the long-term success and growth of Highland. The plan was designed to create the opportunity for these key employees to purchase over time a controlling ownership interest in Highland, thus serving as a succession mechanism for the firm. As a continuation of the succession plan, in August of 2014 the Leadership Group purchased additional shares from the 2 original founders.

In September of 2014, Highland hired Trey Echols to serve as the firm’s President and CEO. He is also a principal. Trey brings robust professional leadership to Highland through his significant experience and senior leadership roles at Merrill Lynch, Bank of America, and Deloitte. His responsibilities include handling the day to day operations of the business and identifying strategic growth opportunities.

On December 31, 2014, John R. Doody, Jr., Highland’s Director of Research, decided to leave the firm to pursue other opportunities. He was a 7% owner in Highland at the time of his departure. His equity was purchased by Highland.

Set forth on the following page is a chart reflecting ownership percentages as of December 31, 2014:

Ownership Breakdown	
Charles Perry*	34%
William Terry*	34%
Scott Graham	6%
Trey Echols	6%
Paige Daniel	6%
Michael Lytle	6%
Hunter Craig	3%
Susan Padgett	3%
Michael Thomas	1%
Scott Sealock	1%

\*includes related family interests

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# Advisory Business

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## Firm Description

Highland was founded in 1987 in Birmingham, Alabama as an independent, fee-based consulting firm. We organized our firm specifically to assist not-for-profit 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 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 organizations. As a result, we have an intimate understanding of the business and its unique issues, which makes our experience not only relevant, but critical.

## Principal Owners

The principal owners of Highland are Charles D. Perry, Jr., William A. Terry, Jack W. Echols, III, Paige B. Daniel, R. Scott Graham and Michael T. Lytle.

## Types of Advisory Services

Since the inception of the firm in 1987, Highland's focus has been to provide comprehensive consulting services to institutional investors. Those services include:

### **1. Development of Investment Policy, Objectives and Guidelines**

Assist the organization in the development and periodic review of a policy statement that properly reflects the organization's tolerance for risk and that best helps meet the client's return and business objectives.

### **2. Asset Allocation Studies**

Develop an asset allocation and continuously monitor to ensure allocations remain within guidelines and incorporate our best ideas at all times.

### **3. Investment Manager Search**

When deemed necessary, assist the organization in its due diligence and search for new investment manager(s) utilizing appropriate databases and criteria.

#### **4. Development of Investment Manager Performance Standards/Guidelines**

Assist the organization in the development and review of performance standards and guidelines with which the organization can measure each investment manager's progress. Attend quarterly meetings or special meetings as requested by the organization.

#### **5. General Consulting Services**

Provide general consulting services as requested by the organization. These might include custodial search, manager meetings, analytical work, etc.

#### **6. Performance Measurement & Monitoring**

Monitor the performance of the investment manager(s) to provide the client with the ability to determine the progress toward the investment objectives. Develop appropriate benchmark and risk data to aid in manager performance assessment.

#### **7. Assist in Fund Diversification**

Assist the organization in the development of an investment manager structure that provides adequate diversification with respect to the number and types of investment managers/strategies.

#### **8. Research**

When deemed necessary, provide the organization with materials and other information regarding alternative asset classes, new investment products, market conditions and periodic research reports.

#### **9. Communications with Managers**

Inform the organization of relevant changes in key personnel or strategy among investment managers. Conduct periodic calls with managers to review performance, understand portfolio characteristics and confirm strategies.

#### **10. Management Support**

We see ourselves as an extension of our clients' management team and provide extensive support in investment related areas such as audit, regulatory issues, working with rating agencies and capital allocation, etc.

### **Discretionary Consulting Services**

Highland also offers our services in a discretionary format. Highland will work with each client to develop an Investment Policy Statement that serves as the overarching framework for the portfolio. Within the policy statement there will be established ranges for each approved asset class. Highland is then responsible for determining the target allocation within the ranges based on our capital markets outlook. Highland's Investment Committee, consisting of the senior professionals at the firm, determines the relative attractiveness and appropriateness of each asset class to be used in a client's portfolio. The Committee is also responsible for the approval of managers within

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client portfolios. Additionally the consulting services provided through the discretionary channel include performance measurement, client support and all other items mentioned under the non-discretion fee structure. We feel the potential benefits of discretionary advisory services include: (1) a timelier implementation of investment decisions relating to asset class and manager decisions; (2) reduced administrative burden to client staff and (3) potentially alleviate committee members' lack of comfort with fiduciary responsibility regarding investment strategy decisions.

Highland'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:**

Highland's Investment Committee oversees the firm's entire investment process including manager due diligence, asset allocation studies, market research, and identifying market opportunities. The voting members of the committee consist of seven shareholders of the firm that average over 20 years of investment experience and include representatives from each investment function.

**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 may assist the client in creating one.

**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.

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

**5. 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.

## Mutual Funds

In addition to the above, Highland 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 pursues its investment objective by allocating its assets among (i) investment sub-advisers (the “Sub-Advisers”) who manage alternative or hedging investment strategies and (ii) 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 that establishes investment criteria and other restrictions and guidelines that govern the relationship between such Mutual Fund and Highland.

For purposes of this Brochure, the term “clients” refers to the accounts of any individual or entity that Highland has agreed to manage for investment purposes. The term “clients” does not refer to the investors in the Mutual Funds because Highland 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’s clients and the investors in the Mutual Funds. In addition, because Highland is not required to deliver a Brochure to the Mutual Funds, several items of this Brochure do not describe the services that Highland 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, 2014, Highland managed \$3,128,369,285 of client assets on a discretionary basis and \$16,845,948,084 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 “regulatory assets under management” required for Item 5.F in Part 1A of Highland’s Form ADV. With respect to assets managed on a non-discretionary basis, these assets are included in computing “assets under management” because Highland has continuing or regular supervisory or management responsibility.

# Fees and Compensation

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## Description

Highland 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- \$100	.15%
\$100 - \$200	.10%
Over \$200	.05%

The minimum annual fee for institutional clients (non-discretionary) is \$100,000 (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	.75%
\$6-\$20	.50%
\$21-\$40	.25%
Over \$40	.15%

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 at any time during the term of the engagement, upon thirty (30) days written notice to Highland 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.

## 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 will send a written invoice to the client.

At the specific request of a client, Highland 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 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 an investment advisory fee monthly in arrears, based on a percentage of assets under management.

Redmont Resolute Fund I pays Highland an annual advisory fee equal to 1.50% based on such Mutual Fund’s average daily net assets<sup>1</sup>.

Redmont Resolute Fund II pays Highland an annual advisory fee equal to 1.50% based on such Mutual Fund’s average daily net assets. Highland has agreed contractually, with respect to Redmont Resolute Fund II’s Class I

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<sup>1</sup> Highland has agreed, with respect to Redmont Resolute Fund I’s (“Fund I”) Class A and Class I shares, contractually to waive the portion of its 1.50% advisory fee in excess of the sum of 0.50% plus any sub-advisory fees paid by Highland to Sub-Advisers in connection with Fund I (“Sub-Advisory Fees”), and/or reimburse Fund I (or class, as applicable) by the amount of such excess. In addition, after giving effect to the foregoing fee waiver and/or expense reimbursement for Fund I’s Class A and Class I shares, to the extent the Fund I’s total annual expenses (exclusive of Distribution and Service (12b-1) Fees, Shareholder Services Fees, Acquired Fund Fees and Expenses, Sub-Advisory Fees, brokerage expenses, interest expense, taxes and extraordinary expenses) exceed 1.40% of Fund I’s average daily net assets, Highland has contractually agreed to reduce the fee payable with respect to Fund I by the extent of such excess, and/or shall reimburse Fund I (or class, as applicable) by the amount of such excess. The waiver or reimbursement shall be allocated to each class of Fund I in the same manner as the underlying expenses or fees were allocated. The fee waivers and/or expense reimbursements for Fund I are in effect through August 31, 2017. With respect to its agreement to limit total annual expenses for Fund I’s Class A shares and Class I shares to 1.40% of Fund I’s average daily net assets as described above, Highland will be permitted to recover, on a class-by-class basis, expenses it has borne through the agreement to the extent that Fund I’s expenses in later periods fall below the annual rates set forth in the relevant agreement. 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 may not discontinue this agreement to waive fees and/or reimburse expenses without the approval by Fund I’s Board of Trustees.

shares, to waive the portion of its 1.50% advisory fee in excess of any sub-advisory fees paid by Highland to Sub-Advisers in connection with Redmont Resolute Fund II (“Sub-Advisory Fees”). This agreement is in effect through August 31, 2017. Highland may not discontinue this agreement to waive fees without the approval by Redmont Resolute Fund II’s Board of Trustees.

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

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While Highland 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 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 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.

## Types of Clients

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### Description

Highland provides investment advice to institutional investors such as endowments/foundations, pensions, nonprofit operating entities, as well as high net worth individuals.

In addition, as described elsewhere in this Brochure, Highland 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 has agreed to manage for investment purposes. The term “clients” does not refer to the investors in the Mutual Funds because Highland 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’s clients and the investors in the Mutual Funds.

### Account Minimums

Other than for the Mutual Funds, Highland 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

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## Asset Allocation Philosophy

Highland builds our portfolios so that they can balance the two major risks facing a client's portfolio: (1) risk of losing money and (2) the risk of failing to meet objectives. Models are useful starting points in the analysis of investment portfolios, but they should be used as an input in the process, not the endpoint of the process. Seasoned judgment is significantly more important in implementing an investment program than a model which implies precision of two decimal points.

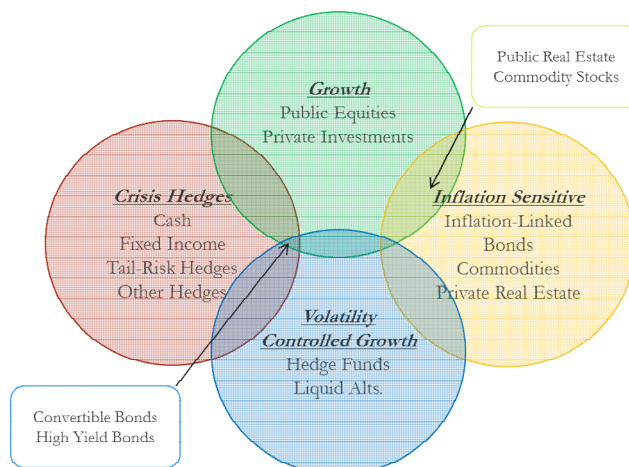
It is important to note that the second element in the allocation process, which is based on Highland's capital market view, is always implemented with each client's specific objectives and constraints in mind – we do not believe that the use of predetermined models by client type properly addresses the unique nature of each client. Unique considerations would include factors such as state investment restrictions and regulations, liquidity needs, clarity and transparency, and comfort level among the decision makers.

In addition, Highland believes asset allocation has both a strategic component and a tactical component. The strategic component is heavily influenced by the investment policy as outlined above. The strategic asset allocation framework generally consists of minimum and maximum weights for each asset class along with a "neutral" target weight. The tactical component is based on the current market opportunities and will cause us to overweight / underweight each asset class as market risks change.

Highland has long believed that proper portfolio construction is a problem solving exercise which must not be taken lightly. Our investment philosophy is grounded in the belief that the risk exposures of the portfolio and forward looking capital market assessments, not past experience, are the most important things to get right.

Therefore, we examine these exposures to best understand how portfolios will react to the macroeconomic / investment environment.

We also believe that looking at narrowly defined asset classes can lead to naïve diversification and potentially unwanted risk concentrations. We look at the fundamental economic drivers of risk and return of the investments in a portfolio to determine whether diversification is being achieved. This is something that we have done throughout our history. The figure below shows how we look at portfolio exposures and the asset classes that underpin each exposure.



We look at the economy and apply historical results, wisdom, experience and statistical analysis to come to conclusions as to which investments offer the highest risk / reward tradeoff based on our view of the economy moving forward. We come to these conclusions by looking at the current state of each market's fundamentals compared to both its own history and to all of the other asset classes in order to determine our outlook. While others in our business also use this process to determine how to position portfolios, this is only the beginning of our process.

Highland believes that investment markets are not only driven by fundamental value, but also by long-term secular movements (either bull markets or bear markets). We spend a large amount of time and effort attempting to gain a realistic point of view on the secular macro environment in order to properly position portfolios for the future.

## Asset Allocation Process

Highland's Investment Committee oversees the firm's entire investment process including manager due diligence, asset allocation studies, market research, and identifying market opportunities. The voting members of the committee consist of seven shareholders of the firm that average over 20 years of investment experience and include representatives from each investment function.

Highland's research process centers on several key issues: the capital market environment (macro picture) which impacts the portfolio's asset allocation (where the client's needs factor in) and implementation through manager selection and monitoring (micro implementation).

Highland's primary tool in summarizing the current macroeconomic and capital market environment is called the Market Monitor. The Market Monitor utilizes fundamental analysis to determine future expectations for a variety of economic and market segments including:

Economic	Cash	Fixed Income	Public Equities	Hedged Equity	Inflation Sensitive
Growth	Enhanced Cash	Treasuries	Global		Inflation linked bonds
Inflation	Gov't/Credit	Credit	US		Public Real Estate
	Aggregate (ie. Treasuries, Agency, MBS, Credit, ABS, etc)	Aggregate (ie. Treasuries, Agency, MBS, Credit, ABS, etc)	International Developed		Private Real Estate
			Emerging Market Americas		Commodities
			Europe		
			Asia/Pacific		

**Note:** Private equity is not specifically listed in the Market Monitor but the asset class is analyzed based on a combination of the public equity and economic factors. Also, while we analyze all the markets listed above, we do not use every market with every client.

While the same type of modeling is not used for every one of the markets listed above, the same tenet is used. We take the time to understand the true economic drivers of each market and evaluate today's level versus the long-term history. The Market Monitor ultimately produces our baseline capital market expectations for the next three, five, and ten years. As stated previously, these models are only the starting point which begins the internal dialog among our investment professionals. We then take a close examination of the current global macro environment and apply seasoned judgment to determine our expectations used in our asset allocation studies. These expectations impact both asset classes currently used by our clients as well as new opportunities or risks that should be addressed in new recommendations to our clients.

Highland then marries our capital market outlook with the specific needs and risk tolerance of each client to determine an optimal asset allocation. We use Factset's SPAR modeling application and MSCI's Measurisk, overlaid with experience and judgment, to assist in crafting a client's allocation. Once an allocation is determined, the managers are selected for each client to fulfill the asset mix. Managers who are recommended have been thoroughly vetted by Highland's Investment Committee.

Highland believes the portfolio's performance and risk management is greatly influenced by the types of underlying economic drivers of exposures and not the broad asset class label. As a result, Highland's research process begins by building a diversified portfolio with differing exposures in order to create a portfolio that will put our clients in a position to efficiently achieve their objectives.

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

## General Risk

No assurance can be given that Highland's methods of analysis and investment strategies will achieve favorable risk-adjusted returns in a variety of capital market conditions. The profitability of Highland'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 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's investment strategies. In addition, other investment advisors may use differing or additional methods of analysis that Highland does not use.

## **Underperformance in an Upward Trending Market**

In general, Highland'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'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 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 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'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 will depend on the investment success of such asset managers. In general, Highland will not have control or discretion concerning any investment, reinvestment, or distribution policies of such asset managers.

## **Risk of Loss**

Although Highland 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'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 fund 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, would typically set forth detailed risk factors relating to the specific investment of which a client should be aware.

## Disciplinary Information

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As a regulated entity, Highland 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

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### Financial Industry Activities

Highland 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 also provides investment advisory services to the Mutual Funds. Highland does not invest client assets in Redmont Resolute Fund I or recommend investment in Redmont Resolute Fund I to its clients. However, Highland may invest client assets in or recommend investment in Redmont Resolute Fund II to its clients. As Highland 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 addresses such conflicts of interest by having agreed contractually to waive the portion of its 1.50% advisory fee in excess of any sub-advisory fees paid by Highland to Sub-Advisers. This

agreement is in effect through August 31, 2017. Highland may not discontinue this waiver without the approval by Redmont Resolute Fund II's Board of Trustees.

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

The derivatives used by Redmont Resolute Fund I and Redmont Resolute Fund II may include certain financial derivatives deemed by the Commodity Futures Trading Commission (the "CFTC") to be "commodity interests." As a result, Highland is registered with the CFTC as a commodity pool operator and is a member of the National Futures Association. In addition, certain of Highland's management persons are registered with the CFTC as associated persons of Highland.

## **Affiliations**

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

Nevertheless, clients should be aware that the receipt by Mr. Perry and Mr. Terry 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 invest in the private fund. Highland maintains a Code of Ethics that addresses, among other things, conflicts of interest and participation in client transactions. Highland's Code of Ethics is described in the next section of this Brochure.

**Highland Information Services, Inc.:** Additionally, Mr. Perry and Mr. Terry each owns approximately 50% of the 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

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## Code of Ethics

Highland 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’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 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 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 interests that result and a discussion of how Highland addresses these conflicts.

## Personal Trading

Highland and various related persons may invest in the same securities (or related securities such as warrants, options and futures) that Highland 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 recommends to its clients, given that Highland typically does not recommend individual securities to its clients. However, Highland’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 Jenny J. Watts, Highland’s Chief Compliance Officer.

# Brokerage Practices

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## Selecting Brokerage Firms

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

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## **Soft Dollars**

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

# **Review of Accounts**

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## **Periodic Reviews**

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

The Investment Committee reviews all discretionary and non-discretionary portfolios quarterly.

## **Nature and Frequency of Reports**

Highland prepares monthly written reports of the accounts of each client for which Highland 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 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 reviews these quarterly reports with clients and makes recommendations regarding necessary portfolio adjustments, if any. Highland also provides each client with annual updates to its capital plan. Highland 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 delivers to its clients:

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

## Client Referrals and Other Compensation

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### Incoming Referrals

Highland does not compensate any third parties for client referrals.

### Referrals Out

No third parties compensate Highland for client referrals.

## Custody

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### 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 (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

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## 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 engage Highland for discretionary management. Each client engaging Highland for discretionary management will enter into an advisory agreement pursuant to which it grants discretionary authority to Highland. A client may limit the authority granted to Highland by means of the investment guidelines to be set forth in the client’s advisory agreement.

Highland’s non-discretionary clients should be aware of certain disadvantages and risks related to not participating in discretionary management. Highland may be able to purchase or sell assets for discretionary clients more quickly than is possible for non-discretionary clients. For example, if Highland makes a recommendation to move client assets away from a certain fund manager, the discretionary clients will be moved at the time of the recommendation. The non-discretionary clients will be moved upon approval from the non-discretionary client, and may be forced to redeem at a lower price.

# Voting Client Securities

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## Proxy Votes

Highland 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 in advising the Mutual Funds.

# Financial Information

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## Financial Condition

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