

## FORM ADV PART 2A

# HIGHLAND CAPITAL HEALTHCARE ADVISORS, L.P.

August 27, 2015

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This brochure provides information about the qualifications and business practices of Highland Capital Healthcare Advisors, L.P., an investment adviser registered with the Securities and Exchange Commission. If you have any questions about the contents of this brochure, please contact us at (972) 628-4100. 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 Healthcare Advisors, L.P. is also available at the Securities and Exchange Commission's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our registration as an investment adviser does not imply any level of skill or training.

## **ITEM 2. MATERIAL CHANGES**

There were no material changes.

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## ITEM 4. ADVISORY BUSINESS

Highland Capital Healthcare Advisors, L.P. (“Highland Capital Healthcare”) is an investment adviser registered with the SEC and an alternative fixed income manager since 2010 specializing in long-short equities in the healthcare sector, with a global geographic reach. Our Client base is comprised primarily of retail and unregistered investment funds.

### OWNERSHIP OF HIGHLAND CAPITAL HEALTHCARE

Highland Capital Healthcare is 100% owned, directly, or indirectly, by senior management. James Dondero and Mark Okada, directly or indirectly, are principal owners of Highland Capital Healthcare.

### HIGHLAND CAPITAL HEALTHCARE REGULATORY ASSETS UNDER MANAGEMENT

Figures are in US\$ millions as of 12/31/2014.

Total Assets Under Management	\$	647.2
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#### *By Vehicle Type:*

Retail Fund	\$	633.5
Unregistered Investment Fund	\$	13.7

The stated AUM above is managed on a discretionary basis.

### OUR ADVISORY SERVICES

Highland Capital Healthcare provides investment advisory services in several different strategies and types of investment vehicles. Highland Capital Healthcare is an investment sub-adviser to open end mutual funds registered under the Investment Company Act of 1940, as amended (“1940 Act”), (each “Retail Fund” and collectively “Retail Funds”), and adviser to an Unregistered Investment Fund (“Unregistered Investment Fund”, together with “Retail Fund”, “Client Accounts” or “Clients”).

Highland Capital Healthcare is an affiliate of Highland Capital Management, L.P. (“Highland”), a SEC registered investment advisor. Employees of Highland Capital Healthcare may also be employees of Highland. In addition, Highland may act, pursuant to a servicing agreement, to provide Highland Capital Healthcare with a variety of services mentioned herein, including but not limited to; back office support, valuation services, legal and compliance services, administration, and tax and finance services. Payments to Highland

under this agreement will be funded solely by Management Fee, except for permitted fund expenses.

#### TAILORING SERVICES

We tailor our investment advice to the needs of our Clients and are subject to applicable investment restrictions set forth in the governing documents for the applicable Clients.

## ITEM 5. FEES AND COMPENSATION

For providing investment advisory services, Highland Capital Healthcare typically charges Clients a management fee and/or performance fee or carried interest, and other fees as necessary and agreed to (including, but not limited to, expenses related to servicing accounts, such as administration and legal services).

Under appropriate circumstances and where permitted by applicable law, the terms of an investment advisory contract, including fees, terms of payment and performance fees and termination provisions, are negotiable. In negotiating fees, Highland Capital Healthcare considers various factors, including assets under management, investment objectives, strategies and restrictions, and the resources required to meet investment objectives.

Clients incur brokerage and other transaction costs associated with Highland Capital Healthcare's management of Client Accounts. Please see Item 12. Brokerage Practices of this ADV Part 2 for a discussion of Highland Capital Healthcare's brokerage practices.

As discussed in Item 4. Advisory Business, Highland Capital Healthcare may contract with Highland for the provision of certain services. To provide these services, Highland will charge Highland Capital Healthcare a fee. This fee is based on arms-length negotiations and payable by Highland Capital Healthcare, not its Client Account.

### FEE SCHEDULE

The following summary of fees is typically updated in this brochure annually (on or about March 31) and does not reflect subsequent changes unless expressly indicated otherwise. Fees in the below Fee Schedule are annualized.

Product	Management Fee	Performance Fee or Carried Interest	Other Fees
Retail Funds	Up to 1.00%	None	Administrative Fee of 0.20%
Unregistered Investment Funds	Up to 1.50%	Up to 20%	None

Certain investment vehicles managed by Highland Capital Healthcare invest in other investment vehicles managed by Highland Capital Healthcare or its affiliates. Both investment vehicles may impose management fees, performance fees or other expenses (including administrative fees). This results in greater expense to a Client than if such Client had invested directly in the underlying investment vehicle. Certain companies in which Clients are invested also use the products or services, or invest in investment vehicles, offered

by Highland Capital Healthcare or its affiliates and pay fees or other compensation accordingly.

## FOR RETAIL INVESTORS

### *Retail Funds*

As compensation for our advisory services, Highland Capital Healthcare's Retail Funds pay a management fee (accrued daily or weekly) of up to 1.00% annually and payable in arrears. The management fee is based upon the applicable Retail Fund's average daily net assets, which may or may not be net of investment leverage (borrowed capital). This management fee is deducted from the Retail Fund's assets on a monthly basis. Highland Capital Healthcare also receives an administrative fee of 0.20% of average daily net assets, which is deducted from the Retail Fund's assets monthly.

In addition to management fees, administrative fees, and brokerage and transaction costs, investors in the Retail Fund will indirectly bear certain other fees and expenses paid by the Retail Fund, including, but not limited to expenses of the independent trustees of the Retail Fund, fees and expenses for legal, fund accounting, transfer agency, custodial and auditing services, interest expense, taxes, and other investment-related costs, insurance premiums, extraordinary and non-recurring and certain other unusual expenses. The Retail Fund's prospectus and statement of additional information include more detailed information about the fees and expenses paid by such Retail Fund.

Highland Capital Healthcare may occasionally waive a portion of the fees payable by Retail Fund, which could result in a benefit to investors in the Retail Fund.

## FOR INSTITUTIONAL INVESTORS

### *Unregistered Investment Funds*

As compensation for our advisory services, the Unregistered Investment Fund typically pays Highland Capital Healthcare management fees of up to 1.50% annually. Management fees are based upon outstanding capital accounts or amounts of committed capital and are deducted quarterly in advance. For accounts that also provide for incentive compensation, Highland Capital Healthcare also deducts performance fees or investment profit allocations in the form of carried interest ranging from 0% to 20% of returns, which may be after the achievement of a hurdle rate, and which is contingent on the manager of the applicable Unregistered Investment Fund eclipsing the high-water mark. In some cases, certain investors in an Unregistered Investment Fund enter into side letter agreements with Highland, under which they may pay a different fee than others based on the terms of their

agreement with Highland Capital Healthcare or may otherwise receive certain additional rights. Upon termination of the applicable Unregistered Investment Fund's advisory agreement, any management fees that have been prepaid are generally returned on a pro-rated basis.

In addition to management fees, performance fees, and brokerage and transaction costs, investors in the Unregistered Investment Funds will indirectly bear the fees and expenses paid by the Unregistered Investment Funds, including custody fees, administration, legal, audit and tax preparation fees, and certain other fees and expenses. Each Unregistered Investment Fund's offering documents include more detailed information about the fees and expenses paid by such Unregistered Investment Fund.

Please see the section titled Performance-Based Fees and Side-By-Side Management of this ADV Part 2 for additional information regarding performance fees or investment profit allocations in the form of carried interest.

#### OTHER COMPENSATION

Client Accounts may hold significant positions, individually or collectively, in the securities issued by a company. Accordingly, Highland Capital Healthcare or an affiliate may have the right to appoint a board member or officer for such company. Highland Capital Healthcare or an affiliate may appoint an employee or a third party to such position as it sees fit in the best interest of the company and its Clients. Employees are permitted to retain all compensation received for such positions except to the extent contrary to the governing documents for one or more Client Accounts, in which case the proportion of such compensation related to such Client Account(s) will be paid to those Account(s) (generally in proportion to relative assets of the Client Account as of the date paid).

In addition, to the extent permitted by the offering and/or governing documents of the applicable advised accounts, Highland Capital Healthcare and/or its affiliates receive other fees for services provided to portfolio companies, provided such fees are on arms-length terms and approved by the Board of Directors or other governing body of the applicable portfolio company. See also Item 10. Other Financial Industry Activities and Affiliations.

We have established procedures designed to address possible conflicts of interest that such board or officer positions might present, including requiring authorization from the Chief Compliance Officer prior to an officer or employee serving as a board member. As a result of such activities, Highland Capital Healthcare may acquire confidential information, which may restrict Client Accounts from transacting in certain securities. As a result, we may not initiate a transaction on behalf of Clients which we otherwise might have.



## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described above, certain Clients pay Highland Capital Healthcare a performance fee or investment profit allocations in the form of carried interest. To the extent that Highland Capital Healthcare charges a performance-based fee, the performance-based fee will comply with the requirements of Section 205 and Rule 205-3 under the Investment Advisers Act of 1940 (the “Advisers Act”). In situations where Highland Capital Healthcare has entered into a performance fee arrangement, it has an economic incentive to make riskier investments and/or pursue riskier strategies than it might otherwise. In addition, because Highland Capital Healthcare manages both accounts with an asset-based fee and accounts with a performance fee or a combination of an asset-based fee and performance fee, we have an incentive to favor Client accounts for which we receive a performance-based fee. In order to mitigate any such conflicts, Highland Capital Healthcare has developed allocation procedures that are intended to result in fair and equitable allocation over time. To mitigate any actual or perceived conflicts of interest, allocation of limited offering securities (such as IPOs and registered secondary offerings) to principal accounts that do not include third party investors may only be made after all other Client Account orders for the security have been filled. A more detailed summary of these allocation guidelines is available to Clients or prospective Clients upon request.

A description of performance-based fees is included in the section titled Fees and Compensation.

## ITEM 7. TYPES OF CLIENTS

Our Clients include:

- ❖ Retail Funds
- ❖ Unregistered Investment Funds

Investment advice is provided directly to Clients and not individually to investors in a particular Client.

Highland Capital Healthcare has minimum account requirements for Unregistered Investment Funds and generally requires a minimum investment of \$1 million. The minimum account size for the Retail Funds varies and is disclosed in the Retail Fund's prospectus and statement of additional information. Minimum account size may be waived for certain investors at Highland Capital Healthcare's discretion.

## ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

The items below are types of investment strategies we currently utilize although we may add or subtract from this list based on various factors including macro-economic conditions.

### INVESTMENT STRATEGIES

#### *Long/Short Healthcare Strategy*

Highland Capital Healthcare's long/short Healthcare strategy seeks long-term capital appreciation. The overarching investment strategy is to generate strong risk-adjusted returns over an equity market cycle, trying to deliver solid capital appreciation while minimizing volatility and drawdowns compared to traditional equity markets.

The investment style is a combination of value, growth and event driven investments, with a primary focus on capital preservation, risk management and diversification across market capitalization and sub-sectors within the Healthcare sector. The value component of the portfolios are seek situations where the downside is limited, due to asset value or free cash flow generation and deep discount to private market acquisition history. In these scenarios, often the company is facing temporary fundamental challenges which Highland Capital Healthcare believes will be overcome, and the market is overly discounting the ability to overcome such challenges, leading to undervaluation of the stock. For the growth component, Highland Capital Healthcare looks for companies with strong barriers to entry, visibility to sales and/or earnings, reasonable valuations for the growth being generated, high incremental margins, low capital intensity, and recurring revenue. We also invest in companies where we believe the growth rates will be higher or more sustainable than the street believes, even if the business itself does not have all the above characteristics. On the event driven side, we look for value creating fundamental changes to a business, where the risk profile and downside potential of a position can be defined and is minimal. These can include, but are not limited to regulatory approvals of healthcare products, changes in management, divestiture of business units or the sale of the Company in whole.

We find companies through fundamental value and growth screens, technical screens, input from our internal advisory board, academic and clinical relationships, research firms, medical and regulatory consultants, conversations with management teams of public companies, industry conferences, and other buy-side contacts.

### *Long/Short Equity Strategy*

Highland Capital Healthcare's long/short equity strategy generally involves a fundamental, bottom-up stock picking style. Investments will be made in value and growth stocks with a domestic focus. The strategy aims to generate equity-like returns over an entire market cycle with less volatility, lower drawdowns, and lower correlation compared to the equity markets. There is generally a strong focus on preservation of capital and risk management. In addition to purchasing or taking "long" positions in equity securities, the strategy will include short selling, investments in derivatives, exchanged-traded funds, or fixed income securities.

Equity securities of U.S. or non-U.S. issuers in which Highland Capital Healthcare may invest include common stocks, preferred stocks, convertible securities, depositary receipts, warrants to buy common stocks and "derivatives" on any of the foregoing securities. The exposure of the various funds will vary over time based on assessments of market conditions and other factors.

In managing each strategy, Highland Capital Healthcare may make and hold investments in addition to those set forth herein in accordance with the applicable offering documents.

### **METHOD OF ANALYSIS**

For all Client Accounts, we utilize both fundamental and technical analysis methods. Our investment philosophy is rooted in a value-oriented, long-term approach, which combines bottom-up research with top-down technical market analysis. Our analysts follow a rigorous and time-tested bottom-up credit analysis for each credit we manage. We have also devised and applied an institutionalized process of credit evaluation and approval, via our Investment Committee, and have built a dedicated experienced restructuring team that has been integrated into Highland Capital Healthcare's investment process.

Highland Capital Healthcare's self-discipline is largely enforced by the ongoing monitoring of individual credit names by the responsible analyst and his or her supervisor.

Other sources of information include obtaining and reviewing due diligence packages prepared by debt issuers and underwriters of institutional private placements and meetings with management of issuers.

### **MATERIAL RISKS OF SIGNIFICANT STRATEGIES AND METHODS OF ANALYSIS:**

In this section we summarize some of the material risks of Highland Capital Healthcare's investment strategies and methods of analysis. More complete information about the specific risks associated with each strategy or Client Account is available in the applicable offering

documents. All methods of investments in securities and loans involve risk of loss including risk that a Client will lose the entire value of their investment.

### *Allocation of Investments*

There is a risk that the allocations methodology employed by Highland Capital Healthcare will not result in optimal allocation and may disadvantage one Client Account while benefiting another Client Account. Since the process involves human input there is the risk that human error may cause harm to a Client Account. Poor or mistaken allocation decisions could result in the loss of money for investors.

### *Credit Risk*

Clients engage in transactions in securities and financial instruments that involve counterparties. Under certain conditions, a counterparty to a transaction could default or the market for certain securities and/or financial instruments may become illiquid. There is a risk that the issuer of a fixed income security will be unable to make timely principal and interest payments on the security. Certain Clients invest in securities rated below investment grade (which are commonly referred to as “high yield” securities or “junk” securities). These investments are regarded as predominately speculative with respect to the issuer’s continuing ability to meet principal and interest payments. The downgrade of a security held by a Client Account may decrease its value. Securities are subject to varying degrees of credit risk, which are often reflected in ratings assigned by commercial rating companies such as Moody’s Investor Service, Standard & Poor’s Corporation, Duff & Phelps Credit Rating Co. and Fitch Investors Service.

### *Currency Risk*

If a Client Account invests directly in non-U.S. currencies or in securities of issuers that trade in, and receive revenues in, non-U.S. currencies, or in derivatives that provide exposure to non-U.S. currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, a Client’s investments in foreign currency-denominated securities may reduce the returns of the Client Account.

### *Derivatives Risk*

Derivatives, such as futures and options, are subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. Derivatives also expose the Client to the credit risk of the derivative counterparty. Derivative contracts may expire worthless and the use of derivatives may result in losses to the Client.

### *Frequency of Trading*

Some of the strategies and techniques to be employed by Highland Capital Healthcare require frequent trades to take place and, as a consequence, portfolio turnover and brokerage commissions will be greater than for other investment vehicles of similar size that do not employ frequent trading techniques.

### *Hedging*

Highland Capital Healthcare may (but is not required to) utilize financial instruments both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of a Client Account resulting from fluctuations in the markets and changes in interest rates; (ii) protect the unrealized gains in the value of a Client Account; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in a Client Account; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of financial instruments; (vii) protect against any increase in the price of any financial instruments Highland Capital Healthcare anticipates purchasing at a later date; or (viii) act for any other reason that the Highland Capital Healthcare deems appropriate. For a variety of reasons, Highland Capital Healthcare may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Client from achieving the intended hedge or expose the Client to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of portfolio holdings. Moreover, it should be noted that the Client Account will be exposed to certain risks that cannot be hedged.

### *Illiquid Securities*

Highland Capital Healthcare may cause a Client to invest in a security that is illiquid. This could present a problem in realizing the prices quoted (selling a bond at or near its true value) and in effectively trading the position(s). The primary measure of liquidity is the size of the spread between the bid price and the offer price quoted by a dealer. The greater the dealer spread, the greater the liquidity risk. Liquidity risk is less relevant for investments that are intended to be held until maturity. Lack of

liquidity means Highland Capital Healthcare may not be able to sell such investments at prices that reflect Highland Capital Healthcare's assessment of their value or the amount paid for such investments. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by Highland Capital Healthcare and other factors. Furthermore, the nature of Highland Capital Healthcare's investments, especially those in financially distressed companies, may require a long holding period prior to profitability.

### *Inflation Risk*

Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if Highland Capital Healthcare purchases a 5 year bond in which it can realize a coupon rate of 5 percent, but the rate of inflation is 6 percent, then the purchasing power of the cash flow has declined. For securities other than adjustable bonds or floating rate bonds, the investment is exposed to inflation risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

### *Investments in Equity Securities*

Investments in public equities are subject to the risk that stock prices will fall over short or long periods of time. In addition, common stock represents a share of ownership in a company, and rank after bonds and preferred stock in their claim on the company's assets in the event of bankruptcy.

### *Investments in Foreign Securities*

A Client may invest a portion of its assets in securities of companies domiciled or operating in one or more foreign countries. Investing in foreign securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the U.S., including instability of some foreign governments, the possibility of expropriation, limitations on the use or removal of funds or other assets, foreign currency risk, changes in governmental administration or economic or monetary policy (in the U.S. or abroad) or changed circumstances in dealings between nations. The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend or interest payments) or confiscatory taxation may also affect investment in foreign securities. Higher expenses may result from investment in foreign securities than would from investment in domestic securities because of the costs that must be incurred in connection with conversion between various currencies and foreign brokerage commissions that may be higher than in the U.S. Foreign securities markets also may be less liquid, more volatile and subject to less

governmental supervision than in the U.S., including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

### *Investments in Synthetic Securities*

Highland Capital Healthcare may cause Clients to invest in synthetic securities. In addition to credit risks associated with holding non-investment grade loans and high yield debt securities, with respect to synthetic securities, Highland Capital Healthcare or its Clients will usually have a contractual relationship only with the counterparty of such synthetic securities, and not the obligor on a reference obligation (the "Reference Obligor"). Such agreement generally stipulates that Highland Capital Healthcare or its Client will have no right to directly enforce compliance by the Reference Obligor with the terms of the reference obligation (defined herein as the debt security or other obligation upon which the synthetic security is based), nor any rights of set-off against the Reference Obligor, nor have any voting rights with respect to the reference obligation. In addition, in the event of insolvency of the counterparty, the Client will be treated as a general creditor of such counterparty, and will not have any claim with respect to the reference obligation. Consequently, the Client will be subject to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of synthetic securities with any one counterparty subject the notes to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor. Highland Capital Healthcare will not perform independent credit analyses of the counterparties, any such counterparty, or an entity guaranteeing such counterparty, individually or in the aggregate.

### *Leverage*

When deemed appropriate by Highland Capital Healthcare and subject to applicable regulations, a Client may use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent a Client purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Client. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the Client's use of leverage would result in a lower rate of return than if the Client were not leveraged.



### *Maturity Risk*

In certain situations, Highland Capital Healthcare may purchase a bond of a given maturity as an alternative to another bond of a different maturity. Ordinarily, under these circumstances, Highland Capital Healthcare will make an adjustment to account for the differential interest-rate risks in the two bonds. This adjustment, however, makes an assumption about how the interest rates at different maturities will move. To the extent that the yield movements deviate from this assumption, there is a yield-curve or maturity risk. Another situation where yield-curve risk should be considered is in the analysis of bond swap transactions where the potential incremental returns are dependent entirely on the parallel shift assumption for the yield curve.

### *Market or Interest Rate Risk*

The price of most fixed income securities move in the opposite direction of the change in interest rates. For example, as interest rates rise, the price of fixed income securities falls. If a Client holds a fixed income security to maturity, the change in its price before maturity will have little impact on the Client's performance; however, if the Client has to sell the fixed income security before the maturity date, an increase in interest rates will result in a loss. Senior secured bank loans generally pay interest at rates that are determined periodically by reference to a base lending rate plus a premium. These rates often are re-determined either daily, monthly, quarterly or semi-annually. Recently, domestic and international markets have experienced a period of acute stress starting in the real estate and financial sectors and then moving to other sectors of the world economy. This stress has resulted in unusual and extreme volatility in the equity and debt markets and in the prices of individual investments. These market conditions could add to the risk of short-term volatility of investments.

### *Options*

A Client may use a number of option strategies. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

With certain exceptions, exchange listed options generally settle by physical delivery of the underlying security or currency, although in the future cash settlement may become available. Index options are cash settled for the net amount, if any, by which the option is "in-the-money" (i.e., where the value of the underlying instrument

exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option. The Client's ability to close out its position as a purchaser or seller of a listed put or call option is dependent, in part, upon the liquidity of the option market.

Over-the-counter ("OTC") options are purchased from or sold to securities dealers, financial institutions or other parties ("Counterparties") through direct bilateral agreement with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guarantee, and security, are set by negotiation of the parties. Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option. As a result, if the Counterparty fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with the Client or fails to make a cash settlement payment due in accordance with the terms of that option, the Client will lose any premium it paid for the option as well as any anticipated benefit of the transaction.

If a put or call option purchased by the Client were permitted to expire without being sold or exercised, its premium would be lost by the Client. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security caused by rising interest rates or other factors. If this occurred, the option could be exercised and the underlying security would then be sold to the Client at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security caused by declining interest rates or other factors. If this occurred, the option could be exercised and the underlying security would then be sold by the Client at a lower price than its current market value. Purchasing and writing put and call options and, in particular, writing "uncovered" options are highly specialized activities and entail greater than ordinary investment risks.

### *Short Sales*

A Client may sell securities short. Short selling involves the sale of a security that the Client does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. In order to make delivery to its purchaser, the Client must borrow securities from a third party lender. The Client subsequently returns the borrowed securities to the lender by delivering to the lender the securities it receives in the transaction or by purchasing securities in the open market. The Client must generally pledge cash with the lender equal to the

market price of the borrowed securities. This deposit may be increased or decreased in accordance with changes in the market price of the borrowed securities. During the period in which the securities are borrowed, the lender typically retains his right to receive interest and dividends accruing to the securities. In exchange, in addition to lending the securities, the lender generally pays a fee for the use of the Client's cash. This fee is based on prevailing interest rates, the availability of the particular security for borrowing and other market factors.

#### *Valuation of Portfolio Investments*

From time to time, special situations affecting the valuation of the investments (such as limited liquidity, unavailability or unreliability of third-party pricing information and acts or omissions of service providers to the Client) could have an impact on the value of a Client's investment, particularly if prior judgments as to the appropriate valuation of an investment should later prove to be incorrect after a net asset value-related calculation or transaction is completed. Generally, Highland Capital Healthcare is not required to make retroactive adjustments to prior subscription or withdrawal transactions, management fees or performance allocations based on subsequent valuation data. In addition, Highland Capital Healthcare may, but is not required to, discount the value of its positions due to limited liquidity, concentration levels or for other reasons. Due to the nature of its investments, Highland Capital Healthcare may not be able to place a precise value on positions and therefore may need to estimate values.

## **ITEM 9. DISCIPLINARY INFORMATION**

Not Applicable.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Highland Capital Healthcare and its advisory affiliates manage various strategies and some strategies are managed by more than one adviser. For this reason certain Clients of Highland Capital Healthcare (or Clients of Highland Capital Healthcare's advisory affiliates) may be referred to and enter into advisory agreements with such affiliated adviser. Neither Highland Capital Healthcare nor its advisory affiliates charge a fee for such referral or receive any portion of the advisory fees charged Clients managed by an affiliated adviser.

As shared in Item 4. Advisory Business, Highland Capital Healthcare may use the services of affiliates to services its' Clients. Highland Capital Healthcare believes using such services benefits Clients as a whole as the reserves available to them are greater.

### BROKER-DEALER, BANKING, AND CONSULTING AFFILIATES

Owners of Highland Capital Healthcare own a majority interest in NexBank Capital, Inc., whose wholly owned subsidiaries include NexBank Securities, Inc. (also doing business as Barrier Advisors) ("NexBank Securities"), and NexBank, SSB. Highland Capital Healthcare and NexBank Capital, Inc. are under common control and certain employees of Highland, including James Dondero and Mark Okada, serve on the Board of Directors of NexBank. Some employees of Highland Capital Healthcare are also registered, licensed, and employed by NexBank Securities.

#### *NexBank Securities, Inc.*

NexBank Securities is a registered broker-dealer and a Member of FINRA/SIPC. It may provide distribution assistance in connection with the sale or placement of funds managed by Highland Capital Healthcare.

#### *NexBank, SSB*

NexBank, SSB, a state chartered bank, is an affiliate of Highland Capital Healthcare and may, from time to time, provide banking and agency services to portfolio companies in which Client Accounts may be invested. Client Accounts and portfolio companies may invest in assets originated by, or enter into loans, borrowings and/or financings with NexBank, including in primary or secondary transactions. These services generally may result in compensation to NexBank, SSB in various forms, including administrative agent fees, structuring fees, origination and syndication fees, and assignment fees. As a result, we have an incentive to select, or attempt to influence the selection of, NexBank for such services. Fees are charged at rates competitive with those offered by third parties. Highland Capital Healthcare may also refer Client Accounts or controlled investments to NexBank, SSB for banking

services. NexBank, SSB may charge its customary fees for the provision of such banking services.

To the extent permitted by applicable law, NexBank, SSB, may sell or offer participations to Highland Capital Healthcare Accounts in a variety of commercial loans for which NexBank will receive compensation.

*Highland Capital Funds Distributor, Inc.*

Highland Capital Funds Distributor, Inc., a SEC-registered broker dealer, is under common control with us because James Dondero controls the Highland Capital Funds Distributor through his indirect ownership of Highland Capital Funds Distributor.

## INVESTMENT ADVISER AFFILIATES

A related person of Highland Capital Healthcare is the general partner of a number of other collective investment vehicles organized as partnerships including those managed by the following affiliated investment advisers:

*Acis Capital Management, L.P.*

Acis Capital Management, L.P., a SEC-registered investment adviser, is under common control with Highland Capital Healthcare because the owners of Highland Capital Healthcare own of Acis Capital Management, L.P.

*Falcon E&P Opportunities GP, LLC*

Falcon E&P Opportunities GP, LLC, a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero controls this entity.

*Granite Bay Advisors, L.P.*

Granite Bay Advisors, L.P., a SEC-registered investment adviser, is under common control with us because the owners of Highland Capital Healthcare own substantially all of Granite Bay Advisors, L.P.

*Highland Capital Management, L.P.*

Highland Capital Management, L.P., a SEC-registered investment adviser, is under common control with Highland Capital Healthcare because the owners of Highland Capital Healthcare own substantially all of Highland Capital Management, L.P.

*Highland Capital Management Fund Advisors, L.P.*

Highland Capital Management Fund Advisors, L.P., a SEC-registered investment adviser, is under common control with us because James Dondero controls the Highland Capital Management Fund Advisors general partner.

Additionally, Highland Capital Management Fund Advisors serves as advisor to a total of 13 investment companies registered under the Investment Company Act of 1940, as amended.

*NexPoint Advisors, L.P.*

NexPoint Advisors, L.P., a SEC-registered investment adviser, is under common control with us because James Dondero controls the NexPoint Advisors general partner.

*NexPoint Real Estate Advisors, L.P.*

NexPoint Real Estate Advisors, L.P., a SEC-registered investment adviser, is under common control with us because James Dondero controls the NexPoint Real Estate Advisors general partner.

Thomas Surgent, our Chief Compliance Officer, is also the Chief Compliance Officer of each of the investment advisers listed above

Highland and/or Highland personnel provide advisory services to each of these affiliated investment advisers, either through sub-advisory or “dual hatting” arrangements with respect to Highland personnel. In addition Highland is a party to Shared Services Agreement with each of these advisers, under which Highland provides certain administrative and back office services to such advisers, including finance and accounting, human resources, marketing, legal, information technology and operations.

## INSURANCE COMPANY AFFILIATES

Highland Capital Management Services, Inc. is an affiliate of Highland Capital Healthcare and parent company of Governance Re Ltd., a captive insurance agency issuing directors & officers’ liability insurance and employment practice liability insurance to Highland Capital Healthcare and affiliates. NexVantage Title Services is a title insurance company affiliated with NexBank and Highland, which may provide title insurance with respect to real property investments owned by Client Accounts or their portfolio companies. A conflict of interest exists due to the fact that these entities receive premiums from portfolio companies and/or Client Accounts. As a result, Highland Capital Healthcare is incentivized to choose these affiliates to provide these services over a third party even though such party’s services may be better suited for the company.

## INDEPENDENT BUSINESS ENTITIES

Employees, including the owners, of Highland Capital Healthcare also own personal interests in a variety of independent business entities. A conflict of interest exists due to the potential for the owners' personal relationships and financial interests to conflict with our Client's interests.

## BUSINESS ACTIVITIES WITH PORTFOLIO COMPANIES

Highland Capital Healthcare or its affiliates provide on a periodic basis certain services to portfolio companies including, but not limited to, forensic accounting, interim management consulting services and merger and acquisition advisory services. Highland Capital Healthcare or our affiliates may also furnish operational consulting services to certain portfolio companies of Highland Capital Healthcare's Clients. The time spent by Highland Capital Healthcare with respect to such activities depends upon a number of factors including the size of the investment, the relationship with the portfolio company and the financial and strategic position of such company. Highland Capital Healthcare or its affiliated advisors (including employees) may be directly or indirectly compensated for such services provided such compensation is received as a result of an arm's length contract between the company and such person. Employees of Highland Capital Healthcare may be granted equity or options in the portfolio companies for which they provide certain services.

Additional information regarding potential conflicts of interest arising from Highland Capital Healthcare's relationship and activities with its affiliates is provided in the section titled Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.



## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Highland Capital Healthcare maintains a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the SEC, and has adopted policies and procedures described in its Code of Ethics. The Code of Ethics applies to each employee of Highland Capital Healthcare and any other “access person” as defined under the Advisers Act. It is designed to ensure compliance with legal requirements of Highland Capital Healthcare’s standard of business conduct.

A complete copy of Highland Capital Healthcare’s Code of Ethics is available to any Client or prospective Client upon request.

### **STANDARDS OF CONDUCT**

Highland Capital Healthcare and its access persons are expected to comply with all applicable federal and state laws and regulations. Access persons are expected to adhere to the highest standards of ethical conduct and maintain confidentiality of all information obtained in the course of their employment and bring any risk issues, violations, or potential violations to the attention of the Chief Compliance Officer. Access persons are expected to deal with Clients fairly and disclose any activity that may create an actual or potential conflict of interest between them and Highland Capital Healthcare or Client.

### **ETHICAL BUSINESS PRACTICES**

Falsification or alteration of records or reports, also known as a prohibited financial practice, or knowingly approving such conduct is prohibited. Payments to government officials or employees are prohibited except for political contributions approved by our Chief Compliance Officer. We seek to outperform our competition fairly and honestly and seek competitive advantages through superior performance not illegal or unethical dealings. Access persons are strictly prohibited from (i) participating in online blogging and communication with the media, unless approved by the Chief Compliance Officer or the Compliance Department, and (ii) spreading of false rumors pertaining to any publicly traded company.

### **CONFIDENTIALITY**

Employees must maintain the confidentiality of Highland Capital Healthcare’s proprietary and confidential information, and must not disclose that information unless the necessary approval is obtained. Highland Capital Healthcare has a particular duty and responsibility, as investment adviser, to safeguard Client information. Information concerning the identity and transactions of investors is confidential, and such information will only be disclosed to

those employees and outside parties who need to know it in order to fulfill their responsibilities.

## GIFT AND ENTERTAINMENT POLICY

Access persons are permitted, on occasion, to accept gifts and invitations to attend entertainment events. When doing so, however, employees should always act in our best interests and that of our Clients and should avoid any activity that might create an actual or perceived conflict of interest or impropriety in the course of our business relationship. Under no circumstances may (i) gifts of cash or cash equivalents be accepted or (ii) may any gifts be received in consideration or recognition of any services provided to or transactions entered into by, Client Accounts.

## PERSONAL TRADING

### *Personal Trading Policy*

Access persons are allowed to trade reportable securities during designated time periods, however all transactions in reportable securities other than ETFs must be pre-approved by the Chief Compliance Officer or his/her designee. Except in very limited circumstances approved by the Chief Compliance Officer, access persons are not permitted to trade any security of which we or a Client own any portion of the capital structure or that is on our restricted list without permission. Access persons who violate the personal trading policy are reprimanded in accordance with the sanctions provisions outlined in the Code of Ethics. Personal securities transactions are reviewed by the Chief Compliance Officer or his/her designee for compliance with the personal trading policy and applicable SEC rules and regulations.

### *Prohibition against Insider Trading*

Highland Capital Healthcare forbids any access person from trading, either personally or on behalf of others, including Clients advised by Highland Capital Healthcare, on material non-public information or communicating material non-public information to others in violation of the law or duty owed to another party. This conduct is frequently referred to as “insider trading”. The concepts of material non-public information, penalties for insider trading, and processes for identifying insider trading are addressed in detail in the Compliance Manual and Code of Ethics.

### *Reporting Requirements*

In compliance SEC rules, access persons are required to disclose all of their personal brokerage accounts and holdings within 10 days of initial employment with Highland Capital Healthcare, within 10 days of opening a new account, and annually thereafter. Additionally, no later than the last day of the month after quarter-end, all access

persons must report all transactions in reportable securities over which the access person had any direct or indirect beneficial ownership. Access persons are also required annually to affirm all reportable transactions from the prior year.

## POTENTIAL CONFLICTS

Highland Capital Healthcare and its affiliates engage in a broad range of activities, including activities for their own account and for the accounts of their respective Clients. This section describes various potential conflicts that may arise in respect of its business, as well as how Highland Capital Healthcare addresses such conflicts of interest. The discussion below does not describe all conflicts that may arise.

Any of the following potential conflicts of interest will be discussed and resolved on a case by case basis. Highland Capital Healthcare's determination as to which factors are relevant, and the resolution of such conflicts, will be made using Highland Capital Healthcare's best judgment, but in its sole discretion. In resolving conflicts, Highland Capital Healthcare will take into consideration the interests of the relevant Clients, the circumstances giving rise to the conflict and applicable laws. Certain procedures for resolving specific conflicts of interest are set forth below.

### *Allocation of Investment Opportunities*

Highland Capital Healthcare, together with its affiliates, acts as investment adviser to Clients that have similar investment objectives and pursue similar strategies. Certain investments identified by Highland Capital Healthcare may be appropriate for multiple Clients. Investment decisions for such Clients are made by Highland Capital Healthcare and the applicable affiliates in their best judgment, but in their discretion, taking into account such factors as Highland Capital Healthcare believes relevant. Such factors may include investment objectives, regulatory restrictions, current holdings, availability of cash for investment, the size of investments generally, risk-return considerations, tax consequences, and limitations and restrictions on a Client's account that are imposed by such Client. In addition, if it is fair and reasonable that certain Clients are fully filled of their appetite before others (e.g., for tax considerations, to avoid de minimis partial allocations, to cover or close out an existing position to mitigate risk or losses, etc.), then these Clients may receive full or disproportionate allocations, with the remaining amounts allocated in accordance with normal procedures among the other participating Clients. One or more of the foregoing considerations in this paragraph may (and are often expected to) result in allocations among accounts other than on a pari passu basis. Accordingly, particular investment may be bought or sold for only one Client or in different amounts and at different times for more than one but less than all Clients, even though it could have been bought or sold for other Clients at the same time. Likewise, a particular investment may be bought for one or more Clients when one or more other Clients are

selling the investment. In addition, purchases or sales of the same investment may be made for two or more Clients on the same date. There can be no assurance that a Client will not receive less (or more) of a certain investment than it would otherwise receive if Highland Capital Healthcare, together with its affiliates, did not have a conflict of interest among Clients.

In effecting transactions, it is not always possible, or consistent with the investment objectives of Highland Capital Healthcare's and its affiliates' various Clients, to take or liquidate the same investment positions at the same time or at the same prices. Certain investment restrictions may limit Highland Capital Healthcare's and its affiliates' ability to act for a Client and may reduce performance. Regulatory and legal restrictions (including restrictions on aggregated positions) may also restrict the investment activities of Highland Capital Healthcare and result in reduced performance.

Highland Capital Healthcare seeks to manage and/or mitigate these potential conflicts of interest described by following procedures with respect to the allocation of investment opportunities among its and its affiliates' Clients, including the allocation of limited investment opportunities. Our allocation policy is based on a fundamental desire to treat each Client account fairly over time. Please refer to the Investment Discretion – Allocation Conflicts section for a more detailed explanation of Highland Capital Healthcare's allocation process.

Immediate term investments executed by authorized traders are generally allocated on a weighted rotational basis, based on the AUM of the accounts eligible to participate in such investment opportunities.

#### *Investment Negotiation*

In order to ensure compliance with Section 17(d) under the Investment Company Act whenever an investment professional proposes to negotiate a term other than price for an investment (including any amendments), he/she must check to see if the investment (or any other position in the issuer's capital structure) is held (or proposed to be invested) in any retail accounts.

If the investment is held in any retail accounts, that person must contact the Chief Compliance Officer for guidance.

- (i) The transaction is generally permitted if all accounts are in the same part of the capital structure and participate in the investment pro rata
- (ii) Alternatively, impose "Chinese Wall" between retail/institutional investment decision-making

One person can negotiate, provided final investment decision still made separately.

May also consult outside counsel and/or the retail board for guidance.

### *Capital Structure Conflicts*

Conflicts will arise in cases when Clients of Highland Capital Healthcare and its affiliates invest in different parts of an issuer's capital structure, including circumstances in which one or more Clients own private securities or obligations of an issuer and other Clients may own public securities of the same issuer. In addition, one or more Clients may invest in securities, or other financial instruments, of an issuer that are senior or junior to securities, or financial instruments, of the same issuer that are held by or acquired for, one or more other Clients. If such issuer encounters financial problems, decisions related to such securities (such as over the terms of any workout or proposed waivers and amendments to debt covenants) will raise conflicts of interests. For example, a Client holding debt securities of the issuer may be better served by a liquidation of the issuer in which it may be paid in full, whereas a Client holding equity securities of the issuer might prefer a reorganization that holds the potential to create value for the equity holders.

In the event of conflicting interests within an issuer's capital structure, Highland Capital Healthcare will generally pursue the strategy that Highland Capital Healthcare, together with its affiliated advisers, believe will maximize value for Client accounts overall (without regard to the nature of the accounts involved or fees received from such accounts):

- This strategy may be recommended by one or more Highland Capital Healthcare or affiliated investment professionals
- A single person may represent more than one part of an issuer's capital structure
- The recommended course of action will be presented to Highland Capital Management's Conflicts Committee for final determination as to how to proceed

Highland Capital Healthcare and its affiliated advisers may elect, but is not required, to assign different teams to make recommendations for different parts of the capital structure as the Conflicts Committee determines in its discretion.

In the event any Highland Capital Healthcare or affiliated personnel serve on the Board of the subject company, they should recuse themselves from voting on any Board matter with respect to a transaction that has an asymmetrical impact on the capital structure.

- Highland Capital Healthcare or affiliated personnel board members may still make recommendations to the Conflicts Committee

- If any such persons are also on the Conflicts Committee, they may recuse themselves from the Committee's determination

Highland Capital Healthcare may use external counsel for guidance and assistance.

#### *Principal Trading*

Highland Capital Healthcare and its affiliates through their ownership interest in its Unregistered Investment Funds may be deemed a *related person* of such entity. In situations where we determine that we are a *related person* by our ownership of greater than 25% of the equity voting securities of such entity, such fund is considered a "*Principal Account*." Conflicts of interest may be deemed to exist between Principal Accounts and other Client accounts in so much as our allocations team may be enticed to allocate favorable investment opportunities to Principal Accounts instead of other Clients. To avoid any actual or perceived conflict of interest, allocations to any Principal Account may only be made after all other Client account orders for the security have been filled.

In addition, to the extent Highland Capital Healthcare wishes to trade an asset from a Client account to or from a Principal Account (a "Principal Cross Trade"), the SEC has stated that the Principal Cross Trade may only occur if the Client account on the other side from the Principal Account consents to the trade after a disclosure by Highland Capital Healthcare of all material facts. Highland Capital Healthcare's Compliance Manual sets forth procedures for executing both cross trades and principal cross trades.

#### *Cross Trading*

In an effort to reduce transaction costs, increase execution efficiency, and capitalize on timing opportunities, Highland Capital Healthcare may execute cross trades, or sell a security for one affiliated Client to another affiliated Client, without interposing a broker-dealer. All cross trades are subject to the cross trade procedures set forth in Highland Capital Healthcare's Compliance Manual. Cross trades may present an inherent conflict of interest because Highland Capital Healthcare and/or its affiliates represent the interest of the buyer and seller in the same transaction. As a result, Clients involved in a cross trade bear the risk that the price obtained from a cross trade may be less favorable than if the trade had been executed in the open market.

#### *Conflicts Related to Investment Activities*

Highland Capital Healthcare and/or its affiliates may buy or sell the same securities for an affiliate's account that it buys or sells for a Client or may pursue the same investment strategies for an affiliate's account as for a Client's. Highland Capital Healthcare and/or its affiliates also may receive greater management or performance-

based fees or incentives in connection with managing certain Client Accounts than from other Client accounts. In addition, if Highland Capital Healthcare allocate a Client's assets among pooled vehicles managed by Highland Capital Healthcare, it may have an incentive to allocate assets into vehicles that produce the greatest fees for Highland Capital Healthcare. Each of these situations give rise to a potential conflict of interest in the allocation of investment opportunities. In addition, Highland Capital Healthcare have an incentive to resolve conflicts of interest in favor of affiliated Clients over non-affiliated Clients. As previously described, Highland Capital Healthcare adopted has trade allocation policies and procedures that seek to ensure fair and equitable access to investment opportunities for all accounts.

#### *Trade Aggregation*

In some circumstances, Highland Capital Healthcare and/or its affiliates may seek to buy or sell the same securities contemporaneously for multiple Client accounts. Highland Capital Healthcare and/or its affiliates may, in appropriate circumstances aggregate securities trades for a Client with similar trades for other Clients, but is not required to do so. In particular, Highland Capital Healthcare and/or its affiliates may determine not to aggregate transactions that relate to portfolio management decisions that are made independently for different accounts or if Highland Capital Healthcare and/or its affiliates determine that aggregation is not practicable, not required or inconsistent with Client direction. When transactions are aggregated and it is not possible, due to prevailing trading activity or otherwise, to receive the same price or execution on the entire volume of securities purchased or sold, the various prices may be averaged or allocated on another basis deemed to be fair and equitable. In addition, under certain circumstances, the Clients will not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order. The effect of the aggregation may therefore, on some occasions, either advantage or disadvantage any particular Client.

From time to time, aggregation may not be possible because a security is thinly traded or otherwise not able to be aggregated and allocated among all affiliated Client accounts seeking the investment opportunity or a Client may be limited in, or precluded from, participating in an aggregated trade as a result of that Client's specific brokerage arrangements. Also, an issuer in which Clients wish to invest may have threshold limitations or aggregate ownership interests arising from legal or regulatory requirements or company ownership restrictions, which may have the effect of limiting the potential size of the investment opportunity and thus the ability of the applicable Client to participate in the opportunity.

### *Company Errors*

For the Company's Clients, the Company's responsibility for its trade errors is set forth in the governing documents for the relevant Client. No soft-dollars may be used to satisfy any trade errors. In addition, the Company may not use the securities in one Client's account to settle the trade error in another Client's account.

### *Conflicts Related to Valuation*

Highland Capital Healthcare or an affiliate may have a role in determining asset values with respect to Client accounts and may be required to price an asset when a market price is unavailable or unreliable. This may give rise to a conflict of interest because Highland Capital Healthcare may be paid an asset-based fee on certain Client accounts. In order to mitigate these conflicts, Highland Capital Healthcare and its affiliates determine asset values in accordance with valuation procedures, which generally are set forth in Highland Capital Healthcare Compliance Manual.

### *Conflicts Related to Investments in Affiliated Funds*

If permitted by the relevant investment guidelines and applicable law, Highland Capital Healthcare and/or its affiliates purchase for Client accounts interests in other pooled vehicles, including unregistered investment funds and retail funds, offered by Highland Capital Healthcare or its affiliates. Investment by a Client in such a vehicle means Highland Capital Healthcare or its affiliates receive advisory or other fees from the Client in addition to advisory fees charged for managing the Client's Account. The details of any possible fee offsets, rebates or other reduction arrangements in connection with such investments are provided in the documentation relating to the relevant Client Account and/or underlying investment vehicle. In choosing between vehicles managed by Highland Capital Healthcare and those not affiliated with Highland Capital Healthcare, Highland Capital Healthcare may have a financial incentive to choose Highland Capital Healthcare-affiliated vehicles over third parties by reason of additional investment management, advisory or other fees or compensation Highland Capital Healthcare or its affiliates may earn. The potential for fee offsets, rebates or other reduction arrangements may not necessarily eliminate this conflict and Highland Capital Healthcare may nevertheless have a financial incentive to favor investments in Highland Capital Healthcare-affiliated vehicles. If Highland Capital Healthcare invests in an affiliated vehicle, a Client should not expect Highland Capital Healthcare to have better information with respect to that vehicle than other investors may have (and if Highland Capital Healthcare does have better information it may be prohibited from acting upon it in a way that disadvantages other investors).

Additionally, Highland Capital Healthcare's affiliates may sponsor and manage funds and accounts that compete with Highland Capital Healthcare or make investment



with funds sponsored or managed by third-party advisers that would reduce capacity otherwise available to Highland Capital Healthcare's Clients.

#### *Other Potential Conflicts*

Highland Capital Healthcare and its affiliates may provide services other than advice to a Client, including administration, organizing/managing business affairs, executing and reconciling trades, preparing financials and providing audit support, preparing tax documents, sales and investor relations support, and diligence and valuation services, for additional fees. A potential conflict arises in such circumstances because Highland Capital Healthcare and its affiliates are incentivized to favor its Clients that pay such additional fees. However, the individuals who provide advice to Clients do not provide these additional services.

Highland Capital Healthcare and its affiliates may cause a Client to purchase, sell or hold securities of issuers in which Highland Capital Healthcare or its affiliate makes a market or has an equity, debt or other financial interest or securities of issuers or other investments in which Highland Capital Healthcare or its affiliates, its officers or employees or its affiliated broker-dealers and other related persons and their officers or employees have positions or other financial interests. For example, Highland Capital Healthcare may purchase on behalf of a Client unregistered securities for which an affiliate acts as placement agent, which may result in additional fees to the affiliate or assist the affiliate in meeting its contractual obligations. Highland Capital Healthcare may also cause a Client to borrow money from Highland Capital Healthcare's affiliates, and the affiliates may earn interest or fees on such transactions. Conflicts also may arise if Highland Capital Healthcare implements a portfolio decision or strategy (including a decision to hold an investment) for one Client ahead of, or contemporaneously with, another Client. Such transactions may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of other Client accounts and could result in one Client receiving more favorable trading results or reduced costs at the expense of the other Client.

Highland Capital Healthcare or its affiliates may invest (or recommend that a Client invest) in securities issued by a Client and may hedge derivative positions by buying or selling securities issued by a Client. A potential conflict may arise in such circumstances because Highland Capital Healthcare may be incentivized to favor its Clients that issue securities, or such Clients of its affiliates, over the Client on whose behalf Highland Capital Healthcare is making the investment. In addition to Clients, some of Highland Capital Healthcare's service providers are issuers of securities. Highland Capital Healthcare may determine that it is in the best interests of a Client to purchase securities issued by one of these entities. Highland Capital Healthcare has adopted policies and procedures designed to address conflicts of interest arising

from the foregoing activities. Furthermore, it is Highland Capital Healthcare's general policy not to take into account the fact that an issuer is a Client, service provider or vendor when making investment decisions.

Certain qualified employees and affiliates invest in Clients either through general partner entities or as limited partners, shareholders or otherwise. Highland Capital Healthcare generally reduces or waives all or a portion of the management fee, performance-based fee, or other costs and expenses related to the investments by such persons.

*Conflicts Related to Information Possessed by or Provided by Highland Capital Healthcare*

Certain persons within Highland Capital Healthcare or its affiliates may receive or create information (e.g., proprietary technical models) that is not generally available to the public. Highland Capital Healthcare or its affiliates has no obligation to provide such information to Clients or effect transactions for Clients on the basis of such information and in many cases Highland Capital Healthcare or its affiliates will be prohibited from trading for the same Clients based on the information. Similarly, some Clients may have access to information regarding Highland Capital Healthcare's or its affiliates' transactions or views that is not available to other Clients, and may act on that information through accounts managed by persons other than Highland Capital Healthcare or its affiliates. Such transactions may negatively impact other Clients (e.g., through market movements or decreasing availability or liquidity of securities).

*Conflicts Related to Highland Capital Healthcare's Relationships with Third Parties*

Highland Capital Healthcare or its affiliates may advise third-parties regarding valuation, risk management, transition management and potential restructuring or disposition activities in connection with proprietary or Client investments, which may create an incentive to purchase securities or other assets from those third parties or engage in related activities to bid down the price of such assets, which may have an adverse effect on a Client.

Highland Capital Healthcare's or its affiliates' Client may work with pension or other institutional investment consultants and such consultants may also provide services to Highland Capital Healthcare or its affiliates. Consultants may provide brokerage execution services to employees of Highland Capital Healthcare and its affiliates and such employees may attend conferences sponsored by consultants. Highland Capital Healthcare or its affiliates also may be hired to provide investment management or other services to a pension or other institutional investment consultant that works with a Client, which may create conflicts.

Highland Capital Healthcare or its affiliates may in-source or out-source to third parties certain processes or functions, which may give rise to conflicts. There may be conflict when negotiating with third-party service providers if Highland Capital Healthcare or its affiliates bears operational expenses of various Clients to the extent that a given fee structure would tend to place more expense on Clients for which Highland Capital Healthcare has a greater entitlement to reimbursement or less expense on Clients for which Highland Capital Healthcare or its affiliates has lesser (or no) entitlement to reimbursement. Highland Capital Healthcare or its affiliates may provide information about a Client's portfolio positions to unrelated third parties to provide additional market analysis and research to Highland Capital Healthcare and they may use such analysis to provide investment advice to other Clients.

Highland Capital Healthcare or its affiliates may purchase information (such as periodicals, conference participation, papers, surveys) from professional consultant firms, and such firms may believe they have an incentive to give favorable evaluations of Highland Capital Healthcare to their Clients.

In selecting broker-dealers that provide research or other products or services that are paid with soft dollars, conflicts may arise between Highland Capital Healthcare and a Client because Highland Capital Healthcare may not produce or pay for these benefits but may use brokerage commissions generated by Client transactions. Soft dollar arrangements may also give Highland Capital Healthcare an incentive to select a broker-dealer based on a factor other than Highland Capital Healthcare's interest in receiving the most favorable execution. Conflicts of interest related to soft dollar relationships with brokerage firms may be particularly influential to the extent that Highland Capital Healthcare uses soft dollars to pay expenses it might otherwise be required to pay itself. Furthermore, research or brokerage services obtained using soft dollars or that are bundled with trade execution, clearing, settlement or other services provided by a broker-dealer may be used in such a way that disproportionately benefits one Client over another (*e.g.*, economics of scale or price discounts). For example, research or brokerage services paid for through one Client's commission may not be used in managing that Client's account. Additionally, where a research product or brokerage service has a mixed-use, determining the appropriate allocation of the product or service may create conflicts. Please refer to the section titled Brokerage Practices for information regarding Highland Capital Healthcare's use of soft dollars.

Conflicts may arise where Highland Capital Healthcare has the responsibility and authority to vote proxies on behalf of its Clients. Please refer to the section titled Voting Client Securities for information regarding the policies and procedures governing Highland Capital Healthcare's proxy voting activities.

Employees of Highland Capital Healthcare and its affiliates may serve on the boards of directors and/or investment committees of external organizations, including those organizations that are currently or may become Clients of Highland Capital Healthcare, and such service may present conflicts of interest to the extent the employee become aware of material non-public information and may be unable to initiate some transactions for other Clients while in possession of that information.

Highland Capital Healthcare and its affiliates may conduct business with institutions such as broker dealers or investment banks that invest, or whose Clients invest, in pooled vehicles sponsored or advised by Highland Capital Healthcare or its affiliates, or may provide other consideration to such institutions or recognized agents, and as a result Highland Capital Healthcare may have a conflict of interest in placing its brokerage transactions.

Employees or affiliates of Highland Capital Healthcare or a related person may receive stock options from companies, the securities of which may be held in accounts of Highland Capital Healthcare's Clients, in exchange providing consulting work, including but not limited to, advisory services and financial services, for those companies.

#### *Other Accounts and Relationships*

As part of our regular business, Highland Capital Healthcare and its affiliates holds purchase, sell, trade or take other related actions both for their respective accounts and for the accounts of their respective Clients, on a principal or agency basis, subject to applicable law including Section 206(3) of the Advisers Act, with respect to loans, securities and other investments and financial instruments of all types. Highland Capital Healthcare also provides investment advisory services, among other services, and engages in private equity, real estate and capital markets-oriented investment activities. Highland Capital Healthcare will not be restricted in its performance of any such services or in the types of debt, equity, real estate or other investments which it may make. Highland Capital Healthcare may have economic interests in or other relationships with respect to investments made by Clients. In particular, but subject to Highland Capital Healthcare's personal trading policy, Highland Capital Healthcare may make and/or hold an investment, including investments in securities, that may compete with, be pari passu, senior or junior in ranking to an, investment, including investments in securities, made and/or held by Clients or in which partners, security holders, members, officers, directors, agents or employees of such Clients serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in restrictions on transactions by Clients and otherwise create conflicts of interest for Clients. In such instances, Highland Capital Healthcare may in its discretion make investment recommendations and decisions that may be the same as or different from those made

with respect to Client investments, subject to the capital structure conflicts procedures discussed above. In connection with any such activities described above, but subject to Highland Capital Healthcare's personal trading policy, Highland Capital Healthcare and its affiliates may hold, purchase, sell, trade or take other related actions in securities or investments of a type that may be suitable for Clients. Subject to Highland Capital Healthcare's personal trading policy, Highland Capital Healthcare will not be required to offer such securities or investments to Clients or provide notice of such activities to Clients. In addition, in managing Client portfolios, Highland Capital Healthcare may take into account its relationship or the relationships of its affiliates with obligors and their respective affiliates, which may create conflicts of interest. Furthermore, in connection with actions taken in the ordinary course of business of Highland Capital Healthcare in accordance with its fiduciary duties to its other Clients, Highland Capital Healthcare may take, or be required to take, actions which adversely affect the interests of their Clients.

Highland Capital Healthcare has invested and may continue to invest in investments that would also be appropriate for Clients. Such investments may be different from those made on behalf of Clients. Highland Capital Healthcare does not have any duty, in making or maintaining such investments, to act in a way that is favorable to Clients or to offer any such opportunity to Clients, subject to Highland Capital Healthcare's allocation policy and personal trading policy. The investment policies, fee arrangements and other circumstances applicable to such other parties may vary from those applicable to Clients. Highland Capital Healthcare may also provide advisory or other services for a customary fee with respect to investments made or held by Clients, and no stockholders nor Clients shall have any right to such fees except to the extent the governing documents of the applicable Client expressly provide otherwise. Highland Capital Healthcare may also have ongoing relationships with, render services to or engage in transactions with other Clients, who make investments of a similar nature to those of Clients, and with companies whose securities or properties are acquired by Clients and may own equity or debt securities issued by Clients. In connection with the foregoing activities Highland Capital Healthcare may from time to time come into possession of material nonpublic information that limits the ability of Highland Capital Healthcare to effect a transaction for Clients, and Client investments may be constrained as a consequence of Highland Capital Healthcare's inability to use such information for advisory purposes or otherwise to effect transactions that otherwise may have been initiated on behalf of its Clients.

Although the professional staff of Highland Capital Healthcare will devote as much time to Clients as they deem appropriate to perform its duties, the staff may have conflicts in allocating its time and services among Client accounts.

The directors, officers, employees and agents of Highland Capital Healthcare and its affiliates may, subject to applicable law, serve as directors (whether supervisory or

managing), officers, employees, partners, agents, nominees or signatories, and receive arm's length fees in connection with such service, for Clients or Highland Capital Healthcare, or for any Client joint ventures or any affiliate thereof, and no Clients nor their stockholders shall have the right to any such fees except to the extent the governing documents of the applicable Client expressly provide otherwise.

Highland Capital Healthcare and its affiliates serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as Clients, or of other investment funds managed by Highland Capital Healthcare. In serving in these multiple capacities, they may have obligations to other Clients or investors in those entities, the fulfillment of which may not be in the best interests of Clients or their stockholders. Clients may compete with other entities managed by Highland Capital Healthcare for capital and investment opportunities.

There is no limitation or restriction on Highland Capital Healthcare with regard to acting as investment manager (or in a similar role) to other parties or persons. This and other future activities of Highland Capital Healthcare may give rise to additional conflicts of interest. Such conflicts may be related to obligations that Highland Capital Healthcare or its affiliates have to other Clients.

Certain Highland Capital Healthcare affiliates, including NexBank SSB and Governance Re among others, may provide banking, agency, insurance and other services to Clients and their operating affiliates for customary fees, and no Client, nor its subsidiaries will have a right to any such fees except to the extent the governing documents thereof expressly provide otherwise.

Highland Capital Healthcare may direct Clients to acquire or dispose of investments in cross or principal trades involving Clients of Highland Capital Healthcare in accordance with applicable legal and regulatory requirements as described above. In addition, Clients may make and/or hold an investment, including an investment in securities, in which Highland Capital Healthcare and its affiliates have a debt, equity or participation interest, and the holding and sale of such investments by Clients may enhance the profitability of Highland Capital Healthcare's own investments in such companies. Moreover, Clients and their operating affiliates may invest in assets originated by, or enter into loans, borrowings and/or financings with Highland Capital Healthcare, including but not limited to NexBank, including in primary and secondary transactions with respect to which Highland Capital Healthcare may receive customary fees from the applicable issuer, and no Client nor their subsidiaries shall have the right to any such fees except to the extent the governing documents of such Client expressly provide otherwise. In each such case, Highland Capital Healthcare may have a potentially conflicting division of loyalties and responsibilities regarding Clients and the other parties to such investment. Under certain circumstances, Highland Capital Healthcare may determine that it is appropriate to

avoid such conflicts by selling an investment at a fair value that has been calculated pursuant to our valuation procedures to another fund managed or advised by Highland Capital Healthcare. In addition, Highland Capital Healthcare may enter into agency cross-transactions where it or any of its affiliates act as broker for Clients, to the extent permitted under applicable law.

Highland Capital Healthcare may act as an underwriter, arranger or placement agent, or otherwise participate in the origination, structuring, negotiation, syndication or offering of investments purchased by Clients. Such transactions are on an arm's-length basis and may be subject to arm's-length fees. There is no expectation for preferential access to transactions involving investments that are underwritten, originated, arranged or placed by Highland Capital Healthcare and no Client nor their stockholders shall have the right to any such fees except to the extent the governing documents of such Client expressly provide otherwise.

#### *Material Non-Public Information*

There are generally no ethical screens or information barriers among Highland Capital Healthcare and certain of its affiliates of the type that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. If Highland Capital Healthcare, any of its personnel or affiliates were to receive material non-public information about an investment or issuer, or have an interest in causing a Client to acquire a particular investment, we may be prevented from causing the Client to purchase or sell such asset due to internal restrictions imposed on us. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible that such controls could fail and result in Highland Capital Healthcare, or one of its investment professionals, buying or selling an asset while, at least constructively, in possession of material non-public information. In addition, while the Highland Capital Healthcare and certain of its affiliates generally operate without information barriers on an integrated basis, such entities could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, our ability to operate as an integrated platform could also be impaired, which would limit our access to personnel of our affiliates and potentially impair our ability to manage Client investments.

## ITEM 12. BROKERAGE PRACTICES

### BROKER-DEALER SELECTION

Highland Capital Healthcare has an obligation to obtain “best execution” for Client transactions considering the execution price and overall commission costs paid and certain other factors. Our trading desk route orders to various broker-dealers for execution at their discretion. Where possible, we deal directly with the dealers who make a market in the securities involved, except in those circumstances where we believe better prices and execution are available elsewhere.

Through periodic meetings of the Brokerage Committee, Highland Capital Healthcare reviews compensation paid to broker-dealers. The meetings include an in-depth review of “best execution reports” which are third party reports that show how Highland Capital Healthcare’s execution compared to its peers. The reports also include information regarding the most used broker-dealers, lowest and highest cost broker-dealers, and other information used in reviewing broker-dealer selection and compensation.

Factors involved in selecting brokerage firms include:

#### *Broker Specific*

- ❖ Size of broker
- ❖ Reputation
- ❖ Quality of service
- ❖ Experience
- ❖ Financial stability and creditworthiness
- ❖ Financial Statements
- ❖ Regulatory filings
- ❖ Standing in financial community
- ❖ Ability to handle block trades
- ❖ Acceptable record of delivery and payment on past transactions
- ❖ Quality of research and investment information provided



### *Transaction Specific*

- ❖ Best available execution
- ❖ Market knowledge regarding specific industries and securities
- ❖ Access to sources of supply or markets
- ❖ Nature of the market for the security

## THE APPROVAL PROCESS

Highland Capital Healthcare's trading desk is only allowed to trade with broker-dealers that are approved by our Brokerage Committee unless interim approval is expressly provided by the Compliance Department, in which case such approval shall be ratified by the Brokerage Committee at the next meeting of the Committee. New broker-dealers are added to Highland Capital Healthcare's approved list of broker-dealers subject to a formal review process which closely analyses all of the above mentioned broker specific selection items. The Brokerage Committee reviews the requirements and determines what additional procedures or reporting are necessary.

Highland Capital Healthcare generally has discretion to select brokers for its Clients that are pooled investment vehicles, such as, Retail Funds and Unregistered Investment Funds. For the Retail Funds, the Board of Trustees/Directors of each Retail Fund is ultimately responsible for the oversight of the Retail Fund and has the authority to direct or limit the brokers that may be used for the particular Retail Fund.

## SOFT DOLLARS

In those circumstances where more than one broker-dealer is able to satisfy our obligation to obtain best execution, Highland Capital Healthcare may place a trade order on behalf of Client Accounts with a broker-dealer that charges more than the lowest available commission cost or price. Highland Capital Healthcare may do this in exchange for certain brokerage and research services provided either directly from the broker-dealer or through a third party ("Soft Dollar Arrangements"), provided such that each of the following is met:

- ❖ Highland Capital Healthcare determines:
  1. The research or brokerage product or service constitutes an eligible brokerage or research service;
  2. The product or service provides lawful and appropriate assistance in the performance of Highland Capital Healthcare's investment decision making responsibilities; and
  3. In good faith the amount of Client commissions paid is reasonable in light of the value of the products or services provided.

- ❖ The brokerage or research is “provided by” a broker-dealer who participates in effecting the trade that generates the commission. Highland Capital Healthcare may not incur a direct obligation for research with a third party vendor and then arrange to have a broker-dealer pay for that research in exchange for brokerage commissions.
- ❖ Highland Capital Healthcare may only generate soft dollars with commissions in agency transactions. Highland Capital Healthcare may not use dealer markups in principal transactions to generate soft dollars. In addition, a trade for a fixed income security or over-the-counter (“OTC”) security may be done on an agency basis only if the trader determines that it would not result in a broker-dealer unnecessarily being inserted between Highland Capital Healthcare and the market for that security.
- ❖ No soft dollars are generated on accounts for which:
  1. Investment discretion resides with the Client (i.e. non-discretionary accounts);
  2. Client mandates restrict or prohibit the generation of soft dollar commissions;
  3. The Client has a directed brokerage arrangement.
- ❖ The brokerage trade placed is for “securities” transactions (and not, for example, futures transactions).

Research services furnished by brokers through whom Highland Capital Healthcare effects securities transactions may be used in servicing all of Highland Capital Healthcare’s accounts, and not all such services may be used in connection with the accounts which paid commissions to the broker providing such services.

If a Client Account is under the custody of one brokerage firm and another brokerage firm is a selling group member for an underwriting syndicate, such a Client Account may not be able to participate in the purchase of securities in the underwriting because the custodial brokerage firm was not a selling group member. In addition, to the extent that a Client directs brokerage trades to be placed with a particular broker, the allocation of securities transactions may be impacted.

When Highland Capital Healthcare uses Client brokerage commissions (or markups or markdowns) to obtain research or other products or services, Highland Capital Healthcare receives a benefit because the firm does not have to produce or pay for research, products, or services. Consequently, Highland Capital Healthcare may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than Clients’ interest in receiving most favorable execution.

## PRODUCTS AND SERVICES ACQUIRED WITH SOFT DOLLARS

All products and services acquired with soft dollars qualify under the Safe Harbor of 28(e) of the Securities Exchange Act of 1934. Examples of eligible services and products include independent stock research, economic research, research in specific industry sectors, real time feeds, newswires, strategic analysis, and back office systems.

## DIRECTED BROKERAGE

Highland Capital Healthcare does not require Clients to direct brokerage, but in those situations where a Client has directed Highland Capital Healthcare to place trades with a particular broker-dealer, Highland Capital Healthcare may not be free to seek the best price, volume discounts or best execution by placing transactions with other broker-dealers. Additionally, as a result of directing Highland Capital Healthcare to place trades with a particular broker-dealer, a disparity in commission charges may exist between the commissions charged to Clients who direct us to use a particular broker-dealer and those Clients who do not direct us to use a particular broker-dealer as well as a disparity among the brokers to which different Clients have directed trades.

## TRADE AGGREGATION

Orders of Clients may be combined (or “bunched”) when possible to obtain volume discounts resulting in a lower per share commission. Please see the section entitled Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading for additional information regarding Highland Capital Healthcare’s trade aggregation procedures.

## ITEM 13. REVIEW OF ACCOUNTS

### ACCOUNT REVIEW

Highland Capital Healthcare has an Investment Committee which, subject to certain size thresholds, is responsible for (i) assessing and approving new issues and new credits and (ii) determining general account suitability for those investments.

In circumstances where the decision to buy is made outside of the Investment Committee (i.e. where limited quantity purchases are allowed or with respect to follow-on investments), allocations will be made by consultation with the Portfolio Managers, typically from a “Gatekeepers” email request sent by or at the direction of the requesting Portfolio Manager. In determining the aggregate amount to be sought, the Investment Committee and or Portfolio Managers consider, without limitation, the normal investment amount of the account, the general level of cash on hand and available to be drawn, cash generating activities, withdrawals and other factors affecting the desired purchase amount for Clients. The Investment Committee also may reconsider buy decisions relating to existing Client holdings when there are significant changes in relevant factors relating to the investment, including, but not limited to, the market value of the investment, the business of the issuer or borrower, results of operations, balance sheet and creditworthiness of the issuer or in the case of an equity security, the outlook for the issuer. An initial target allocation is determined by the committee at the time of any buy or sell decision based on appropriate factors (e.g., suitability, cash needs/availability, transaction size, etc.) which is then reconciled and adjusted, as appropriate, by the Allocation Committee prior to the commencement of trading on the next trading day. Our fiduciary duty requires that we recommend only those investments that are suitable for a Client, based on the Client's particular investment objectives, needs and circumstances. We are responsible for inquiring and documenting the criteria discussed above and shall develop suitable investment guidelines for each Client.

#### *Traders Book*

In certain circumstances the Company's Authorized Traders, as from time to time amended, determine that an investment is a good short-term opportunity for technical trading reasons. In these cases, an Authorized Trader propose these investment ideas to the Portfolio Managers who will consider the short-term investment based on the facts known to them and presented by the Authorized Trader. If the Portfolio Managers agree to participate in the short-term trade, the Authorized Trader executes the trade for the benefit of those accounts. The trade will then follow our Allocation Policy for immediate term investments.

### *Equities*

Investment decisions with respect to equity investments are generally made independently by each applicable Portfolio Manager and allocated solely within the accounts managed by such Portfolio Manager, provided that in certain circumstances, such as debt to equity conversions, such determination may be presented to the Investment Committee in accordance with the process typically applicable to credit investments.

Investments in all Client Accounts are reviewed periodically and are reviewed collectively and individually by multiple reviewers in order to provide multiple perspectives on the accounts. Reviewers evaluate Client objectives along with, among other factors, applicable portfolio restrictions, available cash, particularized investment suitability, investment performance and diversification. In addition to, and not as a substitute for the foregoing, additional reviews are conducted in accordance with Client requests as set forth in the relevant investment advisory contract.

### NATURE AND FREQUENCY OF REPORTING

Client reporting varies based on the type of product/vehicle. The following summarizes the reporting provided to each Client. The reports provided to a Client within a particular investment product/vehicle may differ from our description depending upon strategies and Client needs.

#### *Unregistered Investment Funds – Hedge Funds*

Investors in Hedge Fund Clients are generally provided a written monthly account statement with their respective net asset value. They also receive a written monthly reporting package, which includes a one-page summary with a fund overview, market commentary, and Highland Capital Healthcare's outlook on the market. In addition, the report includes fund specific details around the portfolio statistics, composition, and attribution.

In addition to the above mentioned reporting, investors also receive audited written financial statements on an annual basis.

#### *Retail Funds*

With respect to our retail Clients, we use Boston Financial Data Services to create and distribute appropriate written account information to our investor base.

## **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

As stated in Item 12, we may allocate portfolio transactions to brokers or dealers who provide research and/or related services. For a more detailed discussion of such practices, please refer to Item 12.

Employees of NexBank Securities, Inc. or Highland Capital Funds Distributor, Inc. are compensated based on their activities in soliciting investors through FINRA and/or SEC registered intermediaries for select funds advised by Highland Capital Healthcare. These employees are compensated with a base salary and discretionary bonus. Unaffiliated persons may from time to time serve as solicitors for Highland Capital Healthcare and may be compensated for referrals. Any agreement with a solicitor will be in compliance with Rule 206(4)-3 of the Advisers Act.

## ITEM 15. CUSTODY

Highland Capital Healthcare does not act as custodian for Client assets. However, under Rule 206(4)-2 under the Advisers Act, Highland Capital Healthcare is deemed to have custody of certain Client assets. In the case of Retail Funds and Unregistered Investment Funds, such Clients have made arrangements with qualified custodians as disclosed in the relevant offering and other fund documents. In addition such Clients obtain additional financial statements which statements are provided to investors no later than 120 days following the fiscal year end.

Loans held in Client Accounts may be agented by NexBank, SSB. As Agent Bank, NexBank, SSB will receive cash or send cash to such Clients for interest or principal payments or borrowings. Client Accounts (other than Retail Funds) may also have bank accounts or account control agreements in place at NexBank, SSB. In such instances NexBank receives an independent control examination pursuant to Rule 206(4)-2.

## ITEM 16. INVESTMENT DISCRETION

Highland Capital Healthcare advises a variety of Client Accounts and manages assets on a discretionary. For a description of limitations Clients may impose on our discretionary authority to manage securities, please see the section titled Our Advisory Business.

Highland Capital Healthcare accepts discretionary authority to manage Clients' assets through an investment management agreement with its Clients.

Additionally, before an investment may be made into an Unregistered Investment Fund, or other similar structure, Highland Capital Healthcare provides all potential investors in the fund with an offering document, which sets forth in detail the investment strategy and program. By completing the subscription documents to acquire an interest or shares in an Unregistered Investment Fund, investors give us complete authority to manage the capital contributed in accordance with the offering document received.



## **ITEM 17. VOTING CLIENT SECURITIES**

### **SECURITIES HELD IN CLIENT ACCOUNTS (OTHER THAN RETAIL FUNDS)**

Highland Capital Healthcare's proxy voting policy ensures proxies are voted on behalf of each Client Account's securities and in the best economic interests of such Client Account, without regard to the interests of Highland Capital Healthcare or any other Client of Highland Capital Healthcare. Portfolio manager(s) of the applicable Client Account(s) evaluate the subject matter of each proxy and vote on behalf of the Client Account in accordance to the guidelines set forth in our proxy voting policy.

If the Portfolio Manager(s) determines that Highland Capital Healthcare may have a potential material conflict of interest in voting a proxy, the portfolio manager(s) will contact Highland Capital Healthcare's Compliance Department prior to the voting deadline. Highland Capital Healthcare also may determine not to vote proxies with respect to securities of any issuer if it determines it would be in its Client's overall best interests not to vote.

### **SECURITIES HELD IN RETAIL FUNDS**

In voting proxies for securities held by a Retail Fund, Highland Capital Healthcare considers only the interests of the Retail Fund and will vote such proxies in the best economic interests of such Retail Fund. Highland Capital Healthcare resolves the conflict of interest by generally following the proxy voting recommendation of a disinterested third party such as ISS, Glass Lewis, or another institutional proxy research firm, unless the applicable fund portfolio manager determines that voting contrary to such recommendation is in the best interest of a particular retail account.

### **OBTAINING A COPY OF THE POLICY**

Clients and prospective Clients can obtain a copy of the proxy voting policy or information on how Highland Capital Healthcare voted proxies by contacting Highland Capital Healthcare's Chief Compliance Officer at (972) 628-4100. In addition, each Retail Fund's proxy voting record for the most recent 12-month period ended June 30 is available (i) without charge, upon request, by calling (877) 665-1287 and (ii) on the SEC's website (<http://www.sec.gov>). Information as of June 30 each year will generally be available on or about the following August 31.

## **ITEM 18. FINANCIAL INFORMATION**

Highland Capital Healthcare does not charge or solicit pre-payment of more than \$1200 in fees per Client six or more months in advance.

Highland Capital Healthcare has discretionary authority or custody of Client funds or securities. There is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to Clients.

**ITEM 19. REQUIREMENTS FOR  
STATE-REGISTERED ADVISERS**

Not Applicable.