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This brochure provides information about the qualifications and business practices of Highland Associates, Inc. If you have any questions about the contents of this brochure, please contact us at (205) 933-8664, or by email at [mpoe@highlandassoc.com](mailto:mpoe@highlandassoc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

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

Additional information about Highland Associates, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**August 1, 2019**

# Material Changes

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## Annual Update

Highland Associates, Inc. (“Highland”) is providing this information as part of our annual updating amendment which contains material changes from our last update. This section discusses only material changes since the last update which most recently occurred on March 25, 2019.

## Material Changes since the Last Update

Since our last annual update, Highland has made the following material changes to our Brochure. These changes are listed briefly below and disclosed more fully in the following sections, if necessary.

### **Advisory Business: Firm Description and Principal Owners**

On August 1, 2019, Highland was acquired by Regions Bank (“Regions”). Regions is the principal owner of Highland.

### **Other Financial Industry Activities and Affiliations: Financial Industry Affiliations**

Regions Financial Corporation (“RFC”) is the parent company of Regions Bank and RFC Financial Services Holding, LLC. Highland is owned by Regions Bank.

Regions Securities, LLC, (“RSL”), is wholly owned by RFC Financial Services Holding, LLC, which is a wholly owned subsidiary of Regions Financial Corporation and is a registered broker-dealer with the various federal regulators and self-regulatory organizations (“SRO”), including but not limited to the SEC and FINRA.

RFC Financial Services Holding, LLC, also wholly owns BlackArch Partners, an investment bank, which is a direct owner of BlackArch Securities, LLC, a broker-dealer registered with the SEC and FINRA.

While these companies are affiliated with Highland and/or its parent company, this affiliation does not present a conflict of interest to Highland’s clients. Highland does not engage in transactions offered by either Regions Securities, LLC or BlackArch Securities, LLC for client accounts.

Highland does not custody client assets nor does Highland select custodians for client assets. Highland does not have any monetary relationships with custodians. However, the parent company of Highland, Regions Bank, does custody client assets. Regions Bank has been selected by some of Highland’s clients to serve as custodian of their assets.



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# Advisory Business

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## Firm Description

In 1987, Highland Associates, Inc. (“Highland”) was created specifically to assist not-for-profit healthcare institutions in the development, implementation, and maintenance of treasury and investment management programs. Our goal is to ensure that the investment portfolio reflects the needs of the organization as a whole. The company was founded in Birmingham, AL, as an independent, fee-based consulting firm.

On August 1, 2019, Highland was acquired by Regions Bank (“Regions”).

Our national client base consists of foundations and endowments, defined benefit plans, defined contribution plans, insurance portfolios and non-profit health care operating entities.

## Principal Owner

Effective August 1, 2019, Highland became a subsidiary of Regions Bank, which is a wholly owned subsidiary of Regions Financial Corporation. Regions Financial Corporation (NYSE:RF) is a regional financial holding company, and is a publicly held reporting company under the Securities Exchange Act of 1934.

## Types of Advisory Services

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

**Investment Services:** Customized solutions crafted to lead our clients to desired goals based on their respective investment resources. These services include:

- Determining portfolio and organizational objectives and constraints
- Investment policy design
- Asset allocation and investment manager recommendations
- Capital market research or other topical research areas of focus
- Traditional advisory consultant
- Discretionary outsourced manager of plan assets

**Reporting Services:** Serve to support and enhance our investment services including:

- Routine monthly & quarterly reporting
- Internal (staff) committee (governance) reporting
- Presentations, meetings, ad hoc reporting to assist with audit & rating agency reviews and affiliate recommendations.

**Business services:** Specialty services customized to meet each client's specific needs. These are typically defined as:

- Interactions with third party agencies
- Back office administration tasks such as negotiating and preparing manager and subscription agreements.
- Interfacing with custodians to process client approved trades, reconcile client reports and other operational duties and tasks
- Providing client specific education

Highland is pleased to offer our consulting services in three formats:

- **Implemented Consulting:** Highland will provide operational support for the back office administrative tasks of the client while maintaining a non-discretionary relationship. Upon authorization from the client, Highland will implement client approved investment decisions with custodians and managers. Highland will not purchase or sell securities for the client's account unless instructed in writing by the client. Highland will prepare pertinent information and execute the transaction(s) following approval.
- **Discretionary Services:** Highland is pleased to offer our services in a discretionary format. Highland will work with each client to develop an Investment Policy Statement that serves as the overarching framework for the portfolio. Within the policy statement there will be established ranges for each approved asset class. Highland is then responsible for determining the target allocation within the ranges based on our capital markets outlook. Highland's Investment Committee, consisting of the senior professionals at the firm, determines the relative attractiveness and appropriateness of each asset class to be used in a client's portfolio. Highland is responsible for the implementation of the investment program which includes the hiring and firing of investment managers for the approved asset classes.
- **Designated Investment Services:** Highland is pleased to offer a discretionary relationship for a portion of a client's asset allocation. Under this agreement, a client would have access to Highland's commingled investment program. Highland would interface with custodians to effect the commingled investment program transactions and provide performance measurement and reporting.

## Mutual Fund

In addition to the above, Highland provides investment advisory services to a registered investment company, Highland Resolute Fund (formerly Redmont Resolute Fund). Highland Resolute Fund (“the Mutual Fund”) is a series of the Financial Investors Trust, an open-end series management investment company organized as a Delaware statutory trust. The Mutual Fund pursues its investment objective by allocating its assets among (i) investment sub-advisers (the “Sub-Advisers”) who manage alternative or hedging investment strategies, (ii) other open-end funds, closed-end funds, or exchange-traded funds that use alternative or hedging strategies, and (iii) derivatives, principally (though not limited to) total return swaps on reference pools of securities which may be managed by unaffiliated parties, for the purposes of seeking economic exposure to alternative or hedging strategies. The Mutual Fund has an investment management agreement with Highland that establishes investment criteria and other restrictions and guidelines that govern the relationship between the Mutual Fund and Highland.

In addition, because Highland is not required to deliver a Brochure to the Mutual Fund, several items of this Brochure do not describe the services that Highland provides to the Mutual Fund. Such items include “Methods of Analysis, Investment Strategies and Risk of Loss,” “Review of Accounts” and “Custody.” For additional information regarding the Mutual Fund, please consult the Mutual Fund’s prospectus.

## Collective Investment Trust

Highland also provides investment advisory services to the Highland Collective Investment Trust (the “Highland CIT”), for which Global Trust Company (“GTC”), a trust company organized under the laws of Maine as trustee. Highland manages the assets of each fund established by GTC (each a “Highland CIT Fund”). Highland is responsible for constructing and monitoring the asset allocation and portfolio strategies for each Highland CIT Fund, consistent with each Highland CIT Fund’s investment objective, strategy, and risks. Highland believes that it is possible to enhance shareholder value by using one or more sub-advisory firms to manage the assets of each Highland CIT Fund. Therefore, Highland manages each Highland CIT Fund using a “manager of managers” approach by selecting one or more sub-advisers to manage each Highland CIT Fund, based upon Highland’s evaluation of the sub-adviser’s expertise and performance in managing the asset class in which such Highland CIT Fund will invest. Each client desiring to invest in a Highland CIT Fund will be provided offering documents related to the Highland CIT, which will typically include a confidential private offering memorandum, a participation agreement and a copy of the Highland CIT’s Declaration of Trust (collectively, the “CIT Offering Documents”). Highland does not have authority to invest eligible plan assets into one or more of the Highland CIT Funds on a discretionary basis. In order to invest, the eligible plan’s fiduciary must make the decision to invest in the Highland CIT Fund. The eligible plan’s fiduciary must make this decision on an independent basis, without using Highland as the primary source for making such decisions.

## LLC Fund

In addition to the above, Highland provides investment advisory services to the Highland Investment Fund LLC, a Delaware series limited liability company (the “Highland LLC Fund”) consisting of separate and distinct investment funds (each a “Highland LLC Series”). GTC serves as the manager of the Highland LLC Fund. Highland has discretionary investment authority over each Highland LLC Series’ assets and is primarily responsible for the investment selection and positioning of each Highland LLC Series. Highland utilizes sub-advisers to manage the assets of each Highland LLC Series. Highland LLC Series assets allocated to a sub-adviser will be either invested directly in securities and other assets consistent with the Highland LLC Series’ investment objectives and guidelines or in an investment pool managed by the sub-adviser that invests directly in securities and other assets consistent with the Highland LLC Series’ investment objectives and guidelines.

Each client desiring to invest in a Highland LLC Series will be provided offering documents related to such Highland LLC Series, which will typically include a confidential private placement memorandum, an investor questionnaire, a subscription agreement and a copy of the limited liability company agreement of the Highland LLC Fund (collectively, the “Fund Offering Documents”). Highland does not have authority to invest client assets into one or more of the Highland LLC Series on a discretionary basis. In order to invest, the client must make the decision to invest in the Highland LLC Series and how much of the client’s assets to invest. The client must make those decisions on an independent basis, without using Highland as the primary source for making such decisions.

## Asset Management

As of December 31, 2018, Highland managed \$9,788,669,900 of client assets on a discretionary basis and \$16,102,922,000 of client assets on a non-discretionary basis. Assets managed on a discretionary basis and assets managed on a non-discretionary basis are included in computing “regulatory assets under management” required for Item 5.F in Part 1A of Highland’s Form ADV. With respect to assets managed on a non-discretionary basis, these assets are included in computing “assets under management” because Highland has continuing or regular supervisory or management responsibility.

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# Fees and Compensation

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## Description

Highland does not have a uniform fee schedule. Highland's fees are negotiated on a per-client basis and vary based on the type of advisory services and the size of the client account. The manner in which fees are charged is established in a client's written agreement with Highland.

## Termination of Advisory Agreement

A client may terminate Highland at any time during the term of the engagement, upon thirty (30) days written notice to Highland in accordance with the terms of the advisory agreement. The client shall be liable for all monthly fee payments which relate to periods prior to the termination of the agreement but shall not be liable for any remaining fees which otherwise would be due and payable to Highland.

## Fee Billing

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

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

## Other Fees

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

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

## **Fees – Mutual Fund**

The Mutual Fund pays Highland an annual advisory fee equal to 1.50% based on its average daily net assets. Highland has agreed contractually, with respect to Highland Resolute Fund, to waive the portion of its 1.50% advisory fee in excess of any sub-advisory fees paid by Highland to Sub-Advisers in connection with Highland Resolute Fund (“Sub-Advisory Fees”). This agreement is in effect through August 31, 2019. Highland may not discontinue this agreement to waive fees without the approval by Highland Resolute Fund’s Board of Trustees.

Further information related to the calculation of management fees and other expenses can be found in the prospectus for the Mutual Fund.

## **Performance-Based Fees**

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Highland does not charge its clients performance-based fees.

## **Types of Clients**

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### **Description**

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

In addition, as described elsewhere in this Brochure, Highland provides investment advisory services to Highland Resolute Fund (the “Mutual Fund”), the Highland CIT Funds, and the Highland LLC Series.

### **Account Minimums**

Other than for the Mutual Fund, the Highland CIT Funds, and the Highland LLC Series, Highland does not have any requirements regarding minimum account size. Please consult the prospectus for the Mutual Fund for information regarding minimum investment requirements. Please consult the CIT Offering Documents and the Fund Offering Documents for information regarding the minimum investment requirements for the Highland CIT Funds and the Highland LLC Series.

# Methods of Analysis, Investment Strategies and Risk of Loss

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## Asset Allocation Philosophy

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

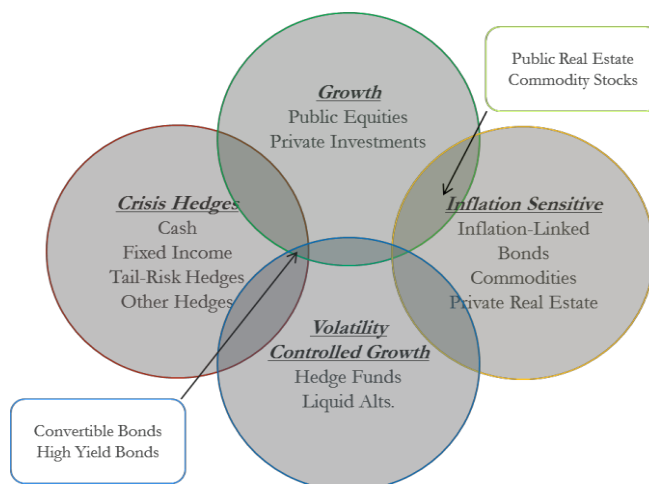
It is important to note that the second element in the allocation process, which is based on Highland's capital market view, is always implemented with each client's specific objectives and constraints in mind. Unique considerations would include factors such as stated investment restrictions, liquidity needs, clarity and transparency, and comfort level among the decision makers.

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

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

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

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



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

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

## Asset Allocation Process

Highland's Investment Committee oversees the firm's entire investment process including manager due diligence, asset allocation studies, market research, and identifying market opportunities. The current voting members of the committee consist of leaders of the firm and may include representatives from each investment function.

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

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

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

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

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

Highland then marries our capital market outlook with the specific needs and risk tolerance of each client to determine an optimal asset allocation. Once an allocation is determined, the managers are selected for each client to fulfill the asset mix. Managers who are recommended have been thoroughly vetted by Highland's Investment Committee.

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

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

## General Risk

No assurance can be given that Highland's methods of analysis and investment strategies will achieve favorable risk-adjusted returns in a variety of capital market conditions. The success of Highland's investment strategies will

largely depend on correct assessments of the future course of price movements of securities and other investments. There can be no assurance that Highland will be able to predict accurately such price movements. The securities markets have historically been characterized by volatility and unpredictability. In addition to market risk, there is unpredictability as to changes in general economic conditions, which may affect the success of Highland's investment strategies.

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

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

## **Liquidity Risk**

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

## **Concentration of Investments**

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

## **Risks Related to Dependence on Other Asset Managers**

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

## **Risk of Loss**

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

## Other Risks May Be Disclosed in Specific Disclosure Documents

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

Please consult the CIT Offering Documents, the Fund Offering Documents and the prospectus for the Mutual Fund for information regarding detailed risk factors relating to the Highland CIT Funds, the Highland LLC Series and the Highland Resolute Fund.

## Disciplinary Information

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

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

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

As discussed elsewhere in this Brochure, Highland also provides investment advisory services to the Highland Resolute Fund (the "Mutual Fund"). Highland may invest client assets in or recommend investment in the Mutual Fund to its clients. As Highland receives a management fee from the Mutual Fund, it may have an incentive to invest client assets in the Mutual Fund or to recommend investment in the Mutual Fund to its clients. Highland addresses such conflicts of interest by having agreed contractually to waive the portion of its 1.50% advisory fee in excess of

any sub-advisory fees paid by Highland to Sub-Advisers. This agreement is in effect through August 31, 2019. Highland may not discontinue this waiver without the approval by the Mutual Fund's Board of Trustees.

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

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

## Financial Industry Affiliations

Regions Financial Corporation ("RFC") is the parent company of Regions Bank and RFC Financial Services Holding, LLC. Highland is owned by Regions Bank.

Regions Securities, LLC, ("RSL"), is wholly owned by RFC Financial Services Holding, LLC, which is a wholly owned subsidiary of Regions Financial Corporation and is a registered broker-dealer with the various federal regulators and self-regulatory organizations ("SRO"), including but not limited to the SEC and FINRA.

RFC Financial Services Holding, LLC, also wholly owns BlackArch Partners, an investment bank, which is a direct owner of BlackArch Securities, LLC, a broker-dealer registered with the SEC and FINRA.

While these companies are affiliated with Highland and/or its parent company, this affiliation does not present a conflict of interest to Highland's clients. Highland does not engage in transactions offered by either Regions Securities, LLC or BlackArch Securities, LLC for client accounts.

Highland does not custody client assets nor does Highland select custodians for client assets. Highland does not have any monetary relationships with custodians. However, the parent company of Highland, Regions Bank, does custody client assets. Regions Bank has been selected by some of Highland's clients to serve as custodian of their assets.

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

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## Code of Ethics

Highland maintains a Code of Business Conduct and Ethics (the "Code of Ethics") that addresses, among other things, compliance with laws, conflicts of interest, reports of securities transactions and holdings, discrimination and harassment, confidentiality, protection and proper use of Highland's company assets, payments to government



personnel, reporting of illegal activity, and gifts and gratuities. The purpose of this Code of Ethics is to set out basic principles to guide employees, officers and directors in making sound judgments regarding compliance with the laws and other ethical business conduct. Highland will provide a copy of its Code of Ethics to any client or prospective client upon request.

## **Personal Trading**

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

# Brokerage Practices

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## Selecting Brokerage Firms

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

## Soft Dollars

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

## Directed Brokerage

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

# Review of Accounts

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## Periodic Reviews

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

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

## Nature and Frequency of Reports

Highland prepares monthly written reports of the accounts of each client for which Highland provides investment consulting services. These reports list the net asset value of the client’s investments as of an appraisal date, the return and benchmark calculations. Highland also delivers quarterly investment performance reports to all of its clients showing the performance of their respective investment portfolios during the preceding quarter (such reports are described in more detail above under the heading “Periodic Reviews”). Highland reviews these quarterly reports with

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clients and makes recommendations regarding necessary portfolio adjustments, if any. Highland also provides each client with annual updates to its capital plan. Highland interviews the client annually in order to identify material changes in its financial information, cash requirements, and investment objectives in order to rebalance the client's investment portfolio.

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

## Client Referrals and Other Compensation

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### Incoming Referrals

Highland does not compensate any third parties for client referrals.

### Referrals Out

No third parties compensate Highland for client referrals.

## Custody

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### Account Statements

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

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

Please consult the CIT Offering Documents and the Fund Offering Documents for information regarding the account statements provided to investors in the Highland CIT and the Highland LLC Fund.

# Investment Discretion

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## Discretionary Authority for Trading

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

With client approval, discretionary clients may participate in the Highland LLC Fund and/or the Highland CIT; provided that the client is eligible to participate. In order to invest, the client must make the decision to invest in the Highland LLC Fund or the Highland CIT as well as how much of the client’s assets to invest. The client must make those decisions on an independent basis, without using Highland as the primary source for making such decisions.

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

# Voting Client Securities

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## Proxy Votes

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

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

Highland has generally delegated the responsibility for voting proxies to the sub-advisers it retains for the Highland CIT and the Highland LLC Fund.

# Financial Information

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## Financial Condition

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