



Highland Associates, Inc.

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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. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

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

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

March 31, 2020

Material Changes

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 August 1, 2019.

Material Changes since the Last Update

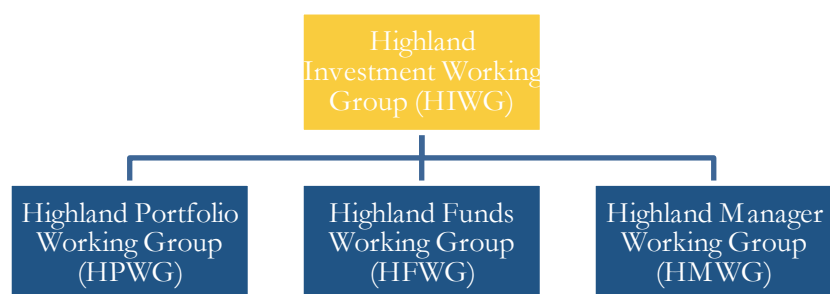
Since our last annual update, Highland has made the following material and non-material changes to our Brochure. These changes are listed briefly below and disclosed more fully in the following sections, if necessary.

Advisory Business: Types of Advisory Business: Discretionary Accounts

Review of Accounts:

Methods of Analysis, Investment Strategies and Risk of Loss:

Effective February 21, 2020, the Highland Investment Committee was renamed the Highland Investment Working Group. The below Sub-Working Groups were created:



Oversight of the Investment Working Group includes the following:

- Establish the firm’s view on the current macroeconomic and investment landscape;
- Review and approve forward-looking risk and return expectations utilized by the firm to make asset allocation/individual investment decisions, and periodically review estimations to ensure they incorporate timely information;

- Approve the selection, retention, and termination of investment managers (or direct investments) utilized by the firm, and periodically evaluate the performance of approved managers (or direct investments);
- Oversee the administration of client, corporate, and fund investments to ensure compliance with policies and periodically review the allocation and performance of client, corporate, and fund investments;
- Review and approve client, corporate, and fund investment policies, if applicable, including, without limitation, any investment guidelines and asset allocation ranges and any modifications thereto; and
- Form and delegate authority to sub working groups to the extent they deem necessary or appropriate.

The seven voting members of our Investment Working Group consist of the Chief Investment Officer, three Managing Directors from the firm's consulting practice, the Director of Research and heads of our alternative and traditional strategies

Methods of Analysis, Investment Strategies and Risk of Loss: Asset Allocation Philosophy and Asset Allocation Process

Updated Asset Allocation Philosophy and Asset Allocation Process

Other Financial Industry Activities and Affiliations: Financial Industry Affiliations

Regions Investment Management ("RIM") is a wholly owned subsidiary of Regions Bank and is a registered investment advisor registered with the SEC. This affiliation was inadvertently left off the filing made August 1, 2019.

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Advisory Business

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. The Highland Investment Working Group is responsible for investment strategy and oversight. 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, 2019, Highland managed \$11,542,574,000 of client assets on a discretionary basis and \$17,849,357,000 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.

Fees and Compensation

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, 2020. 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

Highland does not charge its clients performance-based fees.

Types of Clients

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

Asset Allocation Philosophy

At the very core of Highland's asset allocation model is the concept of matching assets to a known liability stream. Whether it is cost of debt, spending policy, or an actuarial return, the liability, once defined, helps determine the overall objective for the portfolio and Highland can begin to overlay our capital market assumptions to build the optimal portfolio.

Organizational Inputs:

Highland's process for crafting an asset allocation consists of two key steps. Step one is to identify a client's risk tolerance. At the onset of every engagement, Highland conducts a risk survey with each client's committee and management. The feedback helps quantify and qualify the emotional risk tolerance of the organization. Step two is to establish a benchmark that accurately aligns assets to mission of the organization.

Capital Market Evaluation:

Highland's capital market approach is based on four key tenets: fundamentals, relative value, economic regime and momentum. The multifactor approach allows us to identify long-term expected risk and returns for the major asset classes (based on underlying fundamentals) and then rank order them based on attractiveness relative to each other and their history. The momentum overlay allows us to capture moves in sub-asset classes (such as emerging market equity versus international developed equity) and tactically capture short-term trends in the market while still maintaining a long-term or strategic view of return opportunities.

Portfolios are built and customized to meet the specific needs of each client. We do not run model portfolios or assume a "one size fits all" approach for our clients. Consultants utilize our Portfolio Tools program to design customized portfolios. Allocations are run and then stress tested for different market scenarios to understand the impact an allocation has on the organization and its ability to fund the mission.

Asset Allocation Process

At the very core of Highland's asset allocation model is the concept of matching assets to a known liability stream. Whether it is cost of debt, spending policy, or an actuarial return, the liability, once defined, helps determine the overall objective for the portfolio, and Highland can begin to overlay our capital market assumptions to build a long-term strategic allocation. We then overlay our Diffusion Index and momentum indicators tactically shift based on near-term market dynamics).

Highland believes that an asset allocation for a portfolio has a strategic and a tactical component. The strategic component is based on the objectives (risk and return) and constraints (liquidity, time horizon, special circumstances) of the organization or as a build-up of the underlying pools. The long-term allocation is based on our fundamental assessment of the various asset classes. Asset allocation decisions based on fundamental value of markets has been (and continues to be) the foundation of Highland's framework since the firm's inception. While fundamental evaluation can be effective over the long-term, this philosophy can be out of favor for very long periods (i.e., 8+ years) of time. To combat this downside, we employ a tactical tilting component that allow our clients to stay invested, be opportunistic and risk aware, and capture additional returns.

The tactical component will impact the positioning of the portfolio so that it reflects the current markets; however, this is always viewed through the lens of the organization's objectives and constraints. A key determinant of Highland's tactical positioning is our Diffusion Index.

The Diffusion Index is a tool to assess the likelihood markets are in a risk-on, neutral, or risk-off environment. It combines economic fundamentals, investor sentiment, and market technicals. Think of this measure as a temperature gauge of our most closely watched indicators. The index helps to cut through the market noise and focus on unbiased indicators.

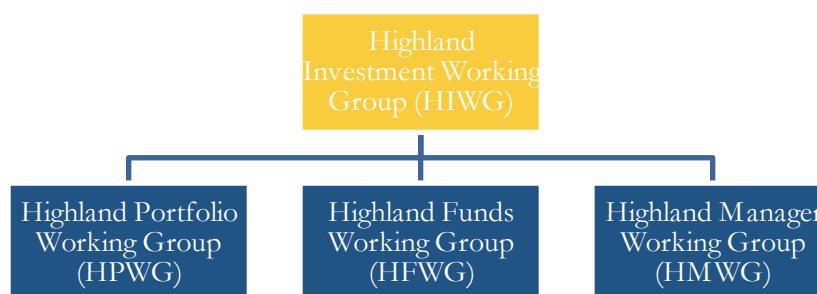
One of the keys to successful investing is to limit one's emotions when making decisions. This can be very difficult to achieve, especially in times when information/opinions are readily available. It is vital for investors to cut through the vast amounts of data/rhetoric in the marketplace and focus on key metrics that can be determinants of future market direction. Basing decisions on key metrics instead of opinion not only leads us to take the necessary action, but also gives us the ability to stay the course when our emotions are leading us astray. In the past, Highland relied on various types of market/economic data on which to base our decisions, but the nature or type of data was inconsistent. The Diffusion Index was created to eliminate inconsistencies and assist the Highland Investment Working Group in determining the probability of risk-on or risk-off markets. This information can then be used to make asset allocation decisions in our clients' portfolios.

The Diffusion Index supports our asset allocation framework and allows our portfolios to be more dynamic in changing market environments. The index is used in conjunction with our bottom-up fundamental analysis to guide our asset allocation decisions.

The Highland Investment Working Group oversees the firm's entire investment process.

Oversight of the Investment Working Group includes the following:

- Establish the firm's view on the current macroeconomic and investment landscape;
- Review and approve forward-looking risk and return expectations utilized by the firm to make asset allocation/individual investment decisions, and periodically review estimations to ensure they incorporate timely information;
- Approve the selection, retention, and termination of investment managers (or direct investments) utilized by the firm, and periodically evaluate the performance of approved managers (or direct investments);
- Oversee the administration of client, corporate, and fund investments to ensure compliance with policies and periodically review the allocation and performance of client, corporate, and fund investments;
- Review and approve client, corporate, and fund investment policies, if applicable, including, without limitation, any investment guidelines and asset allocation ranges and any modifications thereto; and
- Form and delegate authority to sub working groups to the extent they deem necessary or appropriate.



The seven voting members of our Investment Working Group consist of the Chief Investment Officer, three Managing Directors from the firm's consulting practice, the Director of Research and heads of our alternative and traditional strategies. In total, the committee possesses 151 years of combined investment experience, and members have on average 22 years of experience.

The Highland Portfolio Working Group (HPWG) is a sub working group of the HIWG. The group is responsible for execution and oversight of discretionary and non-discretionary portfolios. The charge of the HPWG is:

- Review the administration of client investments to ensure compliance with policies and periodically review the allocation and performance of client investments;
- Review and report to the HIWG client investment policies, including, without limitation, any investment guidelines and asset allocation ranges and any modifications thereto; and
- Review and report to the HIWG client investment implementation including, without limitation, the selection, retention, and termination of investment managers (or direct investments) within client investments and tactical tilts.

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

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

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, 2020. 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 Investment Management ("RIM") is a wholly owned subsidiary of Regions Bank and is a registered investment advisor registered with the SEC.

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

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

Selecting Brokerage Firms

Highland's clients are responsible for choosing their own broker-dealer.

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

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 Highland Portfolio Working Group 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

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

Incoming Referrals

Highland does not compensate any third parties for client referrals.

Referrals Out

No third parties compensate Highland for client referrals.

Custody

Account Statements

Clients will receive quarterly or more frequent account statements directly from a qualified custodian, such as a broker-dealer or bank. Clients should carefully review such account statements. In addition, clients should compare the statements that they receive from such qualified custodian to the monthly reports of accounts that such clients receive from Highland (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

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

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

Financial Condition

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