

Oak Hill NexPoint Global Merger Arbitrage Fund

MANAGER'S DISCUSSION

Market Review: A Sharp Recovery in Risk Assets

The second quarter equity market performance delivered a historic rebound from a difficult start to the year. The first quarter had been dominated by the onset of the U.S.–Iran conflict, oil surging toward \$100 per barrel, and the effective closure of the Strait of Hormuz. The second quarter reversed that narrative, producing a broad recovery in risk assets powered by sustained investment in artificial-intelligence infrastructure, resilient corporate earnings, and improving risk appetite. The S&P 500 gained 15.20%, and the Russell 2000 gained 21.57%, as market leadership broadened beyond the largest technology companies. Fixed income generated more modest but positive returns, with the Bloomberg U.S. Aggregate Bond Index returning 0.67%, investment-grade corporate bonds returning 1.40%, high-yield bonds returning 2.47%, and leveraged loans returning 1.85%.

The Russell 2000's outperformance of the S&P 500 by more than six percentage points marked an important shift in leadership, supported by improving earnings expectations, a more constructive financing backdrop, and small-cap exposure to AI-related capital spending through industrial, semiconductor, and infrastructure suppliers. That broadening, however, should not be mistaken for an even distribution of returns. Information Technology rose 31.8%, remaining the single largest contributor to the S&P 500. The semiconductor sector was at the center of the theme with the Philadelphia Semiconductor Index returning 87.8%—its strongest quarter since inception in 1994—and the sector reached a record 19.7% of the index's market capitalization. Industrials advanced 14.9%, aided by defense demand, power and data-center build-out, and the manufacturing-supportive provisions of the One Big Beautiful Bill, while Financials, Healthcare, and Communication Services also posted solid gains. Energy was the weakest sector, down 13.4% as oil retreated from its first-quarter highs following the U.S.–Iran memorandum of understanding, and Utilities slipped 0.5% as higher rates offset enthusiasm around long-term power demand.

Riding that momentum, SpaceX completed the largest IPO in history in June, selling 638.9 million primary shares at \$135.00 for gross proceeds of \$85.7 billion and an implied valuation of approximately \$1.78 trillion. The shares began trading on June 12 under the ticker SPCX, opening at \$150.00 and closing their first session at \$160.95. Investor enthusiasm briefly carried the stock to an intraday high of \$225.64 on June 16—67.1% above the offer price—before it retraced, ending the quarter at \$170.86, a 26.6% return for IPO investors and a 6.2% gain from the first-day close. At quarter-end, SpaceX had an equity value of roughly \$2.25 trillion, trading 24.3% below its post-IPO high. The company's valuation embeds aggressive assumptions regarding Starlink growth, Starship execution, and the build-out of adjacent businesses; combined with the company's limited public-market history and heavy capital requirements, it is likely to produce continued volatility.

Interest rates told a story of wholesale repricing of Fed expectations. Markets entered the year discounting multiple rate cuts and exited June contemplating potential hikes, with the 2-year yield climbing roughly 38 basis points, and the 10-year rose about 15 basis points to 4.47% (after touching 4.67% in mid-May), flattening the curve. Jerome Powell's term as Fed Chair concluded on May 15, and Kevin Warsh was sworn in as the seventeenth Chair on May 22, prioritizing inflation control. In the current environment, rising yields reflect intensifying inflation fears rather than growth optimism, weighing on equity valuations rather than signaling underlying economic strength.

The U.S.–Iran conflict remains unresolved, and the effective closure of the Strait of Hormuz continues to force the world to draw down crude inventories at an unsustainable pace. Although reserve releases have limited price spikes, energy costs are likely to remain elevated, contributing to higher inflation and weaker growth than markets currently anticipate. These effects could unfold in three stages. First, global inventories—diesel in particular—are falling rapidly as stockpile releases temporarily offset supply disruptions. Second, once the conflict ends, governments and companies are likely to compete to replenish reserves and build larger buffers against future shocks, supporting sustained demand and higher prices. Third, the availability of reserves may itself reduce the urgency for a peace agreement by temporarily cushioning the economic consequences of the conflict. Equity markets have largely discounted these risks because fighting has eased, energy infrastructure has avoided major damage, and inventories continue to stabilize near-term supplies. Commodity futures also imply that prices will decline quickly upon resolution. As a result, equity investors appear to be overlooking the possibility that the disruption could have more persistent effects on energy prices, inflation, and economic growth.

Q2 2026 M&A UPDATE:

Global M&A volume reached approximately \$2.7 trillion in the first half, falling just \$29 billion short of the highest first-half total ever recorded. North America dominated activity, capturing a joint-record 63% share of global volume and surging 56% year-over-year, even as EMEA volume expanded by two-thirds. M&A momentum concentrated increasingly in larger transactions, with \$5 billion-plus deals growing across all major regions. Global financial-sponsor activity held roughly in line with the prior year at \$730 billion of announced volume, while take-private volume totaled \$225 billion, tracking toward decade highs and supported by 36 deals of \$1 billion or more, the second-highest tally on record. Cross-border activity reached its second-highest level ever, surpassing \$800 billion and marking a 78% year-over-year increase, with mega-deals capturing an unprecedented 37% of cross-border volume.

North American activity was particularly robust, with announced volume crossing \$1 trillion for the quarter, its strongest quarterly showing on record. Mega-deals were the primary catalyst, with 19 transactions totaling \$572 billion establishing new highs for both value and count in that segment. Despite conflict-driven uncertainty, the broader market proved resilient, delivering approximately \$1.7 trillion of announced volume in the first half, the second-best first half on record underscored by 283 announcements of \$1 billion or more (the second-highest tally) and a record 31 mega-deals. The majority of sectors saw double-digit year-over-year growth, with Healthcare and Power reaching record levels of \$1 billion-plus activity.

Q2 2026 REGULATORY UPDATE:

Recent reporting suggests that senior Justice Department leadership is placing greater emphasis on negotiated settlements than on protracted antitrust litigation. Stanley Woodward, the Department's third-ranking official and current overseer of antitrust enforcement, has reportedly encouraged attorneys to weigh whether settlements can deliver faster, less resource-intensive outcomes. The Department disputes that attorneys have been discouraged from litigating and maintains its willingness to bring cases where negotiated remedies would be insufficient.

The practical implication is a potentially more transaction-friendly federal environment. The Department has threatened to sue only one merger — TransDigm's ~\$960 million acquisition of Stellant Systems—since the start of the second Trump administration. Recent actions—including efforts to settle the challenge to Hewlett Packard Enterprise's acquisition and the closing of the Paramount–Warner Bros. Discovery investigation—reinforce the perception that the Department is less inclined than its predecessor to pursue aggressive merger litigation. This posture could lower the probability of outright federal challenges, shorten regulatory timelines, and increase the likelihood that competitive concerns are resolved through divestitures or other negotiated remedies.

Two procedural developments reflected positively on deal timelines. First, the HSR framework is unsettled. The updated premerger-notification form that took effect in February 2025 was vacated by a federal district court in February 2026; a stay on appeal was denied, and the agencies reverted to the prior form. Second, the Department has returned to targeted Second Request investigations to expedite review, publishing a model timing agreement that prioritizes the information most likely to resolve competitive questions before full compliance and permits review to end early once those questions are satisfied. The net effect is a marginally friendlier process for clean deals alongside sustained scrutiny in healthcare and in horizontal combinations among competitors, such as the Cintas/UniFirst, IonQ/SkyWater Technology, and Transocean/Valaris transactions, each of which drew a Second Request.

Regulatory underwriting should remain deal specific. Transactions with clear horizontal overlap, concentrated local markets, scarce capacity, national-security exposure, or politically sensitive customers still warrant conservative timing assumptions. The salient questions are not simply whether an agency is “pro-deal” or “anti-deal,” but which market it will define, whether a credible buyer exists for any divested assets, how a remedy affects deal economics, and how far settlement negotiations may extend the closing calendar.

INVESTMENT FOCUS:

The second quarter's combination of elevated deal flow, evolving regulatory dynamics, and geopolitical dislocation reinforced the core value proposition of merger arbitrage: the ability to generate returns driven by deal-specific outcomes rather than by the direction of broader equity or fixed-income markets. We continue to prioritize transactions with attractive risk-adjusted spreads, identifiable and manageable regulatory paths, and shorter expected closing timelines—an approach designed to compound returns while limiting exposure to the macro and geopolitical uncertainties that defined the quarter.

RISKS & DISCLOSURES:

Market commentary contains information about prior investments made by the Portfolio Manager of the Fund. This information was prepared by the Portfolio Manager based on its experience in the industry and on assumptions of fact and opinion as to future events which the Portfolio Manager believed to be reasonable when made. There can be no assurance that the Portfolio Manager and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

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