Q2 2023 COMMENTARY

NEXPOINT

NexPoint Capital BDC

The Company's primary offering was terminated on February 14, 2018.

NexPoint Capital, Inc. is a non-traded business development company ("BDC") that seeks to provide investors access to the unique opportunities offered by the historic changes to our nation's healthcare economy as a result of significant demographic and governmental changes.

Performance Review

The Company's net asset value per share decreased from the first quarter at $5.36.

Market Outlook

Despite the most rapid Fed hiking cycle in four decades, economists initially predicted a recession in the third quarter of 2023. However, due to the economy's resilience, particularly the consumer sector, the downturn is now more likely to be postponed to early 2024. Nevertheless, economic headwinds, such as tighter credit, reduced household cash buffers, and a more pronounced labor market softening, are expected to slow down the economy by the end of the year. The base case is for a mild but brief slowdown, as there are no major systemic imbalances across the economy.

The US economy has shown remarkable resilience despite facing adverse shocks, starting with the regional bank crisis due to the collapse of Silicon Valley Bank (SVB). Surprisingly, the banking sector turmoil after SVB's collapse did not tighten credit as much as expected, and the resolution of the Federal debt ceiling standoff had no spillover effects on financial markets. The S&P 500 has experienced a 16.88% surge in 2023 through June, and the housing sector is showing signs of rebounding. However, many are concerned that challenges lie ahead. A slowing economy could lead to rising unemployment, declining corporate margins, and increased high-yield defaults, which may tighten credit for the rest of the economy in 2024.

The Fed's ability to support the economy with aggressive rate cuts may be limited if inflation does not decrease further. Even with expectations of disinflation driven by goods and housing in the coming months, the core consumer price index ("CPI"), which excludes food and energy, and the core personal consumption expenditure price index ("PCE"), which excludes food and energy, are likely to remain high, around 4.3% and 4.0% respectively, in the fourth quarter of 2023 – double the Fed's inflation target of 2%. The base view suggests that the Fed will need to maintain higher rates for an extended period due to persistent inflation, despite some help from the commodity complex.

Comparisons are drawn to the 1980s when the Fed took three recessions and 20 years to bring core CPI back below 2% after an inflation spike. Currently, the equity market anticipates achieving this by the third quarter of 2024, just over two years

Fund Facts	
Net Asset Value Per Share	$5.26
Annual Distribution Rate*	6.84%

Fund Characteristics	
Number of Investments	37
Loan Price (Wtd. Avg.)	$97.97
Weighted Avg Credit Rating	Caa3

Credit Rating Breakdown	
B	43.1%
CCC	8.8%
NR	48.1%

Industry Breakdown	
Healthcare	43.6%
Real Estate	28.1%
Telecommunication Services	12.2%
Financials	6.5%
Consumer Products	5.9%
Energy	3.1%
Other	0.6%

Portfolio Allocation	
Equity	49.4%
Preferred Stocks	24.8%
1st Lien Loans	18.1%
Corporate Bonds	5.6%
2nd Lien Loans	1.7%
Other	0.4%

As of 06/30/2023

*Distributions are not guaranteed and may be suspended, modified or terminated at the discretion of the board of trustees. Distributions may be paid from offering proceeds and may include a return of capital or borrowed funds, which may lower overall returns to the investor and may not be sustainable. The Company had a return of capital in 2022 of 59.09%.

from the peak in September 2022. However, the opinion expressed suggests a longer timeline for achieving this target.

Top 5 Healthcare Holdings (As of 06/30/23)

Sapience Therapeutics	17.2%
CCS Medical	6.2%
Hadrian Merger Sub	5.1%
Apnimed	3.1%
Auris Luxembourg	2.9%

The High Yield index (LF98TRUU) provided a gain of +1.75% in 2Q23, which compares with returns of +3.15% for the loan index (SPBDAL), +8.74% for the S&P 500, and -0.29% for high-grade bonds (LUACTRUU). By rating, the market's performance was led by lower-rated bonds, as returns of +5.04% for CCCs outperformed returns of +1.96% for Single B bonds and +0.87% for BB bonds. By industry, Automotive, Retail, and Financial. were the best performers, with gains of +4.68%, +3.63%, and +3.37%, respectively, while Broadcasting was the largest underperformer, with a -0.62% return, followed by Consumer Products (-0.09%) and Metals and Mining (+0.46%).

A total of $31.2bn was affected by a default or distressed exchange in 2Q, up from $20.8bn in 1Q and representing the most activity since 2Q20. As well, the $8.8bn of distressed exchanges was a high since 4Q15. Year-to-date a total of 26 companies defaulted totaling $41.1bn in bonds ($15.7bn) and loans ($25.4bn), while 19 companies completed a distressed exchange totaling $10.9bn in bonds and loans. The combined total of $52.0bn defaults/distressed exchanges already exceeds last year's $47.8bn full-year total and quadruples 2021's full-year 14-year low of $13.9bn. Including distressed exchanges, the par-weighted US high-yield bond and loan default rates increased 28bp and 12bp month over month to 2.71% and 2.94%, respectively. The market is pricing in high-yield bond and leveraged loan default rates to rise in 2023 to 3.00% (bonds) and 3.50% (loans), respectively, and further to 3.25% and 4.00% in 2024 due to rising cash interest expense from high rates stressing free cashflow.

The healthcare sector experienced the second-highest default trade over the trailing twelve months with 6.17% of loans and bonds defaulting. The industry's profitability continues to face challenges stemming from increased labor costs due to ongoing labor shortages, as well as decreased Centers for Medicare & Medicaid Services reimbursements. A significant area of concern is the implementation of Surprise Billing regulations, which has sparked ongoing litigation between healthcare providers and the Department of Health and Human Services (HHS). Currently, the healthcare community awaits court rulings from the Federal District Court in Texas regarding the Qualified Payment Amount (QPA) methodology and the augmented administrative fees set by CMS. Illustrating the impact of the Surprise Billing Act, the filing of bankruptcy by Envision Healthcare in April stands as a clear outcome of these intricate challenges.

The high-yield healthcare bond ETF (XHYH) returned approximately -0.01% in 2Q23. In the second quarter, the Biotech equity ETF (XBI) and the Healthcare Select Sector SPDR ETF (XLV) were up 9.18% and 2.95%, respectively. The indices recovered in the second quarter along with the broader equity market, with the S&P 500 up 8.74%.

Looking forward, we continue to focus on key regulatory decisions, macro changes in the broader markets, and company specific issues resulting from the economic uncertainty. We remain cautious about the domestic economy given the Federal Reserve's aggressive hawkish stance and continue to evaluate the secondary credit markets outside of the traditional healthcare loan space for higher-yielding opportunities that offer more attractive risk-adjusted returns.

Top Contributors

Position	Asset	Industry
Hadrian Merger Sub	Corporate Bonds	Healthcare
Carestream Health, Inc.	Bank Loan	Healthcare
CCS Medical, Inc.	Bank Loan	Healthcare

Top Detractors

Position	Asset	Industry
Terrestar Corp.	Common Stock	Telecommunication Services
Sound Inpatient Physicaians Inc.	Bank Loan	Healthcare
Sapience Series B1	Preferred Stock	Healthcare

Disclosures

NexPoint Capital, Inc. concluded the company's public offering on February 14, 2018. For more information, please see the 8-K on the Fund website, www.nexpoint.com.

Investing in our shares of common stock may be considered speculative and involves a high degree of risk, including the risk of a substantial loss of investment. See the "Risk Factors" section of our prospectus to read about the risks you should consider before buying our shares including the risk of leverage.

The performance data quoted here represents past performance and is no guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please call 833-697-7253.

RISK CONSIDERATIONS
Before investing in the Fund, you should carefully consider the Fund's investment objectives, risks, charges and expense. For a copy of a prospectus or summary prospectus, which contains this and other information, please visit our website at nexpoint.com or call 1-833-697-7253. Please read the fund prospectus carefully before investing.

- For the year ended December 31, 2016, 1.65% of the fund's total return consists of a voluntary reimbursement by the adviser for unrealized investment losses, and is included in Net realized and unrealized gain (loss). Excluding this item, total return would have been 25.96%. For the year ended December 31, 2015, 6.09% of the fund's total return consists of a voluntary reimbursement by the Adviser for unrealized investment losses, and is included in Net realized and unrealized gain (loss). Excluding this item, total return would have been (9.35)%.
- Total returns are historical and assume changes in share price and reinvestment of dividends and capital gains distributions, and assume no sales charge. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's Dividend Reinvestment Plan. Had the Adviser not absorbed a portion of expenses, total returns would have been lower.
- Distributions are not guaranteed and may be suspended, modified or terminated at the discretion of the board of directors. Distributions may include a return of principal or borrowed funds, which may lower overall returns to the investor and may not be sustainable.
- The Expense Limitation Agreement is contractual and will continue through at least April 30, 2023.
- You should not expect to be able to sell your shares of common stock regardless of how we perform.
- If you are able to sell your shares of common stock, you will likely receive less than your purchase price.
- We do not intend to list our shares of common stock on any securities exchange during, or for what may be a significant time after, the offering period, and we do not expect a secondary market in the shares of common stock to develop.
- Because our common stock will not be listed on a securities exchange, you may be unable to sell your shares and, as a result, you may be unable to reduce your exposure on any market downturn.
- We intend to implement a share repurchase program, but we do not expect to repurchase more than 10% of the weighted average number of shares that were outstanding in the prior calendar year. In addition, any such repurchases will be at a 10% discount to the current offering price in effect on the date of repurchase.
- Our distributions may be funded from offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to us for investment. Any capital returned to stockholders through distributions will be distributed after payment of sales load, fees and expenses and such amounts will not be recoverable by our stockholders.
- You should consider that you may not have access to the money you invest for an indefinite period of time. An investment in our shares of common stock is not suitable for you if you need access to the money you invest. See "Share Repurchase Program," "Suitability Standards" and "Liquidity Strategy."
- The lack of experience of our investment adviser operating under the constraints imposed on us as a business development company and RIC may hinder the achievement of our investment objective.
- We intend to finance our investments with borrowed money, which will magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.
- We are subject to risks associated with middle-market healthcare companies, including competition, extensive government regulation and commercial difficulties.
- Our CLO investments may be riskier and less transparent to us and our stockholders than direct investments in the underlying companies. Our investments in equity and mezzanine tranches of CLOs will likely be subordinate to the other debt tranches of such CLOs, and are subject to a higher degree of risk of total loss.
- There are significant potential conflicts of interest that could affect our investment returns.

Index Definitions:
Index returns assume reinvestment of all dividends and distributions, if any. Indices are unmanaged, have no fees or costs and are not available for investment. The performance of the indices may be materially different from the Fund's performance. In addition, the Fund's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent an appropriate benchmark to compare a fund's performance, but rather are disclosed to allow for comparison of the Fund's performance to that of certain well-known and widely recognized indices. It is not possible to invest directly in an index. **S&P 500 Index.** S&P 500 Index is an index of a basket of 500 stocks designed to provide a broad snapshot of the overall U.S. equity market. Criteria for inclusion: U.S. Company, market capitalization must be in excess of US$ 3 billion, public float of at least 50%, financial viability, adequate liquidity and reasonable price, sector balance, and company type. Ordinary cash dividends are applied on the ex-date in calculating the total return series. "Special dividends" are those dividends that are outside of the normal payment pattern established historically by the issuing corporation. The total return index series reflect both ordinary and special dividends. **JPM Leveraged Loan Index/Healthcare Index.** This index is designed to mirror the investable universe of U.S. dollar institutional leveraged loans, including U.S. and international borrowers. The J.P. Morgan U.S. Liquid Index is a market-weighted index that measures the performance of the most liquid issues in the investment grade, dollar-denominated corporate bond market. **Healthcare Select Sector SPDR ETF ("XLV").** The Health Care Select Sector SPDR Fund seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Health Care Select Sector Index (the "Index"). The Index is also sponsored and compiled by S&P DJI. The Index includes companies from the following industries: pharmaceuticals; health care equipment and supplies; health care providers and services; biotechnology; life sciences tools and services; and health care technology. **High Yield Bond Index.** This index consists of USD high yield bonds, selected to provide a balanced representation of the USD high yield corporate bond universe.

Sources: SEI, Bloomberg

Prepared by NexPoint Securities, Inc., Member FINRA/SIPC. NexPoint Securities is the dealer manager for the NexPoint Capital, Inc. offering.

NOT FDIC INSURED. MAY LOSE VALUE. NO BANK GUARANTEE.

NEXPOINT
www.nexpoint.com

(833) 697-7253