NEXPOINT

Q2 2022 Commentary

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 to $5.96.

Market Outlook

In the second quarter, high-yield bonds and leveraged loans endured one of their largest spread widenings since 2008 as elevated inflation and aggressive Fed tightening heightened recession risks. High yield bonds and leveraged loans prices declined 9.56% and 4.05%, respectively, in the second quarter. Healthcare high yield bonds and loans declined 10.47% and 4.55%, respectively, making it one of the worst performing sectors. Historically, healthcare has been a defensive sector, but earnings have been under pressure given rising labor rates and volumes below pre-pandemic levels. By comparison, the 10-year treasuries, high grade bonds, emerging market bonds, and the S&P 500 returned –5.00%, -6.68%, -10.55%, and -16.11% in the second quarter. The Biotech index was down 17.37%, and the Healthcare Select Sector SPDR ETF ("XLV") was down 6.39%.

Although healthcare has historically outperformed in volatile markets, the sector continues to be negatively impacted by macro headwinds including rising inflation in goods, labor shortages, and weak utilization trends. Recent provider commentary suggests the labor market is recovering more slowly than expected and non-COVID volumes remain under pre-pandemic levels, which combined will continue to pressure topline and margins throughout 2022. The Department of Health and Human Services has again extended the Public Health Emergency (PHE) period through at least October 15th. The PHE provides increased payments for hospitals, and other providers, as well as regulatory flexibility for telehealth, and increased Medicaid enrollment and funding for states. In June, The Centers for Medicare & Medicaid Services ("CMS") released proposed CY2023 Medicare payment regulations,

Fund Facts	
Net Asset Value Per Share	$5.96
Quarterly Distribution Rate*	6.04%

Fund Characteristics	
Number of Investments	38
Loan Price (Wtd. Avg.)	$95.1
Weighted Avg Credit Rating	Caa2

Credit Rating Breakdown	
B	46.9%
CCC	31.1%
NR	22.0%

Industry Breakdown	
Healthcare	42.8%
Real Estate	27.6%
Telemedia	11.1%
Financials	10.5%
Consumer Products	5.2%
Other	2.8%

Portfolio Allocation	
Equity	47.8%
1st Lien Loans	22.5%
Corporate Bonds	19.2%
2nd Lien Loans	5.1%
Preferred Stocks	4.9%
Asset Backed	0.5%

As of 06/30/2022

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 2021 of 40.12%.

including Hospital outpatient +3.0%; ASCs +2.7% update; Home Health -4.2%, well below expectations); Physicians -3.0%; and Dialysis +3.1%, ahead of expectations). Senate Democrats are making a last effort at passing a health care only reconciliation package before the August recess that would include only drug pricing reforms and an extension of ACA premium subsidies that are due to expire this year. A potential negative for pharma, and a modest positive for managed care and hospitals. CMS plans to release by early August its final FY2023 Medicare payment regulations. All providers are seeking increases in market basket updates from CMS in their final regulations to help address significant labor cost increases and broader inflation.

Looking forward, we continue to focus on key regulatory decisions, macro changes in the broader markets and specifically healthcare verticals, and company specific issues resulting from the economic uncertainty. We remain cautious on the healthcare sector overall considering the headwinds outlined above. Specifically, we reduced our exposure to facilities-based operators to take advantage of attractive valuations in the biotech sector given the significant valuation declines over the past six months. We continue to evaluate the primary and secondary credit markets, both in the traditional healthcare loan space and outside of it, for higher yielding opportunities that offer more attractive risk-adjusted returns.

Top 5 Healthcare Holdings (As of 06/30/22)

Sapience Therapeutics	13.7%
CCS Medical	5.1%
RX Benefits	5.1%
Hadrian Merger Sub	4.4%
Envision Healthcare	2.6%

Top Contributors

Position	Asset	Industry
TerreStar Corp	Equity	Telemedia
American Banknote Corp	Equity	Financial
TerreStar Corp	1st Lien	Telemedia

Top Detractors

Position	Asset	Industry
RX Benefits	1st Lien	Healthcare
NexPoint Residential Trust	Equity	Real Estate
Enterprise Merger Sub	1st Lien	Healthcare

Disclosures

* This number is a preliminary estimate and is subject to change.

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.

Sources: SEI, Bloomberg