NEXPOINT

Q3 2021 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 was unchanged from the second quarter at $6.49.

Market Outlook

Overall, the broader markets were characterized by a more extended sell-off that began in early September. Reflecting this, the S&P was relatively flat in the third quarter, increasing +0.58% from the end of 2Q21 to the end of 3Q21. Healthcare equities (as reflecting the by the Healthcare Select Sector SPDR ETF, "XLV") saw a +1.43% increase, which was a slight outperformance relative to the S&P. Rates reversed the 2Q21 downward trend, with the 10-yr UST seeing a slight increase, rising +1.3% to 1.49% at quarter end of 3Q21. The yield curve remained relatively unchanged, as witnessed by the 2-year and 10-year UST spread having a (0.8)% decline quarter over quarter. The leveraged loan index YTM remained relatively flat, rising +0.8% to 4.9% as of the 3Q21 quarter end. The healthcare leveraged loan index YTM saw a higher quarter over quarter increase relative to the general loan index, rising +3.1% in the quarter to 4.7% (but remains 20 bps lower than the general loan index).

The markets at large were primarily impacted by macro headwinds including rising inflation indicators in consumer goods and concern around growing inflation, labor shortages, global and localized supply chain issues, rising commodity prices, and other factors. Healthcare saw a more favorable relative performance due to continued strength in large-cap pharma, large-cap biotech, and life sciences & tools – although offset by the general move into energy, financials, and discretionary consumer as the 'rate/ inflation trade.' Within the healthcare landscape, key regulatory items are in the near-future including the reconciliation package which

Fund Facts	
Net Asset Value Per Share	$6.49
Quarterly Distribution Rate*	5.25%

Fund Characteristics	
Number of Investments	41
Loan Price (Wtd. Avg.)	$90.9
Weighted Avg Credit Rating	Caa1

Credit Rating Breakdown	
B	48.5%
CCC	37.6%
NR	13.9%

Industry Breakdown	
Healthcare	55.6%
Real Estate	22.2%
Telemedia	9.7%
Financials	6.2%
Consumer Products	4.6%
Other	1.7%

Portfolio Allocation	
1st Lien Loans	41.1%
Equity	39.6%
Corporate Bonds	10.9%
2nd Lien Loans	4.9%
Preferred Stocks	2.8%
Asset Backed	0.7%

*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 2020 of 100%.

would include Democrat-supported provisions related to healthcare services and facilities, including ACA subsidy expansion, Medicaid gap population coverage, and Medicare expansion. However, political analysts believe pushback from moderate Democrats and Republicans will hold the total healthcare spend to $400 – 450 Bn, with offsets from repealing the Trump-era rebate rule, drug pricing reform, and cuts to Medicare Advantage. Other important regulatory news include HHS authorizing $25.5 Billion in Covid-19 provider relief grants (the fourth phase of the Provider Relief Funds grants) and updates on the No Surprises Act, which would provide an Independent Dispute Resolution framework for out-of-network rates based on the median in-network rate (a negative for healthcare providers and facilities and a benefit to insurers). Healthcare facilities and services continued to be impacted by the high turnover of healthcare professionals, rising wages due to overtime and labor shortages, and continued mixed business impacts from Covid-19 waves.

Top 5 Healthcare Holdings (As of 9/30/21)

Envision Healthcare	8.3%
BW NHHC Holdco	6.3%
RX Benefits	6.3%
Surgery Center	5.9%
Air Medical Group Holdings	5.4%

Looking forward, we continue to focus on key regulatory decisions, macro changes in the broader markets and specifically healthcare verticals, and company specific issues in navigating the economic uncertainty. We have positioned the portfolio to have more exposure to more defensive services and facilities as well as healthcare services geared towards the secular multi-year tailwinds of value based care and outpatient care. We have continued to remain cautious on pharmaceutical and biotech companies with potential exposure to negative drug pricing legislation or with a higher exposure to clinical trial uncertainty. Given the continued weaker yields in the healthcare leveraged loan market from large capital inflows and depressed rates, we have evaluated and invested in select credit opportunities tactically with higher total return profiles and strong business models. 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 are still underpinned by strong fundamental credit characteristics.

Top Contributors

Position	Asset	Industry
American Banknote Corp	Equity	Financial
Quarter North	Equity	Energy
Envision	1st Lien	Healthcare

Top Detractors

Position	Asset	Industry
NexPoint Real Estate Finance	Equity	Real Estate
SFR WLIF II	Equity	Real Estate
US Gaming LLC	Equity	Consumer Products

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, 2021.
- 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

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.