NEXPOINT

Q4 2020 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" or "the Company") 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 generated positive total return in the fourth quarter of 2020, with the NAV per share increasing to $6.13 as of 12/31/20 vs. $5.96 as of 9/30/20. This performance was driven by steady returns from the portfolio's healthcare positions, as well as improved performance from the portfolio's real estate positions. The strength in healthcare and real estate was partially offset by a significant decline in the opportunistic equity position in American Banknote. The table below provides an overview of the portfolio's top contributors and detractors to the fourth quarter performance.

Market Outlook

2020 was a volatile year for US investors. After achieving all-time highs in the longest bull market in American history, the S&P500 declined 33.9% from mid-February to mid-March in response to the Covid-19 outbreak and ended down 20.0% in the first quarter. However, with expansionary monetary/fiscal policy, improving Covid-19 infection data and plans to reopen the economy, the S&P500 increased 45.3% from 1Q20 through year-end, generating 16.3% total return for 2020, including 11.7% total return in the fourth quarter. The US credit markets experienced similar volatility, with the JPM Leveraged Loan Index declining 13.0% in the first quarter, before increasing 18.6% by year-end and generating 3.2% overall return in 2020, including 3.8% total return in the fourth quarter.

Within healthcare, the Healthcare Select Sector SPDR ETF ("XLV") declined 13.0% in the first quarter before increasing 28.1% for the remainder of the year. However, the recovery in US healthcare equities was more muted than the broader market, with the XLV increasing 7.5% in the fourth quarter and generating 11.4% total return for 2020. Healthcare credit

Fund Facts	
Net Asset Value Per Share	$6.13
Quarterly Distribution Rate*	5.87%

Fund Characteristics	
Number of Investments	45
Loan Price (Wtd. Avg.)	$89.9
Weighted Avg Credit Rating	Caa1

Credit Rating Breakdown	
B	67.5%
CCC	29.7%
CC	1.0%
C	0.0%
NR	1.8%

Industry Breakdown	
Healthcare	62.1%
Real Estate	17.2%
Telemedia	8.5%
Consumer Products	3.2%
Manufacturing	2.6%
Financials	2.3%
Other	4.1%

Portfolio Allocation	
1st Lien Loans	48.3%
Equity	33.2%
Corporate Bonds	10.6%
2nd Lien Loans	7.3%
Asset Backed	0.6%

*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 estimated returns of capital in 2020 of 100%.

performed more in-line with the broader credit markets, with the JPM Healthcare Leveraged Loan Index declining 11.1% in first quarter, before increasing 18.5% by year-end and generating 5.4% overall return in 2020, including 3.8% total return in the fourth quarter.

The relative weakness in the fourth quarter healthcare performance compared to the broader market, particularly in equities, was due to several factors including continued Covid-driven headwinds in medical procedure volumes, concerns that minimum medical loss ratios and catch-up deferred care utilization would erode managed care profitability, and fears that a Biden Presidency and Democrat-controlled Congress would lead to progressive policies that reduce industry-wide reimbursement levels.

Looking forward, we believe the portfolio is well positioned for the current environment. Healthcare positions are weighted toward providers, which can benefit from improving volumes in 2021 with the roll-out of Covid-19 vaccines, catch-up from deferred procedures and potential ACA and Medicaid coverage expansion under the Biden administration. Furthermore, while we believe progressive policies that adversely impact reimbursement are unlikely to be passed with an evenly-divided Senate, the portfolio is positioned in sub-sectors that are better positioned to withstand potential healthcare legislation, such as low-cost ambulatory surgery centers and home health providers, with limited exposure to pharmaceuticals that could be negatively impacted by bi-partisan drug pricing legislation.

Top 5 Healthcare Holdings (As of 12/31/20)

Envision Healthcare	7.6%
BW NHHC Holdco	6.2%
RX Benefits	6.2%
Surgery Center	5.7%
Radnet Management	5.4%

Top Contributors

Position	Asset	Industry
Envision Healthcare Term Loan	1L TL	Healthcare
NREF Operating Partnership	Equity	Real Estate
SFR WLIF II, LLC	Equity	Real Estate

Top Detractors

Position	Asset	Industry
American Banknote Corporation	Equity	Financial
TerreStar Corporation	Equity	Telemedia
Fieldwood Energy 1L Term Loan	1L TL	Energy

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.nexpointgroup.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 877-665-1287.

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 nexpointgroup.com or call 1-877-665-1287. 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.
- On June 13, 2017, the Company entered into the TRS with BNP Paribas over one or more loans, with a maximum aggregate notional amount of the portfolio debt securities subject to the TRS of $40 million. The agreements between the Company and BNP Paribas, which collectively establish the TRS, are referred to herein as the "TRS Agreement." 31 On April 2, 2018, the Company amended and restated the TRS agreement with BNP Paribas. The amended and restated TRS Agreement, effective April 10, 2018 increases the maximum aggregate notional amount of the portfolio debt securities subject to the TRS to $60 million. A TRS is a contract in which one party agrees to make payments to another party based on the increase, if any, in the market value of the asset(s) underlying the TRS, which may include
  a specified security, basket of securities or securities indices during a specified period, and the other party agrees to make payments to the first party based on the decrease, if any, in the market value of such underlying assets plus periodic payments based on a fixed or variable interest rate. A TRS effectively adds leverage to a portfolio by providing investment exposure to an underlying asset without owning or taking physical custody of the underlying asset. A TRS often offers lower financing costs than are offered through more traditional borrowing arrangements.
- 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