Q3 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 second quarter at $5.26.

Market Outlook

The US government bond market underwent a significant shift in September, with investors closely attuned to Federal Reserve Chairman Powell's "higher-for-longer" stance on interest rates. This resulted in a substantial increase in the ten-year bond yield, which climbed from 3.8% in June to 4.65% in September. This interest rate surge had a noticeable ripple effect on the equity markets. The S&P 500 (SPY) and Russell 2000 (IWM) indices both experienced declines of approximately -6% and -10%, respectively, from their late July highs to the end of September.

The reluctance of equity investors to embrace this new interest rate environment is understandable, given the allure of low-cost capital. As investors adapt to higher rates and begin factoring a 5% or 6% risk-free rate into their valuation models, it's anticipated that stock price-to-earnings multiples will contract, further exerting downward pressure on stock prices. Consequently, corporate earnings must not only grow but exceed their historical trend to counteract the contraction in valuations caused by rising interest rates if the equity markets are to rebound.

Fixed income investors are facing a challenging year marked by a combination of unfavorable factors. The Federal Reserve's commitment to maintaining higher interest rates for an extended period, a surge in energy prices, a slowdown in disinflation, and the ongoing supply pressure from increased US government bond issuance have collectively driven yields upward. If we were to point to one chart that exemplifies the current shift in US interest rates, it would be the US 10-year government bond yield. This chart underscores the notion that the post-global financial crisis cycle (e.g., post 2009) was an anomaly, and we are now on a trajectory back to a more "normal" interest rate environment. Notably, the 10-year yield has unmistakably broken free from its thirty-year downtrend and is on a path towards levels not witnessed since 2007. This new interest rate paradigm will undoubtedly have far-reaching implications for the pricing of risk assets, particularly impacting sectors such as commercial real estate and private equity companies.

Fund Facts	
Net Asset Value Per Share	$5.24
Annual Distribution Rate*	6.87%

Fund Characteristics	
Number of Investments	37
Loan Price (Wtd. Avg.)	$97.93

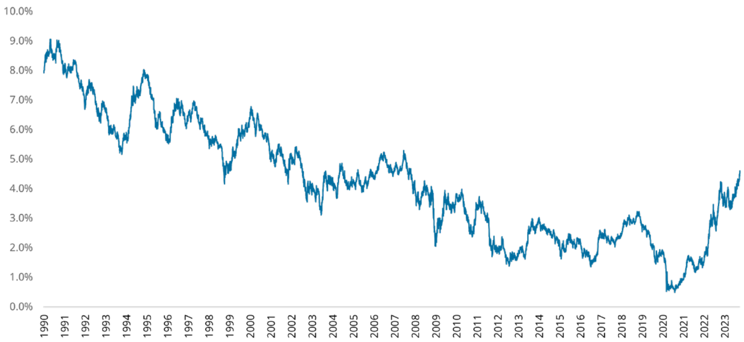
Credit Rating Breakdown	
B	33.9%
CCC	2.6%
NR	63.5%

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

Portfolio Allocation	
Common Stock	29.8%
Preferred Stocks	25.1%
LLC Interests	22.1%
1st Lien	21.4%
Other	1.6%

As of 09/30/2023

US Government 10-Year Bond Yield (12/31/90 - 9/29/2023)[1]



Top 5 Healthcare Holdings (As of 09/30/23)

Sapience Therapeutics	17.4%
CCS Medical	6.3%
Apnimed	3.1%
Auris Luxembourg	3.0%
Covenant Surgical Partners	2.8%

The High Yield index (LF98TRUU) provided a total return of +0.46% in the third quarter of 2023, which compares with total returns of +3.43% for the loan index (SPBDAL), -3.27% for the S&P 500, and -3.09% for high-grade bonds (LUACTRUU). 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 down -0.09%, and Metals and Mining up +0.46%.

Year-to-date a total of 32 companies defaulted totaling $45.9 billion with $18.0 billion of that in bonds and $27.9 billion of that in loans, while 32 companies completed a distressed exchange totaling $17.3 billion in bonds ($9.1 billion) and loans ($8.1 billion). The combined total of $63.2 billion in defaults/distressed exchanges already ranks as the eighth-largest annual total on record. Meanwhile, both the bond and loan default rates declined month-over-month as $10.5 billion of default actions from September 2022 exited the 12-month default rate calculation. Including distressed exchanges, the par-weighted US high-yield bond and loan default rates decreased 29 basis points and 25 basis points month-over-month to 2.11% and 2.66%, respectively, which is up from 1.65% at year-end 2022. Notably, the 78 basis point gap between the leveraged credit default rate with distressed exchanges (2.40%) and without (1.62%) is the largest since 2016. JP Morgan continues to forecast HY bond and loan default rates to end 2023 at 3.00% and 3.50%, respectively, and expect to rise in 2024 to 3.25% and 4.00%.

The high-yield healthcare bond ETF (XHYH) returned approximately -2.4% in 3Q23. In the third quarter, the Biotech equity index ("XBI") and the Healthcare Select Sector SPDR ETF ("XLV") were down -12.24% and -2.61%, respectively. YTD through September 30, 2023, the XBI and XLV are down -12.02% and -4.08%, respectively.

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
QuarterNorth Energy, Inc.	Equity	Energy
NexPoint Capital REIT, LLC	LLC Interests	Real Estate
CCS Medical, Inc.	Bank Loan	Healthcare

Top Detractors

Position	Asset	Industry
Sound Inpatient Physicaians Inc.	Bank Loan	Healthcare
NexPoint Residential Trust	Equity	Real Estate
Apnimed	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.**Russell 2000 (IWM).** The Russell 2000 index tracks the 2,000 smallest public companies by market cap in its parent Russell 3000 stock index. The remaining 1,000 companies are grouped in the Russell 1000 large-cap stock index. **Bloomberg US Corporate High Yield (LF98TRUU).** This measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. **Loan Index (SPBDAL).** SPBDAL is designed to measure the performance of the 100 largest facilities in the US leveraged loan market. Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%. **High-Grade Bonds (LUACTRUU).** The Index measures the performance of the investment grade U.S. corporate bond market. Securities must be fixed rate, U.S. dollar denominated, taxable and rated investment grade as defined by the Index methodology. Inclusion is based on the currency of the issue, not the domicile of the issuer. **High-Yield Healthcare Bond ETF (XHYH).** XHYH tracks the investment results of an index composed of U.S. dollar-denominated, high yield corporate bonds in the healthcare sector. The Fund is newly organized, non-diversified and seeks to track the investment results of the ICE Diversified US Cash Pay High Yield Healthcare Index, which is a rules-based index consisting of U.S. dollar-denominated below investment grade bonds that contains issuers from the healthcare sector, including the health facilities, health services, managed care, medical products, and pharmaceuticals sub-sectors. **BioTech Equity Index (XBI).** XBI represents the biotechnology segment of the S&P Total Market Index ("S&P TMI"). The S&P TMI is designed to track the broad U.S. equity market. The biotechnology segment of the S&P TMI comprises the Biotechnology sub-industry. The Index is modified equal weighted.

Sources: SEI, Bloomberg
1. 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.

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