Q3 2024 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 increased from the second quarter at $5.20.

Market Outlook

The third quarter of 2024 has been marked by increased volatility and uncertainty across global stock markets, influenced by countervailing economic indicators, central bank policies, and geopolitical tensions that have shaped investor sentiment. The S&P 500 exhibited significant fluctuations, experiencing both 5% gains and losses throughout the period. Ultimately, the index closed the quarter up 5.89%, reflecting investor optimism that the Federal Reserve is beginning a rate-cutting cycle that will lead to lower interest rates and a more robust economy in 2025. In contrast, the Nasdaq, heavily weighted with technology stocks, experienced more pronounced volatility due to investor concerns surrounding AI-linked stock performance. Inflationary pressures and the pace of rate cuts have raised apprehensions about stock valuations, contributing to the Nasdaq 100 underperforming the S&P 500 in the quarter.

The Federal Reserve's monetary policy stance was a key driver of market sentiment during the quarter. In the September FOMC meeting, the Fed announced a 0.50% interest rate cut, the first since March 2020, and signaled the possibility of additional rate cuts if inflation continues to trend downward and the job market remains soft. Surprisingly, the bond market reacted negatively to this news with rising yields, as the 10-year Treasury yield increased to approximately 3.8%, up from 3.6% before the cut.

Geopolitical events, including the ongoing conflict in Ukraine and Israel, tensions in the South China Sea, and uncertainties surrounding global trade policies, continued to impact market dynamics. Investors remain cautious about potential supply chain disruptions and their implications for global economic growth. The U.S.-China trade relationship has been a source of unease for sectors with significant exposure to China, such as semiconductors and industrials.

Looking ahead, we believe the U.S. economy is transitioning from a mild slowdown to a recovery phase, supported by a more accommodative interest rate policy, substantial fiscal stimulus, and a favorable profit environment. We anticipate that the next phase for equities will primarily be driven by a broadening "melt-up" in cyclical sectors, rather than a "melt-down" in the dominance of mega-cap technology stocks. Although we have concerns about the overall market earnings multiple, currently at historically high levels, this perspective reinforces our preference for cyclically oriented segments, particularly as we

Fund Facts	
Net Asset Value Per Share	$5.44
Annual Distribution Rate*	6.62%

Fund Characteristics	
Number of Investments	29
Loan Price (Wtd. Avg.)	$91.57

Credit Rating Breakdown	
B	5.3%
CCC	19.4%
NR	75.3%

Industry Breakdown	
Healthcare	30.8%
Real Estate	25.3%
Telecommunication Services	11.4%
Consumer Prodcuts	10.3%
Financials	9.2%
Bioplastics	8.3%
Retail	2.9%
Energy	1.0%
Other	0.8%

Portfolio Allocation	
Common Stock	26.3%
Preferred Stocks	24.7%
LLC Interests	23.1%
1st Lien	21.7%
Corporate Bonds	3.3%
Other	0.9%

As of 09/30/2024

anticipate a “soft landing.”

Small-cap stocks represent a more direct play on the U.S. business cycle. As our outlook for a soft landing evolves into a growth recovery, these stocks are well-positioned to benefit from an acceleration in economic activity. Investors will likely begin pricing in this shift before it fully materializes, with evidence already seen in the Russell 2000’s outperformance compared to the S&P 500 in the third quarter.

The High Yield index (LF98TRUU) provided a gain of +5.28% in the third quarter of 2024, which compares with returns of +2.09% for the Leverage Loan index (SPBDAL), and +5.84% for high-grade bonds (LUACTRUU). Industries outperforming year-to-date include Healthcare (+12.33%) and Telecom (+11.00%) and underperforming are Media (+5.35%) and Cable/Sat. (+6.28%). The high-yield healthcare bond ETF (XHYH) year-to-date returned approximately +10.90%. Over the same period, the Biotech equity index (“XBI”) and the Healthcare Select Sector SPDR ETF (“XLV”) were up +10.80% and +14.21%, respectively.

Top 5 Healthcare Holdings (As of 09/30/2024)

Sapience Therapeutics	18.0%
CCS Medical	6.0%
Apnimed	4.7%
Carestream Health	1.2%
Sound Inpatient	0.9%

For 2024, 27 companies defaulted, totaling $18.4 billion, with bonds accounting for $3.0 billion and loans accounting for $15.4 billion. In addition, 32 companies completed a distressed exchange totaling $37.7 billion, with bonds accounting for $7.8 billion and loans accounting for $29.9 billion. The year-to-date combined total of $45.3 billion of defaults/distressed exchanges is tracking -13% below the 2023 pace. Including distressed exchanges, the par-weighted US High-Yield bond and Loan default rates decreased to 1.64% and 3.70%. JP Morgan lowered its high-yield bond default rate in 2024 to 1.25% but increased its leveraged loan default rate to 3.75%. Healthcare and Technology defaults account for over 34% of the year’s defaults by industry.

Looking ahead, we remain committed to closely monitoring key regulatory decisions, macroeconomic changes, and company-specific challenges arising from economic dislocations. Our outlook for the domestic economy in the fourth quarter of 2024 is cautiously optimistic. Additionally, we are actively evaluating opportunities within the secondary credit markets beyond the traditional healthcare fixed-income sector to identify higher-yielding investments that provide more attractive risk-adjusted returns.

Top Contributors

Position	Asset	Industry
Plantswitch, inc.	Bank Loan	Bioplastics
NexPoint Real Estate Finance	Common Stock	Real Estate
Sapience Series B1	Preferred Stock	Healthcare

Top Detractors

Position	Asset	Industry
IQHQ Inc.	Common Stock	Real Estate
Midwave Wireless	Common Stock	Telecommunication Services
Talos Energy Inc.	Common Stock	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.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. The **iShares US & Intl High Yield Corp Bond ETF (HYG)** seeks to track the investment results of an index composed of U.S. dollar, euro, British pound sterling and Canadian dollar-denominated, high yield corporate bonds.

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.

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