NEXPOINT CAPITAL, INC.
300 Crescent Court
Suite 700
Dallas, Texas 75201
(844) 485-9167

April 22, 2020

Dear Stockholder:

Enclosed you will find the proxy materials for the 2020 Annual Meeting of Stockholders of NexPoint Capital, Inc. (the "Corporation") to be held at 300 Crescent Court, Suite 700, Dallas, Texas 75201, on Friday, June 12, 2020, at 8:15 a.m. Central Time (the "Annual Meeting"). In light of the developing situation with COVID-19 (coronavirus) and the travel advisories across the United States, we are requesting that stockholders and others NOT ATTEND the Annual Meeting in person this year but to attend the Annual Meeting via conference call. For those who wish to attend via conference call, please email NexPoint Advisors, L.P. at attendameeting@astfinancial.com and provide us with your full name and address in order to receive the conference call dial-in information.

At the Annual Meeting, you will be asked to elect one (1) Class II director to serve a three-year term. In addition to voting on the election of a director, which is described in more detail in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement, you will have an opportunity to hear a report on the Corporation and to discuss other matters of interest to you as a stockholder.

It is very important that your shares be represented at the Annual Meeting. Whether or not you plan to attend, I urge you to please complete, date, sign and mail the enclosed proxy card to us to assure that your shares are represented at the Annual Meeting.

Sincerely,

James Dondero
President and Principal Executive Officer

NEXPOINT CAPITAL, INC.
300 Crescent Court
Suite 700
Dallas, Texas 75201
(844) 485-9167

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 12, 2020

Notice is hereby given to holders of shares of common stock of NexPoint Capital, Inc., a Delaware corporation (the "Corporation"), that the 2020 Annual Meeting of Stockholders will be held at 300 Crescent Court, Suite 700, Dallas, Texas 75201, on Friday, June 12, 2020, at 8:15 a.m. Central Time (the "Annual Meeting"). In light of the developing situation with COVID-19 (coronavirus) and the travel advisories across the United States, we are requesting that stockholders and others NOT ATTEND the Annual Meeting in person this year but to attend the Annual Meeting via conference call. For those who wish to attend via conference call, please email NexPoint Advisors, L.P. at attendameeting@astfinancial.com and provide us with your full name and address in order to receive the conference call dial-in information. Please vote your shares in accordance with the instructions on the enclosed proxy card whether or not you attend the Annual Meeting. The Annual Meeting will be held for the following purposes:

1. To elect Dr. Bob Froehlich as a Class II director of the Corporation to serve for a three-year term expiring at the 2023 Annual Meeting of Stockholders or until his successor is duly elected and qualifies; and
2. To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

THE BOARD OF DIRECTORS, INCLUDING EACH OF THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS A VOTE <u>FOR</u> THE ELECTION OF THE DIRECTOR NOMINEE.

The close of business on April 16, 2020 has been fixed as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof. Please email NexPoint Advisors, L.P. at attendameeting@astfinancial.com and provide your full name and address in order to receive the conference call dial-in information.

Important Notice Regarding Availability of Proxy Materials for the Stockholder Meeting to be held on June 12, 2020: Copies of these proxy materials, including the Corporation's Annual Report, the Notice for the Annual Meeting, the Proxy Statement and the form of proxy, are available to you on the Internet at https://www.proxyonline.com/docs/NexPoint2020.pdf. Copies of the proxy materials are also available upon request, without charge, by writing to AST Fund Solutions, LLC at AST Fund Solutions, ATTN: NexPoint 14303 Fulfillment, 55 Challenger Road, Ridgefield Park, New Jersey 07660, by calling (800) 967-5068, or by sending an e-mail to corporateservices@astfundsolutions.com using subject line: NexPoint 14303 Fulfillment. Stockholders are encouraged to read all of the proxy materials before voting as the proxy materials contain important information necessary to make an informed decision.

The Board of Directors is requesting your vote. Your vote is important regardless of the number of shares that you own. Please complete and sign the enclosed proxy card and return it promptly in the enclosed envelope, which needs no postage if mailed in the United States. If you desire to vote in person at the Annual Meeting using the conference call dial-in information, you may revoke your proxy at any time before it is exercised.

By Order of the Board of Directors,

LThedford

Lauren Thedford
Secretary

April 22, 2020
Dallas, Texas

NEXPOINT CAPITAL, INC.
300 Crescent Court
Suite 700
Dallas, Texas 75201
(844) 485-9167

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
JUNE 12, 2020

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors (the "Board") of NexPoint Capital, Inc., a Delaware corporation (the "Corporation"), for use at the Corporation's 2020 Annual Meeting of Stockholders (the "Annual Meeting") to be held at 300 Crescent Court, Suite 700, Dallas, Texas 75201, on Friday, June 12, 2020, at 8:15 a.m. Central Time, and at any and all adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders dated April 22, 2020. In light of the developing situation with COVID-19 (coronavirus) and the travel advisories across the United States, we are requesting that stockholders and others NOT ATTEND the Annual Meeting in person this year but to attend the Annual Meeting via conference call. For those who wish to attend via conference call, please email NexPoint Advisors, L.P. at attendameeting@astfinancial.com and provide us with your full name and address in order to receive the conference call dial-in information. The Corporation is a closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the "1940 Act"). NexPoint Advisors, L.P., a Delaware limited partnership (the "Adviser") serves as the investment adviser and the administrator ("Administrator") to the Corporation. The principal executive offices of each of the Corporation and the Adviser are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201.

This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders and form of proxy are being provided to stockholders on or about April 22, 2020. The Board of Directors (the "Board") has fixed the close of business on April 16, 2020 as the record date (the "Record Date") for the determination of stockholders entitled to receive notice of, and to vote at, the Annual Meeting. As of the Record Date, 10,509,455 shares of the Common Stock were issued and outstanding, and the Corporation had not issued any shares of preferred stock. Stockholders of the Corporation are entitled to one vote for each share held and fractional votes for each fractional share held.

If the form of proxy is properly executed and returned in time to be voted at the Annual Meeting, the shares covered thereby will be voted at the Annual Meeting in accordance with the instructions marked thereon. All properly executed proxies received by the Board that do not specify how shares should be voted will be voted **"FOR"** the election as a director of the nominee listed below and in the discretion of the persons named as proxies in connection with any other matter which may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board does not know of any matter to be considered at the Annual Meeting other than the election of the director referred to in this Proxy Statement and the Notice of Annual Meeting. A stockholder may revoke his or her proxy any time before it is exercised by (i) voting in person using the conference call dial-in information at the Annual Meeting, (ii) giving written notice of such revocation to the Secretary of the Corporation or (iii) returning a properly executed, later-dated proxy.

In addition to soliciting proxies by mail, officers of the Corporation or officers or employees of the Adviser may solicit proxies by the Internet or by telephone. Copies of the Notice for the Annual Meeting, the Proxy Statement, the form of proxy and the Corporation's annual report are available at https://www.proxyonline.com/docs/NexPoint2020.pdf. The Corporation has engaged AST Fund Solutions, LLC, at AST Fund Solutions, ATTN: NexPoint 14303 Fulfillment, 55 Challenger Road, Suite 201, Ridgefield Park, New Jersey 07660 to provide stockholder meeting services, including the distribution of this Proxy Statement and related materials to stockholders, as well as assisting the Corporation in soliciting proxies for the Annual Meeting, at an approximate cost of $24,245. The costs of proxy solicitation and expenses incurred in connection with the preparation of this Proxy Statement and its enclosures will be paid by the Corporation.

Quorum

A quorum must be present at the Annual Meeting for any business to be conducted. The presence in person or by proxy of the holders of a majority of the shares of Common Stock entitled to vote shall constitute a quorum for the Annual Meeting. Shares represented by properly executed proxies with respect to which (i) a vote is withheld or (ii) the stockholder abstains will be treated as shares that are present and entitled to vote for purposes of determining a quorum.

Shares of Common Stock held by a broker or other nominee for which the nominee has not received voting instructions from the record holder and does not have discretionary authority to vote the shares on non-routine proposals are considered “broker non-votes” with respect to such proposals. Because the election of a director is a non-routine matter, broker non-votes are not entitled to vote at the Annual Meeting. Therefore, broker non-votes will be treated as shares that are not present for quorum purposes at the Annual Meeting.

If a quorum is not present at the Annual Meeting, or if a quorum is present but sufficient votes to approve the proposal are not received, the persons named as proxies may propose one or more adjournments or postponements of the Annual Meeting to permit further solicitation of proxies. Any adjournment or postponement will require the affirmative vote of a majority of those shares that are represented at the Annual Meeting in person or by proxy, whether or not a quorum is present.

Vote Required

The election of a director requires the affirmative vote of a majority of the shares of Common Stock cast at the Annual Meeting in person or by proxy. Abstentions are counted as present at the Annual Meeting but, assuming the presence of a quorum, will have the effect of a vote against each nominee.

Broker non-votes are described as votes cast by a broker or other nominee on behalf of a beneficial holder who does not provide explicit voting instructions to such broker or nominee and who does not attend the Annual Meeting. The election of a director is a non-routine matter. As a result, if you hold shares in “street name” through a broker, bank or other nominee, your broker, bank or nominee will **not** be permitted to exercise voting discretion with respect to the proposal at the Annual Meeting to elect Dr. Bob Froehlich as a Class II director of the Corporation. Thus, if you do not give your broker or nominee specific instructions on how to vote for you or do not vote for yourself by returning a proxy card or by other arrangement with your broker or nominee, your shares will have no effect on the election of the Class II director at the Annual Meeting.

THE PROPOSAL

ELECTION OF DIRECTOR

The Board is currently composed of four directors, who are divided into three classes with staggered terms of three years each, with the term of office of one of the three classes expiring at each annual meeting of the stockholders. At the Annual Meeting, the holders of the Corporation’s shares of Common Stock are being asked to re-elect Dr. Bob Froehlich as a Class II Director of the Corporation, to serve for a three-year term expiring at the 2023 Annual Meeting of Stockholders or until his successor is duly elected and qualifies. Dr. Froehlich is currently serving as a Class II Director of the Corporation and has agreed to continue to serve as a Class II Director, if re-elected. If Dr. Froehlich is not available for re-election at the time of the Annual Meeting, the persons named as proxies will vote for such substitute nominee as the Corporation’s Governance and Compliance Committee may select.

Ethan Powell and Bryan A. Ward are currently serving as Class I Directors and each was last elected to serve a three-year term at the Corporation's annual meeting of stockholders held on June 14, 2019. John Honis is currently serving as a Class III Director and was last elected to serve a three-year term at the Corporation's annual meeting of stockholders held on June 22, 2018. Dr. Bob Froehlich is currently serving as a Class II Director. Dr. Froehlich will continue to serve as a Class II Director if re-elected at the Annual Meeting. The Corporation's Directors are not required to attend the Corporation's annual stockholder meetings.

THE BOARD, INCLUDING EACH OF THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION OF THE NOMINEE AS A DIRECTOR.

Qualifications and Additional Information about the Director Nominee and Continuing Directors

The following provides an overview of the considerations that led the Board to conclude that the individual nominee for director or the individuals serving as continuing directors of the Corporation should be nominated or so serve, as well as the nominee's and each director's name and certain biographical information as reported by them to the Corporation. Among the factors the Board considered when concluding that an individual should be a nominee for director or serve on the Board were the following: the individual's experience, skills, expertise, education, knowledge, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, the candidate's ability to qualify as an Independent Director and the existence of any other relationships that might give rise to a conflict of interest and other relevant factors that the Corporation's Governance and Compliance Committee considers appropriate in the context of the needs of the Board (e.g., whether a candidate is an "audit committee financial expert" under the federal securities laws).

In respect of the director nominee and each continuing director, the individual's professional accomplishments and prior experience, including, in some cases, in fields related to the operations of the Corporation, were a significant factor in the determination that the individual should be a nominee for director or serve as a director of the Corporation. The director nominee's and each continuing director's professional experience and additional considerations that contributed to the Board's conclusion that an individual should serve on the Board are summarized in the table below.

The "Highland Funds Complex," as referred to herein consists of: the Corporation, each series of Highland Funds I ("HFI"), each series of Highland Funds II ("HFII"), Highland Income Fund (formerly, Highland Floating Rate Opportunities Fund) ("FRO"), NexPoint Strategic Opportunities Fund ("NHF"), Highland Global Allocation Fund ("GAF"), NexPoint Event-Driven Fund ("NEDF"), NexPoint Latin American Opportunities Fund ("NLAF"), NexPoint Real Estate Strategies Fund ("NRESF"), NexPoint Strategic Income Fund ("NSIF"), NexPoint Energy and Materials Opportunities Fund ("NEMO"), NexPoint Discount Strategies Fund ("NDSF"), and NexPoint Healthcare Opportunities Fund ("NHOF" and, together with NEDF, NLAF, NRESF, NSIF, NEMO and NDSF, the "Interval Funds").

Nominee for Class II Director

Name, Date of Birth and Address (1)	Position(s) held with the Corporation	Term of Office and Length of Time Served (2)	Principal Occupation(s) During the Past Five Years	Other Directorships Held During the Past Five Years(3)	Experience, Qualifications, Attributes, Skills for Board Membership
Independent Director					
Dr. Bob Froehlich (4/28/1953)	Director	Term expires 2020; Class II Director since 2014	Retired.	Trustee of ARC Realty Finance Trust, Inc. (from January 2013 to May 2016); Director of KC Concessions, Inc. (since January 2013); Trustee of Realty Capital Income Funds Trust (from January 2014 to December 2016); Director of American Realty Capital Healthcare Trust II (from January 2013 to June 2016); Director, American Realty Capital Daily Net Asset Value Trust, Inc. (from November 2012 to July 2016); Director of American Sports Enterprise, Inc. (since January 2013); Director of Davidson Investment Advisors (from July 2009 to July 2016); Chairman and owner, Kane County Cougars Baseball Club (since January 2013); Advisory Board of Directors, Internet Connectivity Group, Inc. (from January 2014 to April 2016); Director of AXAR Acquisition Corp. (formerly AR Capital Acquisition Corp.) (from October 2014 to October 2017); Director of The Midwest League of Professional Baseball Clubs, Inc.; Director of Kane County Cougars Foundation, Inc.; Director of Galen Robotics, Inc.; Chairman and Director of FC Global Realty, Inc. (from May 2017 to June 2018); Chairman and Director of First Capital Investment Corp. (from March 2017 to March 2018); and Director and Special Advisor to Vault Data, LLC (since February 2018).	Significant experience in the financial industry; significant managerial and executive experience; significant experience on other boards of directors, including as a member of several audit committees.

Class I Directors (continuing directors not up for re-election at the Annual Meeting)

Name, Date of Birth and Address[1]	Position(s) held with the Corporation	Term of Office and Length of Time Served[2]	Principal Occupation(s) During the Past Five Years	Other Directorships Held During the Past Five Years[3]	Experience, Qualifications, Attributes, Skills for Board Membership
Independent Directors					
Bryan A. Ward (2/4/1955)	Director and Chairman of the Audit and Qualified Legal Compliance Committee	Term expires 2022; Class I Director since 2014	Senior Advisor, CrossFirst Bank since April 2019; Private Investor, BW Consulting, LLC since 2014	Director of Equity Metrix, LLC.	Significant experience on this and/or other boards of directors/trustees; significant managerial and executive experience; significant experience as a management consultant.
Ethan Powell (6/20/1975)	Director and Chairman of the Board	Term expires 2022; Class I Director since 2014	CEO, Chairman and Founder of Impact Shares LLC since December 2015; Chief Product Strategist of Highland Capital Management Fund Advisors, L.P. ("HCMFA") from 2012 until December 2015; Senior Retail Fund Analyst of Highland Capital Management, L.P. ("HCMLP") from 2007 until December 2015 and HCMFA from its inception until December 2015; President and Principal Executive Officer of NHF from June 2012 until May 2015; Secretary of NHF from May 2015 until December 2015; Executive Vice President and Principal Executive Officer of HFI and HFII from June 2012 until December 2015; and Secretary of HFI and HFII from November 2010 to May 2015.	Trustee of Impact Shares Funds I Trust.	Significant experience in the financial industry; significant executive experience including past service as an officer of funds in the Highland Funds Complex; significant administrative and managerial experience.

Class III Director (continuing director not up for re-election at the Annual Meeting)

Name, Date of Birth and Address[(1)]	Position(s) held with the Corporation	Term of Office and Length of Time Served[(2)]	Principal Occupation(s) During the Past Five Years	Other Directorships Held During the Past Five Years[(3)]	Experience, Qualifications, Attributes, Skills for Board Membership
Interested Director					
John Honis [(4)] (6/16/1958)	Director	Terms expires 2021; Class III Director since 2014	President of Rand Advisors, LLC since August 2013.	Manager of Turtle Bay Resort, LLC (August 2011 to December 2018); Manager of American Home Patient (November 2011 to February 2016).	Significant experience in the financial industry; significant managerial and executive experience, including experience as president, chief executive officer or chief restructuring officer of five telecommunication firms; experience on other boards of directors/trustees.

(1) The address for each nominee and director is c/o NexPoint Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 75201.

(2) On an annual basis, as a matter of Board policy, the Governance and Compliance Committee reviews each director’s performance and determines whether to extend each such director’s service for another year. Effective June 2013, the Board adopted a retirement policy wherein the Governance and Compliance Committee shall not recommend the continued service as a director of a Board member who is older than 80 years of age at the time the Governance and Compliance Committee reports its findings to the Board.

(3) Each nominee and director oversees 20 portfolios in the Highland Funds Complex.

(4) Effective January 28, 2020, Mr. Honis is treated as an Interested Director of the Corporation in light of certain relationships between Mr. Honis and certain affiliates of the Adviser, including HCMLP, arising out of HCMLP’s pending Chapter 11 proceedings. From May 1, 2015 to January 28, 2020, Mr. Honis was treated as an Independent Director of the Corporation.

Information about the Executive Officers

Set forth below are the names and certain information regarding the Corporation's executive officers. Each executive officer serves until his or her successor has been duly elected and qualifies, or until his or her earlier resignation or removal.

Name, Date of Birth and Address [1]	Position(s) held with the Corporation	Principal Occupation(s) During Past Five Years
James Dondero (6/29/1962)	President and Principal Executive Officer since 2014	Co-founder of HCMLP in 1993; President and founder of the Adviser; Chairman of the Board of NexPoint Residential Trust, Inc. since May 2015; Portfolio Manager of NHF; Portfolio Manager of Highland Energy MLP Fund, Highland Small-Cap Equity Fund and Highland Socially Responsible Equity Fund (formerly, Highland Premier Growth Equity Fund) (all series of HFII); Portfolio Manager of Highland Opportunistic Credit Fund (series of HFI); Portfolio Manager of the Corporation; and Portfolio Manager of GAF (including its predecessor in interest) since 2014; President of NREA since May 2015; President and Portfolio Manager of the Interval Funds since 2016; director of Jernigan Capital, Inc. since August 2016; Portfolio Manager of HFRO since 2018; CEO of NexPoint Hospitality Trust since December 2018; President and Director of NexPoint Real Estate Finance since February 2020.
Frank Waterhouse (4/14/1971)	Treasurer, Principal Financial Officer and Principal Accounting Officer since May 2015	Principal Executive Officer of HFI, HFII, HFRO, and GAF since February 2018; Principal Financial Officer and Principal Accounting Officer of HFRO, GAF, the Corporation, NHF, HFI, HFII, and NREA since October 2017; Treasurer of HFRO and GAF since August 2017; Treasurer of Acis Capital Management, L.P. since February 2012; Treasurer of HCMLP since April 2012; Treasurer of HCMFA since October 2012; Treasurer of the Adviser since March 2012 and Treasurer of the Corporation, NHF, HFI, HFII, and NREA since May 2015; Treasurer of the Interval Funds since March 2016.

Name, Date of Birth and Address (1)	Position(s) held with the Corporation	Principal Occupation(s) During Past Five Years
Dustin Norris (1/6/1984)	Executive Vice President since April 2019	President of NexPoint Securities, Inc. since April 2018; Head of Distribution and Chief Product Strategist at the Adviser since March 2019; Head of Distribution at HCMFA from November 2017 to March 2019; Executive Vice President of NHF and the Interval Funds since April 2019; Secretary of HFRO, GAF, HFI and HFII from October 2017-April 2019; Assistant Secretary of HFRO and GAF from August 2017 to October 2017; Chief Product Strategist at HCMFA from September 2015 to March 2019; Director of Product Strategy at HCMFA from May 2014 to September 2015; Assistant Secretary of HFI and HFII from March 2017 to October 2017; Secretary of NHF from December 2015 to April 2019; Assistant Treasurer of the NexPoint Real Estate Advisors, L.P. entities ("NREA") since May 2015; Assistant Treasurer of HFI and HFII from November 2012 to March 2017; Assistant Treasurer of NHF from November 2012 to December 2015; Secretary of the Corporation from 2014 to April 2019; and Secretary of the Interval Funds from March 2016 to April 2019.
David Klos, CPA (5/6/1982)	Assistant Treasurer since April 2020	Chief Accounting Officer at HCMLP since April 2020; Financial Operations Principal for NexPoint Securities, Inc. since October 2016; Controller at HCMLP from March 2017 to March 2020; and Assistant Controller at HCMLP from March 2015 to February 2017.
Jason Post (1/9/1979)	Chief Compliance Officer since September 2015	Chief Compliance Officer and Anti-Money Laundering Officer of HFRO and GAF since August 2017; Chief Compliance Officer and Anti-Money Laundering Officer of HFI, HFII, the Corporation and NHF since September 2015; Chief Compliance Officer and Anti-Money Laundering Officer of the Interval Funds since March 2016; and Chief Compliance Officer for HCMFA and NexPoint since September 2015. Prior to this role served as Deputy Chief Compliance Officer and Director of Compliance for HCMLP.
Lauren Thedford (1/7/1989)	Secretary since April 2019	Associate General Counsel at HCMLP since September 2017; In-House Counsel at HCMLP from January 2015 until September 2017; Secretary of the Highland Funds Complex since April 2019.

(1) The address for each officer is c/o NexPoint Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 75201.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain ownership information with respect to our Common Stock, as of February 28, 2020, for those persons who directly or indirectly own, control or hold with the power to vote, five percent or more of our outstanding Common Stock and all officers and directors, individually and as a group.

Name and Address[(1)]	Type of Ownership	Shares Owned	Value of Securities	Percentage of Outstanding Shares as of February 28, 2020
NexPoint Advisors, L.P.[(2)]	Record	2,549,002	$21,615,539	24.17%
All officers and directors as a group (10 persons)	N/A	None	$ 0	0%

(1) The address for the Adviser and each director or officer is c/o NexPoint Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 75201.

(2) Mr. Dondero controls NexPoint Advisors GP, LLC, which is the general partner of the Adviser. Through his control of NexPoint Advisors GP, LLC, Mr. Dondero may be viewed as having voting and dispositive power over the shares of the Common Stock directly owned by the Adviser.

Dollar Range of Equity Securities Beneficially Owned by Directors

Set forth in the table below is the dollar range of shares beneficially owned by each director in (i) the Corporation and (ii) all registered investment companies in the Highland Funds Complex overseen by such director.

Name of Director	Dollar Range of Shares of the Corporation [(1)]	Aggregate Dollar Range of Equity Securities[(1)] Owned in All Registered Investment Companies Overseen by Director in the Highland Funds Complex
Independent Directors		
Dr. Bob Froehlich	None	Over $100,000
Bryan A. Ward	None	Over $100,000
Ethan Powell	None	$10,001-$50,000
Interested Director		
John Honis[(2)]	None	None

(1) Based on market value as of December 31, 2019.

(2) Effective January 28, 2020, Mr. Honis is treated as an Interested Director of the Corporation.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the rules thereunder require that the Corporation’s directors and officers and persons who own beneficially, directly or indirectly, more than 10 percent of any class of the Corporation’s securities file initial reports of beneficial ownership and reports of changes in beneficial ownership with the U.S. Securities and Exchange Commission (“SEC”) and furnish the Corporation with copies of all such reports. Specific due dates for those reports have been established, and the Corporation is required to report in this Proxy Statement any known failure to file such reports by those due dates. Based solely upon a review of the copies of such reports furnished, the Corporation does not know of any director, officer or person who beneficially owns more than 10 percent of any class of the Corporation’s securities who failed to file on a timely basis the required reports.

Role of the Board of Directors, Leadership Structure and Risk Oversight

The Role of the Board

The Board oversees the management and operations of the Corporation. Like most business development companies and registered investment companies, the day-to-day management and operation of the Corporation is performed by various service providers to the Corporation, such as the Adviser, custodian and transfer agent. The Board has appointed senior employees of certain of these service providers as officers of the Corporation, with responsibility to monitor and report to the Board on the Corporation's operations. The Board receives regular reports from these officers and service providers regarding the Corporation's operations. For example, the Chief Financial Officer provides reports as to financial reporting matters and investment personnel report on the performance of the Corporation. The Board has appointed a Chief Compliance Officer who administers the Corporation's compliance program and regularly reports to the Board as to compliance matters. Some of these reports are provided as part of formal in-person Board meetings, which are typically held quarterly, and involve the Board's review of, among other items, recent Corporation operations. The Board also periodically holds telephonic meetings as part of its review of the Corporation's activities. From time to time, one or more members of the Board may also meet with management in less formal settings, between scheduled Board meetings, to discuss various topics. In all cases, however, the role of the Board and of any individual director is one of oversight and not of management of the day-to-day affairs of the Corporation and its oversight role does not make the Board a guarantor of the Corporation's investments, operations or activities.

Board Structure and Leadership

The Board has structured itself in a manner that it believes allows it to perform its oversight function effectively. The Board consists of four directors, three of whom are not "interested persons," as defined in 1940 Act, of the Corporation. These individuals are referred to as the Corporation's independent directors (the "Independent Directors"). During the fiscal year ended December 31, 2019, the Board convened fifteen times. Each Director then serving in such capacity attended at least 75% of the meetings. The Corporation encourages, but does not require, Directors to attend the Annual Meeting.

The Board periodically reviews its leadership structure, including the role of the Chairman. The Board also completes an annual self-assessment during which it reviews its leadership and Committee structure and considers whether its structure remains appropriate in light of the Corporation's current operations. The Board believes that its leadership structure, including the current percentage of the Board who are Independent Directors is appropriate given its specific characteristics. These characteristics include: (i) the extent to which the work of the Board is conducted through the standing committees, and that the Audit and Qualified Legal Compliance Committee (the "Audit Committee") and the Governance and Compliance Committee meetings are chaired by an Independent Director; (ii) the extent to which the Independent Directors meet as needed, together with their independent legal counsel, in the absence of members of management and any member of the Board who is considered an "interested person" of the Corporation; and (iii) Mr. Powell's and Mr. Honis' previous positions with affiliates of the Adviser, which enhances the Board's understanding of the operations of the Adviser.

Board Oversight of Risk Management. The Board's role is one of oversight, rather than active management. This oversight extends to the Corporation's risk management processes. These processes are embedded in the responsibilities of officers of, and service providers to, the Corporation. For example, the Adviser and other service providers to the Corporation are primarily responsible for the management of the Corporation's investment risks. The Board has not established a formal risk oversight committee. However, much of the regular work of the Board and its standing Committees addresses aspects of risk oversight. For example, the Directors seek to understand the key risks facing the Corporation, including those involving conflicts of interest; how management identifies and monitors these risks on an ongoing basis; how management develops and implements controls to mitigate these risks; and how management tests the effectiveness of those controls.

In the course of providing that oversight, the Board receives a wide range of reports on the Corporation's activities from the Adviser and other service providers, including reports regarding the Corporation's investment portfolio, the compliance of the Corporation with applicable laws, and the Corporation's financial accounting and reporting. The Board also meets periodically with the Corporation's Chief Compliance Officer to receive reports regarding the compliance of the Corporation with the federal securities laws and the Corporation's internal compliance policies and procedures and meets with the Corporation's Chief Compliance Officer periodically, including at least annually, to review the Chief Compliance Officer's annual report, including the Chief Compliance Officer's risk-based analysis for the Corporation. The Board's Audit Committee also meets regularly with the Chief Financial Officer and the Corporation's independent registered public accounting firm to discuss, among other things, the internal control structure of the Corporation's financial reporting function. The Board also meets periodically with the portfolio managers of the Corporation to receive reports regarding the management of the Corporation, including its investment risks.

The Board recognizes that not all risks that may affect the Corporation can be identified, that it may not be practical or cost-effective to eliminate or mitigate certain risks, that it may be necessary to bear certain risks (such as investment-related risks) to achieve the Corporation's goals, that reports received by the directors with respect to risk management matters are typically summaries of the relevant information, and that the processes, procedures and controls employed to address risks may be limited in their effectiveness. As a result of the foregoing and other factors, risk management oversight by the Board and by the Committees is subject to substantial limitations.

Committees of the Board

The Board conducts much of its work through certain standing Committees. The Board has three Committees, the Audit Committee, the Governance and Compliance Committee, and the Distribution and Alternatives Oversight Committee, which are discussed in greater detail below. The Board has adopted charters for each of these Committees.

Prior to March 1, 2019, the Governance and Compliance Committee was divided into the Governance Committee and the Compliance Committee and the Distribution and Alternatives Oversight Committee was divided into the Alternatives Oversight Committee and the Distribution Oversight Committee, each of which former Committee met one time during the fiscal year ended December 31, 2019. For the fiscal year ended December 31, 2019, the Audit Committee held seven meetings and the newly constituted Governance and Compliance Committee held three meetings. The newly constituted Distribution and Alternatives Oversight Committee held four meetings during the fiscal year ended December 31, 2019. Each Director then serving in such capacity attended at least 75% of the meetings of the Committees of which he is a member.

Audit and Qualified Legal Compliance Committee

The members of the Audit Committee are Dr. Froehlich and Messrs. Ward and Powell, each of whom is an Independent Director. Mr. Ward serves as Chairman of the Audit Committee. The Audit Committee is responsible for (i) approving the Corporation's independent registered public accounting firm, (ii) reviewing with the Corporation's independent accountants the plans and results of the audit engagement and the adequacy of the Corporation's internal accounting controls, and (iii) approving professional services provided by the independent registered public accounting firm. The Audit Committee is charged with compliance with Rules 205.2(k) and 205.3(c) of Title 17 of the Code of Federal Regulations regarding alternative reporting procedures for attorneys representing the Corporation who appear and practice before the SEC on behalf of the Corporation. The Audit Committee is also responsible for reviewing and overseeing the valuation of debt and equity securities that are not publicly traded or for which current market values are not readily available pursuant to policies and procedures adopted by the Board. The Board and Audit Committee will use the services of one or more independent valuation firms to help them determine the fair value of these securities. The Board has determined that Mr. Ward is an "audit committee financial expert," as defined under Item 407(d)(5) of Regulation S-K under the Exchange Act. In addition, each member of the Audit Committee meets the current independence and experience requirements of Rule 10A-3 under the Exchange Act.

A current copy of the Corporation's Audit Committee Charter is available on the Corporation's website at http://nexpointcapital.com/investor-relations/.

Governance and Compliance Committee

The members of the Governance and Compliance Committee are Dr. Froehlich and Messrs. Powell and Ward, each of whom is independent for purposes of the 1940 Act. Dr. Froehlich serves as the Chairman of the Governance and Compliance Committee. The Governance and Compliance Committee's function is to oversee and make recommendations to the full Board or the Independent Directors, as applicable, with respect to the Corporation's governance, selection and nomination of directors, compensation of directors, and related matters, as well as to oversee and assist Board oversight of the Corporation's compliance with legal and regulatory requirements and to seek to address any potential conflicts of interest between the Corporation and the Adviser in connection with any potential or existing litigation or other legal proceeding related to securities held by the Corporation and the Adviser or another client of the Adviser. The Governance and Compliance Committee is also responsible for at least annually evaluating each director and determining whether to recommend each director's continued service in that capacity.

The Governance and Compliance Committee considers nominees properly recommended by the Corporation's stockholders. The Corporation's bylaws provide that for any nomination to be properly brought by a stockholder for a meeting, such stockholder will have to comply with advance notice requirements and provide the Corporation with certain information. Generally, to be timely, a stockholder's notice must be received at the Corporation's principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the date the proxy statement for the immediately preceding annual meeting of stockholders was released to the Corporation's stockholders.

The Corporation's bylaws further provide that nominations of persons for election to the Board at a special meeting may be made only by or at the direction of the Board and, provided that the Board has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

This notice must contain, as to each nominee, all of the information relating to such person as would be required to be disclosed in a proxy statement meeting the requirements of Regulation 14A under the Exchange Act, and certain other information set forth in the bylaws, including the following information for each director nominee: full name, age and address; principal occupation during the past five years; directorships on publicly held companies and investment companies during the past five years; number of shares of Common Stock owned, if any; and a written consent of the individual to stand for election if nominated by the Board and to serve if elected by the stockholders. In order to be eligible to be a nominee for election as a director, such potential nominee may be required to provide additional information to determine his or her qualifications or eligibility to serve on the Board.

The Governance and Compliance Committee has not established any specific, minimum qualifications that must be met for an individual to be considered for nomination as a director. Criteria and attributes considered by the Governance and Compliance Committee in evaluating the qualifications of individuals for election as a director, including individuals nominated by stockholders, include the following: experience, skills, expertise, education, knowledge, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, the individual's ability to qualify as an Independent Director and the existence of any other relationships that might give rise to a conflict of interest and other relevant factors that the Governance and Compliance Committee considers appropriate in the context of the needs of the Board (e.g., whether a candidate is an "audit committee financial expert" under the federal securities laws).

A current copy of the Corporation's Governance and Compliance Committee Charter is available on the Corporation's website at http://nexpointcapital.com/investor-relations/.

Distribution and Alternatives Oversight Committee

The members of the Distribution and Alternatives Oversight Committee are Dr. Froehlich and Messrs. Honis, Powell and Ward. The Distribution and Alternatives Oversight Committee is responsible for reviewing arrangements with financial intermediaries who provide service to the Corporation, including Corporation payments to financial intermediaries and for overseeing any funds that, in the Board's determination, employ alternative investment strategies. Mr. Honis serves as Chairman of the Distribution and Alternatives Oversight Committee.

Compensation Committee

As none of the Corporation's executive officers are compensated by the Corporation, the Corporation does not have a compensation committee and neither the Board nor a Committee thereof produces and/or reviews a report on executive compensation practices. The Governance and Compliance Committee reviews and evaluates compensation payable to the Directors at least annually to ensure that such compensation continues to be appropriate in light of the responsibilities of the Directors. The Governance and Compliance Committee makes any recommendations regarding changes to the Directors' compensation to the Board, and the full Board approves the Directors' compensation.

Compensation of Directors and Executive Officers

The executive officers of the Corporation receive no direct remuneration from the Corporation. Each Director of the Corporation receives an annual retainer of $150,000 payable in quarterly installments and allocated among each portfolio in the Highland Funds Complex based upon relative net assets. The Directors are reimbursed for actual out-of-pocket expenses relating to attendance at meetings. The Directors do not receive any separate compensation in connection with service on Committees or for attending Board or Committee meetings; however, the Chairman of the Board and the Chairman of the Audit Committee each receive an additional payment of $10,000 payable in quarterly installments and allocated among each portfolio in the Highland Funds Complex based on relative net assets. The Directors do not receive equity awards or incentive-based compensation and do not have any pension or retirement plan.

The following table summarizes the compensation paid by the Corporation to its directors and the aggregate compensation paid by the Highland Funds Complex to the directors for services rendered in the fiscal year ended December 31, 2019.

Name of Director	Aggregate Compensation from the Corporation	Aggregate Compensation from the Highland Funds Complex
Independent Directors		
Timothy K. Hui(1)	$2,015.76	$ 75,000
Bryan A. Ward(2)	$4,300.28	$160,000
Dr. Bob Froehlich	$4,031.52	$150,000
Ethan Powell(2)	$4,300.28	$160,000
Interested Director		
John Honis(3)	$4,031.52	$150,000
Dustin Norris(4)	N/A	N/A

(1) Effective March 31, 2019, Mr. Hui resigned as an Independent Director of the Corporation. Mr. Hui's resignation was related to a reduction in the size of the Board to five members. There were no material conflicts, disagreements or other issues between Mr. Hui, the Board or the Corporation.

(2) Effective December 31, 2018, the Board approved an aggregate compensation increase of $10,000 payable to each of the Chairman of the Audit Committee and the Chairman of the Board.
(3) Effective January 28, 2020, Mr. Honis is treated as an Interested Director of the Corporation.
(4) Effective February 28, 2020, Mr. Norris resigned as an Interested Director of the Corporation. Mr. Norris' resignation was related to a reduction in the size of the Board to four members and the Governance Committee's decision to maintain the independence of at least 75% of the Board in connection with industry best practice. There were no material conflicts, disagreements or other issues between Mr. Norris, the Board or the Corporation.

Code of Conduct and Code of Ethics

The Corporation expects each of its officers and directors, as well as any person affiliated with its operations, to act in accordance with the highest standards of personal and professional integrity at all times and to comply with the Corporation's policies and procedures and all laws, rules and regulations of any applicable international, federal, provincial, state or local government. To this effect, the Corporation has adopted a Sarbanes-Oxley ("SOX") Code of Ethics, which is posted on the Corporation's website at http://nexpointcapital.com/investor-relations/. The SOX Code of Ethics applies to the Corporation's principal executive officer and principal financial officer.

As required by the 1940 Act, the Corporation and the Adviser have each adopted a Code of Ethics (the "Rule 17j-1 Code of Ethics") that establishes procedures that apply to the Corporation's directors, executive officers, officers, their respective staffs and the employees of the Adviser with respect to their personal investments and investment transactions. Each Rule 17j-1 Code of Ethics generally does not permit investments by the Corporation's directors, officers or any other covered person in securities that may be purchased or held by the Corporation. You may access the Corporation's Rule 17j-1 Code of Ethics on the Corporation's website at http://nexpointcapital.com/investor-relations/.

Certain Relationships and Related Party Transactions

The Corporation has entered into agreements with the Adviser and Administrator. Certain members of the Corporation's senior management have ownership and financial interests in the Adviser and the Administrator. Members of senior management also serve as officers of other investment managers affiliated with the Adviser that do and may in the future manage investment funds, accounts or other investment vehicles with investment objectives similar to those of the Corporation. In addition, the Corporation's executive officers and directors and the members of the Adviser serve or may serve as officers, directors or principals of entities that operate in the same, or related, lines of business as the Corporation does or of investment funds, accounts or other investment vehicles managed by the Corporation's affiliates. These investment funds, accounts or other investment vehicles may have investment objectives similar to the Corporation's investment objective.

As a result, the Corporation may not be given the opportunity to participate in certain investments made by investment funds, accounts or other investment vehicles managed by the Adviser or its affiliates. However, in order to fulfill its fiduciary duties to each of its clients, the Adviser intends to allocate investment opportunities in a manner that is fair and equitable over time and is consistent with the Adviser's allocation policy, investment objective and strategies so that the Corporation is not disadvantaged in relation to any other client. Where the Corporation is able to co-invest consistent with the requirements of the 1940 Act, if sufficient securities or loan amounts are available to satisfy the Corporation's and each such account's proposed demand, the opportunity will be allocated in accordance with the Adviser's pre-transaction determination. If there is an insufficient amount of an investment opportunity to satisfy the Corporation's demand and that of other accounts sponsored or managed by the Adviser or its affiliates, the allocation policy provides that allocations among the Corporation and such other accounts will generally be made pro rata based on the amount that each such party would have invested if sufficient securities or loan amounts were available. Where the Corporation is unable to co-invest consistent with the requirements of the 1940 Act, the Adviser's allocation policy further provides for investments to be allocated on a random or rotational basis to assure that all clients have fair and equitable access to such investment opportunities.

The Board, in consultation with the Corporation's Chief Executive Officer, Chief Compliance Officer and legal counsel, may review potential related party transactions and, during these reviews, it may also consider any conflicts of interest brought to its attention pursuant to the Corporation's Code of Conduct or the Corporation's or the Adviser's Rule 17j-1 Code of Ethics.

The Corporation has entered into an investment advisory agreement with the Adviser pursuant to which the Adviser has agreed to provide investment advisory services to the Corporation. In exchange for these services, the Corporation will pay the Adviser a fee for investment management services consisting of a base management fee and a performance-based incentive fee. For the fiscal year ended December 31, 2019, the Adviser earned a base management fee of $1,966,697. For the fiscal year ended December 31, 2019, the Adviser did not earn an incentive fee. Effective December 20, 2017, the Adviser ended its voluntary waiver of advisory fees. Fees waived before June 10, 2016 are not subject to recoupment. The Adviser may elect to recoup any fees voluntarily waived from and after June 10, 2016 within three years from the date that such fees were otherwise payable, provided that the recoupment of the Adviser will be limited to the amount of such voluntarily waived fees (excluding any fees the Adviser has indicated are not subject to recoupment) and will not cause the sum of the Corporation's advisory fees, administration fees, and "Other Expenses" (as defined in the Expense Limitation Agreement), nor will any recoupment exceed the annual rate of 3.40% of average gross assets.

The Corporation has also entered into an administration agreement pursuant to which the Adviser furnishes the Corporation with office facilities, equipment and clerical, bookkeeping, recordkeeping and other administrative services to enable the Corporation to operate. The Corporation has agreed to reimburse the Adviser for its allocable portion of overhead and other expenses incurred by the Adviser in performing its obligations under the administration agreement. To the extent that the Adviser outsources any of its functions, the Corporation will pay the fees associated with such functions on a direct basis without profit to the Adviser. In no event, however, will the Corporation reimburse the Adviser under the administration agreement in an amount that exceeds an annual rate of 0.4% of the Corporation's gross assets, including cash and cash equivalents and assets purchased with borrowed funds.

The Adviser has been historically affiliated through common control with HCMLP, an SEC-registered investment adviser. On October 16, 2019, HCMLP filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of Delaware. The case was subsequently transferred to the United States Bankruptcy Court for the Northern District of Texas. On January 9, 2020, the bankruptcy court approved a change of control of HCMLP, which involved the resignation of James Dondero as the sole director of, and the appointment of an independent board to, HCMLP's general partner. Mr. Dondero will, however, remain as an employee of HCMLP and as portfolio manager for all funds and vehicles for which he currently holds such titles. Nevertheless, given Mr. Dondero's historic role with HCMLP and his continued ownership interest and roles with respect to the Highland platform as a whole, as well as the shared services agreements between HCMLP and the Adviser, the Corporation will still treat HCMLP and its affiliates as the Corporation's affiliates for purposes hereof.

The Adviser is not a party to HCMLP's bankruptcy filing. The Adviser is a party to a shared services arrangement with HCMLP. Under this arrangement the Adviser may utilize employees from HCMLP in connection with various services such as human resources, accounting, tax, valuation, information technology services, office space, employees, compliance and legal. The Corporation does not expect HCMLP's bankruptcy filings to impact its provision of services to the Adviser at this time.

In the future, the Corporation may engage the Adviser or certain of its affiliates to provide services other than those discussed above. Any arrangements would be subject to approval by the Board prior to the Adviser or its affiliates being engaged to provide services to the Corporation.

Information About the Independent Registered Public Accounting Firm

At a meeting held on December 5, 2019, the Corporation's Audit Committee approved, and the Corporation's Board, including a majority of the Independent Directors, ratified the selection of, PricewaterhouseCoopers LLP ("PwC") as the Corporation's independent registered public accounting firm for the fiscal year ending December 31, 2020. After reviewing the Corporation's audited financial statements for the fiscal year ended December 31, 2019, the Corporation's Audit Committee recommended to the Corporation's Board that such statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. A copy of the Audit Committee's report appears below. The directors do not have knowledge of any direct or indirect financial interest of PwC in the Corporation.

Representative(s) of PwC will not attend the Annual Meeting, but PwC has been given the opportunity to make a statement if they desire to do so and will be available should any matter arise requiring their presence.

The following table presents fees for professional services rendered by PwC for the Corporation's fiscal years ended December 31, 2019 and 2018. One hundred percent (100%) of all services provided by PwC were pre-approved and no fees were subject to pre-approval by the Audit Committee pursuant to Rule 2-01(c)(7)(i)(c) of Regulation S-X. The audit services are approved by the Audit Committee pursuant to an audit engagement letter, and, in accordance with the Corporation's pre-approval policies and procedures, the Audit Committee of the Corporation must pre-approve all non-audit services provided by PwC, and all non-audit services provided by PwC to the Adviser, or any entity controlling, controlled by, or under common control with the Adviser that provides ongoing services to the Corporation that are related to the operations and financial reporting of the Corporation. In some circumstances, when certain services were not recognized at the time of the engagement to be non-audit services, the pre-approval requirement may be waived if the aggregate amount of the fees for such non-audit services constitutes less than five percent of the total amount of revenues paid to PwC by the Corporation during the fiscal year in which the non-audit services are provided. PwC provides permitted non-audit services to certain entities controlling, controlled by or under common control with the Adviser that provide ongoing services to the Corporation.

	Fiscal Year Ended December 31, 2019	Fiscal Year Ended December 31, 2018
Audit Fees paid by the Corporation	$145,300	$139,500
Audit-Related Fees paid by the Corporation	$ 90,000	$ 66,000
Tax Fees paid by the Corporation	$ 13,786	$ 11,430
All Other Fees paid by the Corporation	$ 0	$ 0
Total Fees	$249,086	$216,930

Audit Fees. Audit fees consist of fees billed for professional services rendered for the audit of the Corporation's year-end financial statements and reviews of the interim financial statements included in quarterly reports and services that are normally provided by PwC in connection with statutory and regulatory filings.

Audit-Related Fees. Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported under "Audit Fees." These services include attestation services that are not required by statute or regulation, consultations concerning financial accounting and reporting standards, and fees related to requests for documentation and information from regulatory and other government agencies.

Tax Fees. Tax fees consist of fees billed for professional services for tax compliance. These services include assistance regarding federal, state, and local tax compliance.

All Other Fees. All other fees include fees for products and services other than the services reported above.

Report of the Audit Committee[1]

The following is the report of the Audit Committee (the "Committee") of NexPoint Capital, Inc. (the "Corporation") with respect to the Corporation's audited financial statements for the fiscal year ended December 31, 2019.

The Committee oversees the Corporation's accounting and financial reporting processes and the audits of the Corporation's financial statements. Management is responsible for the preparation, presentation and integrity of the Corporation's financial statements, the Corporation's accounting and financial and reporting principles, and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Committee reviewed the audited financial statements in the Corporation's annual report on Form 10-K for the fiscal year ended December 31, 2019 with management and discussed the quality of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Committee has considered and discussed the above described December 31, 2019 audited financial statements with management and with PwC. The Committee has also discussed with PwC the matters required to be discussed by the statement on Auditing Standards No. 1301, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T, *The Auditor's Communication With Those Charged With Governance*. The Committee reviewed with PwC, who is responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgment as to the quality, not just the acceptability, of the Corporation's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. Finally, the Committee reviewed the written disclosures and the letters from PwC required by PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, as currently in effect, has considered whether the provision of other non-audit services by PwC to the Corporation are compatible with maintaining PwC's independence, and has discussed with PwC its independence of the Corporation.

The Committee discussed with PwC the overall scope and plans for the audit. The Committee met with PwC to discuss the results of their audit, their evaluations of the Corporation's internal controls and the overall quality of the Corporation's financial reporting.

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to in this proxy statement and in the Committee's Charter, the Committee recommended to the Board (and the Board has approved) that the Corporation's audited financial statements be included in the Corporation's annual report on Form 10-K for the fiscal year ended December 31, 2019 and filed with the SEC.

Stockholders are reminded, however, that the members of the Committee are not professionally engaged in the practice of auditing or accounting. Members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and PwC. Accordingly, the Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Committee's considerations and discussions, referred to above, do not assure that the audit of the Corporation's financial statements has been carried out in accordance with the standards of the PCAOB, that the financial

(1) The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of the Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

statements are presented in conformity with accounting principles generally accepted in the United States of America or that the Corporation's independent registered public accounting firm is, in fact, "independent."

Bryan A. Ward, Committee Chair
Dr. Bob Froehlich, Committee Member
Ethan Powell, Committee Member

OTHER MATTERS TO COME BEFORE THE ANNUAL MEETING

The Directors do not intend to present any other business at the Annual Meeting nor are they aware that any stockholder intends to do so. If, however, any other matters are properly brought before the Annual Meeting, the persons named in the proxy will vote thereon in accordance with their judgment.

ADDITIONAL INFORMATION

Stockholder Proposals

The Corporation expects that the 2021 Annual Meeting of Stockholders will be held in June 2021, but the exact date, time and location of such meeting have yet to be determined. Proposals to be included in the proxy statement for the 2021 Annual Meeting must be submitted by eligible stockholders who have complied with the relevant regulations of the SEC and received no later than December 23, 2020. In addition, the Corporation's bylaws contain an advance notice provision requiring that, if a stockholder's proposal, including nomination of a director, is brought before the next annual meeting of the Corporation's stockholders, such stockholder must provide timely notice thereof in writing addressed to Lauren Thedford, Secretary, c/o NexPoint Capital, Inc., 300 Crescent Court, Suite 700, Dallas, Texas 75201. Notices of intention to present proposals, including nomination of a director, at the 2021 Annual Meeting must be received by the Corporation between December 23, 2020 and 5:00 p.m. Central Time on January 21, 2021. The submission of a proposal does not guarantee its inclusion in the Corporation's proxy statement or presentation at the 2021 Annual Meeting of the Stockholders unless certain securities law requirements are met. The Corporation reserves the right to reject, rule out of order, or to take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements. Proxies solicited by the Corporation will confer discretionary voting authority with respect to these proposals if the proposals are not received by the Corporation, in good order and complying with all applicable legal requirements, by March 5, 2021, and may confer discretionary voting authority with respect to proposals received before such date, in each case subject to SEC rules governing the exercise of this authority.

Delivery Requirements

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement or Notice of Internet Availability of Proxy Materials ("Notice") addressed to those stockholders or by sending separate Notices for each household account in a single envelope. This process, which is commonly referred to as "householding," potentially provides extra convenience for stockholders and cost savings for companies. The Corporation and some brokers household proxy materials or Notices, delivering a single proxy statement or Notice to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once a stockholder has received notice from a broker or the Corporation that they will be householding materials to the stockholder's address, householding will continue until the stockholder is notified otherwise or until the stockholder revokes consent. If a stockholder does not want Corporation mailings consolidated and would prefer to receive separate mailings at any time in the future, the stockholder should call the Corporation at (844) 485-9167 or write the Corporation c/o NexPoint Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 75201 and the Corporation will furnish separate mailings, in accordance with instructions.

COPIES OF THE CORPORATION'S ANNUAL REPORT DATED DECEMBER 31, 2019 TO STOCKHOLDERS ARE AVAILABLE UPON REQUEST, WITHOUT CHARGE, BY WRITING TO AST FUND SOLUTIONS, LLC AT AST FUND SOLUTIONS, ATTN: NEXPOINT 14303 FULFILLMENT, 55 CHALLENGER ROAD, RIDGEFIELD PARK, NEW JERSEY 07660, BY CALLING (800) 967-5068, OR BY SENDING AN E-MAIL TO CORPORATESERVICES@ASTFUNDSOLUTIONS.COM, USING SUBJECT LINE: NEXPOINT 14303 FULFILLMENT.

Communications with Directors

Stockholders of the Corporation who wish to communicate with the Directors (or with an individual director) should send communications to the attention of Lauren Thedford, Secretary, c/o NexPoint Advisors, L.P., 300 Crescent Court, Suite 700, Dallas, Texas 75201, and all communications will be directed to the Director or Directors indicated in the communication or, if no Director or Directors are indicated, to all Directors.

It is important that proxies be returned promptly. You are urged to complete and sign the enclosed proxy card and return it promptly in the enclosed envelope, which needs no postage if mailed in the United States.

Dallas, Texas
April 22, 2020

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM_________ TO _________

COMMISSION FILE NUMBER: 814-01074

NexPoint Capital, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**38-3926499** **(I.R.S. Employer Identification No.)**
300 Crescent Court, Suite 700 **Dallas, Texas** **(Address of principal executive offices)**	**75201** **(Zip Code)**

Registrant's telephone number, including area code (972) 628-4100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There is no established market for the registrant's shares of common stock. The registrant closed the public offering of its shares of common stock in February 14, 2018. Since the registrant closed its public offering it has continued to issue shares pursuant to its distribution reinvestment plan. The most recent price at which the registrant has issued shares pursuant to the distribution reinvestment plan was $10.75 per share. As of December 31, 2019, the Registrant had 10,425,431 shares of common stock, $0.001 par value, outstanding.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2020 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Annual Report on Form 10-K

TABLE OF CONTENTS

PART I

Item 1. Business.

Organization

NexPoint Capital, Inc. (the “Company”), which may also be referred to as “we,” “us,” or “our,” incorporated on September 30, 2013 (inception date) as a Delaware limited liability company. The Company is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company is an investment company and accordingly follows the Investment Company accounting and reporting guidance under Topic 946 of the Financial Accounting Standards Board’s (“FASBs”) Accounting Standard Codification, as amended (“ASC”), Financial Services—Investment Companies. The Company’s investment objective is to generate current income and capital appreciation primarily through investments in middle-market healthcare companies, middle-market companies in non-healthcare sectors, syndicated floating rate debt of large public and nonpublic companies and collateralized loan obligations (“CLOs”). The Company has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”) and intends each year to qualify and be treated as such.

The Company issued 21,739.13 LLC units to NexPoint Advisors, L.P., (the “Adviser”) on May 27, 2014 (initial fund raising date), at $9.20 per share for $200,000 in total proceeds. On June 10, 2014, the Company converted to a Delaware corporation, NexPoint Capital, Inc. As part of the conversion to a Delaware corporation, the member of the Company converted 21,739.13 LLC units into 21,739.13 shares of the Company’s common stock, representing an equivalent price of $9.20 per share based on the fair value of the assets contributed by the Adviser in connection with the formation of the Company, as determined by the board of directors (the “Board”).

On September 2, 2014 (commencement of operations), in connection with a private placement of shares of our common stock to the Adviser and its affiliates, the Company issued an aggregate of approximately 1,086,954 shares of common stock at a price of $9.20 per share, which price represents the public offering price of $10.00 per share less selling commissions and dealer manager fees, for aggregate proceeds of approximately $10.0 million.

As a result of the private placement to the Adviser and its affiliates, the Company successfully satisfied the minimum offering requirement and officially commenced operations on September 2, 2014. In connection with the satisfaction of the minimum offering requirement and the commencement of our operations, the Investment Advisory Agreement became effective and the base investment advisory fee and any incentive fees, as applicable, payable to the Adviser under the Investment Advisory Agreement began to accrue. In aggregate as of December 31, 2019, the Adviser controls 2,513,370 total shares, including reinvestment of dividends, for a net amount of approximately $21.4 million.

The Company has retained the Adviser to manage certain aspects of its affairs on a day-to-day basis. NexPoint Securities, Inc. (formerly, Highland Capital Funds Distributor, Inc.) (the “Dealer Manager”), an entity under common ownership with the Adviser, served as the dealer manager of the continuous public offering prior to the termination of the offering. The Adviser and Dealer Manager are related parties and will receive fees, distributions and other compensation for services related to the continuous public offering and the investment and management of the Company’s assets. The Company’s continuous public offering ended on February 14, 2018.

Overview of Our Business

Our investment activities are managed by the Adviser and supervised by the Board, of which a majority of the members are independent of the Company.

Our investment objective is to generate high current income and long-term capital appreciation. We seek to achieve our objective by using the experience of the healthcare, credit and structured products teams of Highland Capital Management, L.P. and its affiliates (“Highland”) to source, evaluate and structure investments, identify attractive investment opportunities that are primarily debt investments that generate high income without creating undue risk for the portfolio, make equity investments where we believe there will be attractive risk-adjusted returns that compensate for the lack of current income, and make investments in debt and equity tranches of CLOs that deliver income and high relative value. We will focus on companies that are stable, have positive cash flow, and the ability to grow their business model.

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in debt and equity of middle market companies, with an emphasis on healthcare companies, syndicated floating rate debt of large public and nonpublic companies, and mezzanine and equity tranches of CLOs. Middle-market companies include companies with annual revenues between $50 million and $2.5 billion and syndicated floating rate debt refers to loans and other instruments originated by a bank to a corporation that are sold off, or syndicated, to investors in pieces. We consider a healthcare company to be a company that is engaged in the design, development, production, sale, management or distribution of products, services or facilities used for or in connection with the healthcare industry. Additionally, we consider the term healthcare company to include companies that are materially impacted by the healthcare industry (such as a contractor that derives significant revenue or profit from the construction of hospitals). We may invest without limit in companies that are not in the healthcare sector.

We leverage the expertise of Highland with regard to distressed investing and restructuring to make opportunistic investments in distressed companies. We utilize the Highland credit underwriting capability to identify the types of companies we believe will provide high current income and/or long-term capital appreciation. In addition to the investments in the healthcare industry, we may invest a portion of our capital in other opportunistic investments in which the Adviser has expertise and where we believe an opportunity exists to achieve above-average risk-adjusted yields and returns. These types of opportunities may include: (1) direct lending or origination investments, (2) investments in stressed or distressed situations, (3) structured product investments, (4) equity investments and (5) other investment opportunities not typically available in other BDCs. Opportunistic investments may range from broadly syndicated deals to direct lending deals in both private and public companies and may include foreign investments. We believe this is the best approach to achieving our dual mandate of attempting to generate a high yield while also attempting to produce capital appreciation.

We seek to invest primarily in securities deemed by the Adviser to be high income generating debt investments and income generating equity securities of privately held companies in the United States. The portfolio may be concentrated primarily in senior floating rate debt securities, although we may invest without limit in securities that rank lower than senior secured instruments and may invest without limit in investments with a fixed rate of interest. We may buy syndicated loans, various tranches of CLOs and other debt instruments in the secondary market as well as originate debt so we can tailor the investment parameters more precisely to our needs. We also may invest a portion of the portfolio in equity securities that are non-income producing, when doing so will help us achieve our objective of long-term capital appreciation. We expect the size of our positions may range from $1 million to $20 million, although investments may be larger as our asset base increases. We may selectively make investments in amounts larger than $20 million in some of our portfolio companies. Prior to raising sufficient capital, we may make smaller investments. We may also invest without limitation in warrants and may also use derivatives, primarily swaps (including equity, variance and volatility swaps), options and futures contracts on securities, interest rates, commodities and/or currencies, as substitutes for direct investments the Company can make. We may also use derivatives such as swaps, options (including options on futures), futures, and foreign currency transactions (e.g., foreign currency swaps, futures and forwards) to any extent deemed by the Adviser to be in the best interest of the Company, and to the extent permitted by the 1940 Act, to hedge various investments for risk management and speculative purposes. We may invest up to 15% of our net assets in entities that are excluded from registration under the 1940 Act by virtue of sections 3(c)(1) and 3(c)(7) of the 1940 Act (such as private equity funds or hedge funds). This limitation does not apply to any CLOs, certain of which may rely on section 3(c)(1) or 3(c)(7) of the 1940 Act.

We expect that many of the securities in which we invest will be rated below investment grade by independent rating agencies or would be rated below investment grade if they were rated. These securities, which may be referred to as “junk,” have predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal. In addition, we expect that many of our debt investments will include floating interest rates that reset on a periodic basis and typically will not require the borrowers to pay down the outstanding principal of such debt prior to maturity.

As of December 31, 2019, our investment portfolio, with a total fair value of $100.4 million, consisted of 54 positions in portfolio companies (calculated as a percentage of total net assets: 7.7% in first lien senior secured loans, 0.3% in second lien senior secured loans, 0.0% in escrow loans, 3.7% in unsecured loans, 40.6% in corporate bonds, 0.7% in asset-backed securities, 2.1% in closed-end mutual funds, 0.1% in warrants, 22.9% in common stock, 8.5% in preferred stocks, 9.3% in LLC Interests, 4.0% in mortgage-backed-securities, and 0.1% in rights). As of December 31, 2019, including investments underlying the TRS with BNP Paribas on a look-through basis, the debt investments in our portfolio carry a weighted average cost price of 97.24% on par or stated value, as applicable, and our estimated gross annual portfolio yield (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage costs, was 6.66% based on the amortized cost of our investments. The portfolio yield does not represent an actual investment return to stockholders and does not include income from CLO equity.

Recent Developments

On October 2, 2019, the board of directors (the “Board”) of NexPoint Capital, Inc. (the “Company”) declared a cash distribution of $0.06 per share of the Company’s common stock, par value $0.001 per share, payable on November 27, 2019, to the stockholders of record on November 25, 2019.

On October 30, 2019, the board of directors (the “Board”) of NexPoint Capital, Inc. (the “Company”) declared a cash distribution of $0.06 per share of the Company’s common stock, par value $0.001 per share, payable on January 2, 2020, to the stockholders of record on December 30, 2019.

Business & Investment Strategies

We focus our healthcare investments primarily on opportunities in companies we believe will benefit from the long-term changes in the healthcare industry as a result of the aging demographic of Baby Boomers, implementation of payment system reforms and advances in medical technologies. It is our belief that the changing demographic landscape in the United States, where approximately 10,000 people per day turn 65 years of age, coupled with advances in medical technologies that are enabling Americans to live longer, will produce strong growth in demand for healthcare. At the same time, changes in the U.S. healthcare reimbursement system, including the implementation of value-based payment models and potential repeal and replacement of the Affordable Care Act (the “ACA”), are creating dramatic upheaval in the healthcare sector, affecting each sub-sector differently, and will produce a positive impact for some sub-sectors and a negative impact for others. We also believe some companies are better positioned to take advantage of these changes while others will consolidate with stronger players. Based on our deep understanding of the healthcare sector, we believe these developments will create a changing landscape for years to come.

Our primary areas of focus within the healthcare sector will be in the pharmaceuticals, devices, life sciences and facilities sub-sectors as we believe these will be the most significant beneficiaries of technological advances and the implementation of alternative payment models. We will also make opportunistic investments, including short sales, in other sub-sectors we believe will fare poorly during this period of transition. Although we believe the potential repeal and replacement of the ACA will create upheaval for the healthcare industry, we also believe this upheaval will create substantial opportunities for investors with a knowledge of how it will impact the industry.

However, the Adviser and its affiliates have a core competency in other, non-healthcare sectors, specifically in oil and gas and real estate, but also have vast experience investing in all economic sectors. When identifying potential middle-market investments for the portfolio, we focus on the attributes listed below. It is our belief that investments exhibiting these characteristics are the best investments to allow the Company to meet its investment objective with an acceptable level of risk. The attributes discussed below are general guidelines and not all investment opportunities may exhibit each of these qualities. Each investment opportunity is analyzed on a case-by-case basis by our investment professionals and the portfolio manager:

- *Focus on growing economic sectors*—We seek companies that operate in or focus a substantial amount of their resources on economic sectors we believe will benefit from the current economic environment, including primarily the healthcare sector. Our view is that some sectors will be adversely impacted by rising rates while others will see tangible benefits. We think companies in our perceived "winning" sectors represent a better risk profile for our investments.
- *High level of inherent value*—We seek companies that have inherent value but need additional financing to implement their business plan fully and realize their full value. These businesses are typically smaller companies that cannot access traditional means of financing but have a solid business where additional investment of capital and economies of scale can unlock an outsized level of value. In some cases, we may take equity stakes in these businesses as well as debt positions to achieve our dual objectives of high current income and long-term capital appreciation.
- *Strong risk/reward characteristics*—We seek investments where we believe we are compensated for the risk assumed. An investment opportunity may become more appealing if the terms of the investment are improved such as the interest rate, or if structural protections are added to decrease our perceived risk.
- *Proven management team*—We seek companies that have proven management teams that understand the impact the upcoming regulatory and interest rate environment will have on their business. We are not seeking investments in start-up companies or companies with unproven technologies or business models or companies with relatively inexperienced management. Our view is that it will take experienced, seasoned veterans to understand and navigate the pitfalls resulting from the Federal Reserve's actions regarding interest rates and quantitative easing as well as a potentially increasing tax environment and changes to the economy from implementation of value-based payment models and potential repeal and replacement of the ACA. We believe these companies have a better chance of delivering value long-term to investors.
- *Strong cash flow and business models*—We seek stable and proven businesses with strong cash flow that are able to adequately service their debt load. With an increase in interest rates, we believe financing will become more expensive and only companies with steady cash flow and business models will weather the storm. Businesses that have strong infrastructure, business models and processes will be better able to service their debt.
- *Stable and proven businesses*—We seek companies that have a proven business model and strong strategic position within their industry. With the upheaval we believe will be evident in the next few years, we think growing a stable and proven business will be difficult enough. Trying to build out a new business model in a chaotic environment will be exponentially more difficult in our opinion and compensating for that level of risk will be difficult.

Potential Competitive Strengths

We believe the breadth, depth and experience of the Adviser's senior management team, together with the extensive resources of Highland's investment team, provides a significant advantage in sourcing, analyzing, monitoring and managing investment opportunities. The Adviser and its affiliates have a large back office operations team that has years of experience in settling and tracking bank loan investments. The Adviser and its affiliates also have a dedicated team that operates registered funds, works with third party service providers, interacts with portfolio managers to provide timely information and portfolio statistics, and has experience interacting with legal counsel, auditors, other third party service providers and the Board.

We believe the long-term investment horizon we are afforded through the business development company structure will allow us flexibility to find the investments that will deliver the highest value to our investors. Unlike a typical private equity or venture fund, we are not required to return capital once a liquidity event is realized in an underlying investment. With the uncertainties inherent in the Federal Reserve's actions regarding interest rates and quantitative easing and the potential repeal and replacement of the ACA, we believe it is difficult to make the best investment decisions if required to work under a finite time line. Because of the permanent capital vehicle structure, we believe we can offer an institutional-type strategy focused on the healthcare sector with institutional management capabilities to investors.

The Adviser and its affiliates have significant experience investing in the healthcare sector, across all sectors, all asset classes and in structured products. The Adviser and its affiliates' investments have spanned the range from large capitalization companies that are publicly traded to small, privately held companies and to distressed companies that have been successfully turned around. We believe the Adviser and its affiliates' expertise in underwriting credit across all sectors will give us an advantage in identifying and investing in the best middle-market companies in direct lending situations, syndicated loans and CLOs.

The Adviser and its affiliates' credit platform has been through many credit cycles, and the Adviser and its affiliates remain a recognized leader in the credit space, winning numerous industry awards and recognition from peers. The Adviser and its affiliates have a proprietary credit underwriting process and maintain coverage of many public and non-public companies across all sectors. Investments are reviewed by the analyst team and approved by a credit committee that meets daily. The process includes on-going monitoring of all investments. Highland and its affiliates have a team of 7 investment professionals dedicated to the healthcare sector.

Investment Criteria/Guidelines

We believe there are currently, and will continue to be, significant investment opportunities in middle-market companies and larger private companies, particularly in the healthcare sector and particularly in income producing securities, in the United States. Additionally, we believe there continues to be attractive investment opportunities in the syndicated floating rate debt and CLO markets.

Target businesses will typically exhibit some or all of the following characteristics:

- exposure to healthcare sub-sectors we believe will benefit from implementation of alternative payment models;
- exposure to non-healthcare sub-sectors we believe will benefit from a rising interest rate environment and the Federal Reserve's policies in response to rising rates;
- a U.S. base of operations;
- an experienced management team executing a long-term growth strategy;
- discernable downside protection through recurring revenue or strong tangible asset coverage;
- defensible niche product/service;

- products and services with distinctive competitive advantages or other barriers to entry;
- stable and predictable free cash flows;
- existing indebtedness that may be refinanced on attractive terms;
- low technology and market risk;
- strong customer relationships; and
- low to moderate capital expenditure requirements.

We expect that deal flow and idea generation for investments will primarily originate from the Adviser and its affiliates' existing and extensive network of informal and unconventional deal sources in the middle-market business community. Once potential investments have been identified, we, through our investment adviser, will conduct a rigorous due diligence process that draws from our investment adviser's investment experience, industry expertise and network of contacts. Our investment adviser will then work with outside counsel to structure loans with strong creditor protections and contractual controls over borrower operations. Our investment adviser will work to obtain extensive operating and financial covenants, detailed reporting requirements, governance rights and board seats to protect our investment while allowing the borrower the necessary flexibility to successfully execute its business plan. We will actively monitor and manage our portfolio with regard to individual company performance as well as general market conditions. Investment decisions on new originations generally will include an analysis of the impact of the new loan on our broader portfolio, including a "top-down" assessment of portfolio structure and risk exposure.

Investments in Middle-Market Healthcare Companies

Our portfolio of middle-market investments will have a focus on companies in the healthcare sector as we believe there is a large and growing investment opportunity in this sector. Changes in the U.S. healthcare reimbursement system, including the implementation of value-based payment models and potential repeal and replacement of the Affordable Care Act, are creating a dramatic upheaval in the healthcare sector, affecting each sub-sector differently, and will produce a positive impact for some sub-sectors and a negative impact for others.

We believe some companies are better positioned to take advantage of these changes while others will consolidate with stronger players. Based on our deep understanding of the healthcare sector, we believe these developments will create a changing landscape for years to come.

Healthcare is a defensive and stable sector that has experienced out-sized growth and consistency during the past four decades. There are three primary growth drivers of healthcare: (1) demographics, (2) price inflation and (3) per-person utilization of care. The historical demographic growth rate has been 1.00%%. Price inflation in healthcare has added an additional 5.64%, almost double the baseline U.S. GDP growth rate since 1970 of 2.79%. Per-person utilization is a function of access to health insurance as well as aging demographics. In the past three decades, the population above age 90 has tripled and is expected to quadruple over the next three decades. Due to these drivers, healthcare has moved from 3% of GDP in 1980 to approximately 18% today and is expected to continue to grow.

Investments in Middle-Market Non-Healthcare Companies

Since 2015, the economy has been close to full employment, it doesn't appear to be overheating as many feared earlier this year. The Federal Reserve instituted a zero-interest rate policy and has been successful in keeping rates low across the yield curve. This also means the Federal Reserve can continue normalizing interest rates, and eventually stop raising them altogether. Although the underlying strength of the economy is not in doubt, equity investors seem nervous about what the coming year will bring.

Despite these headwinds, we believe the healthcare sector continues to flourish. We believe that as interest rates rise, financing for middle-market companies in all sectors will become more difficult. The capital requirements of business in many sectors will be enormous in the coming years. These companies will, in our opinion, turn more and more to specialty finance vehicles, such as us, to procure the capital they need for growth. We view the financing of middle-market companies to be an underserved area, presenting enormous opportunities.

As a large percentage of our investments are expected to be in the form of floating rate debt, we will be able to create a portfolio of middle-market companies that we believe will have an increasing income stream over time, particularly as interest rates increase above their historic lows. Also, as floating rate debt reduces the interest rate risk inherent in longer duration credit instruments, we can build a portfolio that has mostly credit risk, which we believe the Adviser and its affiliates have significant experience at assessing.

Investments in Large Syndicated Floating Rate Debt

A large portion of the investments we make in middle-market companies are expected to be in the form of floating rate instruments. Also, a portion of the portfolio will be invested in large syndicated floating rate debt of non-public and public companies. Syndicated floating rate debts are loans originated by a bank to a corporation that are sold off, or syndicated, to investors in pieces. Floating rate loans have a base rate that adjusts periodically plus a spread over the base rate. The base rate is typically the three-month London Interbank Offered Rate, or LIBOR, and resets every 90 days. On July 27, 2017, the head of the United Kingdom's Financial Conduct Authority announced a desire to phase out the use of LIBOR by the end of 2021. Due to this announcement, there remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on the Company or the financial instruments in which the Company invests cannot yet be determined. With rates resetting in an environment where the prevailing base rate is increasing, the income stream from a floating rate instrument will increase. Syndicated floating rate debt offers certain benefits:

High current income. Historically, floating rate loans have lower yields than high yield bonds, due in part to better credit and interest-rate risk profile, but still offer an attractive risk-reward income dynamic. However, today floating rate yields are comparable to high-yield bonds.

Adjustable coupon payment. Floating rate loans are structured so that interest rates reset on a predetermined schedule. When interest rates rise, coupon payments increase, and vice versa, with little lag time (typically 90 days or less). This feature greatly reduces the interest rate, or duration, risk inherent in high yield bonds, which typically never reset. Therefore, as rates rise, the value of a high yield bond should decline while the value of a floating rate loan should remain stable.

Priority in event of default. In the event of a default, floating rate loans typically have a higher position in a company's capital structure, have first claim to assets and greater covenant protection than high yield bonds. As a result, floating rate loans have generally recovered a greater percentage of value than high yield bonds. Also, the default rate for floating rate loans has historically been lower than defaults of high yield bonds.

Reduced Volatility. The return of floating rate loans has historically had a low correlation to most asset classes and a negative correlation with some asset classes. Therefore, adding floating rate loans to a portfolio should reduce volatility and risk.

In our view, an allocation to large syndicated floating rate debt provides stable value with high current income and offers the portfolio liquidity.

Investments in CLOs

We view CLOs as an excellent way to gain exposure to syndicated floating rate debt at a less expensive price and higher yield with greater upside potential for capital appreciation while minimizing interest rate risk. CLO vehicles are entities formed to manage a portfolio of syndicated bank loans. The CLO vehicle raises capital by issuing equity and multiple tranches of debt and uses the proceeds to buy the underlying portfolio of syndicated bank loans. The syndicated bank loans the CLO is allowed to purchase is limited by criteria established within the documents governing the CLO. The CLO also has certain priority of payment provisions or "waterfall" provisions that benefit the higher rated debt tranches. Documents governing CLOs typically provide for adjustments to the "waterfall" in the event certain tests are triggered, diverting cash to the higher rated debt tranches.

Investment Process Overview

Sourcing. We believe that identifying middle-market companies that represent attractive debt investment opportunities requires a different sourcing network than is required for investments in larger companies. Whereas larger companies typically hire an investment bank to help develop marketing materials and run a financing process involving a large number of potential lenders to ensure pricing is determined by the market, middle-market companies typically do not have the resources to hire large financial advisers or investment banks. While these lending opportunities are far less competitive, they are more difficult to source.

We expect that deal flow and idea generation for investments will primarily originate from the Adviser and its affiliates' existing and extensive network of informal and unconventional deal sources in the middle-market business community. Built over 20 years, this deal sourcing network includes accountants, attorneys, bankers, brokers, insurance agents, consultants, private equity firms and financial advisers who have access to small-cap companies. Additionally, we have forged contacts specific to the healthcare and energy industry that includes all sub-sectors, as well as other sectors.

The contacts in the Adviser's network generally operate outside of the established investment banking infrastructure and typically play a limited introductory role to companies and their management teams. In addition, the Adviser promotes a culture in which sourcing is considered a focus for all of its investment professionals.

Due Diligence. We believe it is critical to conduct extensive due diligence on investment targets, and in evaluating new investments. We, through our investment adviser, will conduct a rigorous due diligence process that draws from our investment adviser's investment experience, industry expertise and network of contacts. Our investment adviser intends to conduct extensive due diligence and perform thorough credit analysis on each potential portfolio company investment. In conducting due diligence, we expect that our investment adviser will use publicly available information and private information provided by borrowers, their financial sponsors and their advisers. Our investment adviser expects to use its relationships with former and current management teams, consultants, competitors, bankers, private equity firms and investment bankers to gain further insights into businesses and industries, generally, and our potential portfolio companies, specifically.

Our due diligence will typically include the following elements (although not all elements will necessarily form part of each due diligence review):

- thorough review of historical and pro forma financial information, including an analysis of collateral coverage, cash flow and valuation multiples and quality of earnings;
- review of capital structure, including leverage and equity amounts, participants and intercreditor arrangements;

- analysis of the business of the prospective portfolio company, including drivers of growth, customer and supplier concentrations, fixed versus variable costs and sensitivity analyses (with a focus on downside scenario analysis);
- analysis of the industry in which the prospective portfolio company operates, including its competitive position, industry size and growth rates, competitive outlook, barriers to entry, and technological, regulatory and similar considerations;
- interviews with management, employees, customers and vendors and analysis of management's track record, quality, breadth and depth;
- anticipated form of any potential restructuring, potential liquidation value and potential for collateral impairment;
- preparation or review of material contracts and loan documents;
- anticipated timing of covenant breaches and default cure provisions;
- research relating to the company's business, industry, markets, products and services;
- background checks on key managers when appropriate; and
- third-party research relating to the company's management, industry, markets, products and services and competitors.

Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent accountants as well as other outside advisers, as appropriate.

Structuring Originations. Our investment adviser's team has substantial expertise in structuring and documenting loans originated to middle-market companies. Our investment adviser works with outside counsel to structure loans with strong creditor protections and contractual controls over borrower operations. Our investment adviser works to obtain extensive operating and financial covenants, detailed reporting requirements, governance rights and board seats to protect our investment while allowing the borrower the necessary flexibility to successfully execute its business plan. We believe that our investment adviser's extensive experience allows it to anticipate issues and maximize our potential recovery upon the occurrence of adverse events, and our investment adviser is able to seek to structure our loan and credit documentation to protect us from risks identified in the due diligence process. Our investment adviser also evaluates the broader capital structure of the borrower to ensure that we have strong rights as compared to other participants in the borrower's capital structure.

Portfolio Management and Monitoring. We actively monitor and manage our portfolio with regard to individual company performance as well as general market conditions. Investment decisions on new originations generally include an analysis of the impact of the new loan on our broader portfolio, including a "top-down" assessment of portfolio structure and risk exposure. This assessment includes a review of portfolio concentration by issuer, industry, geography and type of credit as well as an evaluation of our portfolio's exposure to macroeconomic factors and cyclical trends.

We believe that consistent, active monitoring of individual companies and the broader market is integral to portfolio management and a critical component of our investment process. Our investment adviser uses several methods of evaluating and monitoring the performance and fair value of our investments, including the following:

- frequent discussions with management and sponsors, including board observation rights where possible;
- comparing/analyzing financial performance to the portfolio company's business plan, as well as our internal projections developed at underwriting;

- tracking portfolio company compliance with covenants, as well as other metrics identified at the initial investment stage, such as acquisitions, divestitures, product development and specified management hires; and
- periodic review of each asset in the portfolio and more rigorous monitoring of "watch list" positions.

Competition

Our primary competitors to provide financing to middle-market companies include public and private funds, including other business development companies, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, private equity funds. As the economic recovery continues, we expect that we may face enhanced competition in the future. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us as a business development company and that the Code will impose on us as a RIC. For additional information concerning the competitive risks we face, see "Risk Factors—Risks Relating to our Business and Structure—The highly competitive market for investment opportunities in which we operate may limit our investment opportunities."

Administration

We do not have any direct employees, and our day-to-day investment operations are managed by our investment adviser. Our officers will be employees of the Adviser. Some of our executive officers described under "Management of the Company" are also officers of the Adviser. See "The Adviser and the Administrator—Administration Agreement."

Regulation

We have filed an election to be treated as a business development company under the 1940 Act and to be treated as a RIC under Subchapter M of the Code and intend each year to qualify and be eligible to be treated as such. As a RIC, we generally do not have to pay corporate-level U.S. federal income taxes on any net ordinary income or capital gains that we timely distribute to our stockholders as dividends. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors of a business development company be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933, as amended, or the Securities Act. Our intention is to not write (sell) or buy put or call options to manage risks associated with the publicly traded securities of our portfolio companies, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations to the extent that we are permitted to engage in such hedging transactions without registering with the U.S. Commodity Futures Trading Commission ("CFTC") as a commodity pool operator. However, we may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of acquired securities or their affiliates to repurchase them under certain circumstances. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. None of these policies is fundamental and each may be changed without stockholder approval.

To the extent that we utilize a REIT subsidiary that directly incurs leverage in the form of debt (as opposed to non-recourse borrowings made through special purpose vehicles), the amount of such recourse leverage used by us will be treated as senior securities for purposes of complying with the 1940 Act's limitations on leverage. Accordingly, it is our present intention to utilize leverage through debt or borrowings in an amount not to exceed 50% of our total assets (i.e., to maintain 200% asset coverage), less the amount of any nonrecourse direct debt or borrowing by a REIT subsidiary, if any. Because a REIT subsidiary's preferred shares would represent a small amount of leverage by the REIT subsidiary, such leverage will also be complying with the 1940 Act's limitations on our ability to issue preferred shares.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

1. Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the U.S. Securities and Exchange Commission ("SEC"). An eligible portfolio company is defined in the 1940 Act as any issuer which:
   a. is organized under the laws of, and has its principal place of business in, the United States;
   b. is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
   c. satisfies any of the following:
      i. does not have any class of securities listed on a national securities exchange or has any class of securities listed on a national securities exchange subject to a $250 million market capitalization maximum; or
      ii. is controlled by a business development company or a group of companies including a business development company, the business development company actually exercises controlling influence over the management or policies of the eligible portfolio company, and, as a result, the business development company has an affiliated person who is a director of the eligible portfolio company.
2. Securities of any eligible portfolio company which we control.
3. Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

4. Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

5. Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

6. Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

The regulations defining and interpreting qualifying assets may change over time. We expect to adjust our investment focus as needed to comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area.

Managerial Assistance to Portfolio Companies

In addition, a business development company must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above. However, in order to count portfolio securities as qualifying assets for the purpose of the 70% test, the business development company must either control the issuer of the securities or must offer to make available to the issuer of the securities (other than small and solvent companies described above) significant managerial assistance. When a business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means any arrangement whereby the business development company, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. As our administrator, the Adviser has agreed to provide such managerial assistance on our behalf to portfolio companies that request this assistance. We may receive fees for these services and will reimburse the Adviser for the actual costs incurred in providing managerial assistance on our behalf, subject to the review and approval by the Board, including our independent directors.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, so long as such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. Our investment adviser intends to monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase.

We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see “Risk Factors—Risks Relating to our Business and Structure—Regulations governing our operation as a business development company will affect our ability to raise, and the way in which we raise, additional debt or equity capital.”

Code of Ethics

We and the Adviser have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Each code of ethics is attached as an exhibit to the registration statement of which this prospectus is a part, and is available on the EDGAR Database on the SEC's Internet site at *http://www.sec.gov*. You may also obtain copies of each code of ethics, after paying a duplicating fee, by electronic request at the following Email address: publicinfo@sec.gov.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to our investment adviser. The Proxy Voting Policies and Procedures of our investment adviser are described below. The guidelines are reviewed periodically by our investment adviser and our non-interested directors, and, accordingly, are subject to change. For purposes of these Proxy Voting Policies and Procedures described below, "we" "our" and "us" refers to our investment adviser.

Introduction

As an investment adviser registered under the Investment Advisers Act of 1940, as amended ("Advisers Act"), we have a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment Advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under the Advisers Act.

Proxy Policies

We vote proxies relating to our clients' portfolio securities in what we perceive to be the best interest of our clients' stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by our clients. In most cases, we will vote in favor of proposals that we believe are likely to increase the value of our clients' portfolio securities. Although we will generally vote against proposals that may have a negative impact on our clients' portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by the senior officers who are responsible for monitoring each of clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that: (1) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties. Where conflicts of interest may be present, we will disclose such conflicts, including to us, and may request guidance on how to vote such proxies.

Proxy Voting Records

You may obtain information without charge about how we voted proxies by making a written request for proxy voting information to: Investor Relations, 300 Crescent Court, Suite 700, Dallas, Texas 75201, or by calling us collect at (844) 485-9167.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders. The only information we collect from you is your name, address, number of shares you hold and your social security number. This information is used only so that we can send you annual reports and other information about us, and send you proxy statements or other information required by law. We will maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone except as described below.

- *Authorized Employees of the Adviser and Its Affiliates*. It is our policy that only authorized employees of the Adviser and its affiliates with a legitimate business need for the information will have access to it.
- *Service Providers*. We may disclose your personal information to companies that provide services on our behalf, such as record keeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.
- *Courts and Government Officials*. If required by law, we may disclose your personal information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

Other

We are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into certain “joint” transactions (which could include investments in the same portfolio company) with such affiliates, absent the prior approval of our independent directors and/or appropriate exemptive relief. Our investment adviser and its affiliates, including persons that control, are controlled by, or are under common control with, us or our investment adviser, are also considered to be our affiliates under the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into “joint” transactions with such affiliates without the prior approval of our independent directors and, in some cases, exemptive relief from the SEC.

We may, however, invest alongside the Adviser’s, and its affiliates’ other clients in certain circumstances where doing so is consistent with applicable law and SEC staff interpretations and specific exemptive relief from the SEC. For example, we may invest alongside such accounts consistent with guidance promulgated by the staff of the SEC permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that our investment adviser, acting on our behalf and on behalf of other clients, negotiates no term other than price. We, Highland Capital Management Fund Advisors L.P. and the Adviser have obtained an exemptive order dated April 19, 2016 from the SEC to permit co-investments among the Company and other accounts managed by the Adviser or its affiliates, subject to certain conditions. We may also invest alongside our investment adviser’s other clients as otherwise permissible under regulatory guidance, applicable regulations and the allocation policy of our investment adviser and its affiliates (including clients that may pay higher fees to NexPoint Advisors or its affiliates or in which our portfolio managers have personal interest in the receipt of such fess). If sufficient securities or loan amounts are available to satisfy our and each such account’s proposed demand, we expect that the opportunity will be allocated in accordance with our investment adviser's pre-transaction determination. Where there is an insufficient amount of an investment opportunity to satisfy us and other accounts sponsored or managed by our investment adviser or its affiliates, the allocation policy further provides that allocations among us and such other accounts will generally be made pro rata, based on the amount that each such party would have invested if sufficient securities or loan amounts were available. The allocation policies and procedures are intended to assist NexPoint Advisors and its affiliates in ensuring that investment opportunities will be allocated to us fairly and equitably.

We will be subject to periodic examination by the SEC for compliance with the 1940 Act. Under the 1940 Act, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and the Adviser will each be required to adopt and implement written policies and procedures reasonably designed to prevent violation of the U.S. federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and designate a chief compliance officer to be responsible for administering the policies and procedures.

We are not generally able to issue and sell our common stock at a price below current net asset value per share. We may, however, issue and sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if the Board determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale within the preceding 12 months. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of the Board, closely approximates the fair value of such securities.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("the Sarbanes-Oxley Act") imposes a wide variety of regulatory requirements on publicly held companies and their insiders. Many of these requirements will affect us. For example:

- pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended ("Exchange Act"), our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K under the Securities Act, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 of the Exchange Act, our management must prepare an annual report regarding its assessment of our internal control over financial reporting.
- pursuant to Item 308 of Regulation S-K under the Securities Act and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated under it. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance with that act.

Brokerage Allocation and Other Practices

Since we intend to generally acquire and dispose of our investments in privately negotiated transactions, we expect to infrequently use brokers in the normal course of our business. Subject to policies established by the Board, the Adviser will be primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The Adviser does not execute transactions through any particular broker or dealer, but seeks to obtain the best net results for us, considering such factors as (i) price (including the applicable brokerage commission or dealer spread), (ii) size of the order, (iii) difficulty of execution, (iv) operational facilities of the firm, (v) promptness of execution and past history in executing orders, (vi) clearance and settlement capabilities, (vii) research capabilities, (viii) access to markets and distribution network, (ix) the firm’s risk and skill in positioning blocks of securities and (x) trade error rate and ability or willingness to correct errors. While the Adviser will generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the Adviser may select a broker based partly upon brokerage, research or other services provided to it and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the Adviser determines in good faith that such commission is reasonable in relation to the services provided.

Tax Matters

The following is a general summary of some of the important U.S. federal income tax considerations affecting us and our common shareholders that are “United States persons” within the meaning of the Code, and does not address any state, local, foreign or other tax consequences. It reflects provisions of the Code, existing Treasury regulations, and other applicable authority, as of the date of this prospectus. These authorities may be changed, possibly with retroactive effect, or subject to new legislative, administrative, or judicial interpretations. This summary does not purport to be a complete description of the U.S. federal income tax considerations applicable to our common shareholders. For example, except as otherwise specifically noted herein, we have not described certain tax considerations that may be relevant to certain types of holders subject to special treatment under the U.S. federal income tax laws, including shareholders subject to the U.S. federal alternative minimum tax, insurance companies, tax-exempt organizations, pension plans and trusts, RICs, dealers in securities, shareholders holding our shares through tax-advantaged accounts (such as 401(k) plans or individual retirement accounts), financial institutions, shareholders holding our shares as part of a hedge, straddle, or conversion transaction, entities that are not organized under the laws of the United States or a political subdivision thereof, and persons who are neither citizens nor residents of the United States. This summary assumes that investors hold our common shares as capital assets (within the meaning of the Code). Please consult your tax advisor about U.S. federal, state, local, foreign or other tax laws applicable to you, as the tax consequences to an investor in our common shares will depend on the facts of his, her or its particular situation.

Taxation of the Company

We have elected to be treated as a RIC under Subchapter M of the Code and intend each year to qualify and to be eligible to be treated as such.

In order to qualify for the special tax treatment accorded RICs and their shareholders, we must, among other things:

(i) derive at least 90% of our gross income for each taxable year from: (a) dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to our business of investing in such stock, securities or foreign currencies; and (b) net income derived from interests in “qualified publicly traded partnerships”;

(ii) diversify our holdings so that, at the end of each quarter of our taxable year, (a) at least 50% of the market value of our total assets consists of cash and cash items, U.S. government securities, the securities of other RICs and other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of our total assets and not more than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of our total assets is invested, including through corporations in which we own a 20% or more voting stock interest, (x) in the securities (other than U.S. government securities and the securities of other RICs) of any one issuer or of two or more issuers that we control, as determined under applicable Code rules, and that are determined to be engaged in the same business or similar or related trades or businesses, or (y) in the securities of one or more "qualified publicly traded partnerships"; and

(iii) distribute to our shareholders with respect to each taxable year at least the sum of 90% of our "investment company taxable income" (as that term is defined in the Code, without regard to the deduction for dividends paid—generally taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and 90% of any net tax-exempt interest income (the excess of our gross tax-exempt interest over certain disallowed deductions), for such year, in a manner qualifying for the dividends paid deduction.

If we qualify as a RIC (i.e., satisfy the source of income and diversification requirements described in (i) and (ii) above) and satisfy the annual distribution requirement described in (iii) above, we will not be subject to U.S. federal income tax on income distributed in a timely manner to our shareholders in the form of dividends (including Capital Gain Dividends, as defined below).

If, for any taxable year, we were to fail to meet the income, diversification or distribution tests described above, we could in some cases cure such failure, including by paying a corporate-level tax, paying interest, making additional distributions or disposing of certain assets. If we were ineligible to or otherwise did not cure any such failure for any year, or if we were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, we would be subject to tax on our taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net long-term capital gains, would be taxable to shareholders as ordinary income. Some portions of such distributions might be eligible for the dividends-received deduction in the case of corporate shareholders and might be eligible to be treated as "qualified dividend income" and thus taxable at the lower long-term capital gain rate in the case of shareholders taxed at individual rates, provided, in both cases, the shareholder met certain holding period and other requirements in respect of our shares (as described below). In addition, we might be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC.

We intend to distribute at least annually to our shareholders all or substantially all of our investment company taxable income (computed without regard to the dividends-paid deduction) and, in general, our net capital gain (that is, the excess of net long-term capital gain over net short-term capital loss, in each case determined with reference to any loss carryforwards). Any investment company taxable income we retain will be subject to a corporate-level tax at regular corporate rates. We may also retain for investment our net capital gain. If we retain any net capital gain, it will be subject to corporate-level tax at regular corporate rates on the amount retained, but we may designate the retained amount as undistributed capital gains in a timely notice to our shareholders who would then, in turn, be (i) required to include in income for U.S. federal income tax purposes, as long-term capital gain, their shares of such undistributed amount, and (ii) entitled to credit their proportionate shares of the tax we paid on such undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds on a properly-filed U.S. tax return to the extent the credit exceeds such liabilities. If we make this designation, for U.S. federal income tax purposes, the tax basis of shares owned by one of our shareholders would be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder's gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence. We are not required to, and there can be no assurance we will, make this designation if we retain all or a portion of our net capital gain in a taxable year.

In determining its net capital gain, including in connection with determining the amount available to support a Capital Gain Dividend (as defined below), its taxable income, and its earnings and profits, a RIC generally may elect to treat part or all of any post-October capital loss (defined as any net capital loss attributable to the portion of the taxable year after October 31 or, if there is no such loss, the net long-term capital loss or net short-term capital loss attributable to such portion of the taxable year) or late-year ordinary loss (generally, the sum of its net ordinary loss from the sale, exchange or other taxable disposition of property, attributable to the portion of the taxable year after October 31), as if incurred in the succeeding taxable year.

If in a calendar year we fail to distribute at least an amount equal to the sum of 98% of our ordinary income for such year and 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of such year (unless an election is made to use our taxable year), plus any such undistributed amounts from the prior year, we will be subject to a nondeductible 4% excise tax on the undistributed amounts. For purposes of the required excise tax distribution, a RIC's ordinary gains and losses from the sale, exchange or other taxable disposition of property that would otherwise be taken into account after October 31 of a calendar year generally (unless an election is made to use our taxable year) are treated as arising on January 1 of the following calendar year. Also, for these purposes, we will be treated as having distributed any amount on which we have been subject to corporate income tax in the taxable year ending with the calendar year. We reserve the right to pay the excise tax when circumstances warrant.

We are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our qualification as a RIC, including the diversification test described above. If we dispose of assets in order to meet the distribution test described above or to avoid the excise tax on undistributed amounts, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

We are not permitted to deduct capital losses in excess of capital gains ("net capital losses") against our net investment income. Instead, potentially subject to certain limitations, we may carry net capital losses from any taxable year forward to subsequent taxable years to offset capital gains, if any, realized during such subsequent taxable year. Capital loss carryforwards are reduced to the extent they offset current-year net realized capital gains, whether we retain or distribute such gains. Net capital losses will be carried forward to one or more subsequent taxable years without expiration to offset capital gains realized during such subsequent taxable years; any such carryforward losses will retain their character as short-term or long-term.

Our ability to use net capital losses may be limited following the occurrence of certain (i) acquisitive reorganizations and (ii) shifts in the ownership of our shares by a shareholder owning or treated as owning 5% or more of our shares (each, an "ownership change"). The Code may similarly limit our ability to use any of our other capital losses, or ordinary losses, that have accrued but have not been recognized (i.e., "built-in" losses) at the time of an ownership change to the extent they are realized within the five-year period following the ownership change.

Distributions to Shareholders

Distributions not in excess of our current and accumulated earnings and profits are taxable to shareholders even if we paid them from income or gains we earned before a shareholder invested in our shares (and such income and gains thus were included in the price the shareholder paid for its shares). Such distributions are taxable whether shareholders receive them in cash or reinvest them in additional shares through our distribution reinvestment plan. A shareholder who reinvests such distributions in shares through our distribution reinvestment plan will be treated as having received a dividend equal to the fair market value of the new shares issued to the shareholder.

Dividends and other distributions we pay are generally treated under the Code as received by shareholders at the time the dividend or distribution is made. However, a dividend paid to shareholders in January of a year generally is deemed to have been paid by us on December 31 of the preceding year, if the dividend was declared and payable to shareholders of record on a date in October, November or December of that preceding year.

The price of common shares purchased at any time may reflect the amount of a forthcoming distribution. If you purchase common shares just prior to a distribution, you will receive a distribution that will be taxable to you even though it economically represents in part a return of your invested capital.

Your broker or other intermediary will send you information after the end of each year setting forth the amount and tax status of any dividends or other distributions we pay to you.

For U.S. federal income tax purposes, distributions of investment income are generally taxable as ordinary income. Taxes on distributions of capital gains are determined by how long we have owned or are treated as having owned the investments that generated them, rather than how long a shareholder has owned his or her shares. In general, we will recognize long-term capital gain or loss on investments we have owned (or are deemed to have owned) for more than one year, and short-term capital gain or loss on investments we have owned (or are deemed to have owned) for one year or less. Distributions of net capital gain that we properly report as capital gain dividends (“Capital Gain Dividends”) will generally be taxable to shareholders as long-term capital gains. Distributions from capital gains are generally made after applying any available capital loss carryforwards. Distributions of net short-term capital gain (that is, the excess of net short-term capital gain over net long-term capital loss) will generally be taxable to shareholders receiving such distributions as ordinary income. Distributions of investment income we report as derived from “qualified dividend income” will be taxed in the hands of individuals at the rates applicable to long-term capital gain, provided holding period and other requirements are met at both the shareholder and corporate level. We do not expect a significant portion of our distributions to be derived from qualified dividend income.

In order for some portion of the dividends received by one of our shareholders to be qualified dividend income, we must meet holding period and other requirements with respect to some portion of the dividend-paying stocks in our portfolio and the shareholder must meet holding period and other requirements with respect to our shares. In general, a dividend will not be treated as qualified dividend income (at either the corporate or shareholder level) (1) if the dividend is received with respect to any share of stock held for fewer than 61 days during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend (or, in the case of certain preferred stock, 91 days during the 181-day period beginning 90 days before such date), (2) to the extent that the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, (3) if the recipient elects to have the dividend income treated as investment income for purposes of the limitation on deductibility of investment interest, or (4) if the dividend is received from a foreign corporation that is (a) not eligible for the benefits of a comprehensive income tax treaty with the United States (with the exception of dividends paid on stock of such a foreign corporation readily tradable on an established securities market in the United States) or (b) treated as a passive foreign investment company.

In general, dividends of net investment income received by our corporate shareholders will qualify for the dividends-received deduction generally available to corporations to the extent of the amount of eligible dividends we receive from domestic corporations for the taxable year. A dividend we receive will not be treated as a qualifying dividend (i) if it has been received with respect to any share of stock that we have held for less than 46 days (91 days in the case of certain preferred stock) during the 91-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend (during the 181-day period beginning 90 days before such date in the case of certain preferred stock) or (ii) to the extent that we are under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Moreover, the dividends-received deduction may be disallowed or reduced (i) if the corporate shareholder fails to satisfy the foregoing requirements with respect to our shares or (ii) by application of various provisions of the Code (for instance, the dividends-received deduction is reduced in the case of a dividend received on debt-financed portfolio stock (generally, stock acquired with borrowed funds)). We do not expect a significant portion of our distributions to be eligible for this corporate dividends-received deduction.

Any distribution of income that is attributable to (i) income we receive in lieu of dividends with respect to securities on loan pursuant to a securities lending transaction or (ii) dividend income we receive on securities we temporarily purchased from a counterparty pursuant to a repurchase agreement under which for U.S. federal income tax purposes we are treated as a lender, such distribution will not constitute qualified dividend income to individual shareholders and will not be eligible for the dividends-received deduction for corporate shareholders.

Effective for taxable years beginning after December 31, 2017 and before January 1, 2026, the Code generally allows individuals and certain other non-corporate entities a deduction for 20% of “qualified publicly traded partnership income,” such as income from MLPs, and a deduction for 20% of qualified REIT dividends. Recently issued proposed regulations, which are currently in effect, allow a RIC to pass the character of its qualified REIT dividends through to its shareholders provided certain holding period requirements are met. As a result, a shareholder in the Company will be eligible to receive the benefit of the same 20% deduction with respect to any qualified REIT dividends included in Company distributions that is available to direct investors in REITs, but a shareholder in the Company will not currently receive the benefit of the 20% deduction with respect to any MLP income included in Company distributions.

The Code generally imposes a 3.8% Medicare contribution tax on the “net investment income” of certain individuals, estates and trusts to the extent their income exceeds certain amounts. Net investment income generally includes for this purpose dividends we pay, including any capital gain dividends and net capital gains recognized on the sale or exchange of our shares. Shareholders are advised to consult their tax advisors regarding the possible implications of this additional tax on their investment with us.

If for any taxable year we were not a “publicly offered” RIC within the meaning of Code Section 67(c)(2)(B), certain of our direct and indirect expenses, including the management fee, the incentive fee and certain other advisory expenses, would be subject to special “pass-through” rules. Such rules would treat these expenses as additional dividends to certain of our direct or indirect shareholders (generally including other RICs that are not “publicly offered,” individuals and entities that compute their taxable income in the same manner as an individual) and, under current law, are not deductible by those shareholders that are individuals (or entities that compute their taxable income in the same manner as an individual).

Return of Capital Distributions

If, for any taxable year, our total distributions exceed both current and accumulated earnings and profits, the excess will generally be treated as a tax-free return of capital up to the amount of your tax basis in our shares. The amount treated as a tax-free return of capital will reduce your tax basis in our shares, thereby increasing your potential gain or reducing your potential loss on the subsequent sale of our shares. Any amounts distributed to you in excess of your tax basis in our shares will be taxable to you as capital gain.

Distributions we pay with respect to our shares are generally subject to U.S. federal income tax as described herein to the extent they do not exceed our realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder’s investment. Such distributions are likely to occur in respect of shares purchased at a time when our net asset value reflects either unrealized gains, or realized but undistributed income or gains, that were therefore included in the price the shareholder paid. Such distributions may reduce the value of our shares below the shareholder's cost basis in those shares. As described above, we are required to distribute realized income and gains regardless of whether our net asset value also reflects unrealized losses.

Tax Implications of Certain Investments

Some debt obligations with a fixed maturity date of more than one year from the date of issuance that we acquire in the secondary market may be treated as having "market discount." Very generally, market discount is the excess of the stated redemption price of a debt obligation (or in the case of an obligation issued with OID (as defined below), its "revised issue price") over the purchase price of such obligation. Subject to the discussion below regarding Section 451 of the Code, generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt obligation having market discount is treated as ordinary income to the extent the gain, or principal payment, does not exceed the "accrued market discount" on such debt obligation. Alternatively, a holder may elect to accrue market discount currently. As of the date of this prospectus, we have made this election, and therefore we are required to include currently any accrued market discount on such debt obligations in our taxable income (as ordinary income) and thus distribute it over the terms of the obligations, even though payment of those amounts is not received until a later time, upon partial or full repayment or disposition of the applicable debt obligations. We reserve the right to revoke this election at any time pursuant to applicable IRS procedures. The rate at which market discount accrues, and thus is included in our income, will depend upon which of the permitted accrual methods we elect.

In addition, some debt obligations with a fixed maturity date of more than one year from the date of issuance (and zero-coupon debt obligations with a fixed maturity date of more than one year from the date of issuance) that we originate or acquire will be treated as debt obligations that are issued originally at a discount. Generally, the amount of the original issue discount ("OID") is treated as interest income and is included in taxable income (and we are required to distribute it) over the term of the debt obligation, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt obligation. In addition, payment-in-kind ("PIK") securities we originate or acquire will give rise to income which is required to be distributed and is taxable even though we receive no interest payment in cash on the security during the year in which the income was accrued.

Some debt obligations with a fixed maturity date of one year or less from the date of issuance that we originate or acquire may be treated as having OID or, in certain cases, "acquisition discount" (very generally, the excess of the stated redemption price over the purchase price). Generally, we will be required to include the OID or acquisition discount in income (as ordinary income) over the term of the debt obligation and thus distribute it over the term of the debt obligation, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt obligation. The rate at which OID or acquisition discount accrues, and thus is included in our income, will depend upon which of the permitted accrual methods we elect.

Some preferred securities may include provisions that permit the issuer, at its discretion, to defer the payment of distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring the payment of its distributions, we may be required to report income for U.S. federal income tax purposes to the extent of any such deferred distribution even though we have not yet actually received the cash distribution.

As a result of holding the foregoing kinds of obligations, we may be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest (or dividends in the case of preferred securities) we actually received. Such distributions may be made from, among other things, our cash assets or cash generated from our liquidation of portfolio securities. We may realize gains or losses from such liquidations. In the event we realize net long-term or short-term capital gains from such transactions, our shareholders may receive a larger capital gain or ordinary dividend, respectively, than they would in the absence of such transactions.

Investments in distressed debt obligations that are at risk of or in default present special tax issues. Tax rules are not entirely clear about issues such as whether and to what extent we should recognize market discount on these debt obligations; when we may cease to accrue interest, OID or market discount; when and to what extent we may take deductions for bad debts or worthless securities; and how we should allocate payments received on obligations in default between principal and income. We will address these and other related issues when, as and if we invest in such obligations, in order to seek to ensure that we distribute sufficient income to preserve our eligibility for treatment as a RIC and do not become subject to U.S. federal income or excise tax.

A portion of the OID accrued on certain high-yield discount obligations we own may not be deductible to the issuer and will instead be treated as a dividend paid by the issuer for purposes of the dividends-received deduction. In such cases, if the issuer of the obligation is a domestic corporation, dividend payments we make may be eligible for the dividends-received deduction to the extent of the deemed dividend portion of such OID.

Our transactions in foreign currencies, foreign currency-denominated debt obligations and certain foreign currency options, futures contracts and forward contracts (and similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. Such ordinary income treatment may accelerate our distributions to shareholders and increase the distributions taxed to shareholders as ordinary income. We cannot carry forward any net ordinary losses so created to offset income or gains earned in subsequent years.

Special tax rules may change the treatment of gains and losses we recognize when we make certain investments outside the United States. The application of these special rules may accelerate or increase our recognition of ordinary income or loss, and affect the timing, amount and/or character of our distributions. In addition, dividend, interest, capital gains and other income we receive from investments outside the United States may be subject to withholding and other taxes imposed by foreign countries. Tax treaties between the United States and other countries may reduce or eliminate such taxes. We do not expect that we will be eligible to elect to treat any foreign taxes we pay as paid by our shareholders, and therefore shareholders will not be entitled to claim a credit or deduction for such taxes on their own tax returns. Foreign taxes we pay or are withheld from us will reduce the return from our underlying investments.

Some of our investments outside the United States, including our CLO investments, may be treated as investments in passive foreign investment companies ("PFICs"), as defined below, and could subject us to U.S. federal income tax (including interest charges) on distributions received from a PFIC or on proceeds received from the disposition of shares in a PFIC, which tax cannot be eliminated by making distributions to our shareholders. However, we may elect to avoid the imposition of that tax. For example, we may elect to treat a PFIC as a "qualified electing fund" ("QEF") (i.e., make a "QEF election"), in which case we will be required to include our share of the PFIC's income and net capital gain annually, regardless of whether it receives any distribution from the PFIC. Alternatively, we may elect to mark the gains (and to a limited extent the losses) in such holdings "to the market" as though we had sold (and, solely for purposes of this mark-to-market election, repurchased) our holdings in those PFICs on the last day of our taxable year. Such gains and losses are treated as ordinary income and loss. The QEF and mark-to-market elections may have the effect of accelerating the recognition of income (without the receipt of cash) and increasing the amount required to be distributed for us to avoid taxation. Making either of these elections therefore may require us to liquidate other investments (including when it is not advantageous to do so) to meet our distribution requirement, which also may accelerate the recognition of gain and affect our total return. Dividends paid by PFICs will not be eligible to be treated as qualified dividend income. In addition, whether a foreign corporation is a PFIC is not always entirely clear. Therefore, there is a risk, for example, that we may not realize that a foreign corporation in which we invest is a PFIC for U.S. federal tax purposes and thus we may fail to timely make a QEF or mark-to-market election in respect of that corporation, in which event we could be subject to the U.S. federal income taxes and interest charges described above.

A PFIC is any foreign corporation in which (i) 75% or more of the gross income for the taxable year is passive income, or (ii) the average percentage of the assets (generally by value, but by adjusted tax basis in certain cases) that produce, or are held for the production of, passive income is at least 50%. Generally, passive income for this purpose means dividends, interest (including income equivalent to interest), royalties, rents, annuities, the excess of gains over losses from certain property transactions and commodities transactions, income from certain notional principal contracts, and foreign currency gains. Passive income for this purpose does not include rents and royalties received by the foreign corporation from active business and certain income received from related persons.

If we own (directly or indirectly) 10% or more of the total combined voting power of all classes of stock of a foreign corporation or 10% or more of the total value of shares of all classes of stock of a foreign corporation that is treated as a controlled foreign corporation ("CFC") (including equity tranche investments and certain debt tranche investments in a CLO treated as CFC), we are a "U.S. Shareholder" for purposes of the CFC provisions of the Code. A CFC is a foreign corporation that, on any day of its taxable year, is owned (directly, indirectly, or constructively) more than 50% (measured by voting power or value) by U.S. Shareholders. A U.S. Shareholder is required to include in gross income for U.S. federal income tax purposes for each taxable year of the U.S. Shareholder its pro rata share of its CFC's "subpart F income" for the CFC's taxable year ending within the U.S. Shareholder's taxable year whether or not such income is actually distributed by the CFC. Subpart F income generally includes interest, OID, dividends, net gains from the disposition of stocks or securities, net gains from transactions (including futures, forward, and similar transactions) in commodities, receipts with respect to securities loans, and net payments received with respect to equity swaps and similar derivatives. Subpart F income is treated as ordinary income, regardless of the character of the CFC's underlying income. To the extent we invest in CFCs, if any, and recognize subpart F income in excess of actual cash distributions from such CFCs, if any, we may be required to sell assets (including when it is not advantageous to do so) to generate the cash necessary to distribute as dividends to our shareholders all of our income and gains and therefore to eliminate any corporate-level tax liability.

We may make certain investments through one or more wholly-owned entities treated as corporations for U.S. federal income tax purposes. Such corporations may be required to pay U.S. federal, state and local corporate income or other tax on their earnings, which ultimately will reduce the return on our underlying investments.

Income we realize from or the proceeds of dispositions of our non-U.S. investments may be subject to non-U.S. withholding or other taxes. We may otherwise be subject to non-U.S. taxation on repatriation proceeds generated from those investments or to other transaction-based non-U.S. taxes on those investments. Those withholding taxes or other taxes as well as any U.S. withholding taxes applicable to our investments, including in respect of investments in our wholly-owned subsidiaries, if any, will reduce the return on our investments.

Our derivative transactions, as well as any of our other hedging, short sale or similar transactions, may be subject to one or more special tax rules (including, for instance, notional principal contract, mark-to-market, constructive sale, straddle, wash sale and short-sale rules). These rules may affect whether gains and losses we recognize are treated as ordinary or capital and/or as short-term or long-term, accelerate our recognition of income or gains, defer losses, and cause adjustments in the holding periods of our securities. The rules could therefore affect the amount, timing and/or character of our distributions to shareholders.

Because the tax rules applicable to derivative financial instruments are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules (which determination or guidance could be retroactive) may affect whether we have made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain our qualification as a RIC and avoid a corporate-level tax.

Certain of our derivative transactions and investments in foreign currency-denominated instruments, and any of our transactions in foreign currencies and hedging activities, are likely to produce a difference between our book income and the sum of our taxable income and net tax-exempt income (if any). If such a difference arises, and our book income is less than the sum of our taxable income and net tax-exempt income (if any), we could be required to make distributions exceeding book income to qualify as a RIC that is accorded special tax treatment and to avoid a corporate-level tax. In the alternative, if our book income exceeds the sum of our taxable income and net tax-exempt income (if any), the distribution (if any) of such excess generally will be treated as (i) a dividend to the extent of our remaining earnings and profits (including earnings and profits arising from any tax-exempt income), (ii) thereafter, as a return of capital to the extent of the recipient's basis in its shares, and (iii) thereafter, as gain from the sale or exchange of a capital asset.

Pursuant to a notice issued by the IRS and Treasury Regulations that have yet to be issued but may apply retroactively, a portion of our income (including income allocated from certain pass-through entities) that is attributable to a residual interest in a real estate mortgage investment conduit or taxable mortgage pool (referred to in the Code as an "excess inclusion") will be subject to U.S. federal income tax in all events. This notice also provides, and the regulations are expected to provide, that excess inclusion income of a RIC will be allocated to shareholders of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related interest directly. As a result, to the extent we invest in any such interests, it may not be a suitable investment for certain tax-exempt shareholders. Although we do not expect to make investments that generate or pass- through excess inclusion income in the manner described above, we may make such investments, and may need to make certain elections set forth in the IRS notice governing such matters.

In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income ("UBTI") to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on UBTI, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a U.S. federal income tax return, to file such a tax return and pay tax on such income, and (iii) in the case of a non-U.S. shareholder, will not qualify for any reduction in U.S. federal withholding tax. A shareholder will be subject to U.S. federal income tax on such inclusions notwithstanding any exemption from such income tax otherwise available under the Code.

Our ability to pursue our investment strategy, including a strategy focused on investments in CLOs, certain debt instruments and the generation of fee income, may be limited by our intention to qualify as a RIC and our strategy may bear adversely on our ability to so qualify.

Backup Withholding

Your broker or other intermediary may be required to withhold, for U.S. federal backup withholding tax purposes, a portion of the dividends, distributions and redemption proceeds payable to a non-corporate shareholder who fails to provide the broker or other intermediary with the shareholder's correct taxpayer identification number (in the case of an individual, generally, such individual's social security number) or to make the required certification, or who has been notified by the IRS that such shareholder is subject to backup withholding. Certain shareholders are exempt from backup withholding. Backup withholding is not an additional tax and any amount withheld may be refunded or credited against your U.S. federal income tax liability, if any, provided that you furnish the required information to the IRS.

Sale or Exchange of Our Shares

If you sell or otherwise dispose of our common shares, you will generally recognize a gain or loss in an amount equal to the difference between your tax basis in such shares and the amount you receive in exchange for such shares. Any such gain or loss generally will be long-term capital gain or loss if you have held (or are treated as having held) such shares for more than one year at the time of sale. All or a portion of any loss you realize on a taxable sale or exchange of your shares will be disallowed if you acquire other shares from us (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after your sale or exchange of our shares. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. In addition, any loss realized upon a taxable sale or exchange of our shares held (or deemed held) by you for six months or less will be treated as long-term, rather than short-term, to the extent of any capital gain dividends received (or deemed received) by you with respect to those shares.

You may be entitled to offset your Capital Gain Dividends with capital loss. The Code contains a number of statutory provisions affecting the circumstances under which capital loss may be offset against capital gain and limiting the use of loss from certain investments and activities. Accordingly, if you have capital losses we urge you to consult your tax advisor.

Upon the sale or exchange of our common shares, your broker or other intermediary generally will be required to provide you and the IRS with cost basis and certain other related tax information about the shares you sold or exchanged. This cost basis reporting requirement is effective for shares purchased, including through dividend reinvestment. Please consult your broker or other intermediary for more information regarding available methods for cost basis reporting and how to select a particular method. Please consult your tax advisor to determine which available cost basis method is best for you.

When we make a tender offer for our shares (as described in "Share Repurchase Program") and you tender all common shares you hold, or are considered to be holding, and you do not hold (directly or by attribution) any other units of our shares (e.g., preferred shares, if any), you will be treated as having sold your shares and generally will realize a capital gain or loss. If you tender fewer than all of your common shares or continue to hold (directly or by attribution) other units of our shares (e.g., preferred shares, if any), there is some risk that you may be treated as having received a distribution under Section 301 of the Code ("Section 301 distribution") unless the redemption is treated as being either (i) "substantially disproportionate" or (ii) otherwise "not essentially equivalent to a dividend" under the relevant rules of the Code. A Section 301 distribution is not treated as a sale or exchange giving rise to a capital gain or loss, but rather is treated as a dividend to the extent supported by our current and accumulated earnings and profits, with the excess treated as a return of capital reducing your tax basis in Company shares, and thereafter as capital gain. Where a redeeming shareholder is treated as receiving a dividend, there is a risk that non-tendering shareholders whose interests in the Company increase as a result of such tender will be treated as having received a taxable distribution from us. Dividend treatment of a tender would also affect the amount and character of income that we are required to distribute for the year in which the redemption occurred. It is possible that such a dividend would qualify as "qualified dividend income"; otherwise, it would be taxable as ordinary income. To the extent we recognize net gains on the liquidation of portfolio securities to meet such tenders, we will be required to make additional distributions to our common shareholders.

Non-U.S. Shareholders

Distributions we pay to shareholders that are not "U.S. persons" within the meaning of the Code ("foreign shareholders") and that we properly report as (1) Capital Gain Dividends, (2) interest-related dividends, and (3) short-term capital gain dividends, each as defined below and subject to certain conditions described below, generally are not subject to withholding of U.S. federal income tax.

In general, the Code defines (1) "short-term capital gain dividends" as distributions of net short-term capital gains in excess of net long-term capital losses and (2) "interest-related dividends" as distributions from U.S.

source interest income of types similar to those not subject to U.S. federal income tax if earned directly by an individual foreign shareholder, in each case to the extent such distributions are properly reported as such by us in a written notice to shareholders. The exceptions to withholding for Capital Gain Dividends and short-term capital gain dividends do not apply to (A) distributions to an individual foreign shareholder who is present in the United States for a period or periods aggregating 183 days or more during the year of the distribution and (B) distributions attributable to gain that is treated as effectively connected with the conduct by the foreign shareholder of a trade or business within the United States under special rules regarding the disposition of U.S. real property interests. The exception to withholding for "interest-related dividends" does not apply to distributions to a foreign shareholder (A) that has not provided a satisfactory statement that the beneficial owner is not a U.S. person, (B) to the extent that the dividend is attributable to certain interest on an obligation if the foreign shareholder is the issuer or is a 10% shareholder of the issuer, (C) that is within certain foreign countries that have inadequate information exchange with the United States, or (D) to the extent the dividend is attributable to interest paid by a person that is a related person of the foreign shareholder and the foreign shareholder is a controlled foreign corporation. We are permitted to report such part of our dividends as interest-related and/or short-term capital gain dividends as are eligible, but are not required to do so. In the case of shares held through an intermediary, the intermediary may withhold even if we report all or a portion of a payment as an interest-related or short-term capital gain dividend to shareholders.

Foreign shareholders should contact their intermediaries regarding the application of these rules to their accounts.

Distributions to foreign shareholders other than Capital Gain Dividends, interest-related dividends, and short-term capital gain dividends (e.g., dividends attributable to dividend and foreign-source interest income or to short-term capital gains or U.S. source interest income to which the exception from withholding described above does not apply) are generally subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate).

A foreign shareholder is not, in general, subject to U.S. federal income tax on gains (and is not allowed a deduction for losses) realized on the sale of our shares unless (i) such gain is effectively connected with the conduct of a trade or business carried on by such holder within the United States, (ii) in the case of an individual holder, the holder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale and certain other conditions are met, or (iii) certain special rules relating to gain attributable to the sale or exchange of U.S. real property interests apply to the foreign shareholder's sale of our shares.

Foreign shareholders with respect to whom income from us is effectively connected with a trade or business conducted by the foreign shareholder within the United States will in general be subject to U.S. federal income tax on the income derived from us at the graduated rates applicable to U.S. citizens, residents or domestic corporations, whether such income is received in cash or reinvested in additional units of our shares and, in the case of a foreign corporation, may also be subject to a branch profits tax. If a foreign shareholder is eligible for the benefits of a tax treaty, any effectively connected income or gain will generally be subject to U.S. federal income tax on a net basis only if it is also attributable to a permanent establishment maintained by the shareholder in the United States. More generally, foreign shareholders who are residents of a country with an income tax treaty with the United States may obtain different tax results than those described herein, and are urged to consult their tax advisors.

In order to have qualified for any exemption from withholding described above (to the extent applicable) or for lower withholding tax rates under income tax treaties, or to establish an exemption from backup withholding, a foreign shareholder must have complied with applicable certification and filing requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN, Form W-8BEN-E or substitute form). Foreign shareholders should contact their tax advisors in this regard.

Special rules (including withholding and reporting requirements) apply to foreign partnerships and those holding our shares through foreign partnerships. Additional considerations may apply to foreign trusts and estates. Investors holding our shares through foreign entities should consult their tax advisors.

A foreign shareholder may be subject to state and local tax and to the U.S. federal estate tax in addition to the U.S. federal tax on income referred to above.

Other Reporting and Withholding Requirements

Sections 1471-1474 of the Code, and the U.S. Treasury Regulations and IRS guidance issued thereunder (collectively, “FATCA”), generally require us to obtain information sufficient to identify the status of each of our shareholders under FATCA or under an applicable intergovernmental agreement (an “IGA”). If a shareholder fails to provide the required information or otherwise fails to comply with FATCA or an IGA, we or our agent may be required to withhold under FATCA 30% of ordinary dividends that we pay to that shareholder. If we make a payment that is subject to FATCA withholding, we, or our agent, are required to withhold even if the payment would otherwise be exempt from withholding under rules applicable to non-U.S. shareholders (e.g., interest-related dividends). You are urged to consult your tax advisor regarding the applicability of FATCA and any other reporting requirements. In addition, foreign countries are considering, and may implement, laws similar in purpose and scope to FATCA.

The discussions set forth herein do not constitute tax advice, and you are urged to consult your own tax adviser to determine the specific U.S. federal, state, local and foreign tax consequences to you of investing with us.

Item 1A. Risk Factors.

Before you invest in our shares you should be aware of various risks associated with an investment in shares of our common stock, as well as risks generally associated with investment in a company with investment objectives, investment policies, capital structure or trading markets similar to ours. You should carefully consider these risk factors, together with all of the other information included in this prospectus before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline and you may lose all or part of your investment.

Geopolitical concerns and other global events, including, without limitation, trade conflict, national and international political circumstances (including wars, terrorist acts or security operations) and pandemics or other severe public health events, have contributed and may continue to contribute to volatility in global equity and debt markets. 2019 was a year of significant geopolitical concerns, including, among other things, uncertainty regarding re-opening of the U.S. government after a shutdown in early 2019, trade tensions, most notably between China and the U.S., resulting from the implementation of tariffs by the U.S. and retaliatory tariffs by other countries on the U.S., continued tensions with North Korea over its ballistic missile testing and nuclear programs, ongoing hostilities in the Middle East and the possibility of their escalation, uncertainty regarding the U.K.'s ongoing negotiation of the circumstances surrounding its withdrawal from the European Union and impeachment proceedings of President Trump in the United States. Such concerns have contributed and may continue to contribute to volatility in global equity and debt markets.

Recently, the outbreak of the novel coronavirus in many countries continues to adversely impact global commercial activity, particularly in China, and has contributed to significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting quarantines and restrictions on travel. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, such as transportation, hospitality and entertainment. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of the novel coronavirus. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our funds' performance and financial results. In addition to the factors described above, other factors described herein that may affect market, economic and geopolitical conditions, and thereby adversely affect our business include, without limitation: • economic slowdown in the U.S. and internationally; • changes in interest rates and/or a lack of availability of credit in the U.S. and internationally; • commodity price volatility; and • changes in law and/or regulation, and uncertainty regarding government and regulatory policy.

Risks Relating to our Business and Structure

Operating under the constraints imposed on us as a business development company and RIC may hinder the achievement of our investment objective.

The 1940 Act and the Code impose numerous constraints on the operations of business development companies and RICs that do not apply to certain other investment vehicles managed by the Adviser and its affiliates. Business development companies are required, for example, to invest at least 70% of their total assets primarily in securities of U.S. private or thinly traded public companies, cash, cash equivalents, U.S. government securities and other high-quality debt instruments that mature in one year or less from the date of investment. Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as qualifying assets only if such issuer has a common equity market capitalization that is less than $250 million at the time of such investment. In addition, qualification for the special tax treatment accorded RICs and their shareholders requires satisfaction of source-of-income, asset diversification and distribution requirements. We and our investment adviser have limited experience operating under the constraints applicable to BDCs, which may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective. As a result, we cannot assure you that our investment adviser will be able to operate our business successfully under these constraints. Any failure to do so could subject us to enforcement action by the SEC, cause us to fail to satisfy the requirements for qualifying to be treated as a RIC, cause us to fail the 70% test described above or otherwise have a material adverse effect on our business, financial condition or results of operations.

We may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could violate the 1940 Act provisions applicable to business development companies and possibly lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inopportune times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it may be difficult to do so on favorable terms, or at all. For example, we may have difficulty finding a buyer and, even if we do find a buyer, we may have to sell such investments for less than we could have received if we were able to sell them at a later time.

We depend upon key personnel of the Adviser and its affiliates.

We are an externally managed business development company and therefore we do not have any internal management capacity or employees. We will depend on the diligence, skill and network of business contacts of our investment adviser to achieve our investment objective. We expect that our investment adviser will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the Investment Advisory Agreement.

We depend upon the senior professionals of our investment adviser to maintain relationships with potential sources of lending opportunities, and we intend to rely heavily upon these relationships to provide us with potential investment opportunities. We cannot assure you that these individuals will continue to indirectly provide investment advice to us. We do not intend to purchase any “key person” insurance coverage respecting such investment personnel. If these individuals do not maintain their existing relationships with our investment adviser, maintain existing relationships or develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom the senior professionals of our investment adviser have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that such relationships will generate investment opportunities for us.

If our investment adviser is unable to manage our investments effectively, we may be unable to achieve our investment objective.

Our ability to achieve our investment objective will depend upon our ability to manage and grow our business. This will depend, in turn, on our investment adviser’s ability to identify, invest in and monitor companies that meet our investment criteria. The achievement of our investment objective on a cost-effective basis will depend upon our investment adviser’s execution of our investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. Our investment adviser will have substantial responsibilities under the Investment Advisory Agreement. The personnel of our investment adviser are engaged in other business activities and may be called upon to provide managerial assistance to our portfolio companies, either of which could distract them, divert their time and attention such that they could no longer dedicate a significant portion of their time to our businesses or otherwise slow our rate of investment. Any failure to manage our business and our future growth effectively could have a material adverse effect on our business, financial condition, results of operations and cash flows.

An investment in our shares is not an investment in existing funds, accounts or other investment vehicles managed by the Adviser or its affiliates except to the extent that we, consistent with the 1940 Act, invest in such entities. Our performance, therefore, is distinct from the prior performance of such entities.

Our primary focus in making investments generally differs from that of existing investment funds, accounts or other investment vehicles that are or have been managed or sponsored by the Adviser or its affiliates. In addition, investors in our common stock are not acquiring an interest in any such investment funds, accounts or other investment vehicles that are or have been managed or sponsored by the Adviser or its affiliates. While we may consider co-investing in portfolio investments with other investment funds, accounts or investment vehicles managed or sponsored by the Adviser or its affiliates, our ability to make such investments will be limited by the 1940 Act, including, potentially, requiring the prior approval of our independent directors. We, Highland Capital Management Fund Advisors L.P. and the Adviser have obtained an exemptive order dated April 19, 2016 from the SEC to permit co-investments among the Company and other accounts managed by the Adviser or its affiliates, subject to certain conditions. We may also invest alongside our investment adviser’s other clients as otherwise permissible under regulatory guidance, applicable regulations and the allocation policy of our investment adviser and its affiliates. We also cannot assure you that we will replicate the historical results achieved by the Adviser or its affiliates, and we caution you that our investment returns could be substantially lower than the returns achieved by them in prior periods. Additionally, all or a portion of the prior results may have been achieved in particular market conditions which may never be repeated.

The highly competitive market for investment opportunities in which we operate may limit our investment opportunities.

A number of entities compete with us to make the types of investments we plan to make in middle- market companies. We compete with public and private funds, including other business development companies, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, private equity funds. Additionally, as competition for investment opportunities increases, alternative investment vehicles, such as hedge funds, may invest in middle-market companies. As a result of these new entrants, competition for investment opportunities in middle-market companies may intensify. Many of our potential competitors are substantially larger and have access to considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us which could allow them to offer more favorable terms to borrowers. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions the 1940 Act imposes on us as a business development company. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. Participants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We will not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may reduce our net investment income and increase our risk of credit loss.

The global capital markets are in a period of disruption and instability. These market conditions materially and adversely affected debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.

Beginning in 2007, and continuing through 2012, the global capital markets experienced a period of disruption resulting in increasing spreads between the yields realized on riskier debt securities and those realized on securities perceived to be risk free, such as U.S. Treasuries, as well as a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector and the re-pricing of credit risk in the syndicated loan market. These events were accompanied by the deterioration of the housing market, illiquid market conditions, declining business and consumer confidence and the failure of certain major financial institutions. These events contributed to a worsening of general economic conditions that materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. These conditions may return or worsen in the future including as a result of actions of the U.S. government, such as spending cuts, government shutdowns or other similar actions.

Since 2010, several European Union countries, including Greece, Spain, Italy, Portugal and Ireland, have faced severe budget issues, some of which are disrupting the economies of those countries and other European Union countries. There have been significant concerns about national-level support for the euro and the coordination of fiscal and wage policy among European Economic and Monetary Union ("EMU")-member countries, and these concerns may persist or worsen. It is possible that one or more EMU member countries could abandon the euro and return to a national currency and/or that the euro will cease to exist as a single currency in its current form. The effects of such an abandonment or a country's forced expulsion from the euro on that country, the rest of the EMU, and global markets are impossible to predict, but are likely to be negative. The exit of any country out of the euro may have an extremely destabilizing effect on other Eurozone countries and their economies and a negative effect on the global economy as a whole. Such an exit by one country may also increase the possibility that additional countries may exit the euro should they face similar financial difficulties. In addition, in the event of one or more countries' exit from the euro, or withdrawal from the European Union ("EU") it may be difficult to value investments denominated in euros or in a replacement currency. On January 31, 2020, the United Kingdom left the EU and there commenced a transition period during which the EU and the United Kingdom will negotiate and agree on the nature of their future relationship. Significant uncertainty remains in the market regarding the ramifications of that development, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict.

Any return of the U.S. or global economic downturn or a recession period in the United States could adversely impact our investments. In addition, social and political tensions and conflict around the world, and particularly in the Middle East, may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets and may cause further economic uncertainty or deterioration in the United States and worldwide. We do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets, the global economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so, and we may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments in the current or future market environment.

While these conditions persist, we and other companies in the financial services sector may be required to, or may choose to, seek access to alternative markets for debt and equity capital. Equity capital may be difficult to raise because, subject to certain limited exceptions, as a business development company, we are not generally able to issue and sell our common stock at a price below net asset value per share without first obtaining approval for such issuance from our stockholders and independent directors. In addition, the debt capital that will be available to us, if at all, may be at a higher cost and on terms and conditions that may be less favorable than we expect, which, if incurred, could negatively affect our financial performance and results in the future. In addition, the portfolio companies in which we invest may not be able to service or refinance their debt, which could materially and adversely affect our financial condition, as we could experience reduced income or even losses. The inability to raise capital and the risk of portfolio company defaults may have a negative effect on our business, financial condition and results of operations. Another prolonged period of market illiquidity may also cause us to reduce the volume of loans we originate and/or fund below historical levels and adversely affect the value of our portfolio investments, which could have a material and adverse effect on our business, financial condition and results of operations.

Moreover, recent market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business, financial condition and results of operations. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Capital markets volatility also affects our investment valuations. While most of our investments will not be publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can adversely affect our valuations.

We have elected to be treated as a RIC and intend each year to qualify and to be eligible to be treated as such. If we fail to qualify for treatment as a RIC, we will, among other things, be subject to corporate-level income tax.

We have elected to be treated as a RIC under Subchapter M of the Code and intend each year to qualify and be eligible to be treated as such. In order to qualify for the special tax treatment accorded RICs and their shareholders, we must meet certain gross income, diversification and distribution requirements. A RIC generally is not subject to tax at the corporate level on income and gains from investments that are timely distributed to shareholders. Our ability to pursue our investment strategy, including a strategy focused on investments in CLOs, certain debt instruments and the generation of fee income, may be limited or adversely affected by our intention to qualify as a RIC and our strategy may bear adversely on our ability to so qualify. Our failure to qualify as a RIC would result in, among other things, corporate-level taxation, and consequently, a reduction in the value of an investment in our shares.

If we failed to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates and all of our distributions from earnings and profits (including from net long-term capital gains) would be taxable to stockholders as ordinary income. We would not be able to deduct distributions to stockholders, nor would we be required to make such distributions. Distributions, including distributions of net long-term capital gain, would generally be taxable to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate stockholders would be eligible to claim a dividends-received deduction with respect to such dividends, and non-corporate stockholders would generally be able to treat such dividends as "qualified dividend income," which is subject to reduced rates of U.S. federal income tax. To the extent such distributions exceed our current and accumulated earnings and profits, such excess distributions will be treated first as a return of capital to the extent of a stockholder's tax basis in his or her shares, and then as a capital gain. Reducing a stockholder's tax basis will have the effect of increasing his or her gain (or reducing loss) on a subsequent sale of shares. If we fail to qualify as a RIC for a period greater than two consecutive taxable years, to qualify as a RIC in a subsequent year we may be subject to regular corporate tax on any net built-in gains with respect to certain of our assets (i.e., the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if we had been liquidated) that we elect to recognize on requalification or when recognized over the next ten years.

Our distributions may exceed our net investment income, particularly during any period before we have substantially invested the net proceeds from our public offering. As a result, portions of the distributions that we make may represent a return of capital to you for tax purposes, which will lower your tax basis in your shares and reduce the amount of funds we have available for investment in targeted assets.

A return of capital is a return of your investment rather than a return of earnings or gains derived from our investment activities and will be made after deduction of the fees and expenses payable in connection with the offering, including any fees payable to our investment adviser. Although a return of capital is not currently taxable, it will lower your tax basis in your shares, which may increase your gain or decrease your loss in connection with a sale of our shares.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For U.S. federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or PIK interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to our overall investment assets, and increases in loan balances as a result of PIK interest will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash.

Accordingly, in order to qualify for the special tax treatment accorded RICs and their shareholders, we may be required to distribute income accrued prior to the receipt of cash and thus we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements.

We may retain a portion of our earnings and be subject to excise tax on such earnings.

If we fail to distribute in a calendar year at least an amount equal to the sum of 98% of our ordinary income for such year and 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of such year (unless an election is made to use our taxable year), plus any such undistributed amounts from the prior year, we will be subject to a nondeductible 4% excise tax on the undistributed amounts. We reserve the right to pay the excise tax when circumstances warrant.

Potential tax consequences if we were not a "publicly offered" RIC

If for any taxable year we were not a "publicly offered" RIC within the meaning of Code Section 67(c)(2)(B), certain of our direct and indirect expenses, including the management fee, the incentive fee and certain other advisory expenses, would be subject to special "pass-through" rules. Such rules would treat these expenses as additional dividends to certain of our direct or indirect shareholders (generally including other RICs that are not "publicly offered," individuals and entities that compute their taxable income in the same manner as an individual) and, under current law, are not deductible by those shareholders that are individuals (or entities that compute their taxable income in the same manner as an individual).

To qualify for the special tax treatment accorded to RICs and their shareholders, we must, among other things, distribute to our shareholders with respect to each taxable year at least the sum of 90% of our "investment company taxable income" (as that term is defined in the Code, without regard to the deduction for dividends paid—generally taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and 90% of any net tax-exempt interest income (the excess of our gross tax-exempt interest over certain disallowed deductions), for such year, in a manner qualifying for the dividends paid deduction.

If we make loans to borrowers that include PIK interest or accretion of original issue discount provisions, this could increase the risk of default by our borrowers.

Some of the loans we make or acquire may provide for the payment by borrowers of PIK interest or accreted original issue discount at maturity. Such loans have the effect of deferring a borrower's payment obligation until the end of the term of the loan, which may make it difficult for us to identify and address developing problems with borrowers in terms of their ability to repay us. Particularly in a rising interest rate environment, loans containing PIK and original issue discount provisions can give rise to negative amortization on a loan, resulting in a borrower owing more at the end of the term of a loan than what it owed when the loan was originated. Any such developments may increase the risk of default on our loans by borrowers.

Any PIK interest payments we receive will increase our assets under management and, as a result, will increase the amount of base management fees payable by us to our investment adviser.

Certain of our debt investments may contain provisions providing for the payment of PIK interest. Because PIK interest results in an increase in the size of the loan balance of the underlying loan, the receipt by us of PIK interest will have the effect of increasing our assets under management. As a result, because the base management fee that we pay to our investment adviser is based on the value of our gross assets, the receipt by us of PIK interest will result in an increase in the amount of the base management fee payable by us regardless of whether the PIK interest income is ever realized. In addition, any such increase in a loan balance due to the receipt of PIK interest will cause such loan to accrue interest on the higher loan balance, which will result in an increase in our pre-incentive fee net investment income and, as a result, an increase in incentive fees that are payable by us to our investment adviser.

Regulations governing our operation as a business development company will affect our ability to raise, and the way in which we raise, additional debt or equity capital.

We expect that we will require a substantial amount of capital in addition to the net proceeds of this offering. We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we will be permitted as a business development company to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments at a time when such sales may be disadvantageous and, depending on the nature of our leverage, repay a portion of our indebtedness.

Senior Securities. If we issue senior securities, we will be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred stock, such securities would rank "senior" to common stock in our capital structure, and preferred stockholders would have separate voting rights, dividend and liquidation rights, and possibly other rights, preferences or privileges more favorable than those granted to holders of our common stock. Furthermore, the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.

Additional Common Stock. The Board may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a business development company, we are not generally able to issue and sell our common stock at a price below current net asset value per share. We may, however, issue or sell our common stock at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock, at a price below the current net asset value of the common stock if the Board determines that such sale is in the best interests of us and our stockholders, and if our stockholders approve such sale within 12 months prior to such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of the Board, closely approximates the fair value of such securities. We also may conduct rights offerings at prices per share less than the net asset value per share, subject to the requirements of the 1940 Act. If we raise additional funds by issuing additional common stock or senior securities convertible into, or exchangeable for, our common stock, the ownership percentage of our stockholders at that time would decrease, and our stockholders may experience dilution.

If we enter into securitization transactions, we may be subject to additional risks.

In addition to issuing securities to raise capital as described above, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though we expect the pool of loans that we contribute to any such securitization vehicle to be rated below investment grade, because the securitization vehicle's portfolio of loans would secure all of the debt issued by such vehicle, a portion of such debt may be rated investment grade, subject in each case to market conditions that may require such portion of the debt to be over collateralized and various other restrictions. If applicable accounting pronouncements or SEC staff guidance require us to consolidate the securitization vehicle's financial statements with our financial statements, any debt issued by it would be generally treated as if it were issued by us for purposes of the asset coverage ratio applicable to us. In such case, we would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We would have no direct ability to enforce the payment obligations on the loans contributed to the securitization vehicle. We may hold subordinated debentures in any such securitization vehicle and, if so, we would not consider such securities to be senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and less liquid. Any fee payable under any servicing or collateral management agreement in respect of the securitization would be offset in an amount equal to the base management fee payable under the Investment Advisory Agreement.

As part of the securitization transaction, we would likely enter into an agreement under which we would be required to repurchase any loan (or participation interest therein) which was sold to the securitization vehicle in breach of any representation or warranty made by us with respect to such loan on the date such loan was sold.

The structure of a securitization transaction is intended to prevent, in the event of our bankruptcy, the consolidation of the securitization vehicle with our operations. If the true sale of these assets were not respected in the event of our insolvency, a trustee or debtor-in-possession might reclaim the assets of the securitization vehicle for our estate. However, in doing so, we would become directly liable for all of the indebtedness then outstanding under the securitization transaction, which would equal the full amount of debt of the securitization vehicle reflected on our balance sheet.

Recourse to us by the securitization vehicle would be limited and generally consistent with the terms of other similarly structured finance transactions. In a securitization transaction, we would sell and/or contribute to the securitization vehicle all of our ownership interest in certain of our portfolio loans and participations for the purchase price and other consideration set forth in the securitization agreement. This transfer would be structured by its terms to provide limited recourse to us by the securitization vehicle relating to certain representations and warranties with respect to certain characteristics including title and quality of the portfolio loans that were transferred to the securitization vehicle. If we breached these representations and warranties and such breach materially and adversely affected the value of the portfolio loans or the interests of holders of notes issued by the securitization vehicle, then we could be required to (a) cure such breach in all material respects, (b) repurchase the portfolio loan or loans subject to such breach or (c) remove the portfolio loan or loans subject to such breach from the pool of loans and other assets held by the securitization vehicle and substitute a portfolio loan or loans that meet the requirements of the securitization documents. This repurchase and substitution obligation of us would constitute the sole remedy available against us for any breach of a representation or warranty related to the portfolio loans transferred to the securitization vehicle.

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.

The use of leverage magnifies the potential for gain or loss on amounts invested. We expect to incur leverage through a credit facility and, from time to time, intend to incur additional leverage to the extent permitted under the 1940 Act. The use of leverage is generally considered a speculative investment technique and increases the risks associated with investing in our securities. In the future, we may borrow from, and issue senior securities, to banks, insurance companies and other lenders. Holders of these senior securities will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such holders to seek recovery against our assets in the event of a default. We may pledge up to 100% of our assets and may grant a security interest in all of our assets under the terms of any debt instruments into which we may enter. In addition, under the terms of any credit facility or other debt instrument we enter into, we are likely to be required by its terms to use the net proceeds of any investments that we sell to repay a portion of the amount borrowed under such facility or instrument before applying such net proceeds to any other uses.

If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged, thereby magnifying losses or eliminating our equity stake in a leveraged investment. Similarly, any decrease in our revenue or income will cause our net income to decline more sharply than it would have had we not borrowed. Such a decline would also negatively affect our ability to make dividend payments on our common stock or preferred stock. Our ability to service our debt will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of our use of leverage, including interest expenses and any increase in the management fee payable to our investment adviser.

As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 150%. If this ratio declines below 150%, we cannot incur additional debt and could be required to sell a portion of our investments to repay some debt at a time when it is disadvantageous to do so. This could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on the Adviser's and the Board's assessment of market conditions and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit on terms acceptable to us or at all.

In addition, the terms of indebtedness that we incur in the future could impose financial and operating covenants that restrict our business activities, including limitations that may hinder our ability to finance additional loans and investments or make the distributions required to qualify for the special tax treatment accorded RICs and their shareholders under the Code. Furthermore, the terms of any credit facility and other indebtedness that we incur in the future may contain various covenants which, if not complied with, could accelerate repayment, thereby materially and adversely affecting our liquidity, financial condition, results of operations and our ability to pay distributions to our stockholders.

Assuming the utilization of leverage in the amount of 30% of the Company's total assets and an annual interest rate of 3.80% payable on such leverage based on market rates as of December 31, 2018, the additional income that the Company must earn (net of expenses) in order to cover such leverage is 1.6% of net asset value (NAV). Actual costs of leverage may be higher or lower than that assumed in the example.

The following table is designed to illustrate the effect on the return to a holder of the Company's common stock of leverage in the amount of approximately 30% of the Company's total assets, assuming hypothetical annual returns of the Company's investment portfolio of minus 10% to plus 10%. As the table shows, leverage generally increases the return to holders of common shares when portfolio return is positive and greater than the cost of leverage and decreases when the return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

Assumed Return on Our Portfolio (Net of Expenses)	**-10%**	**-5%**	**0%**	**5%**	**10%**
Corresponding return to common stockholder	-15.9%	-8.8%	-1.6%	5.5%	12.7%

We may enter into reverse repurchase agreements, which are another form of leverage.

We may enter into reverse repurchase agreements. A repurchase agreement is an agreement by a bank or other financial institution to buy securities or another asset with a corresponding agreement that it will resell these same securities or assets to the same seller for an agreed-upon price on a certain day (often the next day). A reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Under a reverse repurchase agreement, we will pledge our assets as collateral to secure a short- term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the fair value of the pledged collateral. At the maturity of the reverse repurchase agreement, we will be required to repay the loan and correspondingly release our collateral.

Our use of reverse repurchase agreements, if any, involves many of the same risks involved in our use of leverage, as the proceeds from reverse repurchase agreements generally will be invested in additional securities. There is a risk that the market value of the securities acquired in the reverse repurchase agreement may decline below the price of the securities that we have sold but we will remain obligated to repurchase pursuant to the terms of the repurchase agreement.

In addition, there is a risk that the market value of the securities retained by us may decline. If a buyer of securities under a reverse repurchase agreement were to file for bankruptcy or experience insolvency, we may be adversely affected. Also, in entering into reverse repurchase agreements, we would bear the risk of loss to the extent that the proceeds of such agreements at settlement are less than the fair value of the underlying securities being pledged.

Reverse repurchase agreements are considered leverage under the 1940 Act. We may “set aside” liquid assets, or engage in other appropriate measures, to “cover” obligations with respect to transactions in reverse repurchase agreements. As a result of such segregation, our obligations under such transactions will not be considered senior securities representing indebtedness for purposes of the 1940 Act and our use of leverage through reverse repurchase agreements will not be limited by the 1940 Act.

We are exposed to risks resulting from the current low interest rate environment.

Since we will borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. The current, historically low interest rate environment can, depending on our cost of capital, depress our net investment income, even though the terms of our investments generally will include a minimum interest rate. In addition, any reduction in the level of interest rates on new investments relative to interest rates on our current investments could adversely impact our net investment income, reducing our ability to service the interest obligations on, and to repay the principal of, our indebtedness, as well as our capacity to pay dividends. Any such developments would result in a decline in our net asset value and in the trading price of our common stock.

If interest rates increase, floating rate interest rate reset features on debt instruments may make it more difficult for borrowers to repay their loans, and separately, will make it easier for the Adviser to meet its income incentive fee threshold without any additional effort.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments, particularly since our strategy includes investments in floating rate loans. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle and may result in a substantial increase of the amount of incentive fees payable to the Adviser with respect to Pre- Incentive Fee Net Investment Income.

There is also a risk that our borrowers will be unable to pay escalating interest amounts if general interest rates rise, resulting in a default under their loan documents with us. This could also cause borrowers to shift cash from other productive uses to the payment of interest, which may have a material adverse effect on their business and operations and could, over time, lead to increased defaults. In addition, increasing payment obligations under floating rate loans may cause borrowers to refinance or otherwise repay our loans earlier than they otherwise would, requiring us to incur management time and expense to re-deploy such proceeds, including on terms that may not be as favorable as our existing loans. We expect that many of our debt investments will include floating interest rates that reset on a periodic basis and typically do not require the borrowers to pay down the outstanding principal of such debt prior to maturity. These features of our debt investments will increase our risk of losing a substantial amount of our investments if borrowers are unable to pay the increased interest resulting from these reset provisions or if borrowers are unable to repay or refinance their debts at maturity.

Because loans are not ordinarily registered with the SEC or any state securities commission or listed on any securities exchange, there is usually less publicly available information about such instruments. In addition, loans may not be considered “securities” for purposes of the federal securities laws and, as a result, as a purchaser of these instruments, we may not be entitled to the anti-fraud protections of the federal securities laws. In the course of investing in such instruments, we may come into possession of material nonpublic information and, because of prohibitions on trading in securities of issuers while in possession of such information, we may be unable to enter into a transaction in a publicly-traded security of that issuer when it would otherwise be advantageous for us to do so. Alternatively, we may choose not to receive material nonpublic information about an issuer of such loans, with the result that we may have less information about such issuers than other investors who transact in such assets.

Any failure on our part to maintain our status as a business development company would reduce our operating flexibility.

If we lose our status as a business development company, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility. For example, if we were to be regulated as a closed-end investment company under the 1940 Act, we would be further limited in the amount of leverage we could incur and would face additional restrictions governing our ability to engage in transactions with our affiliates.

Since we intend to use debt to finance our investments, and we may use debt financing subsequent to the offering, changes in interest rates may affect our cost of capital and net investment income.

Interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. Since we intend to use debt to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates when we have debt outstanding, our cost of funds will increase, which could reduce our net investment income. Conversely, in periods of falling interest rates, the probability that our loans and other investments in portfolio companies will be pre-paid increases. In such periods, we can offer no assurance that we will be able to make new loans on the same terms, or at all. If we cannot make new loans on terms that are the same or better than the investments that are repaid, then our results of operations and financial condition will be adversely affected. We expect that our investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Additionally, our ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the CFTC, unless we register with the CFTC as a commodity pool operator.

You should also be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase in the amount of incentive fees payable to our investment adviser with respect to Pre-Incentive Fee Net Investment Income.

There are significant potential conflicts of interest that could affect our investment returns.

As a result of our arrangements with the Adviser, there may be times when our investment adviser has interests that differ from those of our stockholders, giving rise to a conflict of interest.

There are conflicts of interest related to the obligations of the Adviser or its affiliates to other clients.

The Adviser or its affiliates may have other clients with similar, different or competing investment objectives. In serving in these multiple capacities, they may have obligations to other clients or investors in those other entities, the fulfillment of which may not be in the best interests of us or our stockholders. For example, our investment adviser and its affiliates manage or sponsor other investment funds, accounts or other investment vehicles. Our investment objective may overlap with the investment objectives of such affiliated investment funds, accounts or other investment vehicles. As a result, our investment adviser may face conflicts of interest in the allocation of investment opportunities among us and other investment funds, accounts or other investment vehicles advised by or affiliated with our investment adviser. Our investment adviser will seek to allocate investment opportunities among eligible accounts in a manner that is fair and equitable over time and consistent with its allocation policy. However, we can offer no assurance that such opportunities will be allocated to us fairly or equitably in the short-term or over time. Where we are able to co- invest consistent with the requirements of the 1940 Act and SEC exemptive relief, if sufficient securities or loan amounts are available to satisfy our and each such account's proposed demand, the opportunity will be allocated in accordance with our investment adviser's pre-transaction determination and the requirements of the exemptive relief. If there is an insufficient amount of an investment opportunity to satisfy our demand and that of other accounts sponsored or managed by our investment adviser or its affiliates, the allocation policy and exemptive relief further provides that allocations among us and such other accounts will generally be made pro rata based on the amount that each such party would have invested if sufficient loan amounts were available. However, there can be no assurance that we will be able to participate in all suitable investment opportunities.

Our investment adviser or its affiliates may, from time to time, possess material non-public information, limiting our investment discretion.

Principals of our investment adviser and its affiliates may serve as directors of, or in a similar capacity with, companies in which we invest, the securities of which are purchased or sold on our behalf. If we obtain material nonpublic information with respect to public companies, or we become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations, we could be prohibited for a period of time from purchasing or selling the securities of such companies, and this prohibition may have an adverse effect on us.

Our management and incentive fee structure may create incentives for our investment adviser that are not fully aligned with the interests of our stockholders and may induce our investment adviser to make speculative investments.

In the course of our investing activities, we will pay management and incentive fees to our investment adviser. The incentive fee payable by us to our investment adviser may create an incentive for our investment adviser to make investments on our behalf that are risky or more speculative than would be the case in the absence of such a compensation arrangement. The management fee is based on our gross assets. As a result, investors in our common stock will invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in a lower rate of return than one might achieve through direct investments. Because the management fee is based on our gross assets, our investment adviser will benefit if and when we issue additional equity, incur debt or use leverage. The use of leverage will increase the likelihood of default under any credit facility or other debt instruments we enter into, which would disfavor the holders of our common stock, including investors in this offering.

Under the incentive fee structure, our investment adviser may benefit when capital gains are recognized and, because our investment adviser determines when a holding is sold, our investment adviser controls the timing of the recognition of such capital gains. The Board is charged with protecting our interests by monitoring how our investment adviser addresses these and other conflicts of interest associated with its management services and compensation. While they are not expected to review or approve each investment or realization, our independent directors will periodically review our investment adviser's services and fees as well as its portfolio management decisions and portfolio performance. In connection with these reviews, our independent directors will consider whether such fees and our expenses (including those related to leverage) remain appropriate. As a result of this arrangement, our investment adviser or its affiliates may from time to time have interests that differ from those of our stockholders. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the incentive fee based on net capital gains. As a result, our investment adviser may seek to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. This practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The Investment Advisory Agreement and the Administration Agreement with the Adviser were not negotiated on an arm's length basis and may not be as favorable to us as if they had been negotiated with an unaffiliated third party.

The Investment Advisory Agreement and the Administration Agreement were negotiated between related parties. Consequently, their terms, including fees payable to our investment adviser, may not be as favorable to us as they might be had they been negotiated with an unaffiliated third party. In addition, in deciding whether and how vigorously to enforce our rights and remedies under these agreements, our Board may, to the extent consistent with applicable law, take into account the value of our ongoing relationship with our investment adviser, our administrator and their respective affiliates.

Our ability to enter into transactions with our affiliates will be restricted, which may limit the scope of investments available to us.

We are prohibited under the 1940 Act from participating in certain transactions with our affiliates without the prior approval of our independent directors and, in some cases, of the SEC. Any person that owns, directly or indirectly, five percent or more of our outstanding voting securities will be our affiliate for purposes of the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into certain "joint" transactions (which could include investments in the same portfolio company) with such affiliates, absent the prior approval of our independent directors. Our investment adviser and its affiliates, including persons that control, are controlled by, or are under common control with, us or our investment adviser, are also considered to be our affiliates under the 1940 Act, and we are generally prohibited from buying or selling any security from or to, or entering into "joint" transactions with such affiliates without the prior approval of our independent directors and, in some cases, exemptive relief from the SEC.

We may, however, invest alongside the Adviser's, and its affiliates' other clients in certain circumstances where doing so is consistent with applicable law, SEC staff interpretations and/or appropriate exemptive relief from the SEC. For example, we may invest alongside such accounts consistent with guidance promulgated by the staff of the SEC permitting us and such other accounts to purchase interests in a single class of privately placed securities so long as certain conditions are met, including that our investment adviser, acting on our behalf and on behalf of other clients, negotiates no term other than price. We, Highland Capital Management Fund Advisors L.P. and the Adviser have obtained an exemptive order dated April 19, 2016 from the SEC to permit co-investments among the Company and other accounts managed by the Adviser or its affiliates, subject to certain conditions. We may also invest alongside our investment adviser's other clients as otherwise permissible under regulatory guidance, applicable regulations and the allocation policy of our investment adviser and its affiliates. Under this allocation policy, a calculation, based on the type of investment, will be applied to determine the amount of each opportunity to be allocated to us. This allocation policy will be periodically reviewed by our investment adviser and approved by our independent directors. We expect that these determinations will be made similarly for other accounts sponsored or managed by our investment adviser and its affiliates. If sufficient securities or loan amounts are available to satisfy our and each such account's proposed demand, we expect that the opportunity will be allocated in accordance with our investment adviser's pre- transaction determination. Where there is an insufficient amount of an investment opportunity to satisfy us and other accounts sponsored or managed by our investment adviser or its affiliates, the allocation policy further provides that allocations among us and such other accounts will generally be made pro rata based on the amount that each such party would have invested if sufficient securities or loan amounts were available. These allocation policies and procedures are intended to assist the Adviser and its affiliates in ensuring that investment opportunities will be allocated to us fairly and equitably.

In situations where co-investment with other accounts managed by our investment adviser or its affiliates is not permitted or appropriate, our investment adviser and its affiliates will need to decide which client will proceed with the investment. Our investment adviser's allocation policy provides, in such circumstances, for investments to be allocated on a random or rotational basis to assure that all clients have fair and equitable access to such investment opportunities. Moreover, except in certain circumstances, we will be unable to invest in any issuer in which a fund managed by our investment adviser or its affiliates has previously invested. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates. These restrictions may limit the scope of investment opportunities that would otherwise be available to us.

The Adviser may be entitled to receive substantial compensation from us when we consummate a liquidity event, which could negatively impact our investment returns.

In the future, the Board may consider various types of transactions to provide liquidity to stockholders, including: (i) a listing of our shares on a national securities exchange; (ii) a merger or another transaction approved by the Board in which our stockholders will receive cash or securities of a listed company; and (3) a sale of all or substantially all of our assets for cash or other consideration. In the event that the Board approves a sale or merger of our company, it is likely that such a transaction would cause a termination of the Investment Advisory Agreement. Upon the termination of the Investment Advisory Agreement, we would be potentially required to make a one-time payment to the Adviser in an amount based upon the market value of its interest in us as of the date of termination. This potential obligation to make a substantial payment to the Adviser in the event of sale or merger of our company or sale of our assets may limit the amount that our stockholders will receive upon the consummation of a liquidity event and create a conflict of interest for those directors who are affiliated with the Adviser.

Because we expect to distribute substantially all of our ordinary income and net realized capital gains to our stockholders, we will need additional capital to finance our growth and such capital may not be available on favorable terms, or at all.

We will need capital to fund growth in our investment portfolio in addition to the net proceeds of this offering. We may issue debt securities or borrow from financial institutions in order to obtain this additional capital. A reduction in the availability of new capital could limit our ability to grow. We will be required to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to qualify for the special tax treatment accorded RICs and their stockholders. As a result, these earnings will not be available to fund new investments. If we fail to obtain additional capital to fund new investments, this could limit our ability to grow, which may have an adverse effect on the value of our securities.

In addition, as a business development company, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow in certain circumstances.

The valuation process for certain of our portfolio holdings creates a conflict of interest.

Many of our portfolio investments are expected to be made in the form of securities that are not publicly traded. As a result, the Board will determine the fair value of these securities in good faith as described elsewhere in this prospectus. In connection with that determination, investment professionals from our investment adviser will provide the Board with portfolio company valuations based upon the most recent portfolio company financial statements available and projected financial results of each portfolio company. The participation of our investment adviser's investment professionals in our valuation process, and the indirect pecuniary interest in our investment adviser by certain members of the Board, could result in a conflict of interest as the management fee paid to our investment adviser is based, in part, on our gross assets.

Many of our portfolio investments will be recorded at fair value as determined in good faith by the Board. As a result, there will be uncertainty as to the value of our portfolio investments.

Many of our portfolio investments will take the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable, and we value these securities at fair value as determined in good faith by the Board, a committee thereof or by the Adviser pursuant to board approved procedures including to reflect significant events affecting the value of our securities. As discussed in more detail under “Discussion of Operating Plans — Critical Accounting Policies,” most, if not all, of our investments (other than cash and cash equivalents) are expected to be classified as Level 3 under ASC Topic 820, Fair Value Measurement. This means that our portfolio valuations are based on unobservable inputs and our own assumptions about how market participants would price the asset or liability in question. Inputs into the determination of fair value of our portfolio investments requires significant management judgment or estimation.

Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. Consensus pricing is a methodology for the determination of fair value based on quotations from market makers. These quotations include a disclaimer that the market maker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimers materially reduces the reliability of such information. We have retained the services of one or more independent service providers to review the valuation of these securities periodically. The types of factors that the Board may take into account in determining the fair value of our investments generally include, as appropriate, comparison to publicly traded securities including such factors as yield, maturity and measures of credit quality, the enterprise value of a portfolio company, the nature and realizable value of any collateral, the portfolio company’s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. In addition, the determination of fair value and thus the amount of unrealized losses we may incur in any year, is, to a degree, subjective, in that it is based on unobservable inputs and certain assumptions. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

Each quarter, the Board determines the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as a net change in unrealized appreciation or depreciation.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the senior securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Changes in laws or regulations governing our operations may adversely affect our business or cause us to alter our business strategy.

We and our portfolio companies will be subject to regulation at the local, state and federal level. We are also subject to federal, state and local laws and are subject to judicial and administrative decisions that affect our operations, including maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure proceedings and other trade practices. If these laws, regulations or decisions change, or if we expand our business into additional jurisdictions, we may have to incur significant expenses in order to comply or we might have to restrict our operations. New legislation may be enacted or new interpretations, rulings or regulations could be adopted, including those governing the types of investments we or our portfolio companies are permitted to make, any of which could harm us and our stockholders, potentially with retroactive effect. In particular, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, became law. The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of many implementing or removing regulations that will continue for several years following its enactment. The effects of the Dodd- Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them and the approaches taken in implementing regulations. While the impact of the Dodd-Frank Act on us and our portfolio companies may not be known for an extended period of time, the Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact the operations, cash flows or financial condition of us or our portfolio companies, impose additional costs on us or our portfolio companies, intensify the regulatory supervision of us or our portfolio companies or otherwise adversely affect our business or the business of our portfolio companies. In addition, if we do not comply with applicable laws and regulations, we could lose any licenses we hold for the conduct of our business and may be subject to civil fines and criminal penalties. Significant uncertainty currently exists in the market regarding the ramifications of any repeal or reform of certain parts of the Dodd Frank Act, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict.

Additionally, changes to the laws and regulations governing our operations related to permitted investments may cause us to alter our investment strategy in order to avail ourselves of new or different opportunities. Such changes could result in material differences to the strategies and plans set forth in this prospectus and may shift our investment focus from the areas of expertise of our investment adviser to other types of investments in which our investment adviser may have little or no expertise or experience. Any such changes, if they occur, could have a material adverse effect on our results of operations and the value of your investment.

The Board may change our investment objective, operating policies and strategies without prior notice or stockholder approval.

The Board has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects of any such changes may adversely affect our business and impact our ability to make distributions and since our shares are not expected to be listed on a national securities exchange for the foreseeable future, stockholders will be limited in their ability to sell their shares in response to any changes in our investment objective, operating policies and strategies.

We will incur significant costs as a result of being a public company.

As a public company, we will incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act and other rules implemented by the SEC.

Provisions of the General Corporation Law of the State of Delaware and our certificate of incorporation and bylaws could deter takeover attempts and have an adverse effect on the price of our common stock.

The General Corporation Law of the State of Delaware ("DGCL"), contains provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. Our certificate of incorporation and bylaws contain provisions that limit liability and provide for indemnification of our directors and officers. These provisions and others also may have the effect of deterring hostile takeovers or delaying changes in control or management. We are subject to Section 203 of the DGCL, the application of which is subject to any applicable requirements of the 1940 Act. This section generally prohibits us from engaging in mergers and other business combinations with stockholders that beneficially own 15% or more of our voting stock, or with their affiliates, unless our directors or stockholders approve the business combination in the prescribed manner. The Board will adopt a resolution exempting from Section 203 of the DGCL any business combination between us and any other person, subject to prior approval of such business combination by the Board, including approval by a majority of our directors who are not "interested persons." If the resolution exempting business combinations is repealed or the Board does not approve a business combination, Section 203 of the DGCL may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our certificate of incorporation classifying the Board in three classes serving staggered three-year terms, and provisions of our certificate of incorporation authorizing the Board to classify or reclassify shares of our unissued preferred stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our certificate of incorporation, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our certificate of incorporation and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders. In addition, if we issue preferred stock, such securities would rank "senior" to common stock in our capital structure, resulting in preferred stockholders having separate voting rights, dividend and liquidation rights, and possibly other rights, preferences or privileges more favorable than those granted to holders of our common stock.

Our investment adviser can resign on 120 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

Our investment adviser has the right, under the Investment Advisory Agreement, to resign at any time upon not less than 120 days' written notice, whether we have found a replacement or not. If our investment adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 120 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our investment adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition and results of operations.

The Adviser has the right to resign under the Administration Agreement, whether we have found a replacement or not. If the Adviser resigns, we may not be able to find a new administrator or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected. In addition, the coordination of our internal management and administrative activities is likely to suffer if we are unable to identify and reach an agreement with a service provider or individuals with the expertise possessed by the Adviser. Even if we are able to retain a comparable service provider or individuals to perform such services, whether internal or external, their integration into our business and lack of familiarity with our operations may result in additional costs and time delays that may adversely affect our business, financial condition and results of operations.

As a public company, we will be subject to regulations not applicable to private companies, such as provisions of the Sarbanes-Oxley Act. Efforts to comply with such regulations will involve significant expenditures, and non-compliance with such regulations may adversely affect us.

As a public company, we will be subject to regulations not applicable to private companies, including provisions of the Sarbanes-Oxley Act and the related rules and regulations promulgated by the SEC. Our management will be required to report on our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and rules and regulations of the SEC thereunder. We will be required to review on an annual basis our internal control over financial reporting, and on a quarterly and annual basis, to evaluate and disclose changes in our internal control over financial reporting. Section 404 of the Sarbanes-Oxley Act will generally require an attestation from our independent registered public accounting firm over financial reporting. We cannot be certain as to the timing of the completion of our evaluation, testing and remediation actions or the impact of the same on our operations, and we may not be able to ensure that the process is effective or that our internal control over financial reporting is or will be effective in a timely manner. In the event that we are unable to develop or maintain an effective system of internal controls and maintain or achieve compliance with the Sarbanes-Oxley Act and related rules, we may be adversely affected.

We depend on information systems, and systems failures could significantly disrupt our business, which may, in turn, negatively affect our ability to pay dividends to our stockholders.

Our business depends on the communications and information systems of the Adviser. In addition, certain of these systems are provided to the Adviser by third-party service providers. Any failure or interruption of such systems, including as a result of the termination of an agreement with any such third-party service provider, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

Cyber-attacks, disruptions, or failures that affect our service providers or counterparties may adversely affect us and our stockholders, including by causing losses for us or impairing our operations. For example, our or our service providers' assets or sensitive or confidential information may be misappropriated, data may be corrupted, and operations may be disrupted (e.g., cyber-attacks or operational failures may cause the release of private stockholder information or confidential information, interfere with the processing of stockholder transactions, impact the ability to calculate our NAV, and impede trading). In addition, cyber-attacks, disruptions, or failures may cause reputational damage and subject us or our service providers to regulatory fines, litigation costs, penalties or financial losses, reimbursement or other compensation costs, and/or additional compliance costs. While we and our service providers may establish business continuity and other plans and processes to address the possibility of cyber-attacks, disruptions, or failures, there are inherent limitations in such plans and systems, including that they do not apply to third parties, such as other market participants, as well as the possibility that certain risks have not been identified or that unknown threats may emerge in the future. Similar types of operational and technology risks are also present for issuers of our investments, which could have material adverse consequences for such issuers, and may cause our investments to lose value. In addition, cyber-attacks involving our counterparty could affect such counterparty's ability to meet its obligations to us, which may result in losses to us and our stockholders. Furthermore, as a result of cyber-attacks, disruptions, or failures, an exchange or market may close or issue trading halts on specific securities or the entire market, which may result in us being, among other things, unable to buy or sell certain securities or financial instruments or unable to accurately price its investments. We cannot directly control any cybersecurity plans and systems put in place by its service providers, our counterparties, issuers in which we invest, or securities markets and exchanges.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

If we internalize our management functions, your interest in us could be diluted, and we could incur other significant costs associated with being self-managed.

The Board may decide in the future to pursue exemptive relief from the SEC in order to internalize our management functions. If we do so, we may elect to negotiate to acquire the Adviser's assets and personnel. At this time, we cannot anticipate the form or amount of consideration or other terms relating to any such acquisition. Such consideration could take many forms, including cash payments, promissory notes and shares of our common stock. The payment of such consideration could result in dilution of your interest as a stockholder and could reduce the earnings per share attributable to your investment.

In addition, while we would no longer bear the costs of the various fees and expenses we expect to pay to the Adviser under the Investment Advisory Agreement, we would incur the compensation and benefits costs of our officers and other employees and consultants that are being paid by the Adviser or its affiliates. In addition, we may issue equity awards to officers, employees and consultants. These awards would decrease net income and may further dilute your investment in us. We cannot reasonably estimate the amount of fees we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to the Adviser, our earnings per share would be lower as a result of the internalization than it otherwise would have been, potentially decreasing the amount of funds available to distribute to our stockholders and the value of our shares. As we are currently organized, we do not have any employees. If we elect to internalize our operations, we would employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims and other employee-related liabilities and grievances.

If we internalize our management functions, we could have difficulty integrating these functions as a standalone entity. Currently, individuals employed by the Adviser and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. These personnel have a great deal of know-how and experience. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a standalone entity. An inability to manage an internalization transaction effectively could thus result in our incurring excess costs and/or suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from effectively managing our investments.

Internalization transactions have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of money defending such claims, which would reduce the amount of funds we have available for investment in targeted assets.

We, through our investment in a REIT Subsidiary, may be subject to the risks associated with investing in real estate-related securities.

We may form a REIT Subsidiary that is generally subject to the same investment policies and restrictions as we are. NexPoint Advisors would not charge an additional fee on assets held in the REIT Subsidiary. We intend to limit investments in any REIT Subsidiaries and related entities to the extent necessary to qualify as a RIC for tax purposes. In general, and subject to certain exceptions not applicable here, a RIC is not permitted to invest, including through corporations in which the RIC owns a 20% or more voting stock interest, more than 25% of its total assets in any one issuer, or in any two or more issuers which the taxpayer controls and which are determined to be engaged in the same or similar trades or businesses or related trades or businesses. Investments in REITs such as a REIT Subsidiary may be affected by changes in the real estate markets generally as well as changes in the values of the specific properties owned by a REIT or securing the mortgages owned by the REIT. REITs are dependent upon the management skill and abilities of those persons or entities responsible for managing their investments. REITs are by definition not diversified as their permitted investments are significantly limited by the provisions of the Code.

Because of minimum distribution requirements imposed by the Code, REITs tend to be dependent on the acquisition of assets with high positive cash flows. The minimum distribution requirements also tend to limit the degree to which REITs can retain and redeploy capital. REITs are particularly vulnerable to defaults by their borrowers and there are significant limitations on their ability to realize income from property acquired as a result of foreclosure. REITs investing in healthcare properties are subject to complex rules on how they can acquire and operate those properties while maintaining their REIT status.

Risks Related to our Investments

Our investments may be risky, and you could lose all or part of your investment.

We invest primarily in debt investments and to a lesser extent, selected equity investments in middle-market healthcare companies. The portfolio companies in which we invest may have, or may be permitted to incur, other debt ranking equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying senior creditors, the portfolio company may not have sufficient assets to repay its obligation to us in full, or at all. In the case of debt ranking equally with debt securities in which we invest, we would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

Secured Loans. When we extend first lien senior secured, second lien senior secured and unitranche loans, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries. We expect this security interest to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in the case of first lien loans, our lien may be subordinated to claims of other creditors and, in the case of second lien loans, our lien will be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

The rights we may have with respect to the collateral securing loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of such senior debt. Under a typical intercreditor agreement, at any time that obligations benefiting from first-priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first-priority liens:

- the ability to commence enforcement proceedings against the collateral;
- the ability to control the conduct of such proceedings;
- the approval of amendments to collateral documents;
- releases of liens on the collateral; and
- waivers of past defaults under collateral documents.

We may not have the ability to control or direct such actions, even if our rights are adversely affected.

Mezzanine Loans. Our mezzanine investments will generally be subordinated to senior loans and will generally be unsecured. This may result in greater risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income as described above under "Risk Factors—Risks Relating to our Business and Structure—We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income." Since we generally will not receive any substantial repayments of principal prior to the maturity of our mezzanine debt investments, such investments are riskier than amortizing loans. We can offer no assurance that the proceeds, if any, from sales of collateral securing other loans of a portfolio company would be sufficient to satisfy our unsecured obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then our unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the portfolio company's remaining assets, if any.

We expect in the future to invest in securities that are rated below investment grade by rating agencies or that may be rated below investment grade if they were so rated. Below investment grade securities, which are often referred to as 'junk bonds,' are viewed as speculative investments because of concerns with respect to the issuer's capacity to pay interest and repay principal.

Derivative Transactions. We may invest without limitation in warrants and may also use derivatives, primarily swaps (including equity, variance and volatility swaps), options and futures contracts on securities, interest rates, commodities and/or currencies, as substitutes for direct investments the Company can make. We may also use derivatives such as swaps, options (including options on futures), futures, and foreign currency transactions (e.g., foreign currency swaps, futures and forwards) to any extent deemed by the Adviser to be in the best interest of the Company, and to the extent permitted by the 1940 Act, to hedge various investments for risk management and speculative purposes (collectively, "Derivative Transactions"). We may use any or all types of Derivative Transactions which we are authorized to use at any time; no particular strategy will dictate the use of one type of Derivative Transaction rather than another, as use of any authorized Derivative Transaction will be a function of numerous variables, including market conditions. Derivative Transactions involve certain risks and special considerations. Risks of Derivative Transactions include the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Derivative Transactions depends on the Adviser's ability to predict pertinent market movements. Because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement may not only result in the loss of the entire investment, but may also expose the Company to the possibility of a loss exceeding the original amount invested. Thus, the use of Derivative Transactions may result in losses greater than if they had not been used, may require the Company to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Company can realize on an investment or may cause the Company to hold a security that it might otherwise sell. The use of foreign currency transactions can result in the Company incurring losses as a result of the imposition of exchange controls, the suspension of settlements or the inability of the Company to deliver or receive a specified currency. Additionally, amounts paid by the Company as premiums and cash or other assets held in margin accounts with respect to Derivative Transactions are not otherwise available to the Company for investment purposes.

If a put or call option purchased by the Company is not sold when it has remaining value, and if the market price of the underlying security remains equal to or greater than the exercise price (in the case of a put), or remains less than or equal to the exercise price (in the case of a call), the Company will lose its entire investment in the option.

Also, where a put or call option on a particular security is purchased to hedge against price movements in a related security, the price of the put or call option may move more or less than the price of the related security. If restrictions on exercise were imposed, the Company might be unable to exercise an option it had purchased. If the Company were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless.

In addition, the SEC proposed a rule under the 1940 Act regulating the use by registered investment companies of derivatives and many related instruments. That rule, if adopted as proposed, would, among other things, restrict the Company's ability to engage in derivatives transactions or so increase the cost of derivatives transactions that the Company would be unable to implement its investment strategy.

The Company's Derivative Transactions are generally subject to numerous special and complex tax rules. Because the tax rules applicable to such transactions may be uncertain under current law, an adverse determination or future IRS guidance with respect to these rules (which determination or guidance could be retroactive) may affect whether the Company has made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain its qualification as a RIC and avoid Company-level U.S. federal income or excise taxes. The Company's investments in derivative instruments may be limited by the Company's intention to qualify for treatment as a RIC and could adversely affect the Company's ability to so qualify.

Equity Investments. We may make selected equity investments. In addition, when we invest in first lien, second lien, unitranche or mezzanine loans, we may acquire warrants to purchase equity securities. Our goal is ultimately to dispose of these equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

We are subject to risks associated with middle-market companies.

Investing in middle-market companies involves a number of significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- generally, little public information exists about these companies, and we are required to rely on our investment adviser to obtain adequate information to evaluate the potential returns from investing in these companies;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in these portfolio companies; and
- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited by the 1940 Act with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. Our election to be treated as and intention to qualify and be eligible to be treated as a RIC, however, has its own diversification requirement with which we intend to comply. To the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code and certain contractual diversification requirements under a credit facility or other agreements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

Our portfolio may be concentrated in a limited number of portfolio companies, industries and/or sectors which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry or sector.

Our portfolio may be concentrated in a limited number of portfolio companies, industries and/or sectors. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code and certain contractual diversification requirements of a credit facility or other agreements, we do not have fixed guidelines for diversification. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, our investments may be concentrated in relatively few industries or sectors. As a result, a downturn in any particular industry or sector in which we are invested could also significantly impact the aggregate returns we realize.

The lack of liquidity in our investments may adversely affect our business.

We will generally make investments in private companies. Private companies have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress. Furthermore, substantially all of our investments in private companies will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities.

The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company or if an investment is held by one of our subsidiaries and is subject to contractual limitations on sale, such as the limitations on transfer of assets under certain circumstances under a credit facility. These and similar risks may also be applicable to thinly-traded companies in which we may invest.

Price declines and illiquidity in the corporate debt markets may adversely affect the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation.

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by the Board under our valuation policy and process. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments:

- a comparison of the portfolio company's securities to publicly traded securities;
- the enterprise value of a portfolio company;
- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments and its earnings;
- the markets in which the portfolio company does business; and
- changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. We record decreases in the market values or fair values of our investments as unrealized depreciation. Declines in prices and liquidity in the corporate debt markets may result in significant net unrealized depreciation in our portfolio. The effect of all of these factors on our portfolio may reduce our net asset value by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may suffer additional unrealized losses in future periods, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The Adviser may effectuate short sales that subject us to unlimited loss potential.

The Adviser may enter into transactions in which it sells a security it does not own, which we refer to as a short sale, in anticipation of a decline in the market value of the security. Short sales for our account theoretically will involve unlimited loss potential since the market price of securities sold short may continuously increase. Under adverse market conditions, the Adviser might have difficulty purchasing securities to meet short sale delivery obligations and may have to cover short sales at suboptimal prices.

Our investments in the healthcare industry are subject to numerous risks, including competition, extensive government regulation and commercial difficulties.

Our investments in portfolio companies in the healthcare industry, particularly the pharmaceuticals, devices, life sciences and facilities sub-sectors are subject to numerous risks. The successful and timely implementation of the business model of our healthcare portfolio companies depends on their ability to adapt to changing technologies and introduce new products. As competitors continue to introduce competitive products, the development and acquisition of innovative products and technologies that improve efficacy, safety and cost- effectiveness are important to the success of such portfolio companies. The success of new product offerings will depend on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors. Failure by our portfolio companies to introduce planned products or other new products or to introduce products on schedule could have a material adverse effect on our business, financial condition and results of operations.

Further, the development of products by pharmaceuticals, devices, life sciences and facilities companies in the healthcare industry requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement in the United States and abroad, or gain and maintain market approval of products. In addition, regulatory review processes by U.S. and foreign agencies may extend longer than anticipated as a result of decreased funding and tighter fiscal budgets. Further, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, the failure to establish or maintain intellectual property rights, or the infringement of intellectual property rights of others.

Changes in healthcare laws and other regulations applicable to some of our portfolio companies' businesses may constrain their ability to offer their products and services.

There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of some of our portfolio companies by increasing their compliance and other costs of doing business, requiring significant systems enhancements, or rendering their products or services less profitable or obsolete. In particular, the Food and Drug Administration ("FDA"), has established regulations, guidelines and policies to govern the development and approval of pharmaceuticals and medical devices, as have foreign regulatory authorities, which affect some of our portfolio companies. Any change in regulatory requirements due to the adoption by the FDA and/or foreign regulatory authorities of new legislation, regulations, or policies may require some of our portfolio companies to amend existing clinical trial protocols or add new clinical trials to comply with these changes. Such amendments to existing protocols and/or clinical trial applications or the need for new ones, may significantly impact the cost, timing and completion of the clinical trials. Also, any potential repeal and replace or overhaul to the Affordable Care Act may have adverse effects on certain healthcare sub-sectors due to changes in payer-mix, patient volumes, as well as other changes to the current law.

We may hold the debt securities of leveraged companies that may, due to the significant volatility of such companies, enter into bankruptcy proceedings.

Leveraged companies may experience bankruptcy or similar financial distress. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by an issuer may adversely and permanently affect the issuer. If the proceeding is converted to a liquidation, the value of the issuer may not equal the liquidation value that was believed to exist at the time of our investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, our influence with respect to the class of securities or other obligations we own may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial, eroding the value of any recovery by holders of other securities of the bankrupt entity.

Depending on the facts and circumstances of our investments and the extent of our involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize our debt investments as equity interests and subordinate all or a portion of our claim to that of other creditors. This could occur even though we may have structured our investment as senior debt.

Economic recessions or downturns could impair the ability of our portfolio companies to repay loans and increase our costs, which, in turn, could increase our non-performing assets, decrease the value of our portfolio, reduce our volume of new loans and otherwise harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from making new investments, increase credit losses and harm our operating results, which could have an adverse effect on our results of operations.

We may be subject to risks associated with syndicated loans.

From time to time, we may acquire interests in syndicated loans. Under the documentation for such loans, a financial institution or other entity typically is designated as the administrative agent and/or collateral agent. This agent is granted a lien on any collateral on behalf of the other lenders and distributes payments on the indebtedness as they are received. The agent is the party responsible for administering and enforcing the loan and generally may take actions only in accordance with the instructions of a majority or two-thirds of the holders of commitments and/or principal amount of the associated indebtedness. In most cases, we do not expect to hold a sufficient amount of the indebtedness to be able to compel any actions by the agent. For example, in many cases, our investments may represent less than the amount of associated indebtedness sufficient to compel such actions or represent subordinated debt which is precluded from acting and, consequently, we would only be able to direct such actions if instructions from us were made in conjunction with other holders of associated indebtedness that together with us compose the requisite percentage of the related indebtedness then entitled to take action. Conversely, if holders of the required amount of the associated indebtedness (excluding amounts held by us) desire to take certain actions, such actions may be taken even if we did not support such actions. Furthermore, if an investment is subordinated to one or more senior loans made to the applicable obligor, our ability to exercise such rights may be subordinated to the exercise of such rights by the senior lenders. Accordingly, we may be precluded from directing such actions unless we act together with other holders of the indebtedness. If we are unable to direct such actions, we cannot assure you that the actions taken will be in our best interests.

If an investment is a syndicated revolving loan or delayed drawdown loan, other lenders may fail to satisfy their full contractual funding commitments for such loan, which could create a breach of contract, result in a lawsuit by the obligor against the lenders and adversely affect the fair market value of our investment.

There is a risk that a loan agent may become bankrupt or insolvent. Such an event would delay, and possibly impair, any enforcement actions undertaken by holders of the associated indebtedness, including attempts to realize upon the collateral securing the associated indebtedness and/or direct the agent to take actions against the related obligor or the collateral securing the associated indebtedness and actions to realize on proceeds of payments made by obligors that are in the possession or control of any other financial institution. In addition, we may be unable to remove the agent in circumstances in which removal would be in our best interests. Moreover, agented loans typically allow for the agent to resign with certain advance notice.

Our investments in CLOs may be riskier and less transparent to us and our stockholders than direct investments in the underlying companies.

We intend to invest in CLOs. Generally, there may be less information available to us regarding the underlying debt investments held by CLOs than if we had invested directly in the debt of the underlying companies. As a result, our stockholders will not know the details of the underlying securities of the CLOs in which we will invest. Our CLO investments will also be subject to the risk of leverage associated with the debt issued by such CLOs and the repayment priority of senior debt holders in such CLOs. Our investments in prospective portfolio companies may be risky, and we could lose all or part of our investment.

Our financial results may be affected adversely if one or more of our equity or mezzanine debt investments in a CLO vehicle defaults on its payment obligations or fails to perform as we expect.

We intend to invest in the equity and mezzanine trances in CLOs, which involve a number of significant risks. CLOs are typically highly levered, and therefore the equity and mezzanine tranches that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entity that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices (and, therefore, the prices of the CLOs) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

The investments we intend to make in CLOs will likely be thinly traded or have only a limited trading market. CLO investments are typically privately offered and sold in the primary and secondary markets. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from the underlying loans will not be adequate to make interest or other payments; (ii) the quality of the underlying loans may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO or unexpected investment results. Further, our investments in equity and mezzanine tranches of CLOs will be subordinate to the senior debt tranches thereof.

Investments in structured vehicles, including equity and mezzanine debt instruments issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying loans held by a CLO may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the loans underlying the CLOs in which we invest.

Certain tax consequences of our investments

There are various tax risks with respect to some of our investments, including but not limited to, the risks discussed below.

Some of our investments outside the United States, including our CLO investments, may be treated as investments in passive foreign investment companies ("PFICs"), as defined below, and could subject us to U.S. federal income tax (including interest charges) on distributions received from a PFIC or on proceeds received from the disposition of shares in a PFIC, which tax cannot be eliminated by making distributions to our shareholders. However, we may elect to avoid the imposition of that tax. For example, we may elect to treat a PFIC as a "qualified electing fund" ("QEF") (i.e., make a "QEF election"), in which case we will be required to include our share of the PFIC's income and net capital gain annually, regardless of whether it receives any distribution from the PFIC. Alternatively, we may elect to mark the gains (and to a limited extent the losses) in such holdings "to the market" as though we had sold (and, solely for purposes of this mark-to-market election, repurchased) our holdings in those PFICs on the last day of our taxable year. Such gains and losses are treated as ordinary income and loss. The QEF and mark-to-market elections may have the effect of accelerating the recognition of income (without the receipt of cash) and increasing the amount required to be distributed for us to avoid taxation. Making either of these elections therefore may require us to liquidate other investments (including when it is not advantageous to do so) to meet our distribution requirement, which also may accelerate the recognition of gain and affect our total return.

If we own (directly or indirectly) 10% or more of the total combined voting power of all classes of stock of a foreign corporation or 10% or more of the total value of shares of all classes of stock of a foreign corporation that is treated as a controlled foreign corporation ("CFC") (including equity tranche investments and certain debt tranche investments in a CLO treated as CFC), we are a "U.S. Shareholder" for purposes of the CFC provisions of the Code. A CFC is a foreign corporation that, on any day of its taxable year, is owned (directly, indirectly, or constructively) more than 50% (measured by voting power or value) by U.S. Shareholders. A U.S. Shareholder is required to include in gross income for U.S. federal income tax purposes for each taxable year of the U.S. Shareholder its pro rata share of its CFC's "subpart F income" for the CFC's taxable year ending within the U.S. Shareholder's taxable year whether or not such income is actually distributed by the CFC. Subpart F income is treated as ordinary income, regardless of the character of the CFC's underlying income. To the extent we invest in CFCs, if any, and recognize subpart F income in excess of actual cash distributions from such CFCs, if any, we may be required to sell assets (including when it is not advantageous to do so) to generate the cash necessary to distribute as dividends to our shareholders all of our income and gains and therefore to eliminate any corporate-level tax liability.

Investments in distressed debt obligations that are at risk of or in default present special tax issues. Tax rules are not entirely clear about issues such as whether and to what extent we should recognize market discount on these debt obligations, when we may cease to accrue interest, OID or market discount, when and to what extent we may take deductions for bad debts or worthless securities and how we should allocate payments received on obligations in default between principal and income. We will address these and other related issues when, as and if we invest in such obligations, in order to seek to ensure that we distribute sufficient income to preserve our eligibility for treatment as a RIC and do not become subject to U.S. federal income or excise tax.

Our derivative transactions, as well as any of our other hedging, short sale or similar transactions, may be subject to one or more special tax rules (including, for instance, notional principal contract, mark-to-market, constructive sale, straddle, wash sale and short-sale rules). These rules may affect whether gains and losses we recognize are treated as ordinary or capital and/or as short-term or long-term, accelerate our recognition of income or gains, defer losses, and cause adjustments in the holding periods of our securities. The rules could therefore affect the amount, timing and/or character of our distributions to shareholders.

Because the tax rules applicable to derivative financial instruments are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules (which determination or guidance could be retroactive) may affect whether we have made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain our qualification as a RIC and avoid a corporate-level tax.

To qualify for the special tax treatment accorded RICs and their shareholders, we must meet certain source-of-income, asset diversification and annual distribution requirements. Our ability to pursue our investment strategy may be limited or adversely affected by our intention to qualify as a RIC and our strategy may bear adversely on our ability to so qualify.

We may not realize gains from our equity investments.

When we invest in mezzanine loans or senior secured loans, we may also invest in the equity securities of the borrower or acquire warrants or other equity securities as well. In addition, we may invest directly in the equity securities of portfolio companies. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not realize gains from our equity interests, and any gains that we do realize on the disposition of such equity interests may not be sufficient to offset any other losses we experience.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio, and our ability to make follow-on investments in certain portfolio companies may be restricted.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as “follow-on” investments, in order to:

- increase or maintain in whole or in part our equity ownership percentage;
- exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
- attempt to preserve or enhance the value of our investment.

We will have the discretion to make any follow-on investments, subject to the availability of capital resources, the limitations of the 1940 Act, the requirements associated with qualifying for the special tax treatment accorded RICs and their shareholders and contractual requirements under a credit facility or otherwise. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we do not want to increase our exposure to the portfolio company, because we prefer other opportunities or because we are inhibited by compliance with business development company requirements, or our contractual requirements or the desire to qualify for the special tax treatment accorded RICs and their shareholders.

Because we may not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.

Although we intend to take controlling equity positions in some of our portfolio companies, we do not intend to take a controlling equity interest in all of our portfolio companies. In addition, we may not be in a position to control any portfolio company by investing in its debt securities. As a result, we will be subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we will typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and we may therefore suffer a decrease in the value of our investments.

Defaults by issuers of our holdings will harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize such portfolio company's ability to meet its obligations under the debt or equity securities that we hold. Our investments in loans of such issuers may be placed on non-accrual status under those circumstances, if principal and/or interest payments become overdue or if there is a reasonable doubt that principal or interest will be collected. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company. A payment default on a loan to a portfolio company or a default leading to the acceleration of debt of a portfolio company could cause the loan to such portfolio company held by us to become, or to be deemed to be, a defaulted obligation under a credit facility. This, in turn, could result in a coverage test under a credit facility not being met and the diversion of distributions of assets to pay down debt under the credit facility rather than to make distributions. Such a portfolio company default could also lead to an event of default and acceleration under a credit facility and liquidation by the related lender of the assets securing the credit facility. Any such diversion of cash flow or any event of default could result in our being unable to make distributions to our stockholders in amounts sufficient to qualify for the special tax treatment accorded RICs and their shareholders, or at all, and could have a material adverse effect on our business, financial condition and results of operations. Investments in issuers that are in default or that have been placed on non-accrual status have in the past represented and may in the future represent a significant portion of our portfolio.

Our investment adviser's liability will be limited under the Investment Advisory Agreement, and we have agreed to indemnify our investment adviser against certain liabilities, which may lead our investment adviser to act in a riskier manner on our behalf than it would when acting for its own account.

Under the Investment Advisory Agreement, our investment adviser will not assume any responsibility to us other than to render the services called for under that agreement, and it will not be responsible for any action of the Board in following or declining to follow our investment adviser's advice or recommendations. Our investment adviser maintains a contractual, as opposed to a fiduciary, relationship with us. Under the terms of the Investment Advisory Agreement, our investment adviser, its officers, members, personnel, and any person controlling or controlled by our investment adviser will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the Investment Advisory Agreement, except those resulting from acts constituting negligence or misconduct. In addition, we have agreed to indemnify our investment adviser and each of its officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Investment Advisory Agreement, except where attributable to negligence or misconduct. These protections may lead our investment adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

We may be obligated to pay our investment adviser incentive compensation even if we incur a net loss due to a decline in the value of our portfolio.

Our Investment Advisory Agreement entitles our investment adviser to receive incentive compensation on income regardless of any capital losses. In such case, we may be required to pay our investment adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or if we incur a net loss for that quarter.

Any incentive fee payable by us that relates to our net investment income may be computed and paid on income that may include interest that has been accrued but not yet received. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously included in the calculation of the incentive fee will become uncollectible. Our investment adviser is not under any obligation to reimburse us for any part of the incentive fee it received that was based on accrued income that we never received as a result of a default by an entity on the obligation that resulted in the accrual of such income, and such circumstances would result in our paying an incentive fee on income we never received.

We may not apply or be approved for an SBIC license.

An affiliate of the Company may apply for a license to form an SBIC. If such an application is made and approved and the SBA so permits, we anticipate that the SBIC license would be transferred to a wholly-owned subsidiary of ours. Following such transfer, we anticipate that the SBIC subsidiary would be allowed to issue SBA-guaranteed debentures, subject to certain regulatory requirements. SBA guaranteed debentures carry long-term fixed rates that are generally lower than rates on comparable bank and other debt. We cannot assure that we will make an application for an SBIC license, be successful in receiving an SBIC license from the SBA or that the SBA will permit such license to be transferred to us. If we do receive an SBIC license, there is no minimum amount of SBA-guaranteed debentures that must be allocated to us.

Our portfolio companies may prepay loans, which prepayment may reduce our yields if capital returned cannot be invested in transactions with equal or greater expected yields.

The loans in our investment portfolio may be prepayable at any time. It is not clear at this time when each loan may be prepaid. Whether a loan is prepaid will depend both on the continued positive performance of the portfolio company and the existence of favorable financing market conditions that allow such company the ability to replace existing financing with less expensive capital. As market conditions change we do not know when, and if, prepayment may occur for each portfolio company. In the case of some of these loans, having the loan prepaid may reduce the achievable yield for us if the capital returned cannot be invested in transactions with equal or greater expected yields, which could have a material adverse effect on our business, financial condition and results of operations.

The disposition of our investments may result in contingent liabilities.

We currently expect that a significant portion of our investments will involve private securities. In connection with the disposition of an investment in a private company, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may borrow under a credit facility in currencies selected to minimize our foreign currency exposure or use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions caused by these risks does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline for other reasons. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Our ability to engage in hedging transactions may also be adversely affected by recent rules adopted by the CFTC unless we register as a commodity pool operator. While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

Investments in securities of foreign companies, if any, may involve significant risks in addition to the risks inherent in U.S. investments.

We may make investments in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

In addition, any investments we make that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk, or, that if we do, such strategies will be effective.

We may invest in foreign sovereign debt and the foreign governmental issuers of debt of the governmental authorities that control repayment of the debt may be unable or unwilling to repay principal or pay interest when due.

Investments in sovereign debt involve special risks. Foreign governmental issuers of debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due. In the event of default, there may be limited or no legal recourse. Political conditions, especially a sovereign entity’s willingness to meet the terms of its debt obligations, are of considerable significance. The ability of a foreign sovereign issuer, especially an emerging market country, to make timely payments on its debt obligations will also be strongly influenced by the sovereign issuer’s balance of payments, including export performance, its access to international credit facilities and investments, fluctuations of interest rates and the extent of its foreign reserves. In addition, there is no bankruptcy proceeding with respect to sovereign debt on which a sovereign has defaulted and the Company may be unable to collect all or part of its investment in a particular issue. Foreign investment in certain sovereign debt is restricted or controlled to varying degrees, including requiring governmental approval for the repatriation of income, capital or proceeds of sales by foreign investors. These restrictions or controls may at times limit or preclude foreign investment in certain sovereign debt and increase our costs and expenses.

We are not obligated to complete a liquidity event by a specified date; therefore, it will be difficult for an investor to sell his or her shares.

We intend to seek to complete a liquidity event for our stockholders within five years following the completion of our offering stage. We expect that the Board, in the exercise of the requisite standard of care applicable to directors under Delaware law, will determine to pursue a liquidity event when it believes that then-current market conditions are favorable for a liquidity event, and that such a transaction is in the best interests of our stockholders. A liquidity event could include (1) a listing of our shares on a national securities exchange, (2) the sale of all or substantially all of our assets either on a complete portfolio basis or individually followed by a liquidation or (3) a merger or another transaction approved by the Board in which our stockholders likely will receive cash or shares of a publicly traded company. However, there can be no assurance that we will complete a liquidity event within such time or at all. If we do not successfully complete a liquidity event, liquidity for an investor's shares will be limited to our share repurchase program, which we have no obligation to maintain.

We intend to offer to repurchase your shares on a quarterly basis. Only a limited number of shares will be repurchased, however, and, to the extent you are able to sell your shares under the repurchase program, you will not be able to recover the amount of your investment in those shares.

We intend to commence tender offers to allow you to tender your shares on a quarterly basis at a price equal to 90% of our public offering price in effect on the date of repurchase. The share repurchase program will include numerous restrictions that limit your ability to sell your shares. We intend to limit the number of shares repurchased pursuant to our share repurchase program as follows:

- we currently intend to limit the number of shares to be repurchased during any calendar year to the number of shares we can repurchase with the proceeds we receive from the sale of shares of our common stock under our distribution reinvestment plan, although at the discretion of the Board, we may also use cash on hand, cash available from borrowings and cash from liquidation of securities investments as of the end of the applicable period to repurchase shares;
- we will limit the number of shares to be repurchased in any calendar year to 10% of the weighted average number of shares outstanding in the prior calendar year, or 2.5% in each quarter;
- unless you tender all of your shares, you must maintain a minimum balance of $2,500 subsequent to submitting a portion of your shares for repurchase by us; and
- to the extent that the number of shares tendered for repurchase exceeds the number of shares we are able to repurchase, we will repurchase shares as nearly as may be pro-rata, except as permitted by Rule 13e-4 of the Exchange Act, not on a first-come, first- served basis. Further, we will have no obligation to repurchase shares if the repurchase would violate the restrictions on distributions under federal law or Delaware law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency. These limits may prevent us from accommodating all repurchase requests made in any year. The Board may amend, suspend or terminate the repurchase program upon 30 days' notice. We will notify you of such developments (1) in our quarterly reports or (2) by means of a separate mailing to you, accompanied by disclosure in a current or periodic report under the Exchange Act. In addition, although we have adopted a share repurchase program, we will have discretion to not repurchase your shares, to suspend the plan and to cease repurchases. Further, the plan has many limitations and should not be relied upon as a method to sell shares promptly or at a desired price.

The timing of our repurchase offers pursuant to our share repurchase program may be at a time that is disadvantageous to our stockholders.

When we make quarterly repurchase offers pursuant to our share repurchase program, we may offer to repurchase shares at a price that is lower than the price that investors paid for shares in this offering. As a result, to the extent investors have the ability to sell their shares to us as part of our share repurchase program, the price at which an investor may sell shares, which we expect to be 90% of the offering price in effect on the date of repurchase, may be lower than what an investor paid in connection with the purchase of shares in this offering.

In addition, in the event an investor chooses to participate in our share repurchase program, the investor will be required to provide us with notice of intent to participate prior to knowing what the net asset value per share will be on the repurchase date. Although an investor will have the ability to withdraw a repurchase request prior to the repurchase date, to the extent an investor seeks to sell shares to us as part of our share repurchase program, the investor will be required to do so without knowledge of what the repurchase price of our shares will be on the repurchase date.

There is a risk that you may not receive distributions or that our distributions may not grow over time.

We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. Also, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Finally, if more stockholders receive cash dividends and other distributions rather than opt to participate in our distribution reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments. All distributions will be paid at the discretion of the Board and will depend on our earnings, our financial condition, qualification for the special tax treatment accorded RICs and their shareholders, compliance with applicable business development company regulations and such other factors as the Board may deem relevant from time to time. We cannot assure you that we will pay distributions to our stockholders in the future.

Investing in our shares may involve an above average degree of risk and is intended for long-term investors.

The investments we make in accordance with our investment objective and strategies may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our shares may not be suitable for an investor with a lower risk tolerance. In addition, our common stock is intended for long-term investors.

We may allocate the net proceeds from the offering in ways with which you may not agree.

We will have significant flexibility in investing the net proceeds of our public offering. You will be unable to evaluate the manner in which the net proceeds of the offering will be invested or the economic merit of our expected investments and, as a result, we may use the net proceeds from the offering to invest in investments with which you may not agree. We intend to invest, under normal circumstances, at least 80% of our total assets in debt and equity of middle-market companies, with an emphasis on healthcare companies, syndicated floating rate debt of large public and non-public companies and mezzanine and equity tranches of CLOs. Additionally, we will not provide you with information on potential investments prior to our acquisition of such investments. In addition, we have flexibility under our investment policy to invest a significant portion of our assets in investments that are not debt or equity investments in middle-market companies. The failure of our management to apply net proceeds from this offering effectively or find investments that meet our investment criteria in sufficient time or on acceptable terms could result in unfavorable returns and could cause a material adverse effect on you.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

We do not own any real estate or other physical properties materially important to our operation. Our headquarters are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201. We believe that our office facilities are suitable and adequate for our business as it is presently conducted.

Item 3. *Legal Proceedings*

Although we may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise, neither we nor the Adviser is currently a party to any pending material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or against the Adviser.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

There is currently no secondary market for our common stock, and we do not expect that a secondary market for our shares will develop in the foreseeable future. No shares of our common stock have been authorized for issuance under any equity compensation plans.

Set forth below is a chart describing the classes of our securities outstanding as of December 31, 2019:

Title of Class	Amount Authorized	Amount Held by Us or for Our Account	Amount Outstanding Exclusive of Amount Under Column
Common Stock	200,000,000	—	10,425,431
Preferred Stock	25,000,000	—	—

As of December 31, 2019, we had 1,861 record holders of our common stock.

Share Repurchase Program

On a quarterly basis, the Company intends to offer to repurchase shares of common stock on such terms as may be determined by the Board in its complete and absolute discretion unless, in the judgment of the independent directors of the Board, such repurchases would not be in the best interests of the Company's stockholders or would violate applicable law. The Company will conduct such repurchase offers in accordance with the requirements of Rule 13e-4 of the Exchange Act and the 1940 Act. In months in which the Company repurchases shares of common stock, it may, but will not necessarily, conduct repurchases on the same date that it holds its first weekly closing for the sale of shares of common stock in its public offering. Any offer to repurchase shares of common stock will be conducted solely through tender offer materials mailed to each stockholder.

The Company currently intends to limit the number of shares of common stock to be repurchased during any calendar year to the number of shares of common stock it can repurchase with the proceeds it receives from the sale of shares of common stock under its distribution reinvestment plan. At the discretion of the Board, the Company may also use cash on hand, cash available from borrowings and cash from liquidation of securities investments as of the end of the applicable period to repurchase shares of common stock. In addition, the Company will limit the number of shares of common stock to be repurchased in any calendar year to 10.0% of the weighted average number of shares of common stock outstanding in the prior calendar year, or 2.5% in each quarter, though the actual number of shares of common stock that the Company offers to repurchase may be less in light of the limitations noted above. The Company intends to offer to repurchase such shares of common stock at a price equal to 90% of the offering price in effect on each date of repurchase. In months in which the Company repurchases shares of common stock pursuant to its share repurchase program, it expects to conduct repurchases on the same date that it holds its first weekly closing in such month for the sale of shares of common stock in its continuous public offering. The Board may amend, suspend or terminate the share repurchase program at any time, upon 30 days' notice.

We will repurchase shares from a stockholder in the event of the stockholder's death or Qualifying Disability, as defined below, upon such shares being presented to us for repurchase. The repurchase price for repurchases in connection with a stockholder's death or Qualifying Disability will be the NAV as determined for the next weekly pricing period commencing after the receipt by our transfer agent of a repurchase request in proper form.

We will not be obligated to repurchase shares if more than 360 days have elapsed since the date of the death or Qualifying Disability of a stockholder. Further, the Board will have no obligation to repurchase shares if it would cause us to violate federal law or Delaware law. Moreover, the Board has the right to suspend or terminate this repurchase right to the extent that it determines it is in our best interest to do so. This repurchase right will terminate on the date that our shares are listed on a national securities exchange or are included for quotation in a national securities market. All shares to be repurchased must be (i) fully transferable and not be subject to any liens or other encumbrances and (ii) free from any restrictions on transfer. If we determine that a lien or other encumbrance or restriction exists against the shares requested to be repurchased, we will not repurchase any such shares.

In order for a disability to be considered a "Qualifying Disability," (1) the stockholder must receive a determination of disability based upon a physical or mental condition or impairment arising after the date the stockholder acquired the shares to be repurchased, and (2) such determination of disability must be made by the governmental agency responsible for reviewing the disability retirement benefits that the stockholder could be eligible to receive (the "Applicable Governmental Agency"). For purposes of this repurchase right, Applicable Governmental Agencies are limited to the following:

- if the stockholder paid Social Security taxes and, therefore, could be eligible to receive Social Security disability benefits, then the Applicable Governmental Agency is the Social Security Administration or the agency charged with the responsibility for administering Social Security disability benefits at that time if other than the Social Security Administration;
- if the stockholder did not pay Social Security taxes and, therefore, could not be eligible to receive Social Security disability benefits, but the stockholder could be eligible to receive disability benefits under the Civil Service Retirement System (the "CSRS"), then the Applicable Governmental Agency is the U.S. Office of Personnel Management or the agency charged with the responsibility for administering CSRS benefits at that time if other than the U.S. Office of Personnel Management; or
- if the stockholder did not pay Social Security taxes and, therefore, could not be eligible to receive Social Security benefits, but suffered a disability that resulted in the stockholder's discharge from military service under conditions that were other than dishonorable and, therefore, could be eligible to receive military disability benefits, then the Applicable Governmental Agency is the Department of Veterans Affairs or the agency charged with the responsibility for administering military benefits at that time if other than the Department of Veterans Affairs.

Disability determinations by governmental agencies for purposes other than those listed above, including, but not limited to, workers' compensation insurance, the administration or enforcement of the Rehabilitation Act or Americans with Disabilities Act, or waiver of insurance premiums, will not entitle a stockholder to the repurchase right. Further, as the following disabilities do not entitle a worker to Social Security disability benefits, they do not qualify the stockholder for the repurchase right, except in the limited circumstances when the stockholder is awarded disability benefits by one of the Applicable Governmental Agencies described above: (a) disabilities occurring after the legal retirement age; and (b) disabilities that do not render a worker incapable of performing substantial gainful activity.

All stockholder repurchase requests must be accompanied by: (1) the investor's initial application for disability benefits and (2) a Social Security Administration Notice of Award, a U.S. Office of Personnel Management determination of disability under CSRS, a Department of Veterans Affairs record of disability-related discharge or such other documentation issued by the Applicable Governmental Agency that we deem acceptable and that demonstrates an award of disability benefits.

If you tender all common shares you hold, or are considered to be holding, and you do not hold (directly or by attribution) any other units of our shares (e.g., preferred shares, if any), you will be treated as having sold your shares and generally will realize a capital gain or loss. If you tender fewer than all of your common shares or continue to hold (directly or by attribution) other units of our shares (e.g., preferred shares, if any), you may be treated as having received a distribution under Section 301 of the Code ("Section 301 distribution") unless the redemption is treated as being either (i) "substantially disproportionate" or (ii) otherwise "not essentially equivalent to a dividend" under the relevant rules of the Code. A Section 301 distribution is not treated as a sale or exchange giving rise to a capital gain or loss, but rather is treated as a dividend to the extent supported by our current and accumulated earnings and profits, with the excess treated as a return of capital reducing your tax basis in Company shares, and thereafter as capital gain. In such a case, there is a risk that non-tendering shareholders whose interests in us increase as a result of such tender will be treated as having received a taxable distribution from us.

To the extent we recognize net gains on the liquidation of portfolio securities to meet such tenders, we will be required to make additional distributions to our common shareholders.

Issuer Purchases of Equity Securities

Date	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program
October 8, 2014	652,174	$ 9.20	0
March 31, 2016	3,232	8.55	3,232
December 31, 2016	4,169	9.24	4,169
March 31, 2017	58,893	9.59	58,893
June 30, 2017	23,441	9.59	23,441
September 30, 2017	37,284	9.36	37,284
December 31, 2017	10,820	9.52	10,820
March 31, 2018	73,736	9.89	73,736
June 30, 2018	142,605	9.69	142,605
September 30, 2018	73,877	9.61	73,877
December 31, 2018	183,934	8.75	183,934
March 31, 2019	125,146	8.51	125,146
June 30, 2019	71,112	8.69	71,112
September 30, 2019	127,126	8.58	127,126
December 31, 2019	131,082	8.41	131,082

For the year ended December 31, 2019, the Company did not repurchase any shares as part of its death and disability program. For the year ended December 31, 2018, the Company also repurchased 3,752 shares as part of its death and disability program. For the year ended December 31, 2016, the Company also repurchased 15,553 shares as part of its death and disability program. For the years ended December 31, 2017, 2015 and 2014, the Company did not repurchase any shares as part of its death and disability program.

Distributions

Subject to the Board's discretion and applicable legal restrictions, we intend to authorize and declare ordinary cash distributions on a weekly basis to be paid out monthly. We will then calculate each stockholder's specific distribution amount for the period using record and declaration dates, and each stockholder's distributions will begin to accrue on the date we accept each stockholder's subscription for shares of our common stock. From time to time, we may also pay special interim distributions in the form of cash or shares of common stock at the discretion of the Board. We also intend to distribute any net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually out of the assets legally available for such distributions. For example, the Board may periodically declare share distributions in order to reduce our NAV per share if necessary to ensure that we do not sell shares at a price below NAV per share. Each year a statement on Form 1099-DIV, identifying the source of the distributions (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of capital, which is generally a nontaxable distribution), will be mailed to our stockholders. Our distributions may exceed our earnings and profits, especially during the period before we have invested substantially all of the proceeds from this offering. As a result, a portion of the distributions we make may represent a return of capital for tax purposes. A return of capital is a return of your investment rather than a return of earnings or gains derived from our investment activities and will be made after deduction of the fees and expenses payable in connection with the offering, including any fees payable to the Adviser. There can be no assurance that we will be able to pay distributions at a specific rate or at all.

In order to qualify for the special tax treatment accorded RICs and their shareholders, we must, among other things, distribute to our stockholders for each taxable year at least the sum of 90% of our investment company taxable income, which is generally our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, and 90% of any tax-exempt interest income on an annual basis out of the assets legally available for such distributions. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually out of the assets legally available for such distributions.

We have adopted an "opt in" distribution reinvestment plan for our stockholders. As a result, if we make a cash distribution, then stockholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to reinvest their cash distributions in additional shares of our common stock. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a stockholder's ability to participate in our distribution reinvestment plan. If you do not elect to participate in the plan, you will automatically receive any distributions we declare in cash. Stockholders who receive distributions in the form of shares of common stock will generally be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash.

We intend to use newly issued shares to implement the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable by the NAV determined in the last weekly closing of the month.

We may fund our cash distributions to stockholders from any sources of funds available to us, including offering proceeds, borrowings, net investment income from operations, capital gains proceeds from the sale of assets, non-capital gains proceeds from the sale of assets and expense reimbursements from the Adviser. We have not established limits on the amount of funds we may use from available source to make distributions.

On a quarterly basis, we will send information to all stockholders of record regarding distributions paid to our stockholders in such quarter.

Payable Date	Dividend/ Share [1]	Total Dividend [1]	Dividends Reinvested [2] [3]
1/02/2020	0.060	625,526	—
11/28/2019	0.060	630,505	398,908
10/30/2019	0.060	627,684	397,044
10/02/2019	0.060	632,534	397,215
8/28/2019	0.060	628,890	398,232
7/31/2019	0.060	626,130	395,900
6/26/2019	0.060	624,201	396,249
5/30/2019	0.060	625,758	398,933
5/01/2019	0.060	623,117	396,582
3/27/2019	0.060	620,420	392,542
2/27/2019	0.060	625,257	397,969
1/30/2019	0.060	622,648	397,645
1/03/2019 [2]	—	—	456,444
Total	**$ 0.720**	**$7,512,670**	**$ 4,823,663**

1 For the current period, there were no dividends classified as a return of capital.
2 The December 2018 Dividend was reinvested in January 2019, see total December 2018 Dividend in table below.
3 The December 2019 Dividend will be reinvested in January 2020.

Payable Date	Dividend/ Share	Total Dividend [1]	Dividends Reinvested [2]
1/03/2019	$ 0.069	$ 721,979	$ —
11/28/2018	0.055	579,638	370,940
10/31/2018	0.069	721,071	461,560
9/26/2018	0.055	578,884	369,031
8/29/2018	0.055	576,777	367,935
8/01/2018	0.069	717,708	459,995
6/27/2018	0.055	579,962	367,710
5/30/2018	0.055	577,847	368,895
5/02/2018	0.069	719,079	459,922
3/28/2018	0.055	577,343	367,026
2/28/2018	0.055	566,708	368,154
1/31/2018	0.069	683,782	451,968
Total	**$ 0.730**	**$7,600,778**	**$4,413,136**

1 For the current year, there were no dividends classified as a return of capital.
2 The December 2018 Dividend will be reinvested in January 2019.

Payable Date	Dividend/ Share	Total Dividend (1)	Dividends Reinvested
12/27/2017	$ 0.055	$ 532,460	$ 351,929
11/29/2017	0.055	517,804	341,262
11/1/2017	0.069	636,662	417,795
9/27/2017	0.055	505,439	331,096
8/30/2017	0.055	497,727	328,315
8/2/2017	0.069	610,689	403,364
6/28/2017	0.055	481,256	318,649
5/31/2017	0.069	580,257	385,226
4/26/2017	0.055	445,910	295,916
3/29/2017	0.055	431,714	286,868
3/1/2017	0.055	418,078	277,772
2/1/2017	0.069	499,353	332,190
Total	**$ 0.716**	**$6,157,349**	**$4,070,382**

1 For the current year, there were no dividends classified as a return of capital.

Payable Date	Dividend/ Share	Total Dividend (1)	Dividends Reinvested
12/28/2016	$ 0.055	$ 382,152	$ 255,650
11/30/2016	0.055	368,541	247,396
11/2/2016	0.069	430,784	292,800
9/30/2016	0.055	321,955	220,312
8/31/2016	0.069	377,172	261,451
7/30/2016	0.055	277,907	200,860
6/29/2016 (2)	0.055	255,731	190,535
6/1/2016 (3)	0.067	280,557	216,628
4/29/2016	0.058	228,769	177,275
3/31/2016	0.058	196,318	161,095
2/29/2016	0.058	178,122	152,304
1/29/2016	0.058	166,836	146,197
Total	**$ 0.712**	**$3,464,844**	**$2,522,503**

1 For the current year, there were no dividends classified as a return of capital.

2 On May 12, 2016, the Board approved a $0.002 per share monthly increase to the dividend, which was normalized to the weekly distribution schedule starting in June 2016.

3 Beginning in May 2016, we began declaring dividends weekly.

Please see below for a table detailing the dividends paid for the year ended December 31, 2015:

Payable Date	Dividend/ Share	Total Dividend [1]	Dividends Reinvested
1/30/2015	$ 0.050	$ 69,054	$ 69,022
2/27/2015	0.058	100,082	100,044
3/31/2015	0.058	104,842	104,543
4/30/2015	0.058	108,525	107,595
5/29/2015	0.058	114,540	112,647
6/30/2015	0.058	117,215	115,203
7/31/2015	0.058	125,195	122,496
8/31/2015	0.058	128,773	124,959
9/30/2015	0.058	134,498	130,315
10/30/2015	0.058	141,377	134,845
11/30/2015	0.058	147,122	137,008
12/31/2015	0.058	155,396	139,260
Total	**$ 0.688**	**$1,446,619**	**$1,397,937**

1 Of the total dividends shown, $262,760 was classified as a return of capital.

Item 6. Selected Financial Data

The following selected financial data for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 is derived from our financial statements. The data should be read in conjunction with our financial statements and related notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report on Form 10-K.

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Statements of operations data:					
Total investment income	$ 7,847,493	$ 7,568,407	$ 7,434,820	$ 4,679,654	$ 1,276,784
Expenses					
Total expenses	4,838,086	4,300,176	4,296,083	3,357,229	2,092,339
Expenses waived or reimbursed by the Advisor	(147,269)	(427,420)	(1,955,190)	(2,024,665)	(1,689,730)
Net expenses	4,690,817	3,872,756	2,340,893	1,332,564	402,609
Net investment income	3,156,676	3,695,651	5,093,927	3,347,090	874,175
Net realized gain (loss) on investments, securities sold short and total return swaps	389,680	2,844,449	663,709	1,408,557	(193,336)
Net change in unrealized appreciation (depreciation) on investments, securities sold short and total return swaps	5,644,539	(12,749,374)	1,710,536	2,870,451	(2,885,453)
Net increase from amounts committed by affiliates	—	—	—	872,000	1,403,000
Net increase (decrease) in net assets resulting from operations	$ 9,190,895	$ (6,209,274)	$ 7,468,172	$ 8,498,098	$ (801,614)
Distributions to stockholders:					
Net investment income	$ (7,514,283)	$ (7,600,778)	$ (6,157,349)	$ (3,464,844)	$ (1,183,859)
Realized Gains	—	—	—	—	—
Return of capital	—	—	—	—	(262,760)
Total distributions to stockholders	(7,514,283)	(7,600,778)	(6,157,349)	(3,464,844)	(1,446,619)
Per share information—basic and diluted:					
Net increase (decrease) in net assets resulting from operations [(1)]	$ 0.88	$ (0.60)	$ 0.87	$ 1.76	$ (0.39)
Balance sheet data:					
Total assets	$130,697,027	$125,482,590	$123,306,379	$ 87,473,718	$ 34,023,433
Total net assets	$ 88,935,553	$ 86,310,963	$ 94,859,957	$ 67,292,954	$ 22,298,879

(1) The per share data was derived by using the weighted average shares outstanding during the period.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information contained in this section should be read in conjunction with our unaudited financial statements and related notes thereto included elsewhere in this quarterly report on Form 10-Q. In this report, "we," "us" and "our" refer to NexPoint Capital, Inc.

Forward-Looking Statements

Some of the statements in this annual report on Form 10-K constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this annual report on Form 10-K may include statements as to:

- our future operating results;
- changes in healthcare technologies, finance and regulations adversely affecting our portfolio companies or financing model;
- changes in political, economic or industry conditions, the interest rate environment or conditions affecting the financial and capital markets, which could result in changes to the value of our assets;
- our business prospects and the prospects of the companies in which we may invest;
- the impact of the investments that we expect to make;
- the impact of increased competition;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we may invest;
- the ability of our portfolio companies to achieve their objectives;
- the relative and absolute performance of our investment adviser;
- our current and expected financings and investments;
- our ability to make distributions to our stockholders;
- the adequacy of our cash resources, financing sources and working capital;
- the timing and amount of cash flows, distributions and dividends, if any, from our portfolio companies;
- our use of financial leverage;
- the ability of the Adviser, to locate suitable investments for us and to monitor and administer our investments;
- the ability of the Adviser or its affiliates to attract and retain highly talented professionals;
- our ability to maintain our qualification as a regulated investment company, or RIC, and as a business development company, or BDC;
- the impact on our business of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations issued thereunder;
- the effect of changes to tax legislation and our tax position; and
- the tax status of the enterprises in which we may invest.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include the words "may," "might," "will," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "anticipate," "predict," "potential," "plan" or similar words. The forward-looking statements contained in this annual report on Form 10-K involve risks and uncertainties. Our actual results could differ materially from those implied or expressed in the forward-looking statements for any reason, including the factors set forth elsewhere in this annual report on Form 10-K and as "Risk Factors" in the prospectus relating to the continuous public offering of our common stock.

We have based the forward-looking statements included in this annual report on Form 10-K on information available to us on the date of this annual report on Form 10-K. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders are advised to consult any additional disclosures that we may make directly to stockholders or through reports that we may file in the future with the U.S. Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this annual report on Form 10-K are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This quarterly report on Form 10-K may contain statistics and other data that have been obtained from or compiled from information made available by third-party service providers. We have not independently verified such statistics or data.

Overview

We were formed in Delaware on September 30, 2013 and formally commenced operations on September 2, 2014. We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (a "BDC") under the Investment Company Act of 1940, as amended (the "1940 Act"). In addition, for U.S. federal income tax purposes, we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code") with retroactive effect to the date we elected to be treated as a BDC. As a BDC, we are also subject to certain constraints, including limitations imposed by the 1940 Act and the Code.

Our investment activities are managed by NexPoint Advisors, L.P. (our "Adviser") and supervised by our board of directors (the "Board"), the members of which are independent of us.

Our investment objective is to generate high current income and long-term capital appreciation. We seek to achieve our objective by using the experience of the healthcare, credit and structured products teams of Highland Capital Management, L.P. ("Highland") to source, evaluate and structure investments, identify attractive investment opportunities that are primarily debt investments that generate high income without creating undue risk for the portfolio, make equity investments where we believe there will be attractive risk-adjusted returns that compensate for the lack of current income, and make investments in debt and equity tranches of collateralized loan obligations, or CLOs, that deliver income and high relative value. We will focus on companies that are stable, have positive cash flow and the ability to grow their business model.

Our investment policy is to invest, under normal circumstances, at least 80% of our total assets in debt and equity of middle-market companies, with an emphasis on healthcare companies, syndicated floating rate debt of large public and nonpublic companies and mezzanine and equity tranches of CLOs. Middle-market companies include companies with annual revenues between $50,000,000 and $2,500,000,000 and syndicated floating rate debt refers to loans and other instruments originated by a bank to a corporation that are sold off, or syndicated, to investors in pieces. We consider a healthcare company to be a company that is engaged in the design, development, production, sale, management or distribution of products, services or facilities used for or in connection with the healthcare industry. Additionally, we consider companies that are materially impacted by the healthcare industry (such as a contractor that derives significant revenue or profit from the construction of hospitals) as being engaged in the healthcare industry. We may invest without limit in companies that are not in the healthcare sector.

We will leverage the expertise of Highland with regard to distressed investing and restructuring to make opportunistic investments in distressed companies. We will utilize the Highland credit underwriting capability to identify the types of companies we believe will provide high current income and/or long-term capital appreciation. In addition to the investments in the healthcare industry, we may invest a portion of our capital in other opportunistic investments in which the Adviser has expertise and where we believe an opportunity exists to achieve above average risk adjusted yields and returns. These types of opportunities may include: (1) direct lending or origination investments, (2) investments in stressed or distressed situations, (3) structured product investments, (4) equity investments and (5) other investment opportunities not typically available in other BDCs. Opportunistic investments may range from broadly syndicated deals to direct lending deals in both private and public companies and may include foreign investments. We believe this is the best approach to achieving our dual mandate of attempting to generate a high yield while also attempting to produce capital appreciation.

We seek to invest primarily in securities deemed by the Adviser to be high income generating debt investments and income generating equity securities of privately held companies in the United States. We expect the portfolio will be concentrated primarily in senior floating rate debt securities, although we may invest without limit in securities which rank lower than senior secured instruments and may invest without limit in investments with a fixed rate of interest. We will buy syndicated loans, various tranches of CLOs and other debt instruments in the secondary market as well as originate debt so we can tailor the investment parameters more precisely to our needs. We also intend to invest a portion of the portfolio in equity securities that are non-income producing, when doing so will help us achieve our objective of long-term capital appreciation. We expect the size of our positions will range from less than $1,000,000 to $20,000,000, although investments may be larger as our asset base increases. We may selectively make investments in amounts larger than $20,000,000 in some of our portfolio companies. While our asset base increases, we may make smaller investments. We may invest up to 15% of our net assets in entities that are excluded from registration under the 1940 Act by virtue of section 3(c)(1) and 3(c)(7) of the 1940 Act (such as private equity funds or hedge funds). This limitation does not apply to any CLOs, certain of which may rely on Section 3(c)(1) or 3(c)(7) of the 1940 Act.

We expect that many of the securities in which we invest will be rated below investment grade by independent rating agencies or would be rated below investment grade if they were rated. These securities, which may be referred to as "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. In addition, we expect that many of our debt investments will include floating interest rates that reset on a periodic basis and typically will not require the borrowers to pay down the outstanding principal of such debt prior to maturity.

We, Highland and the Adviser have obtained an exemptive order dated April 19, 2016 from the SEC to permit co-investments among the Company and certain other accounts managed by the Adviser or its affiliates, subject to certain conditions.

Public Offering

As a result of a series of private placements to the Adviser, we successfully satisfied the minimum offering requirement and officially commenced operations on September 2, 2014. In connection with the satisfaction of the minimum offering requirement and the commencement of our operations, the Investment Advisory Agreement became effective and the base management fee and any incentive fees, as applicable, payable to the Adviser under the Investment Advisory Agreement began to accrue. In aggregate as of December 31, 2019 the Adviser controls 2,513,370 total shares, including reinvestment of dividends, for a net amount of approximately $21.4 million. In February 2018, we closed our continuous public offering of shares of common stock.

Revenues

We generate a significant portion of our total revenue in the form of interest on the debt securities that we hold. We expect that the senior debt we invest in will generally have stated terms of 3 to 5 years and that the subordinated debt we invest in will generally have stated terms of 5 to 7 years. Our senior and subordinated debt investments bear interest at a fixed or floating rate. Interest on debt securities is generally payable monthly, quarterly or semiannually. In addition, some of our investments provide for deferred interest payments or payment-in-kind, or PIK, interest. We may also generate revenues in the form of dividends and other distributions on the equity or other securities we may hold. In addition, we may generate revenues in the form of commitment, closing, origination, structuring or diligence fees, monitoring fees, fees for providing managerial assistance, consulting fees, prepayment fees and performance-based fees. Any such fees generated in connection with our investments will be recognized as earned.

Expenses

We expect that our primary operating expenses will include the payment of fees to the Adviser under the Investment Advisory Agreement, our allocable portion of overhead expenses under the Administration Agreement and other operating costs described below. Prior to December 20, 2017, the Adviser was waiving most fees, subject to possible recoupment for expenses pertaining to periods from and after June 10, 2016. Effective December 20, 2017, the Adviser ended its voluntary waiver of advisory and administration fees. We bear all out-of-pocket costs and expenses of our operations and transactions, including:

- our organization (expenses initially paid by the Adviser until sufficient equity proceeds are raised);
- calculating our net asset value and net asset value per share (including the costs and expenses of independent valuation firms);
- fees and expenses, including travel expenses, incurred by the Adviser or payable to third parties in performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of this and all future offerings of common shares and other securities, and other incurrence of debt;
- the base management fee and any incentive fee;
- distributions on our shares;
- administration fees payable to the Adviser under the Administration Agreement;
- transfer agent and custody fees and expenses;
- the actual costs incurred by the Adviser as our administrator in providing managerial assistance to those portfolio companies that request it;
- amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments;
- brokerage fees and commissions;
- registration fees;
- listing fees;
- taxes;
- independent director fees and expenses;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable U.S. federal and state securities laws;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- costs of holding stockholder meetings;

- our fidelity bond;
- directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- litigation, indemnification and other non-recurring or extraordinary expenses;
- direct costs and expenses of administration and operation, including audit and legal costs;
- fees and expenses associated with marketing efforts, including deal sourcing fees and marketing to financial sponsors;
- dues, fees and charges of any trade association of which we are a member; and
- all other expenses reasonably incurred by us or the Adviser in connection with administering our business.

During periods of asset growth, we expect our general and administrative expenses to be relatively stable or decline as a percentage of total assets and increase during periods of asset declines.

Expense Limitation

Pursuant to an expense limitation agreement (the “Expense Limitation Agreement”), the Adviser is contractually obligated to waive fees and, if necessary, pay or reimburse certain other expenses to limit ordinary “Other Expenses” to 1.0% of the quarter-end value of the Company’s gross assets through the one year anniversary of the effective date of the registration statement. Under the Expense Limitation Agreement, “Other Expenses” are all expenses with the exception of advisor and administration fees, organization and offering costs and the following: (i) interest, taxes, dividends tied to short sales, brokerage commissions, and other expenditures which are capitalized in accordance with U.S. GAAP; (ii) expenses incurred indirectly as a result of investments in other investment companies and pooled investment vehicles; (iii) other expenses attributable to, and incurred as a result of, our investments; (iv) expenses payable to the Adviser, as administrator, for providing significant managerial assistance to our portfolio companies; and (v) other extraordinary expenses (including litigation expenses) not incurred in the ordinary course of our business. The obligation will automatically renew for one-year terms unless it is terminated by the Company or the Adviser upon written notice within 120 days of the end of the current term or upon termination of the Investment Advisory Agreement. The Expense Limitation Agreement will continue through at least April 30, 2020.

Any expenses waived or reimbursed by the Adviser pursuant to the Expense Limitation Agreement are subject to possible recoupment by the Adviser within three years from the date of the waiver or reimbursement. The recoupment by the Adviser will be limited to the amount of previously waived or reimbursed expenses and cannot cause the Company’s expenses to exceed any expense limitation in place at the time of recoupment or waiver.

Reimbursable Expenses Table

The cumulative total of fees waived by the Adviser under the Expense Limitation Agreement which are recoupable as of December 31, 2019 was $903,985. This balance, and the balances in the tables below, only include amounts pertaining to the Expense Limitation Agreement, and do not include waived advisory and administration fees subject to recoupment discussed elsewhere herein.

The following table reflects the 2019 quarterly fee waivers and expense reimbursements due from the Adviser as of December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, which may become subject to recoupment by the Adviser.

Quarter Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Reimbursement	Quarterly Recoupable/ (Recouped) Amount	Recoupment Eligibility Expiration
December 31, 2019	$ 1,098,789	951,520	147,269	50,130	December 31, 2022
September 30, 2019	849,345	752,206	97,139	(17,417)	September 30, 2022
June 30, 2019	586,411	471,855	114,556	75,592	June 30, 2022
March 31, 2019	295,177	256,213	38,964	38,964	March 31, 2022

The following table reflects the 2018 quarterly fee waivers and expense reimbursements due from the Adviser as of December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018, which are subject to recoupment by the Adviser.

Quarter Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Reimbursement	Quarterly Recoupable/ (Recouped) Amount	Recoupment Eligibility Expiration
December 31, 2018	$ 1,352,097	$924,677	$ 427,420	$ 279,079	December 31, 2021
September 30, 2018	950,045	801,704	148,341	23,992	September 30, 2021
June 30, 2018	613,809	489,460	124,349	44,203	June 30, 2021
March 31, 2018	341,882	261,736	80,146	80,146	March 31, 2021

The following table reflects the 2017 quarterly fee waivers and expense reimbursements due from the Adviser as of December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017, which may become subject to recoupment by the Adviser.

Quarter Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Reimbursement	Quarterly Recoupable/ (Recouped) Amount	Recoupment Eligibility Expiration
December 31, 2017	$ 1,304,585	$975,289	$ 329,296	$(122,135)	December 31, 2020
September 30, 2017	983,110	531,679	451,431	252,953	September 30, 2020
June 30, 2017	631,906	433,428	198,478	50,913	June 30, 2020
March 31, 2017	329,791	182,226	147,565	147,565	March 31, 2020

During the year ended December 31, 2019, $427,831 of expense reimbursements that were eligible for recoupment by the Adviser expired.

There can be no assurance that the Expense Limitation Agreement will remain in effect beyond April 30, 2020 or that the Adviser will reimburse any portion of our expenses in future quarters not covered by the Expense Limitation Agreement. Amounts shown do not include the amounts committed by the Adviser to voluntarily reimburse the Company for unrealized losses, all of which are not recoupable.

Portfolio Investment Activity for the year ended December 31, 2019, 2018 and 2017

During the year ended December 31, 2019, we made long investments in portfolio companies and other investments totaling $42,308,348. During the same period, we generated proceeds from sales and principal repayments on long investments of $44,370,241. As of December 31, 2019, our investment portfolio, with a total fair value of $100.4 million, consisted of 54 positions in portfolio companies (calculated as a percentage of total net assets: 7.7% in first lien senior secured loans, 0.3% in second lien senior secured loans, 0.0% in escrow loans, 3.7% in unsecured loans, 40.6% in corporate bonds, 0.7% in asset-backed securities, 2.1% in closed-end mutual funds, 0.1% in warrants, 22.9% in common stock, 8.5% in preferred stocks, 9.3% in LLC Interests, 4.0% in mortgage-backed-securities, and 0.1% in rights). As of December 31, 2019, including investments underlying the TRS with BNP Paribas on a look-through basis, the debt investments in our portfolio carry a weighted average cost price of 97.24% on par or stated value, as applicable, and our estimated gross annual portfolio yield (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage costs, was 6.66% based on the amortized cost of our investments. The portfolio yield does not represent an actual investment return to stockholders and does not include income from CLO equity.

During the year ended December 31, 2018, we made long investments in portfolio companies and other investments totaling $64,748,316. During the same period, we sold long investments for proceeds of $54,849,304. As of December 31, 2018, our investment portfolio, with a total fair value of $96.2 million, consisted of 45 positions in portfolio companies (calculated as a percentage of total net assets: 9.7% in first lien senior secured loans, 5.0% in second lien senior secured loans, 0.0% in escrow loans, 4.0% in unsecured loans, 50.9% in corporate bonds, 1.1% in asset-backed securities, 1.4% in closed-end mutual funds, 0.1% in warrants, 22.9% in common stock, 4.9% in preferred stocks, and 0.0% in rights). As of December 31, 2018, including investments underlying the TRS with BNP Paribas on a look-through basis, the debt investments in our portfolio carry a weighted average cost price of 94.66% on par or stated value, as applicable, and our estimated gross annual portfolio yield (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage costs, was 6.92% based on the amortized cost of our investments. The portfolio yield does not represent an actual investment return to stockholders and does not include income from CLO equity.

During the year ended December 31, 2017, we made long investments in portfolio companies and other investments totaling $92,574,632. During the same period, we sold long investments for proceeds of $81,852,041. As of December 31, 2017, our investment portfolio, with a total fair value of $94.0 million, consisted of 41 positions in portfolio companies (calculated as a percentage of total net assets: 15.9% in first lien senior secured loans, 4.7% in second lien senior secured loans, 3.5% in unsecured loans, 56.0% in corporate bonds, 2.1% in asset-backed securities, 0.9% in warrants, 14.7% in common stock, 2.1% in preferred stocks, and 0.1% in rights). As of December 31, 2017, including investments underlying the TRS with BNP Paribas on a look-through basis, the debt investments in our portfolio carry a weighted average cost price of 88.70% on par or stated value, as applicable, and our estimated gross annual portfolio yield (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage costs, was 7.70% based on the amortized cost of our investments. The portfolio yield does not represent an actual investment return to stockholders and does not include income from CLO equity.

Total Portfolio Activity

The following tables present selected information regarding our portfolio investment activity for the years ended December 31, 2019, 2018 and 2017:

Net Investment Activity	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**
Purchases	$ 42,308,348	$ 64,748,316	$ 92,574,632
Proceeds from Securities Sold Short	—	—	—
Payment-in-kind	635,742	517,567	297,068
Purchases of Securities Sold Short	—	—	—
Sales and Principal Repayments	(44,370,241)	(54,849,304)	(81,852,041)
Net Portfolio Activity	(1,426,151)	$ 10,416,579	$ 11,019,659

New Investment Activity by Asset Class	For the Year Ended December 31, 2019 Purchases	Percentage	For the Year Ended December 31, 2018 Purchases	Percentage	For the Year Ended December 31, 2017 Purchases	Percentage
Senior Secured Loans—First Lien	$ 7,342,761	17.4%	$25,960,529	40.1%	$22,868,996	24.7%
Senior Secured Loans—Second Lien	—	0.0%	3,527,778	5.4%	1,641,667	1.8%
Unsecured Loans	—	0.0%	—	0.0%	2,665,483	2.9%
Corporate Bonds—Senior Unsecured	9,315,445	22.0%	21,092,094	32.6%	47,394,568	51.2%
Convertible Bonds—Senior Unsecured	—	0.0%	—	0.0%	—	0.0%
Foreign Sovereign Bonds—Senior Unsecured	—	0.0%	—	0.0%	—	0.0%
LLC Interests	7,000,000	16.5%	—	0.0%	—	0.0%
Mortgage-Backed-Securities	4,000,000	9.5%	—	0.0%	—	0.0%
Asset-Backed Securities	—	0.0%	—	0.0%	—	0.0%
Closed-End Mutual Funds	994,448	2.4%	1,429,865	2.2%	14,154	0.0%
Preferred Stocks	5,689,561	13.4%	4,000,008	6.2%	3,215,965	3.5%
Warrants	52,987	0.1%	—	0.0%	280,701	0.3%
Purchased Call Options	—	0.0%	—	0.0%	—	0.0%
Purchased Put Options	—	0.0%	—	0.0%	—	0.0%
Equities	7,913,146	18.7%	8,738,042	13.5%	14,493,098	15.6%
Total Investments	$42,308,348	100.0%	$64,748,316	100.0%	$92,574,632	100.0%

The following tables summarize the composition of our investment portfolio at amortized cost and fair value as of December 31, 2019 and December 31, 2018:

Portfolio Composition by Investment Type	December 31, 2019 Amortized Cost [(1)]	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans—First Lien	$ 8,473,042	$ 7,683,965	7.7%
Senior Secured Loans—Second Lien	553,265	326,838	0.3%
Senior Secured Loans—Escrow Loan	79,372	1,925	0.0%
Unsecured Loans	4,195,580	3,713,191	3.7%
Asset-Backed Securities	896,536	743,520	0.7%
Mortgage-Backed Securities	3,996,530	3,994,444	4.0%
Closed-End Mutual Funds	2,419,467	2,136,410	2.1%
Corporate Bonds	42,275,712	40,822,499	40.6%
Common Stocks	20,812,044	23,018,795	22.9%
LLC Interests	9,189,561	9,358,646	9.3%
Preferred Stocks	10,285,555	8,491,470	85%
Rights	148,370	61,391	0.1%
Warrants	52,988	74,598	0.1%
Total Investments	**$103,378,022**	**$100,427,692**	**100.0%**

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

Portfolio Composition by Investment Type	December 31, 2018 Amortized Cost (1)	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans—First Lien	$ 10,482,803	$ 9,297,810	9.7%
Senior Secured Loans—Second Lien	4,985,731	4,821,364	5.0%
Senior Secured Loans—Escrow Loan	87,816	8,750	0.0%
Unsecured Loans	3,454,143	3,838,472	4.0%
Asset-Backed Securities	1,217,703	1,031,283	1.1%
Closed-End Mutual Funds	1,444,019	1,297,005	1.4%
Corporate Bonds	53,545,694	48,978,855	50.9%
Common Stocks	22,542,416	22,062,438	22.9%
Preferred Stocks	7,113,316	4,760,233	4.9%
Warrants	—	90,448	0.1%
Rights	148,619	43,183	0.0%
Total Investments	$105,022,260	$96,229,841	100.0%

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

The following tables summarize the amortized cost and the fair value of the Company's invested assets by class of financial asset as of December 31, 2019 and December 31, 2018 to include, on a look-through basis, the investments underlying the TRS, as disclosed in Note 7 of the financial statements included herein. The investments underlying the TRS had a notional amount of $50,904,830 and a market value of $47,899,681 as of December 31, 2019, and a notional amount of $55,763,056 and a market value of $53,007,114 as of December 31, 2018.

Portfolio Composition by Investment Type	December 31, 2019 Amortized Cost (1)	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans—First Lien	$ 51,120,740	$ 47,656,091	32.1%
Senior Secured Loans—Second Lien	8,810,397	8,254,393	5.6%
Senior Secured Loans—Escrow Loan	79,372	1,925	0.0%
Unsecured Loans	4,195,580	3,713,191	2.5%
Asset-Backed Securities	896,536	743,520	0.5%
Mortage-Backed Mutual Funds	3,996,530	3,994,444	2.7%
Closed-End Mutual Funds	2,419,467	2,136,410	1.4%
Corporate Bonds	42,275,712	40,822,499	27.6%
Common Stocks	20,812,044	23,018,795	15.5%
LLC Interests	9,189,561	9,358,646	6.3%
Preferred Stocks	10,285,555	8,491,470	5.7%
Rights	148,370	61,391	0.0%
Warrants	52,988	74,598	0.1%
Total	**$154,282,852**	**$148,327,373**	**100.0%**

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

Portfolio Composition by Investment Type	December 31, 2018 Amortized Cost [1]	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans—First Lien	$ 56,049,290	$ 52,886,814	35.4%
Senior Secured Loans—Second Lien	15,182,300	14,239,474	9.5%
Senior Secured Loans—Escrow Loan	87,816	8,750	0.0%
Unsecured Loans	3,454,143	3,838,472	2.6%
Asset-Backed Securities	1,217,703	1,031,283	0.7%
Closed-End Mutual Funds	1,444,019	1,297,005	0.9%
Corporate Bonds	53,545,694	48,978,855	32.8%
Common Stocks	22,542,416	22,062,438	14.8%
Preferred Stocks	7,113,316	4,760,233	3.2%
Warrants	—	90,448	0.1%
Rights	148,619	43,183	0.0%
Total Investments	**$160,785,316**	**$149,236,955**	**100.0%**

(1) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

The following table presents certain selected information regarding the composition of our investment portfolio as of December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Number of Investments	54	45
% Variable Rate (based on fair value)	56%[1]	55%[1]
% Non-Income Producing Equity or Other Investments (based on fair value)	9%[1]	10%[1]
Weighted Average Cost Price of Investments (as a % of par or stated value)	97.24%[1]	94.66%[1]
Weighted Average Credit Rating of Investments that were Rated	B3[1]	B3[1]
% of Fixed Income Investments on Non-Accrual (based on fair value)	0.1%[1]	4%[1]

(1) Includes value of investments underlying the TRS.

Portfolio Composition by Strategy and Industry

The table below summarizes the composition of our investment portfolio by strategy and enumerates the percentage, by fair value, of the total portfolio assets in such strategies as of December 31, 2019 and December 31, 2018:

Portfolio Composition by Strategy	December 31, 2019 Fair Value	December 31, 2019 Percentage of Portfolio	December 31, 2018 Fair Value	December 31, 2018 Percentage of Portfolio
Broadly Syndicated—Private	$ 4,611,683	4.6%	$ 7,120,928	7.4%
Broadly Syndicated—Public	21,598,588	21.5%	17,955,500	18.7%
Middle-Market	73,473,901	73.2%	69,066,327	71.7%
Opportunistic/Other	743,520	0.7%	2,087,086	2.2%
Total Invested Assets	$100,427,692	100.0%	$96,229,841	100.0%

Broadly syndicated debt refers to loans and other instruments originated by a bank to a large corporation (both private and public) that are sold off, or syndicated, to investors in pieces. Middle-Market companies include companies with annual revenues between $50 million and $2.5 billion.

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets in such industries as of December 31, 2019 and December 31, 2018:

	December 31, 2019		December 31, 2018	
Industry Classifications	**Fair Value**	**Percentage of Portfolio**	**Fair Value**	**Percentage of Portfolio**
Chemicals	$ 42,500	0.0%	$ 267,750	0.3%
Consumer Products	2,000,000	2.0%	—	0.0%
Energy	6,745,696	6.7%	7,367,190	7.7%
Financials	12,900,074	12.9%	7,537,163	7.8%
Healthcare	44,383,560	44.2%	55,217,193	57.4%
Materials	3,734,736	3.7%	5,182,069	5.4%
Media/Telecommunications	2,457,365	2.4%	4,437,753	4.6%
Real Estate Investment Trusts (REITs)	13,458,505	13.4%	7,927,970	8.2%
Real Estate	6,432,657	6.4%	—	0.0%
Retail	1,124,467	1.1%	1,171,825	1.2%
Service	59,183	0.1%	—	0.0%
Telecommunication Services	4,611,683	4.6%	4,436,645	4.6%
Utility	2,477,266	2.5%	2,684,283	2.8%
Total Invested Assets	**$100,427,692**	**100.0%**	**$96,229,841**	**100.0%**

As of December 31, 2019, the Company was an "affiliated person," as defined in the 1940 Act, of NexPoint Strategic Opportunities Fund (formally, NexPoint Credit Strategies Fund), NexPoint Capital REIT, LLC, and NexPoint Residential Trust, Inc. In general, under the 1940 Act, we are presumed to "control" a portfolio company if we owned 25% or more of its voting securities or we had the power to exercise control over the management or policies of such portfolio company, and would be an "affiliated person" of a portfolio company if we owned 5% or more of its voting securities. See Note 10 to the financial statements included herein for additional information regarding the investment in NexPoint Strategic Opportunities Fund.

Summary Description of Portfolio Companies/Investments

As of December 31, 2019 and December 31, 2018, 45% and 60% (based on fair value), respectively, of our portfolio consisted of healthcare related and opportunistic investments. Information regarding these investments is provided below, and includes investments underlying the TRS on a look-through basis. Included in the value at December 31, 2019 is the investment in Weight Watchers, which the Company views as related to the Healthcare Industry as defined in the Company's organizational documents. Information regarding these investments is provided below. This additional information is limited to publicly available information, and does not address credit worthiness or financial viability of the issuer, or our future plans as it relates to a specific investment:

Healthcare Investments

Ortho-Clinical Diagnostics: As of December 31, 2019 and December 31, 2018, we held corporate bonds of Ortho-Clinical Diagnostics ("Ortho-Clinical") having an aggregate fair value of $11.2 million and $8.3 million, respectively. Ortho-Clinical is a provider of in-vitro diagnostic solutions for screening, diagnosing, monitoring and confirming diseases, as well as immunohematology to ensure compatibility for blood transfusions and plasma screening for infectious diseases.

Bausch Health Companies, Inc; As of December 31, 2019 and December 31, 2018, we held senior secured loans and corporate bonds of Bausch Health Companies, Inc. ("Bausch") having an aggregate fair value of $6.9 million and $9.4 million, respectively. Bausch is a multinational, specialty pharmaceutical and medical device company that develops, manufacturers, and markets a broad range of branded, generic and branded generic pharmaceuticals, over-the-counter products, and medical devices, which are marketed directly or indirectly in over 100 countries. The company's broad portfolio of products is primarily focused in the areas of dermatology, gastrointestinal disorders, eye health (including Bausch + Lomb), neurology and branded generics. As part of management's ongoing commercial realignment program, the company changed its name from Valeant Pharmaceuticals, Inc. to Bausch Health Companies as of July 13, 2018. Bausch is headquartered in Laval, Quebec.

athenahealth, Inc.: As of December 31, 2019 and December 31, 2018, we held senior secured loans of AthenaHealth, Inc.") having an aggregate fair value of $5.9 million and $0.0 million, respectively. athenahealth is a provider of web-based electronic health records and practice management systems for medical groups and health systems, as well as related service offerings including revenue cycle management, patient engagement, care coordination and population health services. The company was acquired in a take-private transaction led by Veritas Capital and Elliott management in February 2019. athenahealth was founded in 1997 and is headquartered in Watertown, MA.

Surgery Center Holdings, Inc.: As of December 31, 2019 and December 31, 2018, we held corporate bonds of Surgery Center Holdings, Inc. with an aggregate fair value of $11.9 million and $9.3 million, respectively. Surgery Center Holdings, Inc. is a leading healthcare services company with a differentiated outpatient delivery model focused on providing high quality, cost effective solutions for surgical and related ancillary care. The company is one of the largest and fastest growing surgical services businesses in the US, with more than 180 surgical hospital and ambulatory surgery center locations across 31 states.

Endo Finance, LLC / Endo Finco Inc.: As of December 31, 2019 and December 31, 2018, we held corporate bonds and senior secured loans of Endo Finance, LLC ("Endo") with an aggregate fair value of $7.0 million and $9.5 million, respectively. Endo is a generics and specialty branded pharmaceutical company, with a portfolio of prescription products focused in the areas of pain management, urology, central nervous system disorders, immunosuppression, oncology, women's health and cardiovascular disease markets, among others. The company's portfolio includes products across an extensive range of dosage forms and delivery systems, including immediate and extended release oral solids, injectables, liquids, nasal sprays, ophthalmics and transdermal patches. Endo has global headquarters in Dublin, Ireland, and U.S. headquarters in Malvern, PA.

Opportunistic Investments

The Adviser makes opportunistic investments when it believes it has a differentiated view on an investment, has sourced a unique opportunity, or an investment has the potential for, in the Adviser's opinion, an outsized return for the risk assumed. We will typically limit opportunistic investments to 20% or less of the portfolio, although we may invest more from time to time. The objective of opportunistic investments is primarily to generate capital appreciation, however, some opportunities may produce income as well.

Vistra Energy: As of December 31, 2019 and December 31, 2018, we held common stock and rights shares of Vistra Energy (NYSE:VST) ("Vistra Energy") having an aggregate fair value of $2.5 million and $2.7 million, respectively. Vistra Energy is a premier, integrated, Fortune 350 energy company based in Irving, Texas, providing essential resources for customers, commerce, and communities. Vistra combines an innovative, customer-centric approach to retail with safe, reliable, diverse, and efficient power generation. The company brings its products and services to market in 20 states and the District of Columbia, including six of the seven competitive markets in the U.S. and markets in Canada and Japan, as well. Serving nearly 5 million residential, commercial, and industrial retail customers with electricity and gas, Vistra is the largest competitive residential electricity provider in the country and offers over 40 renewable energy plans. The company is also the largest competitive power generator in the U.S. with a capacity of approximately 39,000 megawatts powered by a diverse portfolio of natural gas, nuclear, coal, solar, and battery energy storage facilities. Vistra Energy was formerly named Texas Competitive Electric Holdings. The company emerged from bankruptcy on October 3, 2016. Upon emergence from bankruptcy, 1st lien creditor interests were converted into equity in the reorganized company. The reorganized equity is now listed on the New York Stock Exchange.

Results of Operations for the years ended December 31, 2019, 2018, and 2017

Revenues

We generate a significant portion of our investment income in the form of interest on the debt securities we purchase or originate. During the ramp up phase, we have invested primarily in broadly syndicated bank loans of private companies. Bank loans generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread. The base lending rate is typically the three-month LIBOR. The settlement of bank loans differs from the settlement of many other equity or debt instruments. Bank loans are manually settled through the agent by assignment. As a result, settlement can take an undetermined amount of time. Currently, according to data provided by Markit Partners, bank loans settle, on average, on the seventeenth day after the trade date. Generally, interest does not begin to accrue to the buyer until seven business days after the trade date.

Our CLO equity pays quarterly dividends based on excess cash flow available after the CLO's payment "waterfall" provisions. Both Grayson and PAMCO CLOs are past their respective investment periods, and as a result, excess cash flow is expected to decline over time. We, therefore, expect that the quarterly dividends paid by the investment will similarly decline.

Expenses

For the years ended December 31, 2019, 2018, and 2017 respectively, we had total net operating expenses of $4,690,817 or $0.45 per share, $3,872,756 or $0.37 per share, and $2,340,893 or $0.27 per share. Our operating expenses include base management fees attributed to the Adviser of $1,966,697, $2,025,178, and $1,575,420 for the year ended December 31, 2019, 2018, and 2017. Of these amounts, $0, $0, and $1,499,906 were voluntarily waived. Our expenses also include administrative services expenses attributed to the Adviser of $399,100, $409,789, and $314,337 for the years ended December 31, 2019, 2018 and 2017, respectively. Of these amounts, $0, $0, and $301,355 were voluntarily waived. Amounts waived for management fees or administrative services expenses pertaining to periods prior to June 10, 2016 are not recoupable, but amounts waived for management fees or administrative services expenses pertaining to periods from and after June 10, 2016 are subject to recoupment by the Adviser within three years from the date that such fees were otherwise payable, provided that the recoupment will be limited to the amount of such voluntarily waived fees from and after June 10, 2016 and will not cause the sum of the Company's advisory fees, administration fees, Other Expenses, and any recoupment to exceed the annual rate of 3.40% of average gross assets. Effective December 20, 2017, the Adviser ended its voluntary waiver of advisory fees.

Amounts waived and subject to recoupment pertaining to advisory and administration fees are shown below:

Period Ended	Advisory Fees Waived and Subject to Recoupment [1]	Administrator fees Waived and Subject to Recoupment [1]	Recoupment Eligibility Expiration
December 31, 2017	$ 413,916	$ 75,906	December 31, 2020
September 30, 2017	305,288	69,308	September 30, 2020
June 30, 2017	389,733	77,947	June 30, 2020
March 31, 2017	390,969	78,194	March 31, 2020
December 31, 2016	366,861	73,372	Expired
September 30, 2016	343,320	68,664	Expired
June 30, 2016	74,421	14,884	Expired
Total	**$ 2,284,508**	**$ 458,275**	

(1) The Advisor has permanently waived the recoupment of any advisory fees or administration fees calculated on the portion of gross assets attributable to the receivable from Advisor balance on the Statement of Assets and Liabilities.

In addition, cumulatively since inception through to June 10, 2016, the Company has voluntarily waived $930,143 and $186,042 of advisory fees and administration fees, respectively, all of which are not recoupable.

Our other expenses subject to the Expense Limitation Agreement for years ended December 31, 2019, 2018, and 2017 were $1,098,789, $1,352,097, and $1,304,585, respectively, and consisted of the following:

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Audit and tax fees	$ 249,463	$ 217,586	$ 209,609
Legal fees	53,438	201,688	174,258
Custodian and accounting service fees	318,085	315,384	314,438
Reports to stockholders	68,888	59,427	95,887
Stock transfer fee	329,695	405,227	399,382
Directors' fees	19,553	19,804	16,090
Other expenses	59,667	132,981	94,921
Total	$ 1,098,789	$ 1,352,097	$ 1,304,585

Please refer to the Expense Limitation section above for further details on expense reimbursements.

Net Investment Income

We earned net investment income of $3,559,889 or $0.45 per share, $3,695,651 or $0.36 per share, and $5,093,927 or $0.59 per share for the years ended December 31, 2019, 2018, and 2017, respectively.

Net Realized Gains or Losses

We had sales or principal repayments of $43,967,028, $54,849,304, and $81,852,041 during the years ended December 31, 2019, 2018, and 2017, respectively, from which we realized a net gains/(losses) of $(1,139,998) , 1,675,246, and $795,997, respectively. Additionally, during the year ended December 31, 2019, 2018, and 2017, we realized gains/(losses) on total return swaps of $1,530,270, $1,169,203 and $(132,288), respectively.

Net Change in Unrealized Appreciation (Depreciation) on Investments

For the years ended December 31, 2019, 2018, and 2017, the net change in unrealized appreciation (depreciation) on investments totaled $5,438,284 or $0.52 per share, $(10,765,705) or $(1.04) per share, and $2,274,359 or $0.27 per share, respectively. The net change in unrealized appreciation (depreciation) on our investments during the year ended December 31, 2019 was primarily driven by the performance in Independence Realty Trust, Inc. Common Stock, the net change in unrealized appreciation (depreciation) on our investments during the year ended December 31, 2018 was primarily driven by the performance in Quorum Health Corp. Common Stock, and the net change during the year ended December 31, 2017 was primarily driven by the positions in OmniMax International.

Net Increase from Payment from Affiliates

For the year ended December 31, 2016, the Adviser committed $872,000 to the Company to voluntarily reimburse the Company for unrealized losses sustained. No amounts were committed for the years ended December 31, 2019, 2018 and 2017. Cumulatively since inception, the Adviser has committed $2,275,000 to voluntarily reimburse the Company for such losses. Had these payments not been made, the NAV as of December 31, 2019 would have been lower. These payments are shown in the Statement of Operations as net increase from amounts committed by affiliates and are not recoupable.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the years ended December 31, 2019, 2018 and 2017, the net increase/(decrease) in net assets resulting from operations was $9,190,895 or $0.88 per share, $(6,209,274) or $(0.60) per share, and $7,468,172 or $0.87 per share, respectively.

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Income	$ 7,847,493	$ 7,568,407	$ 7,434,820
Expenses	(4,690,817)	(3,872,756)	(2,340,893)
Net Realized Gain/(Loss)	389,680	2,844,449	663,709
Net Unrealized Appreciation (Depreciation)	5,644,539	12,749,374	1,710,536
Net increase from amounts committed by affiliates	—	—	—
Total	$ 9,190,895	$ (6,209,274)	$ 7,468,172

Financial Condition, Liquidity and Capital Resources

As of December 31, 2019 and December 31, 2018, we had cash and cash equivalents of $7,764,892 and $7,112,205, respectively. As of December 31, 2019 and December 31, 2018, $7,745,979 and $6,957,619 was held in the State Street U.S. Government Money Market Fund, and $18,913 and $154,586 was held in a custodial account with State Street Bank and Trust Company, respectively. Cash and cash equivalents are available to fund new investments, pay operating expenses and pay distributions.

In aggregate as of December 31, 2019 the Adviser controls 2,513,370 total shares, including reinvestment of dividends, for a net amount of approximately $21.4 million.

The sales commissions and dealer manager fees related to the sale of our common stock were $0, $413,024, and $1,837,575 for the years ended December 31, 2019, 2018, and 2017 and were offset against capital in excess of par value on the financial statements.

We expect to generate cash primarily cash flows from fees, interest and dividends earned from our investments, as well as principal repayments and proceeds from sales of our investments.

Prior to investing in securities of portfolio companies, we invest the net proceeds from the issuance of shares of common stock under our distribution reinvestment plan and from sales and paydowns of existing investments primarily in cash, cash equivalents, U.S. government securities, repurchase agreements, high-quality debt instruments maturing in one year or less from the time of investment, consistent with our BDC election and our election to be treated as a RIC. Additionally, we may invest in higher yielding, liquid credit investments such as bank loans and corporate notes and bonds, which are considered “junk” as they are rated below investment grade, to the extent that at time of purchase 70% of our portfolio is in qualified investments as required by rules and regulations under the 1940 Act.

We may borrow funds to make investments, including before we have fully invested the proceeds of our continuous public offering, to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities. On January 6, 2015, we entered into a senior, secured revolving credit facility (the “Credit Facility”) with State Street Bank and Trust Company (“State Street”) as lender and agent. Under the Credit Facility, State Street had agreed to extend credit to us, in an aggregate principal amount of up to $25 million, subject to borrowing base availability and restrictions on our total outstanding debt. Loans under the Credit Facility bore interest (at our election) at either (1) the higher of (i) the federal funds rate plus 1.25% per annum and (ii) the daily one-month London Interbank Offered Rate (“LIBOR”) plus 1.25% per annum or (2) one-, two- or three-month LIBOR plus 1.15% per annum. Interest was payable monthly in arrears. On January 5, 2016, the Company amended the Credit Facility with State Street and extended the maturity to January 3, 2017. The amendment to the Credit Facility did not contain any other material changes to the original agreement which was entered into on January 6, 2015 other than increasing the commitment fee from 0.15% to

0.25% per annum on the daily unutilized portion of the $25 million program amount. On January 3, 2017, the Company amended the Credit Facility with State Street and extended the maturity to March 20, 2017. The Credit Facility was fully paid down on February 24, 2017 and expired on March 20, 2017. The Company incurred costs of $25,000 in connection with obtaining the Credit Facility. As of December 31, 2018, all such financing costs have been amortized to interest expense.

On October 19, 2017, the Company entered into a financing arrangement (the "Financing Arrangement") with BNP Paribas Prime Brokerage International, Ltd., BNP Prime Brokerage, Inc., and BNP Paribas (together, the "BNPP Entities"). Under the Financing Agreement, the BNPP Entities may make margin loans to the Company at a rate of one-month LIBOR + 1.30%. The BNPP Entities have the right to cap the amount of margin loans with prior notice to the Company. The Financing Arrangement may be terminated by either the Company or the BNPP Entities with 179 days' notice.

As of December 31, 2019 and December 31, 2018, $33,714,864 and $32,583,965, respectively, were outstanding under the Financing Arrangement.

For the year ended December 31, 2019, 2018, and 2017, the components of total interest expense were as follows:

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Direct interest expense	$ 1,233,085	$ 759,234	$ 95,181
Commitment fees	204	—	8,054
Amortization of financing costs	—	—	—
Total	$ 1,233,289	$ 759,234	$ 103,235

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. On April 2, 2018, the Company amended and restated the TRS Agreement with BNP Paribas to increase the maximum aggregate notional amount of the portfolio debt securities subject to the TRS to $60 million.

As of December 31, 2019, the TRS had a notional amount of $50,904,830 and a market value of $47,899,681. As of December 31, 2018, the TRS had a notional amount of $55,763,056 and a market value of $53,007,114. As of December 31, 2019 and December 31, 2018 cash collateral of $21,400,000 and $20,580,000, respectively, was posted against the TRS. See Note 7 to the financial statements included herein for additional information on the TRS.

While we are authorized to issue preferred stock, we do not currently anticipate issuing any.

Contractual Obligations and Off-Balance Sheet Arrangements

We may become a party to financial instruments with off-balance sheet risk in the normal course of our business to meet the financial needs of our portfolio companies. These instruments may include commitments to extend credit and involve, to varying degrees, elements of liquidity and credit risk in excess of the amount recognized in the balance sheet. As of December 31, 2019 and December 31, 2018, we had no outstanding commitments to fund investments.

We have certain contracts under which we have material future commitments. We have entered into the Investment Advisory Agreement with the Adviser in accordance with the 1940 Act. Under the Investment Advisory Agreement, the Adviser provides us with investment advisory and management services. For these services, we pay (1) a management fee equal to a percentage of the average value of our gross assets and (2) an incentive fee based on our performance.

The incentive fee consists of two parts. The first part, which is calculated and payable quarterly in arrears, equals Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter and is subject to a hurdle rate, expressed as a rate of return on our net assets, equal to 1.875% per quarter. As a result, the Adviser will not earn this incentive fee for any quarter until our pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.875%. Once our pre-incentive fee net investment income in any quarter exceeds the hurdle rate, the Adviser will be entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until our pre-incentive fee net investment income for such quarter equals 2.34375% of the Company's net assets at the end of such quarter. This "catch-up" feature allows the Adviser to recoup the fees foregone as a result of the existence of the hurdle rate. Thereafter, the Adviser will receive 20.0% of our pre-incentive fee net investment income. For purposes of calculating this part of the incentive fee, "Pre-Incentive Fee Net Investment Income" means interest income, distribution income and any other income (including any other fees, other than fees for providing managerial assistance, such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement and any interest expense and any dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation.

The second part of the incentive fee, which is referred to as the incentive fee on capital gains, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of our incentive fee capital gains, which will equal our realized capital gains on a cumulative basis from formation, calculated as of the end of the applicable period, computed net of all realized capital losses (proceeds less amortized cost) and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. We will accrue for the capital gains incentive fee, which, if earned, will be paid annually. We will accrue for the capital gains incentive fee based on net realized and unrealized gains; however, under the terms of the Investment Advisory Agreement, the fee payable to the Adviser will be based on realized gains and no such fee will be payable with respect to unrealized gains unless and until such gains are actually realized. For the years ended December 31, 2019, 2018, and 2017 the Company accrued $0, recognized a reduction of $(594,306), and accrued $418,739 of incentive fees on capital gains, respectively. Effective December 20, 2017, the Company ended its voluntary waiver of incentive fees. No such fees have been paid with respect to realized gains to the Adviser as of December 31, 2019.

Under the Administration Agreement, the Adviser furnishes us with office facilities and equipment, provides us clerical, bookkeeping and record keeping services at such facilities and provides us with other administrative services necessary to conduct our day-to-day operations. We will reimburse the Adviser for the allocable portion (subject to the review and approval of the Board) of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs, to the extent that such expenses do not exceed an annual rate of 0.4% of our gross assets. The Adviser also provides on our behalf significant managerial assistance to those portfolio companies to which we are required to offer to provide such assistance and any expenses payable to the Adviser for such managerial assistance are not subject to the cap on reimbursement.

Our organization and offering costs together are limited to 1% of total gross proceeds raised and are not due and payable to the Adviser to the extent they exceed that amount. The cumulative aggregate amount of organization and offering costs exceeds 1% of total proceeds raised. Subsequent to the termination of the Offering, the Adviser forfeited the right to reimbursement of the remaining $4,305,091 of these costs.

If any of the contractual obligations discussed above is terminated, our costs under any new agreements that we enter into may increase. In addition, we would likely incur significant time and expense in locating alternative parties to provide the services we receive under our Investment Advisory Agreement and our Administration Agreement. Any new investment advisory agreement would also be subject to approval by our stockholders.

If for any taxable year we were not a "publicly offered" RIC within the meaning of Code Section 67(c)(2)(B), certain of our direct and indirect expenses, including the management fee, the incentive fee and certain other advisory expenses, would be subject to special "pass-through" rules. Such rules would treat these expenses as additional dividends to certain of our direct or indirect stockholders (generally including individuals and entities that compute their taxable income in the same manner as an individual) and, under current law are not deductible by those stockholders that are individuals (or entities that compute their taxable income in the same manner as an individual).

Distributions

In order to qualify for the special tax treatment accorded RICs and their shareholders, we are required under the Code, among other things, to distribute at least the sum of 90% of our net ordinary income and net short-term capital gains in excess of net long-term capital losses, or "investment company taxable income," and 90% of any net tax-exempt interest income to our stockholders on an annual basis. We intend to authorize and declare monthly distributions to be paid monthly to our stockholders as determined by the Board. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of our distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage requirements applicable to us as a BDC under the 1940 Act. If we do not distribute a certain percentage of our income annually, we will suffer adverse U.S. federal income tax consequences, including possible failure to qualify for the special tax treatment accorded RICs and their shareholders. We cannot assure stockholders that they will receive any distributions.

To the extent our taxable earnings fall below the total amount of our distributions for a taxable year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains. Required distributions are driven by tax laws and thus tax accounting applies, not GAAP. Therefore, it is possible that we pay more in required distributions than we earn for book purposes. For the year ended December 31, 2019, 2018 and 2017, the Company did not distribute in excess of net investment income.

We have adopted an "opt in" distribution reinvestment plan for our stockholders. As a result, if we declare a cash distribution, our stockholders will receive distributions in cash unless they specifically "opt in" to the distribution reinvestment plan so as to have their cash distributions reinvested in additional shares of our common stock. However, certain state authorities or regulators may impose restrictions from time to time that may prevent or limit a stockholder's ability to participate in our distribution reinvestment plan. Although distributions paid in the form of additional shares of our common stock will generally be subject to U.S. federal, state and local taxes in the same manner as cash distributions, stockholders participating in our dividend reinvestment plan will not receive any corresponding cash distributions with which to pay any such applicable taxes.

For the year ended December 31, 2019, the Company made the following distributions:

Payable Date	Dividend/ Share (1)	Total Dividend (1)	Dividends Reinvested (2)(3)
1/02/2020	0.060	625,526	—
11/28/2019	0.060	630,505	398,908
10/30/2019	0.060	627,684	397,044
10/02/2019	0.060	632,534	397,215
8/28/2019	0.060	628,890	398,232
7/31/2019	0.060	626,130	395,900
6/26/2019	0.060	624,201	396,249
5/30/2019	0.060	625,758	398,933
5/01/2019	0.060	623,117	396,582
3/27/2019	0.060	620,420	392,542
2/27/2019	0.060	625,257	397,969
1/30/2019	0.060	622,648	397,645
1/03/2019 (2)	—	—	456,444
Total	**$ 0.720**	**$7,512,670**	**$ 4,823,663**

1 For the current period, there were no dividends classified as a return of capital.
2 The December 2018 Dividend was reinvested in January 2019, see total December 2018 Dividend in table below.
3 The December 2019 Dividend will be reinvested in January 2020.

For the year ended December 31, 2018, the Company made the following distributions:

Payable Date	Dividend/ Share	Total Dividend (1)	Dividends Reinvested (2)
1/03/2019	$ 0.069	$ 721,979	$ —
11/28/2018	0.055	579,638	370,940
10/31/2018	0.069	721,071	461,560
9/26/2018	0.055	578,884	369,031
8/29/2018	0.055	576,777	367,935
8/01/2018	0.069	717,708	459,995
6/27/2018	0.055	579,962	367,710
5/30/2018	0.055	577,847	368,895
5/02/2018	0.069	719,079	459,922
3/28/2018	0.055	577,343	367,026
2/28/2018	0.055	566,708	368,154
1/31/2018	0.069	683,782	451,968
Total	**$ 0.730**	**$7,600,778**	**$4,413,136**

1 For the current year, there were no dividends classified as a return of capital.
2 The December 2018 Dividend will be reinvested in January 2019.

For the year ended December 31, 2017, the Company made the following distributions:

Payable Date	Dividend/ Share	Total Dividend	Dividends Reinvested
12/27/2017	$ 0.055	$ 532,460	$ 351,929
11/29/2017	0.055	517,804	341,262
11/1/2017	0.069	636,662	417,795
9/27/2017	0.055	505,439	331,096
8/30/2017	0.055	497,727	328,315
8/2/2017	0.069	610,689	403,364
6/28/2017	0.055	481,256	318,649
5/31/2017	0.069	580,257	385,226
4/26/2017	0.055	445,910	295,916
3/29/2017	0.055	431,714	286,868
3/1/2017	0.055	418,078	277,772
2/1/2017	0.069	499,353	332,190
Total	**$ 0.716**	**$6,157,349**	**$4,070,382**

Related Party Transactions

We have entered into a number of business relationships with affiliated or related parties, including the following:

- We entered into the Investment Advisory Agreement with the Adviser. James Dondero, our president, controls the Adviser by virtue of his control of its general partner, NexPoint Advisors GP, LLC.
- Pursuant to an expense limitation agreement, the Adviser has agreed to waive fees or, if necessary, reimburse us to limit certain expenses to 1.0% of the quarter-end value of our gross assets.
- The Adviser provides us with the office facilities and administrative services necessary to conduct our day-to-day operations pursuant to the Administration Agreement.
- The Adviser has entered into an agreement with Highland, its affiliate, pursuant to which Highland makes available to the Adviser experienced investment professionals and other resources of Highland and its affiliates.
- The dealer manager for our continuous public offering, Highland Capital Funds Distributor, Inc., is an affiliate of the Adviser.
- In aggregate as of December 31, 2019, the Adviser controls 2,513,370 total shares, including reinvestment of dividends, for a net amount of approximately $21.4 million.
- Cumulatively since inception, the Adviser has paid $2,275,000 to voluntarily reimburse the Company for certain unrealized losses on investments. Had these payments not been made, the NAV as of December 31, 2019 would have been lower. These payments are not recoupable by the Adviser.

The Adviser and its affiliates also sponsor, or manage, and may in the future sponsor or manage, other investment funds, accounts or investment vehicles (together referred to as “accounts”) that have investment mandates that are similar, in whole and in part, with ours. The Adviser and its affiliates may determine that an investment is appropriate for us and for one or more of those other accounts. In such event, depending on the availability of such investment and other appropriate factors, and pursuant to the Adviser’s allocation policy and co-investment relief, the Adviser or its affiliates may determine that we should invest side-by-side with one or more other accounts. We do not intend to make any investments if they are not permitted by applicable law and interpretive positions of the SEC and its staff, or if they are inconsistent with the Adviser’s allocation procedures and co-investment relief.

In addition, we and the Adviser have each adopted a formal code of ethics that governs the conduct of our and the Adviser's officers, directors and employees. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and the Delaware General Corporations Law.

Critical Accounting Policies

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. We have identified the following as critical accounting policies.

Fair Value of Financial Instruments

We will value our investments in accordance with ASC Topic 820, Fair Value Measurements and Disclosure, or ASC Topic 820. ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. ASC Topic 820's definition of fair value focuses on exit price in the principal, or most advantageous, market and prioritizes the use of market-based inputs over entity-specific inputs within a measurement of fair value.

The portfolio will often include debt investments and equity investments that are fair valued. The portion of our portfolio that receives values from independent third parties are valued at their mid quotations obtained from unaffiliated market makers, other financial institutions that trade in similar investments or based on prices provided by independent third party pricing services. For investments where there are no available bid quotations, fair value is derived using proprietary models that consider the analyses of independent valuation agents as well as credit risk, liquidity, market credit spreads, and other applicable factors for similar transactions.

Due to the nature of our strategy, our portfolio will include relatively illiquid investments that are privately held. Valuations of privately held investments are inherently uncertain, may fluctuate over short periods of time and may be based on estimates. The determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we ultimately realize upon the disposal of such investments.

The Board, or its designee in good faith, is responsible for determining the fair value of the portfolio investments that are not publicly traded, whose market prices are not readily available on a quarterly basis in good faith or any other situation where portfolio investments require a fair value determination.

The valuation process is conducted at the end of each fiscal quarter, with a portion of our valuations of portfolio companies without market quotations subject to review by the independent valuation firms each quarter. When an external event with respect to one of our portfolio companies, such as a purchase transaction, public offering or subsequent equity sale occurs, we expect to use the pricing indicated by such external event to corroborate our valuation.

With respect to investments for which market quotations are not readily available, the Board undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by investment professionals of our investment adviser responsible for credit monitoring.
- Preliminary valuation conclusions are then documented and discussed with our senior management and our investment adviser.
- The audit committee of the Board reviews these preliminary valuations.

- At least once each quarter, the valuations for approximately one quarter of the portfolio investments that have been fair valued are reviewed by an independent valuation firm such that, over the course of a year, each material portfolio investment that has been fair valued shall have been reviewed by an independent valuation firm at least once.
- The Board discusses valuations and determines the fair value of each investment in our portfolio in good faith.

As of December 31, 2019, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

Instrument	**Type**	**Market value**
PAMCO CLO 1997-1A B	Asset-Backed	$ 139,629
American Banknote Corp.	Common Stocks	2,467,500
OmniMax International, Inc.	Common Stocks	20,898
SteadyMed Ltd.	Common Stocks	40,405
TerreStar Corp.	Common Stocks	3,890,081
NexPoint Capital REIT, LLC	LLC Interests	2,425,989
SFR WLIF III, LLC	LLC Interests	1,615,315
SFR WLIF II, LLC	LLC Interests	3,317,342
US GAMING LLC	LLC Interests	2,000,000
TerreStar Corp.	Senior Secured Loans	583,470
TerreStar Corp.	Senior Secured Loans	138,132
OmniMax International, Inc.	Unsecured Loans	3,713,191
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	1,340
OmniMax International, Inc.	Warrant	647
SCYNEXIS, Inc.	Warrant	28,497

As of December 31, 2018, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

Instrument	**Type**	**Market value**
PAMCO CLO 1997-1A B	Asset-Backed	$ 144,044
Gambier Bay, LLC	Common Stocks	1,055,803
OmniMax International, Inc.	Common Stocks	1,303,257
SteadyMed Ltd.	Common Stocks	14,509
TerreStar Corp.	Common Stocks	3,913,800
TerreStar Corp.	Senior Secured Loans	522,845
OmniMax International, Inc	Unsecured Loans	3,838,472
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	17,159
OmniMax International, Inc.	Warrant	40,340
SCYNEXIS, Inc.	Warrant	32,949

The Company values the TRS in accordance with the TRS Agreement. Pursuant to the TRS Agreement, the value of the TRS is based on the increase or decrease in the value of the loans underlying the TRS, together with accrued interest income, interest expense and certain other expenses incurred under the TRS. The loans underlying the TRS are valued based on indicative bid prices provided by an independent third-party pricing service. Bid prices reflect the highest price that market participants may be willing to pay. These valuations are sent to the Company for review and testing. The Valuation Committee and the Board review and approve the value of the TRS, as well as the value of the loans underlying the TRS, on a quarterly basis. To the extent the Valuation Committee or the Board have any questions or concerns regarding the valuation of the loans underlying the TRS, such valuation is discussed or challenged pursuant to the terms of the TRS Agreement. For additional information on the TRS, see Note 7 to the financial statements included herein.

Organization Costs

Organization costs include the cost of incorporation, such as the cost of legal services and other fees pertaining to our organization. Organization costs, together with offering costs, are limited to 1% of total gross proceeds raised in the offering and are not due and payable to the Adviser to the extent they exceed that amount. For the year ended December 31, 2019, 2018, and 2017, the Adviser did not incur any organization costs on our behalf.

Offering Costs

Our offering costs include legal fees, promotional costs and other costs pertaining to the public offering of our shares of common stock, and are capitalized and amortized to expense over one year. For the years ended December 31, 2019, 2018 and 2017, the Adviser incurred offering costs of $0, $238,568, and $954,765, respectively, on our behalf. For the years ended December 31, 2019, 2018 and 2017, the Company capitalized $0, 61,462 and $282,156, respectively, of offering costs. Of the capitalized offering costs, $5,445, $184,847 and $381,881 were amortized to expense during the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019 and December 31, 2018, $0 and $5,445 remained on the Statement of Assets and Liabilities, respectively.

Organization costs and offering costs are limited to 1% of total gross proceeds raised in this offering and are not due and payable to the Adviser to the extent they exceed that amount. As of December 31, 2019, the cumulative aggregate amount of $5,327,574 of organization and offering costs exceeds 1% of total proceeds raised. Subsequent to the termination of the Offering, the Adviser forfeited the right to reimbursement of the remaining $4,305,091 of these costs.

Investment Transactions and Related Investment Income and Expense

We record our investment transactions on a trade date basis, which is the date when we have determined that all material terms have been defined for the transactions. These transactions could possibly settle on a subsequent date depending on the transaction type. All related revenue and expenses attributable to these transactions are reflected on the Statements of Operations commencing on the trade date unless otherwise specified by the transaction documents. Realized gains and losses on investment transactions are recorded on the specific identification method. We accrue interest income if we expect that ultimately we will be able to collect it. Generally, when an interest payment default occurs on a loan in our portfolio, or if our management otherwise believes that the issuer of the loan will not be able to service the loan and other obligations, we place the loan on non-accrual status and will cease recognizing interest income on that loan until all principal and interest is current through payment or until a restructuring occurs, such that the interest income is deemed to be collectible. However, we remain contractually entitled to this interest. We may make exceptions to this policy if the loan has sufficient collateral value and is in the process of collection. Accrued interest is written off when it becomes probable that such interest will not be collected and the amount of uncollectible interest can be reasonably estimated. We also accrue for delayed compensation, which is a pricing adjustment payable by the parties to a secondary loan trade that closes late, intended to assure that neither party derives an economic advantage from the delay. Delayed compensation begins calculating at the loan's specific coupon rate if a trade hasn't settled within 7 business days of trading. Original issue discounts, market discounts or premiums are accreted or amortized using the effective interest method as interest income, and will be accreted or amortized over the maturity period of the investments. We will record prepayment premiums on loans and debt securities as interest income. Dividend income, if any, will be recognized on an accrual basis to the extent that we expect to collect such amount.

We may have investments in our portfolio that contain a PIK interest provision. Any PIK interest will be added to the principal balance of such investments and is recorded as income, if the portfolio company valuation indicates that such PIK interest is collectible. In order to qualify for the special tax treatment accorded RICs and their shareholders, substantially all of our income (including PIK interest) must be distributed to stockholders in the form of dividends, even if we have not collected any cash.

Interest expense is recorded on an accrual basis. Certain expenses related to legal and tax consultation, due diligence, rating fees, valuation expenses and independent collateral appraisals may arise when we make certain investments.

Loan Origination, Facility, Commitment and Amendment Fees

We may receive fees in addition to interest income from loans during the life of the investment. We may receive origination fees upon the origination of an investment. These origination fees are initially deferred and deducted from the cost basis of the investment and subsequently accreted into income over the term of the loan. We may receive facility, commitment and amendment fees, which are paid to us on an ongoing basis. Facility fees, sometimes referred to as asset management fees, are accrued as a percentage periodic fee on the base amount (either the funded facility amount or the committed principal amount). Commitment fees are based upon the undrawn portion committed by us and are recorded on an accrual basis. Amendment fees are paid in connection with loan amendments and waivers and are accounted for upon completion of the amendments or waivers, generally when such fees are receivable. Any such fees are included in other income on the Statements of Operations.

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

We measure net realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation will reflect the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

U.S. Federal Income Taxes

We have elected to be treated as a RIC under Subchapter M of the Code and intend each year to qualify and be eligible to be treated as such. As a RIC, we generally will not have to pay corporate-level federal income taxes on any investment company taxable income or net capital gains that we distribute as dividends to our stockholders. In order to qualify for the special tax treatment accorded RICs and their shareholders, we must meet certain gross income, diversification, and distribution requirements.

Recent Accounting Pronouncements

Please refer to Note 2 to the financial statements included herein for discussion of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, most significantly changes in interest rates. As of December 31, 2019, 56% (based on fair value) of the investments in our portfolio (including investments underlying the TRS) had floating interest rates, and both the TRS and the Financing Arrangement entered into with the BNPP entities have a floating rate structure. These investments are usually based on a floating LIBOR and typically have interest rate reset provisions that adjust applicable interest rates under such loans to current market rates on a monthly or quarterly basis.

Pursuant to the terms of the TRS, we pay fees to BNP Paribas a rate equal to one-month LIBOR plus 2.00% per annum on the utilized notional amount of the loans subject to the TRS in exchange for the right to receive the economic benefit of a pool of loans having a maximum notional market value amount of $60,000,000. Pursuant to the terms of the Financing Arrangement, we pay fees to the BNPP entities a floating rate based on the asset type, but generally one-month LIBOR plus 1.30% per annum on the amount borrowed. To the extent that any present or future credit facilities or other financing arrangements that we or any of our subsidiaries enter into are based on a floating interest rate, we will be subject to risks relating to changes in market interest rates. In periods of rising interest rates when we or our subsidiaries have such debt outstanding, or financing arrangements in effect, our interest expense would increase, which could reduce our net investment income, especially to the extent we hold fixed rate investments.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments, especially to the extent that we predominantly hold variable-rate investments, and to declines in the value of any fixed- rate investments we hold. To the extent that a majority of our investments may be in variable-rate investments, an increase in interest rates could make it easier for us to meet or exceed the hurdle rate for the income incentive fee payable to the Adviser and may result in a substantial increase in our net investment income, and also to the amount of incentive fees payable to our investment adviser with respect to our increasing pre-incentive fee net investment income.

Assuming that the Statement of Assets and Liabilities as of December 31, 2019 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

Change in interest rates	Increase (decrease) in interest income	(Increase) decrease in interest expense	Increase (decrease) in NII
Down 25 basis points	(154,955)	221,583	66,628
Up 50 basis points	309,911	(443,166)	(133,255)
Up 100 basis points	619,822	(886,333)	(266,511)
Up 200 basis points	1,239,643	(1,772,665)	(533,022)
Up 300 basis points	1,859,465	(2,658,998)	(799,533)

(1) Includes the net effect of the change in interest rates on the unrealized appreciation (depreciation) on the TRS. As of December 31, 2019, 100% of the loans underlying the TRS paid variable interest rates.

Although we believe that this analysis is indicative of our existing sensitivity to interest rate changes, it does not adjust for changes in the credit market, credit quality, the size and composition of the assets in our portfolio and other business developments, including borrowing under future credit facilities or other borrowing. Accordingly, we can offer no assurances that actual results would not differ materially from the analysis above.

We may in the future hedge against interest rate fluctuations by using standard hedging instruments such as interest rate swaps, futures, options and forward contracts to the limited extent permitted under the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to the investments in our portfolio with fixed interest rates.

Item 8. ***Financial Statements and Supplementary Data***

NexPoint Capital, Inc.

Statements of Assets and Liabilities

	December 31, 2019	December 31, 2018
Assets		
Unaffiliated investments, at fair value (cost of $97,920,246 and $99,252,969, respectively)	$ 94,674,323	$ 92,974,250
Affiliated investments, at fair value (cost of $5,457,776 and $5,769,291, respectively) (1)	5,753,369	3,255,591
Cash and cash equivalents	7,764,892	7,112,205
Due from counterparty (2)	21,400,000	20,580,000
Receivable due on total return swaps (2)	—	366,952
Dividends and interest receivable	1,042,105	1,177,217
Receivable from Adviser (3)	50,130	—
Prepaid expenses	12,208	10,930
Capitalized offering costs	—	5,445
Total assets	130,697,027	125,482,590
Liabilities		
Credit facilities payable (4)	33,714,864	32,583,965
Payable for investments purchased	2,533,314	2,573,276
Payable on total return swap (2)	11,458	—
Unrealized depreciation on total return swap (2)	2,745,042	2,547,492
Common stock repurchased	1,102,405	—
Payable to Adviser (3)	570,453	291,904
Interest expense and commitment fees payable	80,207	7,707
Accrued expenses and other liabilities	378,205	445,304
Distributions payable	625,526	721,979
Total liabilities	41,761,474	39,171,627
Commitments and contingencies (5)		
Net assets		
Preferred stock, $0.001 par value (25,000,000 shares authorized, 0 shares issued and outstanding)	—	—
Common stock, $0.001 par value (200,000,000 shares authorized, 10,425,431 and 10,322,327 shares issued and outstanding, respectively)	10,425	10,322
Paid-in capital in excess of par	93,412,260	92,602,409
Total distributable earnings (loss)	(4,487,132)	(6,301,768)
Total net assets	$ 88,935,553	$ 86,310,963
Net asset value per share of common stock	$ 8.53	$ 8.36

(1) See Note 10 for a discussion of affiliated investments.
(2) See Note 7 for a discussion of total return swaps.
(3) See Note 4 for a discussion of related party transactions and arrangements.
(4) See Note 7 for a discussion of credit facility.
(5) See Note 4 and Note 8 for a discussion of the commitments and contingencies of the Company (as defined in Note 1).

See Notes to Financial Statements

NexPoint Capital, Inc.

Statements of Operations

	For the Year Ended December 31, 2019	2018	2017
Investment income:			
Interest	$ 5,853,384	$ 6,395,740	$ 6,908,474
Interest paid in kind	635,742	517,567	297,068
Dividend income from unaffiliated investments	1,068,673	547,408	190,742
Dividend income from affiliated investments [1]	239,799	97,209	950
Other fee income	49,895	10,483	37,586
Total investment income	7,847,493	7,568,407	7,434,820
Expenses:			
Investment advisory fees [2]	1,966,697	2,025,178	1,575,420
Interest expense and commitment fees [3]	1,233,289	759,234	103,235
Administration fees [2]	399,100	409,789	314,337
Stock transfer fee	329,695	405,227	399,382
Custodian and accounting service fees	318,085	315,384	314,438
Audit and tax fees	249,463	217,586	209,609
Other expenses	194,433	296,318	292,807
Reports to stockholders	68,888	59,427	95,887
Legal fees	53,438	201,688	174,258
Directors' fees [2]	19,553	19,804	16,090
Amortized offering costs	5,445	184,847	381,881
Capital gains incentive fees [2]	—	(594,306)	418,739
Total expenses	4,838,086	4,300,176	4,296,083
Expenses waived or reimbursed by the Adviser [2]	(147,269)	(427,420)	(1,955,190)
Net expenses	4,690,817	3,872,756	2,340,893
Net investment income	3,156,676	3,695,651	5,093,927
Net realized and unrealized gains (losses) on investments:			
Net realized gain/(loss) on:			
Unaffiliated investments and securities sold short	(1,140,590)	1,672,824	795,997
Affiliated investments [1]	—	2,422	—
Total return swaps [4]	1,530,270	1,169,203	(132,288)
Net change in unrealized appreciation (depreciation) on:			
Unaffiliated investments and securities sold short	3,032,796	(8,249,366)	2,271,720
Affiliated investments [1]	2,809,293	(2,516,339)	2,639
Total return swaps [4]	(197,550)	(1,983,669)	(563,823)
Net realized and unrealized gains (losses)	6,034,219	(9,904,925)	2,374,245
Net increase in net assets resulting from operations	9,190,895	(6,209,274)	7,468,172
Per share information—basic and diluted per common share			
Net investment income:	$ 0.30	$ 0.36	$ 0.59
Earnings per share:	$ 0.88	$ (0.60)	$ 0.87
Weighted average shares outstanding:	10,441,061	10,358,148	8,564,351

(1) See Note 10 for a discussion of affiliated investments.
(2) See Note 4 for a discussion of related party transactions and arrangements.
(3) See Note 7 for a discussion of credit facility.
(4) See Note 7 for a discussion of total return swaps.

See Notes to Financial Statements

NexPoint Capital, Inc.

Statement of Changes in Net Assets

	Common Stock		Paid in Capital in Excess of Par	Distributable Earnings	Total Net Assets
	Shares	Par Amount			
Balance at December 31, 2016	7,102,226	$ 7,102	$ 61,925,016	$ 5,360,836	$67,292,954
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	5,093,927	5,093,927
Net realized gain (loss) on investments and securities sold short	—	—	—	795,997	795,997
Net realized gain (loss) on total return swaps (1)	—	—	—	(132,288)	(132,288)
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	2,274,359	2,274,359
Net change in unrealized appreciation (depreciation) on total return swaps	—	—	—	(563,823)	(563,823)
Shareholder distributions:					
Issuance of common stock	2,413,561	2,414	23,425,427	—	23,427,841
Repurchase of common stock	(130,438)	(131)	(1,241,912)	—	(1,242,043)
Reinvestment of common stock	418,972	419	4,069,963	—	4,070,382
Distributions to stockholders (2)	—	—	—	(6,157,349)	(6,157,349)
Total increase (decrease) for the year ended December 31, 2017	2,702,095	2,702	26,253,478	1,310,823	27,567,003
Tax reclassification of stockholders' equity in accordance with GAAP	—	—	(521,714)	521,714	—
Balance at December 31, 2017	9,804,321	$ 9,804	$ 87,656,780	$ 7,193,373	$94,859,957
Distributions to shareholders per share	—	$ —	$ —	$ 0.72	$ 0.72

(1) See Note 7 for a discussion on Total Return Swaps.

(2) Per the Securities Exchange Commission release #33-10532 "Disclosure Update and Simplification"; it is no longer required to differentiate distributions from earnings as either from net investment income or net realized capital gains.

See Notes to Financial Statements

NexPoint Capital, Inc.

Statement of Changes in Net Assets

	Common Stock Shares	Common Stock Par Amount	Paid in Capital in Excess of Par	Distributable Earnings	Total Net Assets
Balance at December 31, 2017	9,804,321	$ 9,804	$ 87,656,780	$ 7,193,373	$ 94,859,957
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	3,695,651	3,695,651
Net realized gain (loss) on investments and securities sold short	—	—	—	1,675,246	1,675,246
Net realized gain (loss) on total return swaps (1)	—	—	—	1,169,203	1,169,203
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	(10,765,705)	(10,765,705)
Net change in unrealized appreciation (depreciation) on total return swaps	—	—	—	(1,983,669)	(1,983,669)
Shareholder distributions:					
Issuance of common stock	538,995	539	5,314,944	—	5,315,483
Repurchase of common stock	(477,904)	(478)	(4,467,083)	—	(4,467,561)
Reinvestment of common stock	456,915	457	4,412,679	—	4,413,136
Distributions to stockholders (2)	—	—	—	(7,600,778)	(7,600,778)
Total increase (decrease) for the year ended December 31, 2018	518,006	518	5,260,540	(13,810,052)	(8,548,994)
Tax reclassification of stockholders' equity in accordance with GAAP	—	—	(314,911)	314,911	—
Balance at December 31, 2018	10,322,327	$ 10,322	$ 92,602,409	$ (6,301,768)	$ 86,310,963
Distributions to shareholders per share	—	$ —	$ —	$ 0.73	$ 0.73

(1) See Note 7 for a discussion on Total Return Swaps.

(2) Per the Securities Exchange Commission release #33-10532 "Disclosure Update and Simplification"; it is no longer required to differentiate distributions from earnings as either from net investment income or net realized capital gains.

See Notes to Financial Statements

NexPoint Capital, Inc.

Statement of Changes in Net Assets

	Common Stock		Paid in Capital in Excess of Par	Distributable Earnings	Total Net Assets
	Shares	Par Amount			
Balance at December 31, 2018	10,322,327	$ 10,322	$ 92,602,409	$(6,301,768)	$86,310,963
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	3,156,676	3,156,676
Net realized gain (loss) on investments and securities sold short	—	—	—	(1,140,590)	(1,140,590)
Net realized gain (loss) on total return swaps (1)	—	—	—	1,530,270	1,530,270
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	5,842,089	5,842,089
Net change in unrealized appreciation (depreciation) on total return swaps (1)	—	—	—	(197,550)	(197,550)
Shareholder distributions:					
Issuance of common stock	—	—	—	—	—
Repurchase of common stock	(454,468)	(455)	(3,875,230)	—	(3,875,685)
Reinvestment of common stock	557,572	558	4,823,105	—	4,823,663
Distributions to stockholders (2)	—	—	—	(7,514,283)	(7,514,283)
Total increase (decrease) for the year ended December 31, 2019	103,104	103	947,875	1,676,612	2,624,590
Tax reclassification of stockholders' equity in accordance with GAAP	—	—	(138,024)	138,024	—
Balance at December 31, 2019	10,425,431	$ 10,425	$ 93,412,260	$(4,487,132)	$88,935,553
Distributions to shareholders per share	—	$ —	$ —	$ 0.72	$ 0.72

(1) See Note 7 for a discussion on Total Return Swaps.

(2) Per the Securities Exchange Commission release #33-10532 "Disclosure Update and Simplification"; it is no longer required to differentiate distributions from earnings as either from net investment income or net realized capital gains.

See Notes to Financial Statements

NexPoint Capital, Inc.

Statements of Cash Flows

	Year Ended December 31, 2019	2018	2017
Cash flows used in operating activities			
Net increase (decrease) in net assets resulting from operations	$ 9,190,895	$ (6,209,274)	$ 7,468,172
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:			
Purchases of investment securities	(42,308,348)	(64,748,316)	(92,574,632)
Payment-in-kind investments	(635,742)	(517,567)	(297,068)
Proceeds from sales and principal repayments of investment securities	44,370,241	54,849,304	81,852,041
Net realized (gain) loss on investments	1,140,590	(1,675,246)	(795,997)
Net change in unrealized (appreciation) depreciation on investments	(5,842,089)	10,765,705	(2,274,359)
Net change in unrealized depreciation on total return swaps	197,550	1,983,669	563,823
Amortization of premium/discount, net	(922,503)	(901,409)	(1,621,701)
Amortization of capitalized offering costs	5,445	184,847	381,881
Increase (decrease) in operating assets and liabilities:			
(Increase) decrease in receivable for investments sold	—	2,768,395	(2,768,395)
(Increase) decrease in dividends and interest receivable	135,112	84,945	(432,286)
(Increase) decrease in receivable from Adviser	(50,130)	—	4,096,447
(Increase) decrease in prepaid expenses	(1,278)	79,618	(67,307)
(Increase) decrease in due from counterparty	(820,000)	(6,760,000)	(13,820,000)
(Increase) decrease in receivable due on total return swap	366,952	(183,437)	(183,515)
Increase (decrease) in payable for investments purchased	(39,962)	620,124	(6,583,096)
Increase (decrease) in payable to Adviser	278,549	(4,188)	296,092
Increase (decrease) in incentive fees payable	—	(594,306)	594,306
Increase (decrease) in interest expense and commitment fees payable	72,500	(45,149)	31,273
Increase (decrease) in accrued expenses and other liabilities	(67,099)	(37,885)	98,789
Increase (decrease) in payable due on total return swap	11,458	—	—
Net cash flow provided by used in operating activities	5,082,141	(10,340,170)	(26,035,532)
Cash flows provided by financing activities			
Proceeds from issuance of common stock, net of receivable for common stock sold	—	5,321,118	23,479,096
Repurchase of common stock, net of payable	(2,773,280)	(4,570,565)	(1,177,572)
Distributions paid in cash	(2,787,073)	(2,465,663)	(2,086,967)
Offering costs paid, net of due to Adviser	—	(61,462)	(282,156)
(Decrease) in credit facilities payable	(15,748,575)	(37,045,614)	(4,600,000)
Increase in credit facilities payable	16,879,474	45,229,579	17,800,000
Net cash flow provided by (used in) financing activities	(4,429,454)	6,407,393	33,132,401
Net increase (decrease) in cash and cash equivalents	652,687	(3,932,777)	7,096,869
Cash and cash equivalents			
Beginning of the year	7,112,205	11,044,982	3,948,113
End of the year	$ 7,764,892	$ 7,112,205	$ 11,044,982
Supplemental disclosure and non-cash financing activities			
Paid-in-kind interest income	$ 635,742	$ 517,567	$ 297,068
Cash paid during the period for interest	$ 1,160,789	$ 804,383	$ 54,473
Reinvestment of distributions paid	$ 4,823,663	$ 4,413,136	$ 4,070,382
Local and excise taxes paid	$ 212,579	$ 168,836	$ 129,006

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments
As of December 31, 2019

Portfolio Company [1][2]	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost [3]	Fair Value
Senior Secured Loans – 9.0% [4]						
Energy – 2.1%						
Fieldwood Energy, LLC (First Lien Term Loan) [5]	L + 525	1.00%	4/11/2022	1,800,549	$1,797,034	$1,514,208
Fieldwood Energy, LLC (Second Lien Term Loan) [5]	L + 725	1.00%	4/11/2023	567,797	553,265	326,838
						1,841,046
Healthcare – 5.7%						
Auris Luxembourg III S.a.r.l. (First Lien Term Loan) [6][7]	L + 375	0.00%	2/27/2026	2,566,812	2,554,699	2,583,933
Covenant Surgical Partners, Inc. (First Lien Delayed Draw Term Loan) [5][8]	L + 400	0.00%	7/1/2026	333,333	833	833
Covenant Surgical Partners, Inc. (First Lien Term Loan) [5][8]	L + 400	0.00%	7/1/2026	1,666,667	1,670,833	1,670,833
Envision Healthcare Corp. (First Lien Term Loan) [6][8]	L + 375	0.00%	10/10/2025	997,481	862,821	855,754
						5,111,353
Media/Telecommunications – 0.4%						
iHeartCommunications, Inc. (First Lien Term Loan) [5]	L + 400	0.00%	5/1/2026	333,537	863,774	336,802
Telecommunication Services – 0.8%						
TerreStar Corp. (First Lien Term Loan) [9][10]	11% PIK		2/27/2020	584,639	584,639	583,470
TerreStar Corp. (First Lien Term Loan) [9][10]	11% PIK		2/28/2022	138,409	138,409	138,132
						721,602
Utility – 0.0%						
Texas Competitive Electric Holdings Company, LLC (TXU) (Escrow Loan) [11][12]				3,500,000	79,372	1,925
Total Senior Secured Loans						**8,012,728**
Unsecured Loans – 4.2%						
Materials – 4.2%						
OmniMax International, Inc. [5][9][10]	14% PIK, 2% Cash		2/6/2021	4,404,735	4,195,580	3,713,191
Total Unsecured Loans						**3,713,191**
Asset-Backed Securities – 0.8%						
Financials – 0.8%						
Grayson Investor Corp. [7][13][14][15]			11/1/2021	800	456,000	333,764
Highland Park CDO I Ltd. 2006 1A A2 [5][7][13][15]	L + 40		11/25/2051	270,178	225,349	270,127
PAMCO CLO 1997-1A B [7][9][10][13][15][16]				374,239	215,187	139,629
						743,520
Total Asset-Backed Securities						**743,520**
Mortgage-Backed Securities – 4.5%						
Financials – 4.5%						
FREMF 2019-KF60 Mortgage Trust [6][13]			2/25/2026	4,002,449	3,996,530	3,994,444
Total Mortgage-Backed Securities						**3,994,444**
				Shares		
Closed-End Mutual Funds – 2.4%						
Financials – 2.4%						
NexPoint Strategic Opportunities Fund [7][17][18]				120,633	2,419,467	2,136,410
Total Closed-End Mutual Funds						**2,136,410**

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of December 31, 2019

Portfolio Company [1][2]	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost [3]	Fair Value
Corporate Bonds – 45.9%						
Financials – 1.7%						
Freedom Mortgage Corp. [13][18]	8.250%		4/15/2025	1,500,000	$ 1,500,000	$ 1,474,200
Healthcare – 43.8%						
ASP AMC Merger Sub, Inc. [13][18]	8.000%		5/15/2025	7,325,000	6,948,779	4,892,478
Endo Finance LLC / Endo Finco Inc. [7][13][18]	6.000%		7/15/2023	4,500,000	3,877,424	3,262,455
Ortho-Clinical Diagnostics [13][18]	6.625%		5/15/2022	11,217,000	10,862,655	11,174,863
Surgery Center Holdings [7][13][18]	6.750%		7/1/2025	11,858,000	11,246,267	11,892,566
Valeant Pharmaceuticals International, Inc. [7][13][18]	6.125%		4/15/2025	7,500,000	6,942,340	7,764,863
						38,987,225
Media/Telecommunications – 0.4%						
iHeartCommunications, Inc. [18]	6.375%		5/1/2026	114,206	313,455	124,127
iHeartCommunications, Inc. [18]	8.375%		5/1/2027	214,073	584,792	236,947
						361,074
Total Corporate Bonds						**40,822,499**
				Shares		
Common Stocks – 25.9%						
Chemicals – 0.0%						
MPM Holdings, Inc. [12]				8,500	17,000	42,500
Energy – 5.5%						
Energy Transfer Equity L.P. [7][18]				75,000	1,438,740	962,250
Enterprise Products Partners L.P. [7][18]				140,000	3,424,740	3,942,400
						4,904,650
Financials – 2.8%						
American Banknote Corp. [9][10][12]				750,000	2,062,500	2,467,500
Healthcare – 0.3%						
Quorum Health Corp. [12]				224,600	1,284,134	214,740
SteadyMed Ltd. [7][9][10][12]				54,749	14,508	40,405
						255,145
Materials – 0.0%						
OmniMax International, Inc. [9][10][12]				6,698	663,116	20,898
Media/Telecommunications – 1.9%						
Clear Channel Outdoor Holding, Inc. [12][18]				124,986	631,179	357,460
iHeartMedia, Inc. [12][18]				80,350	2,182,708	1,357,915
						1,715,375
Real Estate Investment Trusts (REITs) – 6.9%						
NexPoint Residential Trust, Inc. [7][17][18]				26,466	848,748	1,190,970
City Office REIT, Inc. [7][18]				108,000	1,480,753	1,460,160
Independence Realty Trust, Inc. [7][18]				246,727	2,146,330	3,473,916
						6,125,046
Retail – 1.3%						
Tru Kids, Inc. [12]				237	1,139,661	1,124,467
Service – 0.1%						
Western States Life Insurance [12]				237	255,681	59,183
Telecommunication Services – 4.4%						
TerreStar Corp. [9][10][12]				14,035	1,599,990	3,890,081
Utility – 2.7%						
Vistra Energy Corp. [18]				105,000	1,622,256	2,413,950
Total Common Stocks						**23,018,795**

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of December 31, 2019

	Preferred Dividend Rate				
LLC Interests – 10.5%					
Consumer Products – 2.3%					
US GAMING LLC [9][10][12]			2,000	$ 2,000,000	$ 2,000,000
Real Estate – 5.5%					
SFR WLIF III, LLC [9][10]			1,651,112	1,651,112	1,615,315
SFR WLIF II, LLC [9][10]			3,348,888	3,348,888	3,317,342
					4,932,657
Real Estate Investment Trust (REIT) – 2.7%					
NexPoint Capital REIT, LLC [9][10][17][22]			100	2,189,561	2,425,989
Total LLC Interests					**9,358,646**
Preferred Stocks – 9.5%					
Financials – 2.3%					
Tectonic Financial, Inc.	9.000%		200,000	2,000,000	2,084,000
Real Estate – 1.7%					
Creative Science Properties, Inc.			100,000	1,500,000	1,500,000
Real Estate Investment Trusts (REITs) – 5.5%					
Braemar Hotels & Resorts, Inc. [7][18]	5.500%		258,065	3,733,840	4,903,235
RAIT Financial Trust [18][19]	8.875%		148,057	3,051,715	4,235
					4,907,470
Total Preferred Stocks					**8,491,470**
Rights – 0.1%					
Utility – 0.1%					
Texas Competitive Electric Holdings Company, LLC (TXU) [12]			58,356	148,370	61,391
Total Rights					**61,391**
Warrants – 0.1%					
Healthcare – 0.0%					
Galena Biopharma, Inc. [10][12]		1/12/2021	1,500,054	—	—
Gemphire Therapeutics, Inc. [10][12]		3/15/2022	4,752	—	1,340
SCYNEXIS, Inc. [10][12]		6/21/2021	195,000	—	28,497
					29,837
Materials – 0.0%					
OmniMax International, Inc. [9][10][12]		8/6/2025	207	—	647
Media/Telecommunications – 0.1%					
iHeartMedia, Inc. [12]		5/1/2039	2,875	52,988	44,114
Total Warrants					**74,598**
Total Investments - 112.9%				**$ 103,378,022**	**$ 100,427,692**
Cash Equivalents – 8.7% [20]					$ 7,764,892
Other Assets & Liabilities, net - (21.6%)					$ (19,257,031)
Net Assets - 100.0%					**$ 88,935,553**

	Notional Amount [21]	Unrealized Depreciation
Total Return Swap – (3.1%)		
BNP Paribas TRS Facility (Note 7)	50,904,830	(2,745,042)

See Notes to Financial Statements

(1) Unless otherwise noted, the Company did not "control" and was not an "affiliated person" of any of its portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, the Company would be presumed to "control" a portfolio company if it owned 25% or more of its voting securities or had the power to exercise control over the management or policies of such portfolio company, and would be an "affiliated person" of a portfolio company if it owned 5% or more of its voting securities. Additionally, companies under common control (e.g., companies with a common owner of greater than 25% of their respective voting securities) are affiliates under the 1940 Act.

(2) All investments are denominated in United States Dollars.

(3) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

(4) Senior secured loans in which the Company invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread (unless otherwise identified, all senior secured loans carry a variable rate of interest). These base lending rates are generally (i) the Prime Rate offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Interbank Offered Rate ("LIBOR") or (iii) the coupon rate. Rate shown represents the actual rate at December 31, 2019. Senior secured loans, while exempt from registration under the Securities Act of 1933 (the "1933 Act"), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.

(5) The interest rate on these investments is subject to a base rate of 3-Month LIBOR, which at December 31, 2019 was 1.91%. The LIBOR rate used to calculate interest is the higher of the prevailing 3 month LIBOR rate in effect on the date of the quarterly reset, or the LIBOR base rate floor shown.

(6) The interest rate on these investments is subject to a base rate of 1-Month LIBOR, which at December 31, 2019 was 1.76%. The LIBOR rate used to calculate interest is the higher of the prevailing 1 month LIBOR rate in effect on the date of the monthly reset, or the LIBOR base rate floor shown.

(7) The investment is not a qualifying asset under Section 55 of the 1940 Act. A business development company, such as the Company, may not acquire any asset other than a qualifying asset, unless at the time the acquisition is made, qualifying assets represent at least 70% of the business development company's total assets. Non-qualifying assets represented 29.4% of the Company's total assets as of December 31, 2019.

(8) All or a portion of this position has not settled. Full contract rates do not take effect until settlement date.

(9) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.

(10) Represents fair value as determined by the Company's Board of Directors (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. The Board considers fair valued securities to be securities for which market quotations are not readily available and these securities may be valued using a combination of observable and unobservable inputs. Securities with a total aggregate value of $20,382,436 or 22.9% of net assets were fair valued under the Company's valuation procedures as of December 31, 2019.

(11) The investment represents value held in escrow pending future events. No interest is being accrued.

(12) Non-income producing security.

(13) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transactions exempt from registration to qualified institutional buyers. As of December 31, 2019, these securities amounted to $45,199,389, or 50.8% of net assets.

(14) The investment is considered to be the equity tranche of the issuer.

(15) Securities of collateralized loan obligations where an affiliate of the Adviser serves as collateral manager.

(16) The issuer is in default of its payment obligation, or is in danger of default.

(17) Represents an affiliated issuer. Assets with a total aggregate market value of $5,753,369, or 6.5% of net assets, were affiliated with the Company as of December 31, 2019 (see Note 10).

(18) All or part of this security is pledged as collateral for margin/facility borrowings. The market value of the securities pledged as collateral was $63,025,400.

(19) The issuer has suspended the quarterly dividend for this security.

(20) State Street U.S. Government Money Market Fund.

(21) Notional value of the underlying securities in the Total Return Swap is calculated by multiplying par by the initial price.

(22) The investment is deemed to be a "controlled affiliated person" of the Company because the Company owns, either directly or indirectly, 25% or more of the portfolio company's outstanding voting securities or has the power to exercise control over management or policies of such portfolio company. See Note 4 "Related Party Transactions and Arrangements".

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments
As of December 31, 2018

Portfolio Company (1)(2)	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost (3)	Fair Value
Senior Secured Loans – 16.4% (4)						
Energy – 2.6%						
Fieldwood Energy, LLC (Second Lien Term Loan) (5)	L + 725	1.00%	4/11/2023	567,797	$ 549,645	$ 501,364
Fieldwood Energy LLC (First Lien Term Loan) (5)	L + 525	1.00%	4/11/2022	1,800,549	1,795,648	1,694,776
						2,196,140
Healthcare – 7.9%						
Auris Luxembourg III S.a.r.l. (First Lien Term Loan) (6)(7)(8)	L + 375	0.00%	7/24/2025	2,586,207	2,573,276	2,526,414
U.S. Renal Care, Inc. (Second Lien Term Loan) (7)	L + 800	1.00%	12/29/2023	4,500,000	4,436,086	4,320,000
						6,846,414
Media/Telecommunications – 3.9%						
iHeartCommunications, Inc. (First Lien Term Loan) (9)				5,000,000	4,051,750	3,381,950
Retail – 1.4%						
Toys 'R' Us-Delaware, Inc. (First Lien Term Loan) (9)				2,367,324	1,538,760	1,171,825
Telecommunication Services – 0.6%						
TerreStar Corp. (First Lien Term Loan) (10)(11)	11% PIK		2/27/2020	523,368	523,369	522,845
Utility – 0.0%						
Texas Competitive Electric Holdings Company LLC (TXU) (Escrow Loan) (12)				3,500,000	87,816	8,750
Total Senior Secured Loans						**14,127,924**
Unsecured Loans – 4.4%						
Materials – 4.4%						
OmniMax International, Inc. (10)(11)	14% PIK, 2% Cash		2/6/2021	3,838,472	3,454,143	3,838,472
Total Unsecured Loans						**3,838,472**
Asset-Backed Securities – 1.2%						
Financials – 1.2%						
Grayson Investor Corp. (8)(13)(14)(15)			11/1/2021	800	456,000	271,920
Highland Park CDO I Ltd. 2006 1A A2 (7)(8)(13)(15)	L + 40		11/25/2051	658,095	546,516	615,319
PAMCO CLO 1997-1A B (8)(9)(10)(11)(13)(15)				374,239	215,187	144,044
						1,031,283
Total Asset-Backed Securities						**1,031,283**
				Shares		
Closed-End Mutual Funds – 1.5%						
Financials – 1.5%						
NexPoint Strategic Opportunities Fund (8)(16)(17)				65,078	1,444,019	1,297,005
Total Closed-End Mutual Funds						**1,297,005**
Portfolio Company(1)(2)	**Interest Rate**	**Base Rate Floor**	**Maturity Date**	**Principal Amount**	**Amortized Cost (3)**	**Fair Value**
Corporate Bonds – 56.7%						
Financials – 6.0%						
ASP AMC Merger Sub, Inc. (13)(17)	8.000%		5/15/2025	7,325,000	6,898,195	3,918,875
Freedom Mortgage Corp. (13)(17)	8.250%		4/15/2025	1,500,000	1,500,000	1,290,000
						5,208,875
Healthcare – 50.7%						
DJO Finance LLC / DJO Finance Corp. (13)(17)	8.125%		6/15/2021	6,500,000	6,270,057	6,711,250
Endo Finance LLC / Endo Finco Inc. (13)(17)	6.000%		7/15/2023	7,500,000	6,496,223	5,756,250
Ortho-Clinical Diagnostics (13)(17)	6.625%		5/15/2022	9,217,000	8,801,814	8,341,385
Quorum Health Corp. (13)(17)	11.625%		4/15/2023	3,459,000	3,178,462	3,268,755
Surgery Center Holdings (8)(13)(17)	6.750%		7/1/2025	10,858,000	10,216,848	9,283,590
Tenet Healthcare Corp. (8)(17)	8.125%		4/1/2022	1,000,000	978,124	1,006,250
Valeant Pharmaceuticals International, Inc. (8)(13)(17)	5.875%		5/15/2023	4,000,000	3,482,925	3,715,000
Valeant Pharmaceuticals International, Inc. (8)(13)(17)	6.125%		4/15/2025	6,500,000	5,723,046	5,687,500
						43,769,980
Total Corporate Bonds						**48,978,855**

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of December 31, 2018

			Shares		
Common Stocks – 25.6%					
Chemicals – 0.3%					
MPM Holdings, Inc. (8)(18)			8,500	$ 250,750	$ 267,750
Energy – 6.0%					
Enterprise Products Partners L.P. (8)(17)			170,000	4,144,041	4,180,300
Energy Transfer Equity L.P. (8)(17)			75,000	1,438,740	990,750
					5,171,050
Healthcare – 5.3%					
Acadia Healthcare Co., Inc. (8)(17)(18)			24,900	981,583	640,179
Amarin Corp. Plc (8)(17)(18)			140,000	1,982,260	1,905,400
Heron Therapeutics, Inc. (8)(17)(18)			19,232	500,032	498,878
Nevro Corp. (8) (17) (18)			8,000	500,402	311,120
Quorum Health Corp. (17)(18)			408,514	2,184,094	1,180,605
SteadyMed Ltd. (8)(10)(11)(18)			54,749	14,508	14,509
					4,550,691
Materials – 1.5%					
OmniMax International, Inc. (10)(11)(18)			6,698	663,115	1,303,257
Media/Telecommunications – 1.2%					
Gambier Bay, LLC (10)(11)(16)(18)			9,180,900	3,478,685	1,055,803
Real Estate Investment Trusts (REITs) – 3.7%					
NexPoint Residential Trust, Inc. (8)(16)(17)			25,757	846,587	902,783
Independence Realty Trust, Inc. (8)(17)			246,727	2,216,203	2,264,954
					3,167,737
Telecommunication Services – 4.5%					
TerreStar Corp. (10)(11)(18)			14,035	1,599,990	3,913,800
Utility – 3.1%					
Vistra Energy Corp. (17)(18)			115,000	1,776,757	2,632,350
Total Common Stocks					**22,062,438**
	Preferred Dividend Rate				
Preferred Stocks – 5.5%					
Real Estate Investment Trusts (REITs) – 5.5%					
Braemar Hotels & Resorts, Inc. (8)(17)	5.500%		258,065	4,000,008	4,427,105
RAIT Financial Trust (17)(19)	8.875%		148,057	3,113,308	333,128
					4,760,233
Total Preferred Stocks					**4,760,233**
Rights – 0.1%					
Utility – 0.1%					
Texas Competitive Electric Holdings Company, LLC (TXU) (18)			58,356	148,619	43,183
Total Rights					43,183
Warrants – 0.1%					
Healthcare – 0.1%					
Galena Biopharma, Inc. (11)(18)		1/12/2021	1,500,054	—	—
Gemphire Therapeutics, Inc. (11)(18)		3/15/2022	118,796	—	17,159
SCYNEXIS, Inc. (11)(18)		6/21/2021	195,000	—	32,949
					50,108
Materials – 0.0%					
OmniMax International, Inc. (10)(11)(18)		8/6/2025	207	—	40,340
Total Warrants					**90,448**
Total Investments – 111.5%				**$105,022,260**	**$ 96,229,841**
Cash Equivalents – 8.1% (20)					$ 6,957,619
Other Assets & Liabilities, net – (19.6%)					$ (16,876,497)
Net Assets – 100.0%					**$ 86,310,963**

	Notional Amount(21)	Unrealized Depreciation
Total Return Swap – (3.0%)		
BNP Paribas TRS Facility (Note 7)	55,763,056	(2,547,492)

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of December 31, 2018

(1) Unless otherwise noted, the Company did not "control" and was not an "affiliated person" of any of its portfolio companies, each as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). In general, under the 1940 Act, the Company would be presumed to "control" a portfolio company if it owned 25% or more of its voting securities or had the power to exercise control over the management or policies of such portfolio company, and would be an "affiliated person" of a portfolio company if it owned 5% or more of its voting securities. Additionally, companies under common control (e.g., companies with a common owner of greater than 25% of their respective voting securities) are affiliates under the 1940 Act.

(2) All investments are denominated in United States Dollars.

(3) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.

(4) Senior secured loans in which the Company invests generally pay interest at rates which are periodically determined by reference to a base lending rate plus a spread (unless otherwise identified, all senior secured loans carry a variable rate of interest). These base lending rates are generally (i) the Prime Rate offered by one or more major United States banks, (ii) the lending rate offered by one or more European banks such as the London Interbank Offered Rate ("LIBOR") or (iii) the coupon rate. Rate shown represents the actual rate at December 31, 2018. Senior secured loans, while exempt from registration under the Securities Act of 1933 (the "1933 Act"), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.

(5) The interest rate on these investments is subject to a base rate of 1-Month LIBOR, which at December 31, 2018 was 2.50%. The LIBOR rate used to calculate interest is the higher of the prevailing 1 month LIBOR rate in effect on the date of the monthly reset, or the LIBOR base rate floor shown.

(6) All or a portion of this position has not settled. Full contract rates do not take effect until settlement date.

(7) The interest rate on these investments is subject to a base rate of 3-Month LIBOR, which at December 31, 2018 was 2.81%. The LIBOR rate used to calculate interest is the higher of the prevailing 3 month LIBOR rate in effect on the date of the quarterly reset, or the LIBOR base rate floor shown.

(8) The investment is not a qualifying asset under Section 55 of the 1940 Act. A business development company, such as the Company, may not acquire any asset other than a qualifying asset, unless at the time the acquisition is made, qualifying assets represent at least 70% of the business development company's total assets. Non-qualifying assets represented 28.5% of the Company's total assets as of December 31, 2018.

(9) The issuer is in default of its payment obligation, or is in danger of default.

(10) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.

(11) Represents fair value as determined by the Company's Board of Directors (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. The Board considers fair valued securities to be securities for which market quotations are not readily available and these securities may be valued using a combination of observable and unobservable inputs. Securities with a total aggregate value of $10,883,178 or 12.6% of net assets were fair valued under the Company's valuation procedures as of December 31, 2018.

(12) The investment represents value held in escrow pending future events. No interest is being accrued.

(13) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transactions exempt from registration to qualified institutional buyers. As of December 31, 2018, these securities amounted to $49,003,888, or 56.8% of net assets.

(14) The investment is considered to be the equity tranche of the issuer.

(15) Securities of collateralized loan obligations where an affiliate of the Adviser serves as collateral manager.

(16) Represents an affiliated issuer. Assets with a total aggregate market value of $3,255,591, or 3.8% of net assets, were affiliated with the Company as of December 31, 2018 (see Note 10).

(17) All or part of this security is pledged as collateral for margin/facility borrowings. The market value of the securities pledged as collateral was $69,207,643.

(18) Non-income producing security.

(19) The issuer has suspended the quarterly dividend for this security.

(20) State Street U.S. Government Money Market Fund.

(21) Notional value of the underlying securities in the Total Return Swap is calculated by multiplying par by the initial price.

Glossary

ADR American Depositary Receipt

PIK Payment-in-Kind

NexPoint Capital, Inc.

Notes to Financial Statements

Note 1—Organization

NexPoint Capital, Inc. (the “Company”) is an externally managed, non-diversified, closed-end management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Company follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification Topic 946 Financial Services—Investment Companies. The Company’s investment objective is to generate current income and capital appreciation primarily through investments in middle-market healthcare companies, middle-market companies in non-healthcare sectors, syndicated floating rate debt of large public and nonpublic companies and collateralized loan obligations. The Company has elected to be treated for federal income tax purposes, and intends to qualify annually thereafter, as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). In this report, “we,” “us” and “our” refer to NexPoint Capital, Inc.

The Company was formed in Delaware on September 30, 2013 and formally commenced operations on September 2, 2014 upon satisfying the minimum offering requirement by raising gross proceeds of $10.0 million in connection with a private placement with NexPoint Advisors, L.P. (the “Adviser”), our external advisor. In aggregate through December 31, 2019, the Adviser controls 2,513,370 total shares, including reinvestment of dividends, for a net amount of approximately $21.4 million.

The Company has retained the Adviser to manage certain aspects of its affairs on a day-to-day basis. NexPoint Securities, Inc. (formerly, Highland Capital Funds Distributor, Inc.) (the “Dealer Manager”), an entity under common ownership with the Adviser, served as the dealer manager of the Company’s continuous public offering prior to the termination of the offering. The Adviser and Dealer Manager are related parties and will receive fees and other compensation for services related to the investment and management of the Company’s assets and the continuous public offering. The Company’s continuous public offering ended on February 14, 2018.

Note 2—Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Additionally, the accompanying financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-K and Article 6 of Regulation S-X.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Cash Flows

Information on financial transactions which have been settled through the receipt or disbursement of cash is presented in the Statements of Cash Flows. The cash amount shown in the Statements of Cash Flows is the amount included within the Company’s Statements of Assets and Liabilities and includes cash on hand at its custodian bank.

Cash and Cash Equivalents

The Company considers liquid assets deposited with a bank and certain short-term debt instruments with original maturities of three months or less to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay Company expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value. The value of cash equivalents denominated in foreign currencies, if any, is determined by converting to U.S. dollars on the date of the Statements of Assets and Liabilities. As of December 31, 2019 and 2018, the Company had cash and cash equivalents of $7,764,892 and $7,112,205, respectively. As of December 31, 2019 and 2018, $7,745,979 and $6,957,619 was held in the State Street U.S. Government Money Market Fund, and $18,913 and $154,586 was held in a custodial account with State Street Bank and Trust Company, respectively.

Securities Sold Short and Restricted Cash

The Company may sell securities short. A security sold short is a transaction in which the Company sells a security it does not own in anticipation that the market price of that security will decline. When the Company sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. The Company may have to pay a fee to borrow particular securities and is often obligated to pay over any dividends or other payments received on such borrowed securities. Cash held as collateral for securities sold short is classified as restricted cash on the Statements of Assets and Liabilities. Securities held as collateral for securities sold short are shown on the Schedule of Investments for the Company, as applicable. As of December 31, 2019 and 2018, the Company did not have any securities sold short.

When securities are sold short, the Company intends to limit exposure to a possible market decline in the value of its portfolio companies through short sales of securities that the Adviser believes possess volatility characteristics similar to those being hedged. In addition, the Company may use short sales for non-hedging purposes to pursue its investment objective. Subject to the requirements of the 1940 Act and the Code, the Company will not make a short sale if, after giving effect to such sale, the market value of all securities sold short by the Company exceeds 25% of the value of its total assets.

Other Fee Income

Fee income may consist of origination/closing fees, amendment fees, administrative agent fees, transaction break-up fees and other miscellaneous fees. Origination fees, amendment fees, and other similar fees are non-recurring fee sources. Such fees are received on a transaction by transaction basis and do not constitute a regular stream of income. For the years ended December 31, 2019, 2018 and 2017 the Company recognized $49,895, $10,483 and $37,586 of fee income, respectively.

Fair Value of Financial Instruments

Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosure (“ASC Topic 820”) defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, which includes inputs such as quoted prices for similar securities in active markets and quoted prices for identical securities where there is little or no activity in the market; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company determines the net asset value of its investment portfolio each quarter, or more frequently as needed. Securities that are publicly-traded are valued at the reported closing price on the valuation date. Securities that are not publicly-traded are valued at fair value as determined in good faith by the board of directors of the Company (the "Board") or by the Adviser, pursuant to board-approved procedures. In connection with that determination, the Company will provide the Board with portfolio company valuations which are based on relevant inputs, including indicative dealer quotes, values of like securities, recent portfolio company financial statements and forecasts, and valuations prepared by third-party valuation services.

With respect to investments for which market quotations are not readily available, the Board and the Adviser undertake a multi-step valuation process, as described below:

- The valuation process begins with each portfolio company or investment being initially valued by investment professionals of the Adviser responsible for credit monitoring.
- Preliminary valuation conclusions are then documented and discussed with senior management of the Adviser (the "Valuation Committee").
- The audit committee of the Board reviews these preliminary valuations.
- At least once each quarter, the valuations for approximately one quarter of the portfolio investments that have been fair valued are reviewed by an independent valuation firm such that, over the course of a year, each material portfolio investment that has been fair valued shall have been reviewed by an independent valuation firm at least once.
- Based on this information, the Board discusses valuations and determines the fair value of each investment in the portfolio in good faith.

As of December 31, 2019, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

Instrument	Type	Market value
PAMCO CLO 1997-1A B	Asset-Backed	$ 139,629
American Banknote Corp.	Common Stocks	2,467,500
OmniMax International, Inc.	Common Stocks	20,898
SteadyMed Ltd.	Common Stocks	40,405
TerreStar Corp.	Common Stocks	3,890,081
NexPoint Capital REIT, LLC	LLC Interests	2,425,989
SFR WLIF III, LLC	LLC Interests	1,615,315
SFR WLIF II, LLC	LLC Interests	3,317,342
US GAMING LLC	LLC Interests	2,000,000
TerreStar Corp.	Senior Secured Loans	583,470
TerreStar Corp.	Senior Secured Loans	138,132
OmniMax International, Inc.	Unsecured Loans	3,713,191
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	1,340
OmniMax International, Inc.	Warrant	647
SCYNEXIS, Inc.	Warrant	28,497

As of December 31, 2018, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

Instrument	Type	Market value
PAMCO CLO 1997-1A B	Asset-Backed	$ 144,044
Gambier Bay, LLC	Common Stocks	1,055,803
OmniMax International, Inc.	Common Stocks	1,303,257
SteadyMed Ltd.	Common Stocks	14,509
TerreStar Corp.	Common Stocks	3,913,800
TerreStar Corp.	Senior Secured Loans	522,845
OmniMax International, Inc.	Unsecured Loans	3,838,472
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	17,159
OmniMax International, Inc.	Warrant	40,340
SCYNEXIS, Inc.	Warrant	32,949

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to the Company's financial statements will refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, in the Company's financial statements. Below is a description of factors that the Valuation Committee and the Board may consider when valuing the Company's debt and equity investments.

Valuation of fixed income investments, such as loans and debt securities, depends upon a number of factors, including prevailing interest rates for like securities, expected volatility in future interest rates, call features, put features and other relevant terms of the debt. For investments without readily available market prices, the Company may incorporate these factors into discounted cash flow models to arrive at fair value. Other factors that the Board may consider include the borrower's ability to adequately service its debt, the fair market value of the portfolio company in relation to the face amount of its outstanding debt and the quality of collateral securing the Company's debt investments.

The Company's equity investments in portfolio companies for which there is no liquid public market will be valued at fair value. The Valuation Committee and the Board, in its analysis of fair value, may consider various factors, such as multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), cash flows, net income, revenues or, in limited instances, book value or liquidation value. All of these factors may be subject to adjustments based upon the particular circumstances of a portfolio company or the Company's actual investment position. For example, adjustments to EBITDA may take into account compensation to previous owners or acquisition, recapitalization, restructuring or other related items.

The Valuation Committee and the Board may also look to private merger and acquisition statistics, public trading multiples discounted for illiquidity and other factors, valuations implied by third-party investments in the portfolio companies or industry practices in determining fair value. The Valuation Committee and the Board may also consider the size and scope of a portfolio company and its specific strengths and weaknesses, as well as any other factors it deems relevant in assessing the value. Generally, the value of the Company's equity interests in public companies for which market quotations are readily available will be based upon the most recent closing public market price.

If the Company receives warrants or other equity-linked securities at nominal or no additional cost in connection with an investment in a debt security, the Company will allocate the cost basis in the investment between the debt securities and any such warrants or other equity-linked securities received at the time of origination. The Valuation Committee and the Board will subsequently value these warrants or other equity-linked securities received at fair value.

As applicable, the Company values its Level 2 assets by using the midpoint of the prevailing bid and ask prices from dealers on the date of the relevant period end, which is provided by an independent third-party pricing service and screened for validity by such service. For investments for which the third-party pricing service is unable to obtain quoted prices, the Company obtains bid and ask prices directly from dealers who make a market in such investments.

To the extent that the Company holds investments for which no active secondary market exists and, therefore, no bid and ask prices can be readily obtained, the Valuation Committee utilizes an independent third-party valuation service to value such investments.

The Company periodically benchmarks the bid and ask prices received from the third-party pricing service and/or dealers, as applicable, and valuations received from the third-party valuation service against the actual prices at which it purchases and sells its investments. The Company believes that these prices are reliable indicators of fair value. The Company's Valuation Committee and the Board review and approve the valuation determinations made with respect to these investments in a manner consistent with the Company's valuation process.

As of December 31, 2019, the Company's investments consisted of senior secured loans, unsecured loans, bonds, asset-backed securities, mortgage-backed securities, common stocks, LLC interests, preferred stocks, a closed-end mutual fund, a total return swap ("TRS") and rights and warrants, which may be purchased for a fraction of the price of the underlying securities. The fair value of the Company's loans, bonds and asset-backed securities are generally based on quotes received from brokers or independent pricing services. Loans, bonds and asset-backed securities with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Loans, bonds and asset-backed securities that are priced using quotes derived from implied values, indicative bids or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

The fair value of the Company's common stocks and options that are not actively traded on national exchanges are generally priced using quotes derived from implied values, indicative bids, or a limited amount of actual trades and are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable. Exchange traded options are valued based on the last trade price on the primary exchange on which they trade. If an option does not trade, the mid-price is utilized to value the option.

The Company values the TRS in accordance with the agreement (the "TRS Agreement") with BNP Paribas ("BNP Paribas") that establishes the TRS. Pursuant to the TRS Agreement, the value of the TRS is based on the increase or decrease in the value of the loans underlying the TRS, together with accrued interest income, interest expense and certain other expenses incurred under the TRS. The loans underlying the TRS are valued based on indicative bid prices provided by an independent third-party pricing service. Bid prices reflect the highest price that market participants may be willing to pay. These valuations are sent to the Company for review and testing. The Valuation Committee and the Board review the value of the loans underlying the TRS, on a quarterly basis. To the extent the Valuation Committee or the Board have any questions or concerns regarding the valuation of the loans underlying the TRS, such valuation is discussed or challenged pursuant to the terms of the TRS Agreement. For additional information on the TRS, see Note 7.

At the end of each calendar quarter, the Company evaluates the Level 2 and 3 investments for changes in liquidity, including: whether a broker is willing to execute at the quoted price, the depth and consistency of prices from third party services, and the existence of contemporaneous, observable trades in the market. Additionally, management evaluates the Level 1 and 2 assets and liabilities on a quarterly basis for changes in listings or delistings on national exchanges.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market price, the fair value of the Company's investments may fluctuate from period to period. Additionally, the fair value of investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values the Company may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. Transfers in and out of the levels are recognized at the fair value at the end of the period. The following are summaries of the Company's investments categorized within the fair value hierarchy as of December 31, 2019 and 2018:

Investments	December 31, 2019 Level 1	Level 2	Level 3	Total
Assets				
Senior Secured Loans				
Energy	$ —	$ 1,841,046	$ —	$ 1,841,046
Healthcare	—	5,111,353	—	5,111,353
Media/Telecommunications	—	336,802	—	336,802
Telecommunication Services	—	—	721,602	721,602
Utility	—	1,925	—	1,925
Unsecured Loans				
Materials	—	—	3,713,191	3,713,191
Asset-Backed Securities				
Financials	—	603,891	139,629	743,520
Mortgage-Backed Securities	—	3,994,444	—	3,994,444
Closed-End Mutual Funds	2,136,410	—	—	2,136,410
Corporate Bonds				
Financials	—	1,474,200	—	1,474,200
Healthcare	—	38,987,225	—	38,987,225
Media/Telecommunications	—	361,074	—	361,074
Common Stocks				
Chemicals	—	42,500	—	42,500
Energy	4,904,650	—	—	4,904,650
Financials	—	—	2,467,500	2,467,500
Healthcare	214,740	—	40,405	255,145
Materials	—	—	20,898	20,898
Media/Telecommunications	1,715,375	—	—	1,715,375
Real Estate Investment Trusts (REITs)	6,125,046	—	—	6,125,046
Retail	—	1,124,467	—	1,124,467
Service	—	59,183	—	59,183
Telecommunication Services	—	—	3,890,081	3,890,081
Utility	2,413,950	—	—	2,413,950
LLC Interests				
Consumer Products	—	—	2,000,000	2,000,000
Real Estate	—	—	4,932,657	4,932,657
Real Estate Investment Trusts (REITs)	—	—	2,425,989	2,425,989
Preferred Stocks				
Financials	—	2,084,000	—	2,084,000
Real Estate	—	1,500,000	—	1,500,000
Real Estate Investment Trusts (REITs)	4,903,235	4,235	—	4,907,470
Rights	—	61,391	—	61,391
Warrants				
Healthcare	—	29,837	—	29,837
Materials	—	—	647	647
Media/Telecommunications	—	44,114	—	44,114
Total Assets	**$22,413,406**	**$57,661,687**	**$20,352,599**	**$100,427,692**
Liabilities				
Warrants	$ —	$ —	$ —	$ —
Derivatives				
Total Return Swap Contracts	$ —	$ —	$ (2,745,042)	$ (2,745,042)
Total Liabilities	**$ —**	**$ —**	**$ (2,745,042)**	**$ (2,745,042)**
Total Investments net of Securities Sold Short	**$22,413,406**	**$57,661,687**	**$17,607,557**	**$ 97,682,650**

Investments	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Senior Secured Loans				
Energy	$ —	$ 2,196,140	$ —	$ 2,196,140
Healthcare	—	6,846,414	—	6,846,414
Media/Telecommunications	—	3,381,950	—	3,381,950
Retail	—	1,171,825	—	1,171,825
Telecommunication Services	—	—	522,845	522,845
Utility	—	8,750	—	8,750
Unsecured Loans	—	—	3,838,472	3,838,472
Asset-Backed Securities	—	887,239	144,044	1,031,283
Closed-End Mutual Funds	1,297,005	—	—	1,297,005
Corporate Bonds	—	48,978,855	—	48,978,855
Common Stocks				
Chemicals	267,750	—	—	267,750
Energy	5,171,050	—	—	5,171,050
Healthcare	4,536,182	—	14,509	4,550,691
Materials	—	—	1,303,257	1,303,257
Media/Telecommunications	—	—	1,055,803	1,055,803
Real Estate Investment Trusts (REITs)	3,167,737	—	—	3,167,737
Telecommunication Services	—	—	3,913,800	3,913,800
Utility	2,632,350	—	—	2,632,350
Preferred Stocks	4,760,233	—	—	4,760,233
Rights	—	43,183	—	43,183
Warrants				
Healthcare	—	50,108	—	50,108
Materials	—	—	40,340	40,340
Total Assets	**$21,832,307**	**$63,564,464**	**$10,833,070**	**$96,229,841**
Liabilities				
Derivatives				
Total Return Swap Contracts	$ —	$ —	$ (2,547,492)	$ (2,547,492)
Total Liabilities	$ —	$ —	$ (2,547,492)	$ (2,547,492)
Total Investments Net of Swap Contracts	**$21,832,307**	**$63,564,464**	**$ 8,285,578**	**$93,682,349**

The table below sets forth a summary of changes in the Company's Level 3 investments (measured at fair value using significant unobservable inputs) for the year ended December 31, 2019.

Investments:	Balance as of December 31, 2018	Transfers into Level 3	Transfer out of Level 3	Net amortization (accretion) of premium/ (discount)	Net realized gains/ (losses)	Net change in unrealized gains/ (losses)	Purchases/ PIK	(Sales and redemptions)	Balance as of December 31, 2019	Change in unrealized gain/(loss) on Level 3 securities still held at period end
Assets										
Senior Secured Loans										
Telecommunication Services	$ 522,845	$ —	$ —	$ —	$ —	$ (923)	$ 199,680	$ —	$ 721,602	$ (923)
Unsecured Loans										
Materials	3,838,472	—	—	175,174	—	(866,717)	566,262	—	3,713,191	(866,717)
Asset-Backed Securities										
Financials	144,044	—	—	—	—	(4,415)	—	—	139,629	(4,415)
Common Stocks										
Financials	—	—	—	—	—	405,000	2,062,500	—	2,467,500	405,000
Healthcare	14,509	—	—	—	—	25,896	—	—	40,405	25,896
Materials	1,303,257	—	—	—	—	(1,282,359)	—	—	20,898	(1,282,359)
Media/Telecommunications	1,055,803	—	—	—	—	2,422,882	—	(3,478,685)	—	2,422,882
Telecommunication Services	3,913,800	—	—	—	—	(23,719)	—	—	3,890,081	(23,719)
LLC Interests										
Consumer Products	—	—	—	—	—	—	2,000,000	—	2,000,000	—
Real Estate	—	—	—	—	—	(67,343)	5,000,000	—	4,932,657	(67,343)
Real Estate Investment Trusts (REITs)	—	—	—	—	—	236,428	2,189,561	—	2,425,989	236,428
Warrants										
Materials	40,340	—	—	—	—	(39,693)	—	—	647	(39,693)
Total	$ 10,833,070	$ —	$ —	$ 175,174	$ —	$ 805,037	$12,018,003	$ (3,478,685)	$ 20,352,599	$ 805,037
Liabilities										
Total Return Swaps [(1)]	$ (2,547,492)	$ —	$ —	$ —	$ —	$ (197,550)	$ —	$ —	$ (2,745,042)	$ (197,550)

(1) During the year ended December 31, 2019, the Company recognized a net realized gain on the TRS amounting to $1,530,270. The Company received $1,918,837 in cash payments from the TRS during the period and paid $10,157, with a decrease of $366,952 in receivable from, and an increase of $11,458 in payable to BNP Paribas for the year ended December 31, 2019.

The table below sets forth a summary of changes in the Company's Level 3 investments (measured at fair value using significant unobservable inputs) for the year ended December 31, 2018.

Investments:	Balance as of December 31, 2017	Transfers into Level 3	Transfer out of Level 3	Net amortization (accretion) of premium/ (discount)	Net realized gains/ (losses)	Net change in unrealized gains/ (losses)	Purchases/ PIK	(Sales and redemptions)	Balance as of December 31, 2018	Change in unrealized gain/(loss) on Level 3 securities still held at period end
Assets										
Senior Secured Loans										
Telecommunication Services	$ —	$ —	$ —	$ —	$ —	$ (523)	$ 523,368	$ —	$ 522,845	$ (523)
Unsecured Loans										
Materials	3,326,186	—	—	161,844	213	(141,979)	493,465	(1,257)	3,838,472	(141,979)
Asset-Backed Securities										
Financials	294,541	—	—	—	78,797	(43,888)	—	(185,406)	144,044	(43,888)
Common Stocks										
Healthcare	—	—	—	—	—	—	14,509	—	14,509	—
Materials	2,566,191	—	—	—	—	(1,262,934)	—	—	1,303,257	(1,262,934)
Media/Telecommunications	—	1,055,803	—	—	—	—	—	—	1,055,803	—
Telecommunication Services	—	—	—	—	—	2,313,810	1,599,990	—	3,913,800	2,313,810
Warrants										
Materials	79,432	—	—	—	—	(39,092)	—	—	40,340	(39,092)
Total	$ 6,266,350	$1,055,803	$ —	$ 161,844	$ 79,010	$ 825,394	$2,631,332	$ (186,663)	$ 10,833,070	$ 825,394
Liabilities										
Total Return Swaps [(1)]	$ (563,823)	$ —	$ —	$ —	$ —	$ (1,983,669)	$ —	$ —	$ (2,547,492)	$ 1,983,669

(1) During the year ended December 31, 2018, the Company recognized a net realized gain on the TRS amounting to $1,169,203. The Company received $1,162,468 in cash payments from the TRS during the period and paid $176,702, with an increase of $183,437 in receivable from BNP Paribas for the year ended December 31, 2018.

Investments designated as Level 3 may include investments valued using quotes or indications furnished by brokers which are based on models or estimates and may not be executable prices. In light of the developing market conditions, the Adviser continues to search for observable data points and evaluate broker quotes and indications received for investments. Determination of fair values is uncertain because it involves subjective judgments and estimates that are unobservable. Transfers from Level 2 to Level 3 are due to a decrease in market activity (e.g. frequency of trades), which resulted in a decrease of available market inputs to determine price. For the year ended December 31, 2019, there were no transfers from Level 2 to Level 3. Transfers from Level 3 to Level 2 and from Level 2 to Level 1 are due to an increase in market activity (e.g. frequency of trades), which resulted in an increase of available market inputs to determine price. For the year ended December 31, 2018, $1,055,803 was transferred from Level 2 to Level 3.

The following are summaries of significant unobservable inputs used in the fair valuations of investments categorized within Level 3 of the fair value hierarchy as of December 31, 2019 and 2018:

Investment	Fair value at December 31, 2019	Valuation technique	Unobservable inputs	Range of input value(s) (weighted average)
LLC Interest	$ 9,358,646	Discounted Cash Flow	Discount Rate	2.59% - 12.5%
		Net Asset Value	N/A	N/A
		Cost Basis	N/A	N/A
Common Stock	6,418,884	Discounted Cash Flow	Discount Rate	16.0% - 20.0%
		Multiples Analysis	Multiple of EBITDA	6.00x - 8.75x
			Unadjusted Price/MHz-PoP	$0.12 - $0.95
			Risk Discount	55.2% - 59.8%
			Liquidity Discount	25%
		Transaction Analysis	Multiple of EBITDA	8.25x - 8.75x
		Transaction Indication of Value	Enterprise Value ($mm)	$365.0 - $771.0
			Transaction Price Per Share	$2.75
		Black-Scholes Model	Volatility Assumption	30 - 40%
		Implied Value	Cash Payment Value	$4.46
			Probability Assessment	20%
Senior Secured Loans	721,602	Discounted Cash Flow	Discount Rate	11.10%
			Spread Adjustment	0.10%
Unsecured Loans	3,713,191	Black-Scholes Model	Volatility Assumption	30% - 40%
Asset-Backed Securities	139,629	Discounted Cash Flow	Discount Rate	21.00%
Warrants	647	Discounted Cash Flow	Discount Rate	20.0%
		Multiples Analysis	Multiple of EBITDA	7.0x - 8.75x
		Transaction Analysis	Multiple of EBITDA	8.25x - 8.75x
		Black-Scholes Model	Volatility Assumption	30 - 40%
Total	$ 20,352,599			
Total Return Swaps	$ (2,745,042)	Third Party Pricing Vendor	N/A	N/A

Investment	Fair value at December 31, 2018	Valuation technique	Unobservable inputs	Range of input value(s) (weighted average)
Common Equity	$ 6,287,369	Discounted Cash Flow	Discount Rate	11.00% - 15.00%
			Terminal Multiple	6.5x
		Multiples Analysis	Multiple of EBITDA	6.0x - 7.0x
			Unadjusted Price/MHz-PoP	$0.120- $0.800
			Risk Discount	33.0%- 35.8%
		Transaction Analysis	Multiple of EBITDA	7.25x - 7.75x
		Bid Indication of Value	Enterprise Value ($mm)	$720.0 - $765.0
		Pricing Feed	N/A	N/A
		Implied Value	Cash Payment Value	$4.46
Senior Secured Loans	522,845	Discounted Cash Flow	Discount Rate	11.1%
			Spread Adjustment	0.10%
Unsecured Loans	3,838,472	Discounted Cash Flow	Discount Rate	16.0%
Warrants	40,340	Discounted Cash Flow	Discount Rate	11.00%
			Terminal Multiple	6.5x
		Multiples Analysis	Multiple of EBITDA	6.0x - 7.0x
		Transaction Analysis	Multiple of EBITDA	7.25x - 7.75x
Asset-Backed Securities	144,044	Discounted Cash Flow	Discount Rate	20.88%
Total	$ 10,833,070			
Total Return Swaps	$ (2,547,492)	Third Party Pricing Vendor	N/A	N/A

Derivative Transactions

The Company is subject to equity price risk, interest rate risk and foreign currency exchange rate risk in the normal course of pursuing its investment objective. The Company may invest without limitation in warrants and may also use derivatives, primarily swaps (including equity, variance and volatility swaps), options and futures contracts on securities, interest rates, commodities and/or currencies, as substitutes for direct investments the Company can make. The Company may also use derivatives such as swaps, options (including options on futures), futures, and foreign currency transactions (e.g., foreign currency swaps, futures and forwards) to any extent deemed by the Adviser to be in the best interest of the Company, and to the extent permitted by the 1940 Act, to hedge various investments for risk management and speculative purposes. For additional information on the TRS, please see Note 7.

Options

The Company purchases options, subject to certain limitations. The Company may invest in options contracts to manage its exposure to the stock and bond markets and fluctuations in foreign currency values. Writing puts and buying calls tend to increase the Company's exposure to the underlying instrument while buying puts and writing calls tend to decrease the Company's exposure to the underlying instrument, or economically hedge other Company investments. The Company's risks in using these contracts include changes in the value of the underlying instruments, nonperformance of the counterparties under the contracts' terms and changes in the liquidity of the secondary market for the contracts. Options are valued at the last sale price, or if no sales occurred on that day, at the last quoted bid price. As of and during the year ended December 31, 2019 and December 31, 2018, the Company did not hold options.

Investment Transactions

Investment transactions are accounted for on trade date. Realized gains/(losses) on investments sold are recorded on the basis of specific identification method for both financial statement and U.S. federal income tax purposes. Payable for investments purchased and receivable for investments sold on the Statements of Assets and Liabilities, if any, represents the cost of purchases and proceeds from sales of investment securities, respectively, for trades that have been executed but not yet settled.

Income Recognition

Corporate actions (including cash dividends from common stock and equity tranches of asset-backed securities) are recorded on the ex-dividend date, net of applicable withholding taxes, except for certain foreign corporate actions, which are recorded as soon after the ex-dividend date as such information becomes available. Interest income is recorded on the accrual basis. The Company does not accrue as a receivable for interest or dividends on loans, asset-backed securities and other securities if there is a reason to doubt the Company's ability to collect such income. For loans with contractual PIK (payment-in-kind) interest income, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will not accrue PIK interest if we believe that the PIK interest is no longer collectible. Loan origination fees, original issue discount and market discount are capitalized and such amounts are amortized as interest income over the respective term of the loan or security. Upon the prepayment of a loan or security, any unamortized loan origination fees and original issue discount are recorded as interest income.

Accretion of discounts and amortization of premiums on taxable bonds, loans and asset-backed securities are computed to the call or maturity date, whichever is shorter, using the effective yield method. Withholding taxes on foreign dividends have been provided for in accordance with the Company's understanding of the applicable country's tax rules and rates.

Organization and Offering Costs

Organization costs are paid by the Adviser and include the cost of incorporating, such as the cost of legal services and other fees pertaining to our organization. Offering costs include legal fees, promotional costs and other costs pertaining to the public offering of our shares of common stock and are also paid by the Adviser. Prior to the termination of the offering, as we raised proceeds, these organization and offering costs were expensed and became payable to the Adviser. Organization and offering costs are limited to 1% of total gross proceeds raised and are not due and payable to the Adviser to the extent they exceed that amount. Please refer to Note 4 for additional information on Organization and Offering Costs.

Paid-in Capital

The proceeds from the issuance of common stock as presented on the Company's Statements of Changes in Net Assets is presented net of selling commissions and fees for the years ended December 31, 2019, 2018 and 2017. Selling commissions and fees of $0, $413,024, and $1,837,575 were paid for the years ended December 31, 2019, 2018 and 2017, respectively.

Earnings Per Share

In accordance with the provisions of ASC Topic 260—Earnings per Share ("ASC 260"), basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

The following table sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations:

	For the year ended December 31,		
	2019	**2018**	**2017**
Net increase (decrease) in net assets from operations	$ 9,190,895	$ (6,209,274)	$7,468,172
Weighted average common shares outstanding	10,441,061	10,358,148	8,564,351
Earnings (loss) per common share-basic and diluted	$ 0.88	$ (0.60)	$ 0.87

Distributions

Distributions to the Company's stockholders will be recorded as of the record date. Subject to the discretion of the Board and applicable legal restrictions, the Company intends to authorize and declare ordinary cash distributions on a weekly basis and pay such distributions on a monthly basis. Net realized capital gains, if any, will generally be distributed or deemed distributed at least every 12-month period.

Recent Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this update shorten the amortization period for certain callable debt securities held at premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For the company, this update is effective for fiscal years beginning on January 1, 2020. The Company is currently evaluating the impact of this new guidance on its financial statement presentation and disclosures.

Note 3—Investment Portfolio

The following table shows the composition of the Company's invested assets by industry classification at fair value at December 31, 2019:

	Fair value	Percentage
Assets		
Healthcare	$ 44,383,560	44.2%
Real Estate Investment Trusts (REITs)	13,458,505	13.4%
Financials	12,900,074	12.9%
Energy	6,745,696	6.7%
Real Estate	6,432,657	6.4%
Telecommunication Services	4,611,683	4.6%
Materials	3,734,736	3.7%
Utility	2,477,266	2.5%
Media/Telecommunications	2,457,365	2.4%
Consumer Products	2,000,000	2.0%
Retail	1,124,467	1.1%
Service	59,183	0.1%
Chemicals	42,500	0.0%
Total Assets	**$100,427,692**	**100.0%**

The following table shows the composition of the Company's invested assets by industry classification at fair value at December 31, 2018:

	Fair value	Percentage
Assets		
Healthcare	$55,217,193	57.4%
Real Estate Investment Trusts (REITs)	7,927,970	8.2%
Financials	7,537,163	7.8%
Energy	7,367,190	7.7%
Materials	5,182,069	5.4%
Media/Telecommunications	4,437,753	4.6%
Telecommunication Services	4,436,645	4.6%
Utility	2,684,283	2.8%
Retail	1,171,825	1.2%
Chemicals	267,750	0.3%
Total Assets	**$96,229,841**	**100.0%**

The following table summarizes the amortized cost and the fair value of the Company's invested assets by class of financial asset as of December 31, 2019:

	Amortized Cost	Fair value	Percentage of Portfolio (at Fair Value)
Assets			
Senior Secured Loans - First Lien	$ 8,473,042	$ 7,683,965	7.7%
Senior Secured Loans - Second Lien	553,265	326,838	0.3%
Senior Secured Loans - Escrow Loan	79,372	1,925	0.0%
Unsecured Loans	4,195,580	3,713,191	3.7%
Asset-Backed Securities	896,536	743,520	0.7%
Mortgage-Backed Securities	3,996,530	3,994,444	4.0%
Closed-End Mutual Funds	2,419,467	2,136,410	2.1%
Corporate Bonds	42,275,712	40,822,499	40.6%
Common Stocks	20,812,044	23,018,795	22.9%
LLC Interests	9,189,561	9,358,646	9.3%
Preferred Stocks	10,285,555	8,491,470	8.5%
Rights	148,370	61,391	0.1%
Warrants	52,988	74,598	0.1%
Total Assets	**$103,378,022**	**$100,427,692**	**100.0%**

The following table summarizes the amortized cost and the fair value of the Company's invested assets by class of financial asset as of December 31, 2018:

	Amortized cost	Fair value	Percentage of portfolio (at fair value)
Assets			
Senior Secured Loans—First Lien	$ 10,482,803	$ 9,297,810	9.7%
Senior Secured Loans—Second Lien	4,985,731	4,821,364	5.0%
Senior Secured Loans—Escrow Loan	87,816	8,750	0.0%
Unsecured Loans	3,454,143	3,838,472	4.0%
Asset-Backed Securities	1,217,703	1,031,283	1.1%
Closed-End Mutual Funds	1,444,019	1,297,005	1.4%
Corporate Bonds	53,545,694	48,978,855	50.9%
Common Stocks	22,542,416	22,062,438	22.9%
Preferred Stocks	7,113,316	4,760,233	4.9%
Rights	148,619	43,183	0.0%
Warrants	—	90,448	0.1%
Total Assets	**$105,022,260**	**$96,229,841**	**100.0%**

The following table summarizes the amortized cost and the fair value of the Company's invested assets as of December 31, 2019 to include, on a look-through basis, the investments underlying the TRS, as disclosed in Note 7. The investments underlying the TRS had a notional amount and market value of $50,904,830 and $47,899,681, respectively, as of December 31, 2019.

	Amortized cost	Fair value	Percentage of portfolio (at fair value)
Assets			
Senior Secured Loans—First Lien	$ 51,120,740	$ 47,656,091	32.1%
Senior Secured Loans—Second Lien	8,810,397	8,254,393	5.6%
Senior Secured Loans—Escrow Loan	79,372	1,925	0.0%
Unsecured Loans	4,195,580	3,713,191	2.5%
Asset-Backed Securities	896,536	743,520	0.5%
Mortgage-Backed Securities	3,996,530	3,994,444	2.7%
Closed-End Mutual Funds	2,419,467	2,136,410	1.4%
Corporate Bonds	42,275,712	40,822,499	27.6%
Common Stocks	20,812,044	23,018,795	15.5%
LLC Interests	9,189,561	9,358,646	6.3%
Preferred Stocks	10,285,555	8,491,470	5.7%
Rights	148,370	61,391	0.0%
Warrants	52,988	74,598	0.1%
Total Assets	**$154,282,852**	**$148,327,373**	**100.0%**

The following table summarizes the amortized cost and the fair value of the Company's invested assets as of December 31, 2018 to include, on a look-through basis, the investments underlying the TRS, as disclosed in Note 7. The investments underlying the TRS had a notional amount and market value of $55,763,056 and $53,007,114, respectively, as of December 31, 2018.

	Amortized cost	Fair value	Percentage of portfolio (at fair value)
Assets			
Senior Secured Loans—First Lien	$ 56,049,290	$ 52,886,814	35.4%
Senior Secured Loans—Second Lien	15,182,300	14,239,474	9.5%
Senior Secured Loans—Escrow Loan	87,816	8,750	0.0%
Unsecured Loans	3,454,143	3,838,472	2.6%
Asset-Backed Securities	1,217,703	1,031,283	0.7%
Closed-End Mutual Funds	1,444,019	1,297,005	0.9%
Corporate Bonds	53,545,694	48,978,855	32.8%
Common Stocks	22,542,416	22,062,438	14.8%
Preferred Stocks	7,113,316	4,760,233	3.2%
Rights	148,619	43,183	0.0%
Warrants	—	90,448	0.1%
Total Assets	**$160,785,316**	**$149,236,955**	**100.0%**

The following table shows the composition of the Company's invested assets by geographic classification at December 31, 2019:

Geography	Fair value	Percentage
Assets		
Cayman Islands [1]	$ 743,520	0.7%
Luxembourg [1]	2,583,933	2.6%
United States	97,100,239	96.7%
Total Assets	**$100,427,692**	**100.0%**

(1) Investment denominated in USD.

The following table shows the composition of the Company's invested assets by geographic classification at December 31, 2018:

Geography	Fair value	Percentage
Assets		
Cayman Islands [1]	$ 1,031,283	1.1%
Luxembourg [1]	2,526,414	2.6%
United States	92,672,144	96.3%
Total Assets	**$96,229,841**	**100.0%**

(1) Investment denominated in USD

Note 4—Related Party Transactions and Arrangements

Investment Advisory Fee

Payments for investment advisory services under the Company's investment advisory agreement (the "Investment Advisory Agreement") and administrative services agreement (the "Administration Agreement") are equal to (a) a base management fee calculated at an annual rate of 2.0% of the average value of the Company's gross assets at the end of the two most recently completed calendar quarters and (b) an incentive fee based on the Company's performance. Effective June 5, 2017, the Investment Advisory Agreement and the Administration Agreement were amended to exclude cash and cash equivalents from the calculation of gross assets for the purpose of calculating advisory and administration fees.

For the years ended December 31, 2019, 2018 and 2017, the Company incurred investment advisory fees payable to the Adviser of $1,966,697, $2,025,178 and $1,575,420. Of these amounts, $0, $0 and $1,499,906, respectively, were voluntarily waived. Amounts waived for management fees or administrative services expenses pertaining to periods prior to June 10, 2016 are not recoupable, but amounts waived for management fees or administrative services expenses pertaining to periods from and after June 10, 2016 are subject to recoupment by the Adviser within three years from the date that such fees were otherwise payable, provided that the recoupment will be limited to the amount of such voluntarily waived fees from and after June 10, 2016 and will not cause the sum of the Company's advisory fees, administration fees, Other Expenses (as defined under "Expense Limits and Reimbursements" below), and any recoupment to exceed the annual rate of 3.40% of average gross assets. Effective December 20, 2017, the Adviser ended its voluntary waiver of advisory fees.

Incentive Fee

The incentive fee consists of two parts. The first part, which is referred to as the subordinated incentive fee on income, is calculated and payable quarterly in arrears, and equals 20.0% of "pre-incentive fee net investment income" for the immediately preceding quarter and is subject to a hurdle rate, expressed as a rate of return on the Company's net assets, as defined in the Investment Advisory Agreement, equal to 1.875% per quarter. As a result, the Adviser will not earn this incentive fee for any quarter until the Company's pre-incentive fee net investment income for such quarter exceeds the hurdle rate of 1.875%. Once the Company's pre-incentive fee net investment income in any quarter exceeds the hurdle rate, the Adviser will be entitled to a "catch-up" fee equal to the amount of the pre-incentive fee net investment income in excess of the hurdle rate, until the Company's pre-incentive fee net investment income for such quarter equals 2.34375% of the Company's net assets at the end of such quarter. This "catch-up" feature allows the Adviser to recoup the fees foregone as a result of the existence of the hurdle rate in that quarter. Thereafter, the Adviser will receive 20.0% of the Company's pre-incentive fee net investment income from the quarter.

The second part of the incentive fee, which is referred to as the incentive fee on capital gains, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of the Company's incentive fee capital gains, which will equal the Company's realized capital gains on a cumulative basis from formation, calculated as of the end of the applicable period, computed net of all realized capital losses (proceeds less amortized cost) and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. The Company will accrue for the capital gains incentive fee, which, if earned, will be paid annually. The Company will accrue for the capital gains incentive fee based on net realized and unrealized gains; however, under the terms of the Investment Advisory Agreement, the fee payable to the Adviser will be based on realized gains and no such fee will be payable with respect to unrealized gains unless and until such gains are actually realized.

For the years ended December 31, 2019, 2018 and 2017, the Company incurred $0, recognized a reduction of $(594,306) and incurred $418,739 of incentive fees on capital gains, respectively. Since inception, the Company has accrued $0 of incentive fees on capital gains in aggregate. Effective December 20, 2017, the Adviser ended its voluntary waiver of incentive fees. No such fees have been paid with respect to realized gains to the Adviser as of December 31, 2019.

Administration Fee

Pursuant to the Administration Agreement with the Adviser, the Company also reimburses the Adviser for expenses necessary for its performance of services related to the Company's administration and operations. The amount of the reimbursement will be the lesser of (1) the Company's allocable portion of overhead and other expenses incurred by the Adviser in performing its obligations under the Administration Agreement and (2) 0.40% of the Company's average gross assets, (excluding cash and cash equivalents). The Adviser is required to allocate the cost of such services to the Company based on objective factors such as assets, revenues, time allocations and/or other reasonable metrics. The Board assesses the reasonableness of such reimbursements based on the breadth, depth and quality of such services as compared to the estimated cost to the Company of obtaining similar services from third-party service providers known to be available. In addition, the Board will consider whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Board will compare the total amount paid to the Adviser for such services as a percentage of the Company's net assets to the same ratio as reported by other comparable BDCs.

For the years ended December 31, 2019, 2018 and 2017, the Company incurred administration fees payable to the Adviser of $399,100, $409,789 and $314,337. Of these amounts, $0, $0 and $301,355, respectively, were voluntarily waived. Amounts waived for management fees or administrative services expenses pertaining to periods prior to June 10, 2016 are not recoupable, but amounts waived for management fees or administrative services, expenses pertaining to periods from and after June 10, 2016 are subject to recoupment by the Adviser within three years from the date that such fees were otherwise payable, provided that the recoupment will be limited to the amount of such voluntarily waived fees from and after June 10, 2016 and will not cause the sum of the Company's advisory fees, administration fees, Other Expenses, and any recoupment to exceed the annual rate of 3.40% of average gross assets. Effective December 20, 2017, the Adviser ended its voluntary waiver of administration fees.

Investment Advisory and Administration Fees Table

Amounts waived and subject to recoupment pertaining to advisory and administrator fees are shown below.

Period ended	Advisory fees waived and subject to recoupment [(1)]	Administration fees waived and subject to recoupment [(1)]	Recoupment eligibility expiration
December 31, 2017	$ 413,916	$ 75,906	December 31, 2020
September 30, 2017	305,288	69,308	September 30, 2020
June 30, 2017	389,733	77,947	June 30, 2020
March 31, 2017	390,969	78,194	March 31, 2020
December 31, 2016	366,861	73,372	Expired
September 30, 2016	343,320	68,664	Expired
June 30, 2016	74,421	14,884	Expired
Total	**$ 2,284,508**	**$ 458,275**	

[(1)] The Advisor has permanently waived the recoupment of any advisory fees or administration fees calculated on the portion of gross assets attributable to the receivable from Adviser balance on the Statements of Assets and Liabilities. The amounts shown have been reduced by this waiver.

In addition, cumulatively since inception through to June 10, 2016, the Company has voluntarily waived $930,143 and $186,042 of advisory fees and administration fees, respectively, all of which are not recoupable.

Organization and Offering Costs

Organization costs include the cost of incorporating, such as the cost of legal services and other fees pertaining to our organization and are paid by the Adviser. For the years ended December 31, 2019, 2018 and 2017, the Adviser did not incur or pay organization costs on our behalf.

Offering costs include legal fees, promotional costs and other costs pertaining to the public offering of our shares of common stock, and are capitalized and amortized to expense over one year. For the years ended December 31, 2019, 2018 and 2017, the Adviser incurred and paid offering costs of $0, $238,568 and $954,765, respectively, on our behalf. For the years ended December 31, 2019, 2018, and 2017, the Company capitalized $0, $61,462, and $282,156, of offering costs, respectively. Of the capitalized offering costs, $5,445, $184,847, and $381,881 were amortized to expense during the years ended December 31, 2019, 2018, and 2017, respectively. As of December 31, 2019 and 2018, $0 and $5,445 remained on the Statements of Assets and Liabilities, respectively.

Organization costs and offering costs are limited to 1% of total gross proceeds raised in the offering and are not due and payable to the Adviser to the extent they exceed that amount. As of December 31, 2019, the cumulative aggregate amount of $5,327,574 of organization and offering costs exceeds 1% of total proceeds raised. Subsequent to the termination of the offering, the Adviser forfeited the right to reimbursement of the remaining $4,305,091 of these costs.

Fees Paid to Officers and Directors

Each director who is not an "interested person" of the Company as defined in the 1940 Act (the "Independent Directors") receives an annual retainer of $150,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund Complex based on relative net assets. The "Highland Fund Complex" consists of all of the registered investment companies advised by the Adviser and any affiliates as of the period covered by this report. The Company pays no compensation to any of its officers, all of whom are employees of an affiliate of the Adviser. Prior to December 8, 2017, Mr. Powell was treated as an "interested person" of the Company, for all purposes other than compensation and the Company's code of ethics.

For the years ended December 31, 2019, 2018 and 2017, the Company recorded an expense relating to director fees of $19,553, $19,804 and $16,090, respectively, which represents the allocation of the director fees to the Company. As of December 31, 2019 there was $63 of expenses payable relating to director fees.

Expense Limits and Reimbursements

Pursuant to an expense limitation agreement, the Adviser is contractually obligated to waive fees and, if necessary, pay or reimburse certain other expenses to limit the ordinary "Other Expenses" to 1.0% of the quarter-end value of the Company's gross assets through the one year anniversary of the effective date of the registration statement (the "Expense Limitation Agreement"). Under the Expense Limitation Agreement, "Other Expenses" are all expenses with the exception of advisor and administration fees, organization and offering costs and the following: (i) interest, taxes, dividends tied to short sales, brokerage commissions, and other expenditures which are capitalized in accordance with U.S. GAAP; (ii) expenses incurred indirectly as a result of investments in other investment companies and pooled investment vehicles; (iii) other expenses attributable to, and incurred as a result of, our investments; (iv) expenses payable to the Adviser, as administrator, for providing significant managerial assistance to our portfolio companies; and (v) other extraordinary expenses (including litigation expenses) not incurred in the ordinary course of our business. The obligation will automatically renew for one-year terms unless it is terminated by the Company or the Adviser upon written notice within 120 days of the end of the current term or upon termination of the Investment Advisory Agreement. The Expense Limitation Agreement will continue through at least April 30, 2020.

Any expenses waived or reimbursed by the Adviser pursuant to the Expense Limitation Agreement are subject to possible recoupment by the Adviser within three years from the date of the waiver or reimbursement. The recoupment by the Adviser will be limited to the amount of previously waived or reimbursed expenses and cannot cause the Company's expenses to exceed any expense limitation in place at the time of recoupment or waiver.

Reimbursable Expenses Table

The cumulative total of fees waived by the Adviser under the Expense Limitation Agreement, which are recoupable as of December 31, 2019 is $903,985. This balance, and the balances in the tables below, only include amounts pertaining to the Expense Limitation Agreement, and do not include waived advisory and administration fees subject to recoupment discussed earlier in Note 4. The following table reflects the fee waivers and expense reimbursements due from the Adviser as of December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, which may become subject to recoupment by the Adviser.

Period ended	Yearly cumulative other expense	Yearly expense limitation	Yearly cumulative expense reimbursement	Quarterly recoupable amount	Recoupment eligibility expiration
December 31, 2019	$ 1,098,789	$ 951,520	$ 147,269	$ 50,130	December 31, 2022
September 30, 2019	849,345	752,206	97,139	(17,417)	September 30, 2022
June 30, 2019	586,411	471,855	114,556	75,592	June 30, 2022
March 31, 2019	295,177	256,213	38,964	38,964	March 31, 2022

The following table reflects the fee waivers and expense reimbursements due from the Adviser as of December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018, which may become subject to recoupment by the Adviser.

Period ended	Yearly cumulative other expense	Yearly expense limitation	Yearly cumulative expense reimbursement	Quarterly recoupable amount	Recoupment eligibility expiration
December 31, 2018	$ 1,352,097	$ 924,677	$ 427,420	$279,079	December 31, 2021
September 30, 2018	950,045	801,704	148,341	23,992	September 30, 2021
June 30, 2018	613,809	489,460	124,349	44,203	June 30, 2021
March 31, 2018	341,882	261,736	80,146	80,146	March 31, 2021

The following table reflects the fee waivers and expense reimbursements due from the Adviser as of December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017, which may become subject to recoupment by the Adviser.

Period ended	Yearly cumulative other expense	Yearly expense limitation	Yearly cumulative expense reimbursement	Quarterly recoupable/ (recouped) amount	Recoupment eligibility expiration
December 31, 2017	$ 1,304,585	$ 975,289	$ 329,296	$ (122,135)	December 31, 2020
September 30, 2017	983,110	531,679	451,431	252,953	September 30, 2020
June 30, 2017	631,906	433,428	198,478	50,913	June 30, 2020
March 31, 2017	329,791	182,226	147,565	147,565	March 31, 2020

During the year ended December 31, 2019, $427,831 of expense reimbursements that were eligible for recoupment by the Adviser expired.

There can be no assurance that the Expense Limitation Agreement will remain in effect or that the Adviser will reimburse any portion of the Company's expenses in future quarters not covered by the Expense Limitation Agreement. Amounts shown do not include the amounts committed by the Adviser to voluntarily reimburse the Company for unrealized losses, all of which are not recoupable.

Net Increase from Amounts Committed by Affiliates

For the years ended December 31, 2019, 2018 and 2017, the Adviser did not voluntarily reimburse the Company for unrealized losses sustained. Cumulatively since inception, the Adviser has committed $2,275,000 to voluntarily reimburse the Company for such losses. Had these commitments not been made, the net asset value ("NAV") as of December 31, 2019 would have been lower by approximately this amount. These commitments are shown in the Statements of Operations as net increase from amounts committed by affiliates and are not recoupable.

Amounts committed and paid by the Adviser to reimburse for unrealized losses are nonrecurring, and investors should not expect the Adviser to make similar commitments or payments in the future.

Receivable from Adviser / Payable to Adviser

As of December 31, 2019 and December 31, 2018, $50,130 and $0 were owed from the Adviser to the Company, respectively.

As of December 31, 2019 and December 31, 2018, the Company owed $570,453 and $291,904, respectively to the Adviser, largely related to advisory fees, administration fees, and the expense limitation agreement.

Indemnification

Under the Company's organizational documents, the officers and Directors have been granted certain indemnification rights against certain liabilities that may arise out of performance of their duties to the Company. Additionally, in the normal course of business, the Company may enter into contracts with service providers that contain a variety of indemnification clauses. The Company's maximum exposure under these arrangements is dependent on future claims that may be made against the Company and, therefore, cannot be estimated.

Note 5—U.S. Federal Income Tax Information

The Company has elected to be treated for federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code. To maintain its qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to its stockholders, for each taxable year, at least 90% of its "investment company taxable income," which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. As a RIC, the Company will not be subject to corporate-level federal income taxes on any income that it timely distributes to its stockholders. The Company intends to make distributions in an amount sufficient to maintain its RIC status each year and to avoid any federal income taxes on income so distributed. The Company will also be subject to nondeductible federal excise taxes if it does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years on which it paid no federal income taxes.

The character of income and capital gains to be distributed is determined in accordance with the Code, U.S. Treasury regulations, and other applicable authority, which may differ from U.S. GAAP. These differences include (but are not limited to) investments organized as partnerships for tax purposes, total return swaps, loan investments, and losses deferred due to wash sale transactions. Reclassifications are made to the Company's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under the Code, U.S. Treasury regulations, and other applicable authority. These reclassifications have no impact on net investment income, realized gains or losses, or net asset value of the Company. The calculation of net investment income per share in the Financial Highlights table excludes these adjustments.

As of December 31, 2019, 2018 and 2017, the Company made the following permanent book tax differences and reclasses:

	2019	2018	2017
Paid in capital excess of par value	$ (138,024)	$ (314,911)	$ (521,714)
Distributions in excess of net investment income [1]	2,583,485	2,654,803	3,986,427
Accumulated realized gains [1]	(2,445,461)	(2,339,892)	(3,464,713)

(1) Amounts are included in Total distributable earnings (loss) on the Statement of Assets and Liabilities.

During the year ended December 31, 2019, the differences between book and tax accounting were due primarily to non-deductible excise taxes and offering costs, partnerships, basis adjustments of loan investments, distribution re-designations and non-REIT return of capital.

For the years ended December 31, 2019, 2018 and 2017, the Company's tax year end, components of distributable earnings on a tax basis are as follows:

	2019	2018	2017
Undistributed ordinary income	$ 45,019	$ 1,821,034	$3,267,424
Net tax appreciation/(depreciation)	(3,044,798)	(9,471,326)	3,222,870
Undistributed capital gains	—	1,368,718	725,166
Other temporary differences	(289,344)	(20,194)	(22,087)

For the years ended December 31, 2019, 2018 and 2017, the Company had $(1,198,009), $0 and $0 of capital loss carryovers, respectively.

The tax character of shareholder distributions attributable to the fiscal years ended December 31, 2019, 2018 and 2017, were as follows:

	2019	2018	2017
Paid Distributions attributable to:			
Ordinary income	$6,276,791	$6,964,121	$6,157,349
Return of capital	—	—	—
Long term gain	1,237,492	636,657	—

Unrealized appreciation and depreciation at December 31, 2019, 2018 and 2017, based on cost of investments for U.S. federal income tax purposes were as follows:

	Gross appreciation	Gross (depreciation)	Net appreciation/ (depreciation)	Cost
December 31, 2019	$ 8,606,619	$ (11,651,417)	$(3,044,798)	$102,532,406
December 31, 2018	5,726,720	(15,198,046)	(9,471,326)	105,156,185
December 31, 2017	9,086,469	(6,592,620)	2,493,849	139,303,775

The tax adjustments that impact cost are wash sales, REIT return of capital, partnerships and basis adjustments on loan investments.

Uncertainty in Income Taxes

The Company will evaluate its tax positions to determine if the tax positions taken meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing tax benefits or liabilities in the financial statements. Recognition of a tax benefit or liability with respect to an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. The Company's tax returns are subject to examination by the Internal Revenue Service for a period of three fiscal years after they are filed. The Company recognizes interest and penalties, if any, related to unrecognized tax liabilities as income tax expense in the Statements of Operations. During the years ended December 31, 2019, 2018 and 2017, the Company did not incur any interest or penalties. Furthermore, management of the Company is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next 12 months.

Note 6—Share Repurchase Program

On a quarterly basis, the Company intends to offer to repurchase shares of common stock on such terms as may be determined by the Board in its complete and absolute discretion unless, in the judgment of the Independent Directors of the Board, such repurchases would not be in the best interests of the Company's stockholders or would violate applicable law. The Company will conduct such repurchase offers in accordance with the requirements of Rule 13e-4 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the 1940 Act. In months in which the Company repurchases shares of common stock, it will conduct repurchases on the same date that it holds its first weekly closing for the sale of shares of common stock in its public offering. Any offer to repurchase shares of common stock will be conducted solely through tender offer materials mailed to each stockholder.

The Company currently intends to limit the number of shares of common stock to be repurchased during any calendar year to the number of shares of common stock it can repurchase with the proceeds it receives from the sale of shares of common stock under its distribution reinvestment plan. At the discretion of the Board, the Company may also use cash on hand, cash available from borrowings and cash from liquidation of securities investments as of the end of the applicable period to repurchase shares of common stock. In addition, the Company will limit the number of shares of common stock to be repurchased in any calendar year to 10.0% of the weighted average number of shares of common stock outstanding in the prior calendar year, or 2.5% in each quarter, though the actual number of shares of common stock that the Company offers to repurchase may be less in light of the limitations noted above. The Company intends to offer to repurchase such shares of common stock at a price equal to 90% of the offering price in effect on each date of repurchase. The Board may amend, suspend or terminate the share repurchase program at any time, upon 30 days' notice.

The Company conducted its quarterly tender offer from November 27, 2019, until expiration of December 30, 2019 at 4:00 p.m. New York City time, during which the Company offered to purchase for cash up to 2.5% of its outstanding shares of common stock. During the fourth quarter tender offer, 131,083 shares of the Company were tendered for repurchase, constituting approximately 1.26% of the Company's outstanding shares.

For the year ended December 31, 2019, the Company repurchased 0 shares as part of its death and disability repurchase program.

Note 7—Credit Facility and Leverage Facilities

On October 19, 2017, the Company entered into a financing arrangement (the "Financing Arrangement") with BNP Paribas Prime Brokerage International, Ltd., BNP Prime Brokerage, Inc., and BNP Paribas (together, the "BNPP Entities"). Under the Financing Agreement, the BNPP Entities may make margin loans to the Company at a rate of one-month LIBOR + 1.30%. The BNPP Entities have the right to cap the amount of margin loans with prior notice to the Company. The Financing Arrangement may be terminated by either the Company or the BNPP Entities with 179 days notice. At December 31, 2019, current outstanding and fair value amounts were $33,714,864 and $33,975,517, respectively.

For the years ended December 31, 2019, 2018 and 2017, the components of total interest expense were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Direct interest expense	$ 1,233,085	$ 759,234	$ 95,181
Commitment fees	204	—	8,054
Amortization of financing costs	—	—	—
Total interest expense	**$ 1,233,289**	**$ 759,234**	**$ 103,235**
Average daily amount outstanding	35,934,346	22,875,571	4,803,836
Weighted average interest rate	3.43%	3.32%	2.32%

The Company is required to maintain 200% asset coverage with respect to its borrowings outstanding. Asset coverage is calculated by subtracting the Company's total liabilities, not including any amount representing bank loans and senior securities, from the Company's total assets and dividing the result by the principal amount of the borrowings outstanding. As of the dates indicated below, the Company's borrowings outstanding and asset coverage was as follows:

Year Ended	Total Amount Outstanding	% of Asset Coverage
12/31/2019	$ 63,219,694	241%
12/31/2018	67,767,021	227%
12/31/2017	46,540,921	304%
12/31/2016	11,200,000	701%
12/31/2015	—	n/a
12/31/2014	—	n/a

BNP Paribas Total Return Swap

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."

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.

Each individual security subject to the TRS, and the portfolio of securities taken as a whole, must meet certain criteria described in the TRS Agreement, including a requirement that the securities underlying the TRS be rated by either Moody's or S&P, and, if rated by Moody's, have a rating of at least Caa3 and, if rated by S&P, have a rating of at least CCC-. Under the terms of the TRS, BNP Paribas determines whether there has been a failure to satisfy the portfolio criteria in the TRS but may, in its sole discretion, permit assets that do not meet the minimum portfolio criteria set forth in the TRS. If BNP Paribas determines that an asset has failed to meet the minimum portfolio criteria, BNP Paribas may exercise certain rights, including increasing the amount of collateral the Company is required to provide to it or terminating all or part of the TRS, subject to certain conditions. The Company receives from BNP Paribas interest and fees payable to holders of the securities included in the portfolio. The Company pays interest to BNP Paribas generally based on a percentage of the notional amount of the securities subject to the TRS. In addition, upon the termination or repayment of any security subject to the TRS, the Company will either receive from BNP Paribas the appreciation in the value of such security or pay to BNP Paribas any depreciation in the value of such security.

Under the terms of the TRS, the Company or BNP Paribas may be required to post additional collateral, on a dollar-for-dollar basis, in certain circumstances, including in the event of depreciation or appreciation in the value of the underlying loans. The limit on the additional collateral that the Company may be required to post pursuant to the TRS is equal to the difference between the full notional amount of the loans underlying the TRS and the amount of cash collateral already posted by the Company. The amount of collateral required to be posted is determined primarily on the basis of the aggregate value of the underlying securities.

The Company may terminate the TRS at any time more than one month prior to the TRS's scheduled termination date upon providing no less than 30 days prior notice to BNP Paribas.

Included among the customary events of default and termination events in the TRS Agreement are: bankruptcy or insolvency of a party, failure to satisfy any obligations under the TRS (including payment of collateral), and misrepresentation. BNP Paribas also has the right to terminate the TRS in certain circumstances, including if the relevant loans fail to meet the agreed-upon criteria specified in the TRS Agreement or if certain credit events with respect to the "reference entity" specified with respect to a security occur, and the Company declines to provide additional collateral to BNP Paribas upon request.

Upon any termination of the TRS, the Company will be required to pay BNP Paribas the amount of any decline in the aggregate value of the securities subject to the TRS or, alternatively, will be entitled to receive the amount of any appreciation in the aggregate value of such securities. In the event that BNP Paribas chooses to exercise its termination rights, it is possible that the Company will owe more to BNP Paribas or, alternatively, will be entitled to receive less from BNP Paribas than the Company would have if it controlled the timing of such termination, due to the existence of adverse market conditions at the time of such termination.

For purposes of the asset coverage ratio test applicable to the Company as a BDC, the Company treats the outstanding notional amount of the TRS, less the initial amount of any cash collateral required to be posted by the Company under the TRS, as a senior security for the life of that instrument. The Company may, however, accord different treatment to the TRS in the future in accordance with any applicable new rules or interpretations adopted by the staff of the SEC.

Further, for purposes of Section 55(a) under the 1940 Act, the Company treats each security underlying the TRS as a qualifying asset if such security is a loan and the obligor on such loan is an eligible portfolio company, and as a non-qualifying asset if the obligor is not an eligible portfolio company. The Company may, however, accord different treatment to the TRS in the future in accordance with any applicable new rules or interpretations adopted by the staff of the SEC.

The following is a summary of the underlying loans subject to the TRS as of December 31, 2019:

Underlying Loan	Industry	Interest	Base Rate Floor	Maturity Date	Notional Amount [1]	Market Value	Unrealized Appreciation (Depreciation)
Advantage Sales & Marketing, Inc. (Second Lien Term Loan)	Service	L + 650	1.00%	7/25/2022	$2,853,750	$2,640,000	$ (213,750)
Air Medical Group Holdings (First Lien Term Loan)	Aerospace	L + 425	1.00%	3/14/2025	3,917,518	3,791,960	(125,558)
ASP AMC Merger Sub, Inc. (First Lien Term Loan)	Healthcare	L + 350	1.00%	4/21/2024	1,822,226	1,730,025	(92,201)
VVC Holding Corp. (First Lien Term Loan)	Healthcare	L + 450	0.00%	2/11/2026	5,905,504	5,964,975	59,471
BioClinica, Inc. (First Lien Term Loan)	Healthcare	L + 425	1.00%	10/20/2023	1,874,140	1,893,662	19,522
Employbridge, LLC (First Lien Term Loan)	Service	L + 450	1.00%	4/18/2025	767,142	751,799	(15,343)
Endo Luxembourg Finance Company I S.a r.l. (First Lien Term Loan)	Healthcare	L + 425	0.75%	4/27/2024	3,959,091	3,762,121	(196,970)
Envision Healthcare Corp. (First Lien Term Loan)	Healthcare	L + 375	0.00%	10/10/2025	4,671,563	4,207,500	(464,063)
Granite Acquisition, Inc. (Second Lien Term Loan)	Utility	L + 725	1.00%	12/19/2022	3,736,715	3,704,222	(32,493)
BW NHHC Holdco, Inc. (First Lien Term Loan)	Healthcare	L + 500	0.00%	5/15/2025	4,537,384	3,420,139	(1,117,245)
Lanai Holdings II, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	8/28/2022	2,449,958	2,300,085	(149,873)
Radnet Management Inc. (First Lien Term Loan)		L + 350	1.00%	7/1/2023	1,492,721	1,485,331	(7,390)
Sound Inpatient Physicians (First Lien Term Loan)	Healthcare	L + 675	0.00%	6/28/2026	1,575,000	1,567,222	(7,778)
Truck Hero, Inc. (Second Lien Term Loan)	Manufacturing	L + 825	1.00%	4/21/2025	1,666,667	1,583,333	(83,334)
Vyaire Medical, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	4/30/2025	4,794,592	4,295,155	(499,437)
Weight Watchers International, Inc. (First Lien Term Loan)	Service	L + 475	0.75%	11/29/2024	4,880,859	4,802,152	(78,707)
Total							$ (3,005,149)
Accrued income and liabilities							**260,107**
Total TRS Fair Value							**$ (2,745,042)**

(1) Notional value of the underlying securities in the TRS is calculated by multiplying par by the initial price.

The following is a summary of the underlying loans subject to the TRS as of December 31, 2018:

Underlying Loan	Industry	Interest	Base Rate Floor	Maturity Date	Notional Amount (1)	Market Value	Unrealized Appreciation (Depreciation)
Advantage Sales & Marketing, Inc. (Second Lien Term Loan)	Service	L + 650	1.00%	7/25/2022	$2,853,750	$2,340,000	$ (513,750)
Air Medical Group Holdings (First Lien Term Loan)	Aerospace	L + 425	1.00%	9/26/2024	3,957,513	3,681,407	(276,106)
ASP AMC Merger Sub, Inc. (First Lien Term Loan)	Financial	L + 350	1.00%	4/21/2024	1,838,000	1,570,000	(268,000)
Avantor, Inc. (First Lien Term Loan)	Chemicals	L + 400	1.00%	11/21/2024	3,818,053	3,666,656	(151,397)
BioClinica, Inc. (First Lien Term Loan)	Healthcare	L + 425	1.00%	10/20/2023	1,893,461	1,809,636	(83,825)
Employbridge, LLC (First Lien Term Loan)	Service	L + 500	1.00%	4/10/2025	934,525	914,274	(20,251)
Endo Luxembourg Finance Company I S.a r.l. (First Lien Term Loan)	Healthcare	L + 425	0.75%	4/29/2024	3,999,697	3,780,808	(218,889)
Envision Healthcare Corp. (First Lien Term Loan)	Healthcare	L + 375	0.00%	9/28/2025	2,943,750	2,793,750	(150,000)
Granite Acquisition, Inc. (Second Lien Term Loan)	Utility	L + 725	1.00%	12/19/2022	3,736,715	3,616,026	(120,689)
BW NHHC Holdco, Inc. (First Lien Term Loan)	Healthcare	L + 500	0.00%	5/15/2025	4,583,449	4,508,594	(74,855)
Lanai Holdings II, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	8/28/2022	2,475,478	2,243,692	(231,786)
Quorum Health Corp. (First Lien Term Loan)	Healthcare	L + 675	1.00%	4/29/2022	7,151,645	7,038,182	(113,463)
Sound Inpatient Physicians (First Lien Term Loan)	Healthcare	L + 675	0.00%	6/26/2026	1,575,000	1,495,278	(79,722)
Truck Hero, Inc. (Second Lien Term Loan)	Manufacturing	L + 825	1.00%	5/10/2025	1,666,666	1,633,334	(33,332)
U.S Renal Care, Inc. (Second Lien Term Loan)	Healthcare	L + 800	1.00%	12/31/2023	1,939,438	1,828,750	(110,688)
Vyaire Medical, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	4/11/2025	4,843,267	4,691,915	(151,352)
Weight Watchers International, Inc. (First Lien Term Loan)	Service	L + 475	0.75%	11/29/2024	5,552,649	5,394,812	(157,837)
Total							$ (2,755,942)
Accrued income and liabilities							**208,450**
Total TRS Fair Value							**$ (2,547,492)**

(1) Notional value of the underlying securities in the TRS is calculated by multiplying par by the initial price.

As of December 31, 2019, the Company had posted $21,400,000 of cash collateral against the TRS held in an account at the Company's custodian bank, which is shown as due from counterparty on the Statements of Assets and Liabilities.

During the year ended December 31, 2019, the Company recognized a net realized gain on the TRS amounting to $1,530,270. The Company received $1,918,837 in cash payments from the TRS during the period and paid $10,157 with a decrease of $366,952 in receivable from, and an increase of $11,458 in payable to BNP Paribas for year ended December 31, 2019. The notional value of the derivative instruments outstanding as of December 31, 2019 and the unrealized appreciation (depreciation) on derivative instruments during the year then ended serve as indicators of the volume of derivative activity for the Company.

Note 8—Economic Dependency and Commitments and Contingencies

Under various agreements, the Company has engaged the Adviser and its affiliates to provide certain services that are essential to the Company, including asset management services, asset acquisition and disposition decisions, the sale of shares of the Company's common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations. Additionally, prior to termination of the offer, the Adviser paid all of the Company's organization and offering costs subject to reimbursement to the extent organization and offering costs paid by the Adviser did not exceed 1% of gross proceeds raised. Please see Note 4 for additional details on organization and offering costs.

As a result of these relationships, the Company is dependent upon the Adviser and its affiliates. In the event that these companies are unable to provide the Company with the respective services, the Company will be required to find alternative providers of these services.

Our Adviser, NexPoint Advisors, has been historically affiliated through common control with Highland Capital Management, L.P. ("HCMLP"), an SEC-registered investment adviser. On October 16, 2019, HCMLP filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of Delaware. The case was subsequently transferred to the United States Bankruptcy Court for the Northern District of Texas. On January 9, 2020, the bankruptcy court approved a change of control of HCMLP, which involved the resignation of James Dondero as the sole director of, and the appointment of an independent board to, HCMLP's general partner. Mr. Dondero will, however, remain as an employee of HCMLP and as portfolio manager for all funds and vehicles for which he currently holds such titles. Nevertheless, given Mr. Dondero's historic role with HCMLP and his continued ownership interest and roles with respect to the Highland platform as a whole, as well as the shared services agreements between HCMLP and our Adviser, we still treat HCMLP and its affiliates as our affiliates for purposes hereof.

NexPoint Advisors is not a party to HCMLP's bankruptcy filing. NexPoint Advisors is a party to a shared services arrangement with HCMLP. Under this arrangement our Adviser may utilize employees from HCMLP in connection with various services such as human resources, accounting, tax, valuation, information technology services, office space, employees, compliance and legal. We do not expect HCMLP's bankruptcy filings to impact its provision of services to NexPoint Advisors at this time.

From time to time, the Company may be involved in legal proceedings in the normal course of its business. Although the outcome of such litigation cannot be predicted with any clarity, management is of the opinion, based on the advice of legal counsel, that final dispositions of any litigation should not have a material adverse effect on the financial position of the Company as of December 31, 2019.

Unfunded commitments to provide funds to portfolio companies are not recorded in the Company's statements of assets and liabilities. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company has sufficient liquidity to fund these commitments. As of December 31, 2019, the Company had one unfunded debt commitment with an aggregate unfunded commitment of $333,333. For additional details regarding the Company's unfunded debt investments, see the Company's Schedule of Investments as of December 31, 2019.

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties that provide general indemnification. The Company's maximum exposure under these agreements is unknown, as this would involve future claims that may be made against the Company that have not occurred. The Company believes the risk of material obligations under these indemnities to be low. See also Note 13 regarding the end of the offering period.

Note 9—Market and Other Risk Factors

The primary risks of investing in the Company are described below in alphabetical order:

Concentration Risk

The Company is classified as a non-diversified investment company within the meaning of the 1940 Act, which means that it is not limited by the 1940 Act with respect to the proportion of the Company's assets that it may invest in securities of a single issuer. To the extent that the Company assumes large positions in the securities of a small number of issuers, the Company's net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. The Company may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the asset diversification requirements associated with the Company's qualification as a RIC under the Code and certain contractual diversification requirements under a credit facility or other agreements, the Company does not have fixed guidelines for diversification, and its investments could be concentrated in relatively few portfolio companies. As a result, the aggregate returns the Company realizes may be significantly adversely affected if a small number of investments perform poorly or if the Company needs to write down the value of any one investment. Additionally, the Company's investments may be concentrated in relatively few industries. As a result, a downturn in any particular industry in which the Company is invested could also significantly impact the aggregate returns realized.

Counterparty Credit Risk

Counterparty credit risk is the potential loss the Company may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. Counterparty credit risk is measured as the loss the Company would record if its counterparties failed to perform pursuant to the terms of their obligations to the Company. Because the Company may enter into over-the-counter forwards, options, swaps and other derivative financial instruments, the Company may be exposed to the credit risk of its counterparties. To limit the counterparty credit risk associated with such transactions, the Company conducts business only with financial institutions judged by the Adviser to present acceptable credit risk.

Credit Risk

Debt securities are subject to the risk of non-payment of scheduled interest and/or principal. Non-payment would result in a reduction of income to the Company, a reduction in the value of the obligation experiencing non-payment and a potential decrease in the Company's net asset value.

Investments rated below investment grade are commonly referred to as high-yield, high risk or "junk debt." They are regarded as predominantly speculative with respect to the issuing company's continuing ability to meet principal and/or interest payments. Investments in high yield debt and high yield senior loans may result in greater net asset value fluctuation than if the Company did not make such investments. Corporate debt obligations, including senior loans, are subject to the risk of non-payment of scheduled interest and/or principal.

Non-payment would result in a reduction of income to the Company, a reduction in the value of the corporate debt obligation experiencing non-payment and a potential decrease in the net asset value of the Company. Some of the loans the Company makes or acquires may provide for the payment by borrowers of Payment-In-Kind ("PIK") interest or accreted original issue discount at maturity. Such loans have the effect of deferring a borrower's payment obligation until the end of the term of the loan, which may make it difficult for the Company to identify and address developing problems with borrowers in terms of their ability to repay debt. Particularly in a rising interest rate environment, loans containing PIK and original issue discount provisions can give rise to negative amortization on a loan, resulting in a borrower owing more at the end of the term of a loan than what it owed when the loan was originated. Any such developments may increase the risk of default on the Company's loans by borrowers.

Because loans are not ordinarily registered with the SEC or any state securities commission or listed on any securities exchange, there is usually less publicly available information about such instruments. In addition, loans may not be considered "securities" for purposes of the anti-fraud protections of the federal securities laws and, as a result, as a purchaser of these instruments, the Company may not be entitled to the anti-fraud protections of the federal securities laws. In the course of investing in such instruments, the Company may come into possession of material nonpublic information and, because of prohibitions on trading in securities of issuers while in possession of such information, the Company may be unable to enter into a transaction in a publicly-traded security of that issuer when it would otherwise be advantageous for us to do so. Alternatively, the Company may choose not to receive material nonpublic information about an issuer of such loans, with the result that the Company may have less information about such issuers than other investors who transact in such assets.

Foreign Securities Risk

Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Company are maintained) and the various foreign currencies in which the Company's portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; and (iv) the extension of credit, especially in the case of sovereign debt.

Illiquid Securities Risk

The Company will generally make investments in private companies. Substantially all of these investments will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of the Company's investments may make it difficult for the Company to sell such investments if the need arises. In addition, if it is required to liquidate all or a portion of its portfolio quickly, the Company may realize significantly less than the value at which it has previously recorded its investments. In addition, it may face other restrictions on its ability to liquidate an investment in a portfolio company to the extent that it has material non-public information regarding such portfolio company or if an investment is held by one of its subsidiaries and is subject to contractual limitations on sale, such as the limitations on transfer of assets under certain circumstances under a credit facility.

Because loan transactions often take longer to settle than transactions in other securities, the Company may not receive the proceeds from the sale of a loan for a significant period of time. As a result, the Company may maintain higher levels of cash and short-term investments than funds that invest in securities with shorter settlement cycles and/or may use the Credit Facility to permit the Company to meet its obligations pending settlement of the sale of portfolio securities, each of which may adversely affect the Company's performance.

The Company seeks to address its short-term liquidity needs by carefully managing the settlements of its portfolio transactions, including transactions in loans, by maintaining short-term liquid assets sufficient to meet reasonably anticipated obligations, and by maintaining the Credit Facility.

Interest Rate Risk

On July 27, 2017, the head of the United Kingdom's Financial Conduct Authority announced a desire to phase out the use of LIBOR by the end of 2021. Due to this announcement, there remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on the Company or the financial instruments in which the Company invests can not yet be determined.

Investments in Foreign Markets Risk

Investments in foreign markets involve special risks and considerations not typically associated with investing in the United States. These risks include revaluation of currencies, high rates of inflation, restrictions on repatriation of income and capital, and adverse political and economic developments. Moreover, securities issued in these markets may be less liquid, subject to government ownership controls, tariffs and taxes, subject to delays in settlements, and their prices may be more volatile. The Company may be subject to capital gains and repatriation taxes imposed by certain countries in which they invest. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued based upon net investment income, net realized gains and net unrealized appreciation as income and/or capital gains are earned.

Leverage Risk

The Company may use leverage in its investment program, including the use of borrowed funds and investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent the Company purchases securities with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the Company's use of leverage would result in a lower rate of return than if the Company were not leveraged.

Options Risk

There are several risks associated with transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A transaction in options or securities may be unsuccessful to some degree because of market behavior or unexpected events.

When the Company writes a covered call option, the Company forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but retains the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation and once an option writer has received an exercise notice, it must deliver the underlying security in exchange for the strike price.

When the Company writes a covered put option, the Company bears the risk of loss if the value of the underlying stock declines below the exercise price minus the put premium. If the option is exercised, the Company could incur a loss if it is required to purchase the stock underlying the put option at a price greater than the market price of the stock at the time of exercise plus the put premium the Company received when it wrote the option. While the Company's potential gain in writing a covered put option is limited to distributions earned on the liquid assets securing the put option plus the premium received from the purchaser of the put option, the Company risks a loss equal to the entire exercise price of the option minus the put premium.

Short-Selling Risk

Short sales by the Company that are not made where there is an offsetting long position in the asset that it is being sold short theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. Short selling allows the Company to profit from declines in market prices to the extent such decline exceeds the transaction costs and costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of securities to rise further, thereby exacerbating the loss. The Company may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Company might have difficulty purchasing securities to meet margin calls on its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

Total Return Swap Risk

The TRS with BNP Paribas enables us to obtain the economic benefit of owning the securities subject to the TRS without actually owning such securities, in return for making periodic interest-type payments to BNP Paribas plus an amount equal to the depreciation in value of the securities. The TRS is subject to market risk, liquidity risk and risk of imperfect correlation between the value of the TRS and the securities underlying the TRS. In addition, we may incur certain costs in connection with the TRS, including an underutilization fee in the event that we utilize less than 80% of the amount of the TRS. Costs associated with the TRS could, in the aggregate, be significant. Because this arrangement is not an acquisition of the underlying securities, we have no right to enforce contractual provisions that stem from ownership in the securities and have no voting or other rights of ownership. In the event of insolvency of BNP Paribas, we expect that we would be treated as a general creditor of BNP Paribas and would have no claim of title with respect to the underlying securities.

A TRS is also subject to the risk that a counterparty will default on its payment obligations thereunder or that we will not be able to meet our obligations to the counterparty. In the case of the TRS with BNP Paribas, there is a requirement to post collateral to secure our obligations to BNP Paribas under the TRS. BNP Paribas, however, is not required to collateralize any of its obligations to us under the TRS. We bear the risk of depreciation with respect to the value of the securities underlying the TRS and are required under the terms of the TRS to post additional collateral on a dollar-for-dollar basis in the event of depreciation in the value of the underlying securities after such value decreases below a specified amount. The amount of collateral required to be posted by us is determined primarily on the basis of the aggregate value of the underlying securities.

In addition, because a TRS is a form of leverage, such arrangements are subject to risks similar to those associated with the use of leverage.

Valuation Risk

Certain of the Company’s assets are fair valued, including the Company’s investment in equity issued by TerreStar Corporation (“TerreStar”). TerreStar is a nonoperating company that does not currently generate revenue and which primarily derives its value from two spectrum frequencies, the license with respect to one of which was terminated by the FCC and is being contested by TerreStar on technical and public policy grounds. TerreStar currently anticipates such contest may take between 12 to 30 months and expects deployment of its other spectrum asset to require a similar period of time. If TerreStar is ultimately unsuccessful in its efforts, the terminated license would not be reinstated and the value of the TerreStar equity would likely be materially negatively impacted. The fair valuation of TerreStar involves uncertainty as it is materially dependent on these estimates. With regard to the likelihood of TerreStar regaining the terminated license, the Investment Adviser assigned a high probability of success, based in part in consultation with outside experts.

Note 10—Affiliated Investments

Under Section 2(a)(3) of the 1940 Act, a portfolio company is defined as “affiliated” if a fund owns five percent or more of its outstanding voting securities or if the portfolio company is under common control. The table below shows affiliated issuers of the Company as of December 31, 2019:

Affiliated investments	Shares at December 31, 2018	Fair value as of December 31, 2018	Purchases	Sales	Realized gains (losses)	Change in unrealized gains (losses)	Fair value as of December 31, 2019	Shares at December 31, 2019	Affiliated Dividend income
Gambier Bay, LLC (1)	9,180,900	$ 1,055,803	$ —	$(3,478,685)	$ —	$2,422,882	$ —	—	$ —
NexPoint Strategies Opportunities Fund	65,078	1,297,005	987,212	(11,764)	—	(136,043)	2,136,410	120,633	233,964
NexPoint Residential Trust, Inc.	25,757	902,783	28,646	(26,485)	—	286,026	1,190,970	26,466	5,835
NexPoint Capital REIT, LLC (2)	—	—	2,189,561	—	—	236,428	2,425,989	100	—
Total affiliated investments	9,271,735	$ 3,255,591	$3,205,419	$(3,516,934)	$ —	$2,809,293	$ 5,753,369	147,199	$239,799

(1) Non-income producing security.

(2) The investment is deemed to be a “controlled affiliated person” of the Company because the Company owns, either directly or indirectly, 25% or more of the portfolio company’s outstanding voting securities or has the power to exercise control over management or policies of such portfolio company. See Note 4 “Related Party Transactions and Arrangements”.

Note 11—Financial Highlights

Selected data for a share outstanding throughout the years ended December 31, 2019, 2018, 2017, 2016 and 2015 is as follows:

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Common shares per share operating performance:					
Net asset value, beginning of period	$ 8.36	$ 9.68	$ 9.47	$ 8.02	$ 8.97
Income from investment operations:					
Net investment income [1]	0.30	0.36	0.59	0.69	0.42
Net realized and unrealized gain (loss)	0.59	(0.96)	0.32	1.25	(1.40)
Commitments by affiliates	—	—	—	0.18	0.68
Total from investment operations	0.89	(0.60)	0.91	2.12	(0.30)
Less distribution declared to common shareholders:					
From net investment income	(0.60)	(0.73)	(0.72)	(0.71)	(0.56)
From net realized gains	(0.12)	—	—	—	—
From return of capital	—	—	—	—	(0.13)
Total distributions declared to common shareholders	(0.72)	(0.73)	(0.72)	(0.71)	(0.69)
Capital share transactions					
Offering costs [1]	—	—	—	—	(0.06)
Issuance of common stock [2]	—	0.01	0.02	0.04	0.10
Shares tendered [1]	0.00[3]	0.00[3]	0.00[3]	0.00[3]	0.00[3]
Net asset value, end of period	$ 8.53	$ 8.36	$ 9.68	$ 9.47	$ 8.02
Net asset value total return [4]	10.86%	(6.75)%	10.06%	27.61%[5]	(3.26)%[5]
Ratio and supplemental data:					
Net assets, end of period (in 000's)	$ 88,936	$ 86,311	$ 94,860	$ 67,293	$ 22,299
Shares outstanding, end of period	10,425,431	10,322,327	9,804,321	7,102,226	2,779,381
Common share information at end of period:					
Ratios based on weighted average net assets of common shares:					
Gross operating expenses	5.36%	4.32%	5.21%	7.56%	11.91%
Fees and expenses waived or reimbursed	(0.16)%	(0.43)%	(2.37)%	(4.56)%	(9.62)%
Net operating expenses	5.20%	3.89%	2.84%	3.00%	2.29%
Net investment income (loss) before fees waived or reimbursed	3.33%	3.28%	3.80%	2.98%	(4.64)%
Net investment income (loss) after fees waived or reimbursed	3.50%	3.71%	6.17%	7.54%	4.97%
Ratio of interest and credit facility expenses to average net assets	1.37%	0.76%	0.13%	0.36%	0.46%
Ratio of incentive fees to average net assets [6][7]	— %	(0.60)%	0.51%	0.40%	— %
Portfolio turnover rate	42%	55%	113%	60%	97%
Asset coverage ratio	241%	227%	304%	701%	n/a
Weighted average commission rate paid [8]	$ 0.0331	$ 0.0380	$ 0.0225	$ 0.0094	$ —

(1) Per share data was calculated using weighted average shares outstanding during the period.

(2) The continuous issuance of common stock may cause an incremental increase in net asset value per share due to the sale of shares at the then prevailing public offering price and the receipt of net proceeds per share by the Company in excess of net asset value per share on each subscription closing date. The per share data was derived by computing (i) the sum of (A) the number of shares issued in connection with subscriptions and/or distribution reinvestment on each share transaction date times (B) the differences between the net proceeds per share and the net asset value per share on each share transaction date, divided by (ii) the total shares outstanding at the end of the period.

(3) Amount rounds to less than $0.005 per share.

(4) 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.

(5) 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)%.

(6) Annualized.

(7) All incentive fees were waived for the year ended December 31, 2016.

(8) Represents the total dollar amount of commissions paid on portfolio transactions divided by total number of portfolio shares purchased and sold for which commissions were charged.

Note 12—Selected Quarterly Financial Data (Unaudited)

	Quarter ended			
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Total investment income	$1,838,426	$1,979,996	$2,040,664	$1,988,407
Total investment income per common share	0.18	0.19	0.20	0.19
Net investment income	717,956	731,993	876,514	830,213
Net investment income per common share	0.07	0.07	0.08	0.08
Net realized and unrealized gain (loss)	368,975	1,061,490	(577,223)	5,180,977
Net realized and unrealized gain (loss) per common share	0.04	0.10	(0.06)	0.50
Net increase (decrease) in net assets resulting from operations	1,086,931	1,793,483	299,291	6,011,190
Basic and diluted earnings (loss) per common share	0.10	0.17	0.03	0.58
Net asset value per common share at end of quarter	8.53	8.61	8.62	8.77

	Quarter ended			
	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Total investment income	$ 1,758,512	$1,842,814	$1,830,476	$2,136,605
Total investment income per common share	0.17	0.18	0.18	0.21
Net investment income	1,954,152	571,907	759,076	410,516
Net investment income per common share	0.19	0.05	0.07	0.04
Net realized and unrealized gain (loss)	(13,368,890)	478,938	(174,453)	3,159,480
Net realized and unrealized gain (loss) per common share	(1.28)	0.05	(0.02)	0.31
Net increase (decrease) in net assets resulting from operations	(11,414,738)	1,050,845	584,623	3,569,996
Basic and diluted earnings (loss) per common share	(1.09)	0.10	0.06	0.35
Net asset value per common share at end of quarter	8.36	9.65	9.73	9.85

The sum of quarterly per share amounts may not equal per share amounts reported for the years ended December 31, 2019 and 2018. This is due to changes in the number of weighted average shares outstanding and the effects of rounding for each period.

Note 13 — Subsequent Events

The Company has evaluated subsequent events through the date on which these financial statements were issued.

On January 2, 2020, the board of directors (the “Board”) of NexPoint Capital, Inc. (the “Company”) declared two cash distributions: a cash distribution of $0.06 per share of the Company’s common stock, par value $0.001 per share, payable on January 29, 2020, to the stockholders of record on January 27, 2020, and a cash distribution of $0.06 per share of the Company’s common stock, par value $0.001 per share, payable on February 26, 2020, to the stockholders of record on February 24, 2020.

On January 29, 2020, the Board of the Company declared a cash distribution of $0.06 per share of the Company’s common stock, par value $0.001 per share, payable on April 1, 2020, to the stockholders of record on March 30, 2020.

On February 27, 2020, the Board of the Company declared a cash distribution of $0.06 per share of the Company’s common stock, par value $0.001 per share, payable on April 29, 2020, to the stockholders of record on April 27, 2020.

An outbreak of respiratory disease caused by a novel coronavirus was first detected in China in December 2019 and subsequently spread internationally. This coronavirus has resulted in closing borders, enhanced health screenings, healthcare service preparation and delivery, quarantines, cancellations, disruptions to supply chains and customer activity, as well as general concern and uncertainty. The impact of this coronavirus may be short term or may last for an extended period of time and result in a substantial economic downturn. Health crises caused by outbreaks, such as the coronavirus outbreak, may exacerbate other pre-existing political, social and economic risks. The impact of this outbreak, and other epidemics and pandemics that may arise in the future, could negatively affect the worldwide economy, as well as the economies of individual countries, individual companies and the market in general in significant and unforeseen ways. Any such impact could adversely affect a Fund’s performance, the performance of the securities in which the Fund invests, lines of credit available to the Fund and may lead to losses on our investment in the Fund.

As a result of decreases in the market value certain of the Company’s assets pledged at derivative counterparties, the company has been required to post additional collateral relating to its margin requirements. The Company experienced delays posting collateral with one counterparty and received an Event of Default notice dated March 23, 2020; however, the Company covered the margin call on March 24, 2020 and received a formal waiver on the Event of Default notice from the counterparty dated April 2, 2020. At this time, the Fund has posted all required collateral; however, the Fund’s ability to meet future margin calls may be impacted by continued unfavorable market conditions.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of NexPoint Capital, Inc.

Opinion on the Financial Statements

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of NexPoint Capital, Inc. (the "Company") as of December 31, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2019 and 2018 by correspondence with the custodian and brokers; when replies have not been received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Dallas, Texas
April 14, 2020

We have served as the auditor of one or more investment companies of NexPoint Advisors, L.P. and its affiliates since 2004.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

Item 9A. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of its principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2019. Based on such evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2019, due to the material weakness in its internal control over financial reporting described below.

(b) Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company and provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company's policies and procedures also provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Board, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on the assessment, management concluded that the Company did not maintain effective controls over the application of fair value accounting with respect to the validation of fair value methodologies. Specifically, the controls were not sufficiently designed to ensure the appropriateness of the fair value determinations reached for Level 3 real estate-related holdings. While this control deficiency did not result in a misstatement, it could result in a misstatement to the investment balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. Because of this material weakness, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2019.

This report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(d) Remediation Plan

Management has developed a plan to remediate the material weakness described above. Management utilizes one or more independent valuation experts as part of its existing valuation process for Level 3 real estate-related holdings. Management will undertake additional review procedures by designating a member of the Valuation Committee to monitor and report to the Valuation Committee to ensure that for significant real estate-related holdings, fair values for such holdings are validated through one or more other valuation techniques that are acceptable under ASC 820.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from the Company's definitive Proxy Statement relating to the Company's 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of the Company's fiscal year.

PART IV

Item 15: Exhibits

(a)(1) **Financial Statements**

(1) Financial Statements—Refer to Item 8 starting on page 96

(2) Financial Statement Schedules—None

(3) Exhibits

Number	Description
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to Exhibit (a)(3) to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on December 12, 2014)
3.2	Amended and Restated Bylaws (Incorporated by reference to Exhibit (b)(3) to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on December 12, 2014)
4.1	Forms of Subscription Agreement (Incorporated by reference to the Prospectus Appendix A. Appendix B and Appendix C filed with Post-Effective Amendment No. 7 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on May 11, 2017)
4.2	Distribution Reinvestment Plan (Incorporated by reference to Exhibit (e) to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on December 12, 2014)
10.1	Amended and Restated Investment Advisory Agreement (Incorporated by reference to Exhibit (g)(1) to Post-Effective Amendment No. 8 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on June 30, 2017)
10.2	Sub-Administration and Accounting Agreement (Incorporated by reference to Company's Registration Statement on Form N-2 (File No. 333-216277) filed on February 27, 2017)
10.3	Amended and Restated Administration Agreement (Incorporated by reference to Exhibit (k)(2) to Post-Effective Amendment No. 8 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on June 30, 2017)
10.4	Dealer Manager Agreement (Incorporated by reference to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on March 2, 2016)
10.5	Form of Participating Broker-Dealer Agreement (Included as Exhibit A to the Dealer Manager Agreement)
10.6	Custodian Agreement (Incorporated by reference to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on March 2, 2016)
10.7	Form of Agency Agreement (Incorporated by reference to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on July 24, 2014)
10.8	Escrow Agreement (Incorporated by reference to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on March 2, 2016)
10.9	Expense Limitation Agreement (Incorporated by reference to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form N-2 (File No. 333-196096) filed on March 2, 2016)
10.10	Control Agreement, dated and effective as of June 9, 2017, by and between NexPoint Capital, Inc. and BNP Paribas Prime Brokerage International, Ltd. and State Street Bank and Trust Company ((Incorporated by reference to Exhibit 10.10 to Registrants Quarterly Report on 10-Q (File No. 814-01074) filed on November 9, 2017)

Number	Description
10.11	Master Confirmation for Loan Total Return Swap Transactions, dated and effective as of June 13, 2017, by and between NexPoint Capital Inc. and BNP Paribas Prime Brokerage International, Ltd. (Incorporated by reference to Exhibit 10.11 to Registrants Quarterly Report on 10-Q (File No. 814-01074) filed on November 9, 2017)
10.12	Committed Facility Agreement, dated and effective as of October 19, 2017, by and between NexPoint Capital, Inc. and BNP Paribas Prime Brokerage International, Ltd. (Incorporated by reference to Exhibit 10.1 to Registrants Current Report on 8-K (File No. 814-01074) filed on October 19, 2017)
10.13	U.S. PB Agreement, dated and effective as of October 19, 2017, by and between NexPoint Capital, Inc. and BNP Paribas Prime Brokerage, Inc. (Incorporated by reference to Exhibit 10.2 to Registrants Current Report on 8-K (File No. 814-01074) filed on October 19, 2017)
10.14	International PB Agreement, dated and effective as of October 19, 2017, by and between NexPoint Capital, Inc., BNP Paribas Prime Brokerage International, Ltd., and BNP Paribas acting through its New York branch (Incorporated by reference to Exhibit 10.3 to Registrants Current Report on 8-K (File No. 814-01074) filed on October 19, 2017)
10.15	U.S. Triparty Agreement, dated and effective as of October 19, 2017, by and between NexPoint Capital, Inc., BNP Paribas Prime Brokerage, Inc. and Street Bank and Trust Company (Incorporated by reference to Exhibit 10.4 to Registrants Current Report on 8-K (File No. 814-01074) filed on October 19, 2017)
10.16	International Triparty Agreement, dated and effective as of October 19, 2017, by and between NexPoint Capital, Inc., BNP Paribas Prime Brokerage International, Ltd., and State Street Bank and Trust Company, as custodian (Incorporated by reference to Exhibit 10.5 to Registrants Current Report on 8-K (File No. 814-01074) filed on October 23, 2017)
10.17	Amended and Restated Master Confirmation for Loan Total Return Swap Transactions, dated and effective as of April 2, 2018, by and between NexPoint Capital, Inc. and BNP Paribas (Incorporated by reference to Exhibit 10.1 to Registrants Current Report on 8-K (File No. 814-01074) filed on April 2, 2018)
31.1*	Certifications by President pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2*	Certifications by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

NEXPOINT CAPITAL, INC.

Date: April 14, 2020

By: /s/ Frank Waterhouse
Name: Frank Waterhouse
Title: Treasurer, Chief Accounting Officer and Principal Financial Officer

KNOW ALL MEN BY THESE PRESENT, each person whose signature appears below hereby constitutes and appoints each of Frank Waterhouse and Dustin Norris as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James D. Dondero James D. Dondero	President (Principal Executive Officer)	April 14, 2020
/s/ Frank Waterhouse Frank Waterhouse	Chief Financial Officer (Treasurer, Principal Accounting Officer and Principal Financial Officer)	April 14, 2020
/s/ Dr. Bob Froehlich Dr. Bob Froehlich	Director	April 14, 2020
/s/ John Honis John Honis	Director	April 14, 2020
/s/ Ethan Powell Ethan K. Powell	Director	April 14, 2020
/s/ Bryan A. Ward Bryan A. Ward	Director	April 14, 2020

Exhibit 31.1

Certification of Chief Executive Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, James Dondero, President, certify that:

1) I have reviewed this annual report on Form 10-K of NexPoint Capital, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2020

/s/ James Dondero

James Dondero
President
(Principal Executive Officer)

Exhibit 31.2

<u>Certification of Chief Financial Officer</u>
<u>of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)</u>

I, Frank Waterhouse, Chief Financial Officer, certify that:

1) I have reviewed this annual report on Form 10-K of NexPoint Capital, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2020

/s/ Frank Waterhouse

Frank Waterhouse
Treasurer, Principal Accounting Officer and
Principal Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of NexPoint Capital, Inc. (the "Company"), for the annual period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, James Dondero and Frank Waterhouse, President and Principal Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: April 14, 2020

/s/ James Dondero
James Dondero
President and Principal Executive Officer

/s/ Frank Waterhouse
Frank Waterhouse
Treasurer, Principal Accounting Officer and Principal Financial Officer