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

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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)

300 Crescent Court, Suite 700
Dallas, Texas
(Address of principal executive offices)

38-3926499
(I.R.S. Employer
Identification No.)

75201
(Zip Code)

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

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

None

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

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 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

Yes No

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

As of September 30, 2018, the Registrant had 10,416,708 shares of common stock, \$0.001 par value, outstanding.

NexPoint Capital, Inc.

Statements of Assets and Liabilities

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Unaffiliated investments, at fair value (cost of \$98,243,034 and \$92,014,872, respectively)	\$103,411,648	\$ 93,985,519
Affiliated investments, at fair value (cost of \$4,922,705 and \$14,154, respectively) ⁽¹⁾	2,674,216	16,793
Cash and cash equivalents	7,104,691	11,044,982
Due from counterparty ⁽²⁾	18,800,000	13,820,000
Receivable for investments sold	1,575,000	2,768,395
Receivable for common stock sold	—	5,635
Receivable due on total return swaps ⁽²⁾	417,969	183,515
Dividends and interest receivable	1,528,628	1,262,162
Prepaid expenses	33,175	90,548
Capitalized offering costs	31,461	128,830
Total assets	<u>135,576,788</u>	<u>123,306,379</u>
Liabilities		
Credit facility and notes payable ⁽³⁾	24,048,974	24,400,000
Payable for investments purchased	7,548,036	1,953,152
Unrealized depreciation on total return swap ⁽²⁾	399,188	563,823
Common stock repurchased	709,962	103,004
Payable to Adviser ⁽⁴⁾	607,220	296,092
Incentive fee payable	1,287,098	594,306
Interest expense and commitment fees payable	7,421	52,856
Accrued expenses and other liabilities	443,184	483,189
Total liabilities	<u>35,051,083</u>	<u>28,446,422</u>
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, 10,416,708 and 9,804,321 shares issued and outstanding, respectively)	10,417	9,804
Paid-in capital in excess of par	93,694,541	87,656,780
Total distributable earnings (loss)	6,820,747	7,193,373
Total net assets	<u>\$100,525,705</u>	<u>\$ 94,859,957</u>
Net asset value per share of common stock	<u>\$ 9.65</u>	<u>\$ 9.68</u>

(1) See Note 10 for a discussion of affiliated investments.

(2) See Note 7 for a discussion of total return swaps.

(3) See Note 7 for a discussion of credit facility.

(4) See Note 4 for a discussion of related party transactions and arrangements.

(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
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Investment income:				
Interest	\$ 1,524,419	\$ 1,339,035	\$ 4,901,607	\$ 5,648,677
Interest paid in kind	136,910	90,900	375,158	182,695
Dividend income from unaffiliated investments	141,782	140,991	465,649	322,131
Dividend income from affiliated investments ⁽¹⁾	39,047	398	56,895	551
Other fee income	656	173	10,586	8,337
Total investment income	<u>1,842,814</u>	<u>1,571,497</u>	<u>5,809,895</u>	<u>6,162,391</u>
Expenses:				
Investment advisory fees ⁽²⁾	527,229	305,288	1,554,540	1,106,346
Capital gains incentive fees ⁽²⁾	95,788	(315,928)	692,793	(111,488)
Interest expense and commitment fees ⁽³⁾	161,124	—	517,747	50,379
Administration fees ⁽²⁾	103,982	69,308	309,444	229,520
Stock transfer fee	121,303	136,158	270,437	305,530
Custodian and accounting service fees	80,037	79,982	236,201	234,276
Audit and tax fees	53,666	58,382	163,919	161,527
Amortized offering costs	38,986	91,937	158,831	308,713
Legal fees	45,263	46,772	133,447	127,296
Reports to stockholders	17,114	—	40,576	95,887
Directors' fees ⁽²⁾	5,498	4,526	14,844	11,129
Other expenses	44,909	28,885	123,958	90,315
Total expenses	<u>1,294,899</u>	<u>505,310</u>	<u>4,216,737</u>	<u>2,609,430</u>
Expenses waived or reimbursed by the Adviser ⁽²⁾	<u>(23,992)</u>	<u>(311,621)</u>	<u>(148,341)</u>	<u>(1,675,809)</u>
Net expenses	<u>1,270,907</u>	<u>193,689</u>	<u>4,068,396</u>	<u>933,621</u>
Net investment income	<u>571,907</u>	<u>1,377,808</u>	<u>1,741,499</u>	<u>5,228,770</u>
Net realized and unrealized gains (losses) on investments:				
Net realized gain/(loss) on:				
Unaffiliated investments and securities sold short	203,932	141,187	1,602,192	(272,623)
Affiliated investments ⁽¹⁾	—	—	—	—
Total return swaps ⁽⁴⁾	481,877	(524,777)	750,299	(524,777)
Net change in unrealized appreciation (depreciation) on:				
Unaffiliated investments and securities sold short	80,016	(775,493)	3,197,967	872,237
Affiliated investments ⁽¹⁾	63,713	843	(2,251,128)	1,151
Total return swaps ⁽⁴⁾	<u>(350,600)</u>	<u>(421,401)</u>	<u>164,635</u>	<u>(633,427)</u>
Net realized and unrealized gains (losses)	<u>478,938</u>	<u>(1,579,641)</u>	<u>3,463,965</u>	<u>(557,439)</u>
Net increase (decrease) in net assets resulting from operations	<u>1,050,845</u>	<u>(201,833)</u>	<u>5,205,464</u>	<u>4,671,331</u>
Per share information - basic and diluted per common share				
Net investment income:	\$ 0.05	\$ 0.15	\$ 0.17	\$ 0.63
Earnings per share:	\$ 0.10	\$ (0.02)	\$ 0.50	\$ 0.56
Weighted average shares outstanding:	10,408,226	8,966,250	10,332,534	8,287,409
Distributions declared per share:	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.54

(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.

**Statements of Changes in Net Assets
(Unaudited)**

	Nine Months Ended September 30,	
	2018	2017
Increase (decrease) in net assets resulting from operations:		
Net investment income	\$ 1,741,499	\$ 5,228,770
Net realized gain (loss) on investments and securities sold short	1,602,192	(272,623)
Net realized gain (loss) on total return swaps ⁽¹⁾	750,299	(524,777)
Net change in unrealized appreciation (depreciation) on investments and securities sold short	946,839	873,388
Net change in unrealized appreciation (depreciation) on total return swaps ⁽¹⁾	164,635	(633,427)
Net increase in net assets resulting from operations	<u>5,205,464</u>	<u>4,671,331</u>
Distributions to stockholders:		
Total distributions to stockholders ⁽²⁾	<u>(5,578,090)</u>	<u>(4,470,423)</u>
Capital share transactions:		
Issuance of common stock	5,315,483	18,195,548
Issuance of common shares pursuant to distribution reinvestment plan	3,580,636	2,959,396
Repurchase of common stock	(2,857,745)	(1,138,801)
Net increase in net assets resulting from capital transactions	<u>6,038,374</u>	<u>20,016,143</u>
Total increase in net assets	5,665,748	20,217,051
Net assets at beginning of period	<u>94,859,957</u>	<u>67,292,954</u>
Net assets at end of period	<u>\$100,525,705</u>	<u>\$87,510,005</u>
Changes in common shares		
Issuance of common stock	538,995	1,870,378
Reinvestment of common stock	367,362	303,769
Repurchase of common stock	(293,970)	(119,618)
Net increase in common shares	<u>612,387</u>	<u>2,054,529</u>

(1) See Note 7 for a discussion of 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. The presentation for the nine months ended 9/30/2017 has been adjusted for this change.

See Notes to Financial Statements

NexPoint Capital, Inc.

**Statements of Cash Flows
(Unaudited)**

	Nine Months Ended September 30,	
	2018	2017
Cash flows used in operating activities		
Net increase in net assets resulting from operations	\$ 5,205,464	\$ 4,671,331
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	(59,898,327)	(62,241,424)
Payment-in-kind investments	(375,158)	(182,695)
Proceeds from sales and principal repayments of investment securities	51,413,124	72,746,045
Net realized (gain) loss on investments	(1,602,192)	272,623
Net change in unrealized (appreciation) depreciation on investments	(946,839)	(873,388)
Net change in unrealized depreciation on total return swaps	(164,635)	633,427
Amortization of premium/discount, net	(674,160)	(1,406,731)
Amortization of capitalized offering costs	158,831	308,713
Increase (decrease) in operating assets and liabilities:		
(Increase) decrease in receivable for investments sold	1,193,395	—
(Increase) decrease in dividends and interest receivable	(266,466)	(665,512)
(Increase) decrease in receivable from Adviser	—	4,096,447
(Increase) decrease in prepaid expenses	57,373	(104,053)
(Increase) decrease in due from counterparty	(4,980,000)	(13,120,000)
(Increase) decrease in receivable due on total return swap	(234,454)	—
Increase (decrease) in payable for investments purchased	5,594,884	(6,546,043)
Increase (decrease) in payable to Adviser	311,128	20,092
Increase (decrease) in incentive fees payable	692,792	—
Increase (decrease) in interest expense and commitment fees payable	(45,435)	(21,583)
Increase (decrease) in accrued expenses and other liabilities	(40,005)	42,175
Increase (decrease) in payable due on total return swap	—	719,171
Net cash flow (used in) operating activities	<u>(4,600,680)</u>	<u>(1,651,405)</u>
Cash flows provided by financing activities		
Proceeds from issuance of common stock, net of receivable for common stock sold	5,321,118	18,248,053
Repurchase of common stock, net of payable	(2,250,787)	(828,352)
Distributions paid in cash	(1,997,454)	(1,511,027)
Offering costs paid, net of due to Adviser	(61,462)	(213,880)
Net increase (decrease) in credit facilities and notes payable	(351,026)	(11,200,000)
Net cash flow provided by financing activities	<u>660,389</u>	<u>4,494,794</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,940,291)</u>	<u>2,843,389</u>
Cash and cash equivalents		
Beginning of the period	11,044,982	3,948,113
End of the period	<u>\$ 7,104,691</u>	<u>\$ 6,791,502</u>
Supplemental disclosure and non-cash financing activities		
Paid-in-kind interest income	\$ 375,158	\$ 182,695
Cash paid during the period for interest	\$ 563,182	\$ 54,473
Reinvestment of distributions paid	\$ 3,580,636	\$ 2,959,396
Local and excise taxes paid	\$ 168,836	\$ 124,672

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments
As of September 30, 2018
(Unaudited)

Portfolio Company ⁽¹⁾⁽²⁾	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost ⁽³⁾	Fair Value
Senior Secured Loans – 17.8% ⁽⁴⁾						
Energy – 2.4%						
Fieldwood Energy, LLC (Second Lien Term Loan) ⁽⁵⁾	L + 725	1.00%	4/11/2023	\$ 567,797	\$ 548,782	\$ 552,892
Fieldwood Energy LLC (First Lien Term Loan) ⁽⁵⁾	L + 525	1.00%	4/11/2022	1,800,549	1,795,312	1,815,404
						<u>2,368,296</u>
Healthcare – 9.9%						
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	2,621,780
Envision Healthcare Corp. (First Lien Term Loan) ⁽⁶⁾⁽⁷⁾⁽⁸⁾	L + 375	0.00%	9/28/2025	3,000,000	2,992,500	2,992,500
U.S. Renal Care, Inc. (Second Lien Term Loan) ⁽⁷⁾	L + 800	1.00%	12/29/2023	4,500,000	4,433,624	4,331,250
						<u>9,945,530</u>
Media/Telecommunications – 3.7%						
iHeartCommunications, Inc. (First Lien Term Loan) ⁽⁹⁾				5,000,000	4,051,750	3,769,150
Retail – 1.3%						
Toys 'R' Us-Delaware, Inc. (First Lien Term Loan) ⁽⁹⁾				2,446,815	1,590,430	1,293,754
Telecommunication Services – 0.5%						
TerreStar Corp. (First Lien Term Loan) ⁽¹⁰⁾⁽¹¹⁾	11% PIK		2/27/2020	504,000	504,000	503,496
Utility – 0.0%						
Texas Competitive Electric Holdings Company LLC (TXU) (Escrow Loan) ⁽¹²⁾				3,500,000	87,816	7,000
Total Senior Secured Loans						<u>17,887,226</u>
Unsecured Loans – 3.7%						
Materials – 3.7%						
OmniMax International, Inc. ⁽¹⁰⁾⁽¹¹⁾	14% PIK, 2% Cash		2/6/2021	3,708,668	3,282,820	3,671,582
Total Unsecured Loans						<u>3,671,582</u>
Asset-Backed Securities – 1.3%						
Financials – 1.3%						
Grayson Investor Corp. ⁽⁸⁾⁽¹³⁾⁽¹⁴⁾⁽¹⁵⁾			11/1/2021	800	456,000	329,800
Highland Park CDO I Ltd. 2006 1A A2 ⁽⁷⁾⁽⁸⁾⁽¹³⁾⁽¹⁵⁾	L + 40		11/25/2051	877,343	727,765	833,476
PAMCO CLO 1997-1A B ⁽⁹⁾⁽⁸⁾⁽¹⁰⁾⁽¹¹⁾⁽¹³⁾⁽¹⁵⁾				374,239	215,187	143,146
						<u>1,306,422</u>
Total Asset-Backed Securities						<u>1,306,422</u>
Shares						
Closed-End Mutual Funds – 1.4%						
Financials – 1.4%						
NexPoint Strategic Opportunities Fund ⁽⁸⁾⁽¹⁶⁾⁽¹⁷⁾				65,078	1,444,020	1,457,747
Total Closed-End Mutual Funds						<u>1,457,747</u>
Corporate Bonds – 54.3% ⁽¹⁷⁾						
Financials – 7.0%						
ASP AMC Merger Sub, Inc. ⁽¹³⁾⁽¹⁷⁾	8.000%		5/15/2025	7,325,000	6,886,134	5,603,625
Freedom Mortgage Corp. ⁽¹³⁾⁽¹⁷⁾	8.250%		4/15/2025	1,500,000	1,500,000	1,462,500
						<u>7,066,125</u>
Healthcare – 47.3%						
DJO Finance LLC / DJO Finance Corp. ⁽¹³⁾⁽¹⁷⁾	8.125%		6/15/2021	6,500,000	6,249,519	6,670,625
Endo Finance LLC / Endo Finco Inc. ⁽¹³⁾⁽¹⁷⁾	6.000%		7/15/2023	7,500,000	6,452,982	6,693,750
Ortho-Clinical Diagnostics ⁽¹³⁾⁽¹⁷⁾	6.625%		5/15/2022	9,217,000	8,775,508	9,051,094

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of September 30, 2018
(Unaudited)

Quorum Health Corp. ⁽¹³⁾⁽¹⁷⁾	11.625%	4/15/2023	\$ 3,459,000	\$ 3,166,463	\$ 3,476,295
Surgery Center Holdings ⁽⁸⁾⁽¹³⁾⁽¹⁷⁾	6.750%	7/1/2025	10,858,000	10,198,352	10,450,825
Tenet Healthcare Corp. ⁽⁸⁾⁽¹⁷⁾	8.125%	4/1/2022	1,000,000	976,651	1,057,550
Valeant Pharmaceuticals International, Inc. ⁽⁸⁾⁽¹³⁾⁽¹⁷⁾	5.875%	5/15/2023	4,000,000	3,459,027	3,915,000
Valeant Pharmaceuticals International, Inc. ⁽⁸⁾⁽¹³⁾⁽¹⁷⁾	6.125%	4/15/2025	6,500,000	5,699,832	6,191,250
					<u>47,506,389</u>
Total Corporate Bonds					<u>54,572,514</u>
				Shares	
Common Stocks – 26.0%					
Chemicals – 0.3%					
MPM Holdings, Inc. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			8,500	250,750	261,460
Energy – 6.2%					
Enterprise Products Partners L.P. ⁽⁸⁾⁽¹⁷⁾			170,000	4,144,041	4,884,100
Energy Transfer Equity L.P. ⁽⁸⁾⁽¹⁷⁾			75,000	1,438,740	1,307,250
					<u>6,191,350</u>
Healthcare – 6.6%					
Acadia Healthcare Co., Inc. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			24,900	981,583	876,480
Amarin Corp. Plc ⁽⁶⁾⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			140,000	1,982,260	2,277,800
Heron Therapeutics, Inc. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			19,232	500,032	608,693
Nevro Corp. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			8,000	500,402	456,000
Quorum Health Corp. ⁽¹⁷⁾⁽¹⁸⁾			408,514	2,184,094	2,393,892
SteadyMed Ltd. ⁽⁸⁾⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾			54,749	14,508	14,509
					<u>6,627,374</u>
Materials – 1.7%					
OmniMax International, Inc. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾			6,698	663,115	1,681,568
Media/Telecommunications – 1.2%					
Gambier Bay, LLC ⁽¹⁰⁾⁽¹¹⁾⁽¹⁶⁾⁽¹⁸⁾			9,180,900	3,478,685	1,216,469
Real Estate Investment Trust (REIT) – 2.6%					
Independence Realty Trust, Inc. ⁽⁸⁾⁽¹⁷⁾			246,727	2,216,203	2,598,035
Telecommunication Services – 4.6%					
TerreStar Corp. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾			14,035	1,599,990	4,682,357
Utility – 2.8%					
Vistra Energy Corp. ⁽¹⁷⁾⁽¹⁸⁾			115,000	1,776,757	2,861,200
Total Common Stocks					<u>26,119,813</u>
				Preferred Dividend Rate	
Preferred Stocks – 0.8%					
Real Estate Investment Trust (REIT) – 0.8%					
RAIT Financial Trust ⁽¹⁷⁾⁽¹⁹⁾	8.875%		148,057	3,215,965	821,716
Total Preferred Stocks					<u>821,716</u>
Rights – 0.0%					
Utility – 0.0%					
Texas Competitive Electric Holdings Company, LLC (TXU) ⁽¹⁸⁾			58,356	150,864	45,430
Total Rights					<u>45,430</u>
Warrants – 0.2%					
Healthcare – 0.1%					
Galena Biopharma, Inc. ⁽¹¹⁾⁽¹⁸⁾		1/12/2021	1,500,054	—	—
Gemphire Therapeutics, Inc. ⁽¹¹⁾⁽¹⁸⁾		3/15/2022	118,796	—	88,594
SCYNEXIS, Inc. ⁽¹¹⁾⁽¹⁸⁾		6/21/2021	195,000	—	62,770
					<u>151,364</u>
Materials – 0.1%					
OmniMax International, Inc. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾		8/6/2025	207	—	52,050
Total Warrants					<u>203,414</u>
Total Investments- 105.5%				<u>\$103,165,739</u>	<u>\$106,085,864</u>
Cash Equivalents – 6.9% ⁽²⁰⁾					\$ 6,959,715
Other Assets & Liabilities, net- (12.4%)					<u>\$(12,519,874)</u>
Net Assets- 100.0%					<u>\$100,525,705</u>

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of September 30, 2018
(Unaudited)

	Notional Amount ⁽²¹⁾	Unrealized Depreciation
Total Return Swap – (0.4%)		
BNP Paribas TRS Facility (Note 7)	\$ 55,081,345	\$ (399,188)

- (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 September 30, 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 September 30, 2018 was 2.26%. 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 September 30, 2018 was 2.40%. 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 29.4% of the Company’s total assets as of September 30, 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 \$12,116,541 or 12.1% of net assets were fair valued under the Company’s valuation procedures as of September 30, 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 September 30, 2018, these securities amounted to \$54,821,386, or 54.5% 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 \$2,674,216, or 2.7% of net assets, were affiliated with the Company as of September 30, 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 \$68,793,250.
- (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

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments
As of December 31, 2017

Portfolio Company⁽¹⁾⁽²⁾	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost⁽³⁾	Fair Value
Senior Secured Loans – 20.4%⁽⁴⁾						
Healthcare – 14.8%						
BioClinica, Inc. (First Lien Term Loan) ⁽⁵⁾	L + 425	1.00%	10/20/2023	\$ 992,481	\$ 978,415	\$ 972,632
Quorum Health Corporation (First Lien Term Loan) ⁽⁶⁾⁽⁷⁾	L + 675	1.00%	4/29/2022	1,953,152	1,950,971	1,977,566
U.S. Renal Care, Inc. (First Lien Term Loan) ⁽⁵⁾	L + 425	1.00%	12/31/2022	3,969,620	3,862,685	3,920,000
U.S. Renal Care, Inc. (Second Lien Term Loan) ⁽⁵⁾	L + 800	1.00%	12/31/2023	4,500,000	4,426,629	4,432,500
Valeant Pharmaceuticals International, Inc. (First Lien Term Loan) ⁽⁷⁾⁽⁸⁾	L + 350	0.75%	4/1/2022	2,663,050	2,704,626	2,704,047
						<u>14,006,745</u>
Retail – 3.8%						
Toys ‘R’ Us-Delaware, Inc. (First Lien Term Loan) ⁽⁹⁾				2,446,815	1,590,430	1,211,173
Toys ‘R’ Us-Delaware, Inc. DIP Loan (First Lien Term Loan) ⁽⁷⁾	L + 875	1.00%	1/18/2019	2,379,212	2,317,512	2,443,451
						<u>3,654,624</u>
Service – 1.8%						
Weight Watchers International, Inc. (First Lien Term Loan) ⁽⁷⁾⁽¹⁰⁾	L + 475	0.75%	11/29/2024	1,700,000	1,665,653	1,713,464
Utility – 0.0%						
Texas Competitive Electric Holdings Company LLC (TXU) (Escrow Loan) ⁽¹¹⁾				3,500,000	87,816	9,100
Total Senior Secured Loans						<u>19,383,933</u>
Unsecured Loans – 3.5%						
Materials – 3.5%						
OmniMax International, Inc. ⁽¹²⁾⁽¹³⁾	14% PIK, 2% Cash		2/6/2021	3,346,263	2,799,878	3,326,186
Total Unsecured Loans						<u>3,326,186</u>
Asset-Backed Securities – 2.1%						
Financials – 2.1%						
Grayson Investor Corp. ⁽⁸⁾⁽¹⁴⁾⁽¹⁵⁾⁽¹⁶⁾			11/1/2021	800	456,000	326,000
Highland Park CDO I Ltd. 2006 1A A2 ⁽⁵⁾⁽⁸⁾⁽¹⁴⁾⁽¹⁶⁾	L + 40		11/25/2051	1,394,442	1,152,909	1,345,636
PAMCO CLO 1997-1A B ⁽⁸⁾⁽⁹⁾⁽¹²⁾⁽¹³⁾⁽¹⁴⁾⁽¹⁶⁾				559,644	321,795	294,541
Total Asset-Backed Securities						<u>1,966,177</u>
Closed-End Mutual Funds – 0.0%						
Shares						
Financials – 0.0%						
NexPoint Credit Strategies Fund ⁽⁸⁾⁽¹⁷⁾				664	14,154	16,793
Total Closed-End Mutual Funds						<u>16,793</u>
Portfolio Company⁽¹⁾⁽²⁾						
Corporate Bonds – 55.4%						
Financials – 3.5%						
ASP AMC Merger Sub, Inc. ⁽¹⁴⁾	8.000%		5/15/2025	\$3,400,000	3,279,556	3,281,000
Healthcare – 48.8%						
CHS/Community Health Systems, Inc. ⁽⁸⁾	8.000%		11/15/2019	6,000,000	5,600,220	5,085,000
DJO Finance LLC / DJO Finance Corp. ⁽¹⁴⁾	8.125%		6/15/2021	6,500,000	6,190,694	6,110,000
Endo Finance LLC / Endo Finco Inc. ⁽¹⁴⁾	6.000%		7/15/2023	4,000,000	3,470,061	3,160,000
Ortho-Clinical Diagnostics ⁽¹⁴⁾	6.625%		5/15/2022	7,717,000	6,932,359	7,794,170
Quorum Health Corp.	11.625%		4/15/2023	7,459,000	6,406,992	7,319,143
Surgery Center Holdings ⁽⁸⁾⁽¹⁴⁾	6.750%		7/1/2025	8,358,000	7,771,045	7,940,100
Tenet Healthcare Corp. ⁽⁸⁾	8.125%		4/1/2022	1,000,000	972,538	1,021,250
Valeant Pharmaceuticals International, Inc. ⁽⁸⁾⁽¹⁴⁾	5.875%		5/15/2023	4,000,000	3,391,404	3,720,000

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of December 31, 2017

Portfolio Company ⁽¹⁾⁽²⁾	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost ⁽³⁾	Fair Value
Valeant Pharmaceuticals International, Inc. ⁽⁸⁾⁽¹⁴⁾	6.125%		4/15/2025	\$4,500,000	\$ 3,788,231	\$ 4,134,375
						<u>46,284,038</u>
Media/Telecommunications – 0.8%						
iHeartCommunications, Inc. ⁽⁹⁾				9,180,900	3,478,685	803,329
Telecommunication Services – 2.3%						
Intelsat Jackson Holdings S.A. ⁽⁸⁾⁽¹⁴⁾	9.750%		7/15/2025	2,254,000	2,263,975	2,175,110
Total Corporate Bonds						<u>52,543,477</u>
						<u>Shares</u>
Common Stocks – 14.6%						
Chemicals – 0.2%						
MPM Holdings, Inc. ⁽⁸⁾⁽¹⁸⁾				8,500	250,750	170,000
Energy – 4.3%						
Enterprise Products Partners L.P.				155,000	3,714,862	4,109,050
Healthcare – 2.6%						
Quorum Health Corp. ⁽¹⁸⁾				350,000	1,792,620	2,184,000
SteadyMed Ltd. ⁽⁸⁾⁽¹⁸⁾				62,500	372,656	231,250
						<u>2,415,250</u>
Materials – 2.7%						
OmniMax International, Inc. ⁽¹²⁾⁽¹³⁾⁽¹⁸⁾				6,698	663,116	2,566,191
Real Estate Investment Trust (REIT) – 2.6%						
Independence Realty Trust, Inc. ⁽⁸⁾				246,727	2,216,203	2,489,476
Utility – 2.2%						
Vistra Energy Corp. ⁽¹⁸⁾				115,000	1,776,757	2,106,808
Total Common Stocks						<u>13,856,775</u>
						<u>Preferred Dividend Rate</u>
Preferred Stocks – 2.1%						
Real Estate Investment Trust (REIT) – 2.1%						
RAIT Financial Trust	8.875%		—	148,057	3,215,965	1,960,275
Total Preferred Stocks						<u>1,960,275</u>
Rights – 0.1%						
Utility – 0.1%						
Texas Competitive Electric Holdings Company, LLC (TXU) ⁽¹⁸⁾				58,356	150,864	56,897
Total Rights						<u>56,897</u>
Warrants – 0.9%						
Healthcare – 0.8%						
Galena Biopharma, Inc. ⁽¹³⁾⁽¹⁸⁾			1/12/2021	1,500,054	—	18
Gemphire Therapeutics, Inc. ⁽¹³⁾⁽¹⁸⁾			3/15/2022	118,796	—	493,218
Kadmon Holdings, Inc. ⁽¹³⁾⁽¹⁸⁾			4/13/2018	119,047	—	22,727
SCYNEXIS, Inc. ⁽¹³⁾⁽¹⁸⁾			6/21/2021	195,000	—	200,511
SteadyMed Ltd. ⁽⁸⁾⁽¹³⁾⁽¹⁸⁾			4/25/2022	62,895	—	95,893
						<u>812,367</u>
Materials – 0.1%						
OmniMax International, Inc. ⁽¹²⁾⁽¹³⁾⁽¹⁸⁾			8/6/2025	207	—	79,432
Total Warrants						<u>891,799</u>
Total Investments – 99.1%					<u>\$92,029,026</u>	<u>\$94,002,312</u>
Cash Equivalents – 11.4% ⁽¹⁹⁾						\$10,852,235
Other Assets & Liabilities, net – (10.5%)						\$ (9,994,590)
Net Assets – 100.0%						<u>\$94,859,957</u>

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of December 31, 2017

	<u>Notional Amount⁽²⁰⁾</u>	<u>Unrealized Depreciation</u>
Total Return Swap – (0.6%)		
BNP Paribas TRS Facility ⁽¹⁶⁾ (Note 7)	<u>\$35,960,921</u>	<u>\$ (563,823)</u>

- (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, 2017. 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, 2017 was 1.69%. 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) 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 1-Month LIBOR, which at December 31, 2017 was 1.56%. 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.
- (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 25.7% of the Company’s total assets as of December 31, 2017.
- (9) The issuer is in default of its payment obligation, or is in danger of default. In some cases, partial payments are still being paid to the lenders.
- (10) The Company views Weight Watchers to be included in the Healthcare Industry as defined in the Company’s organizational documents. If this classification were reflected, value and percentage of the healthcare sector under Senior Secured Loans would increase to \$15,720,209.
- (11) The investment represents value held in escrow pending future events. No interest is being accrued.
- (12) 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.
- (13) 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 \$7,078,717, or 7.5% of net assets were fair valued under the Company’s valuation procedures as of December 31, 2017.
- (14) 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, 2017, these securities amounted to \$40,280,932, or 42.5% of net assets.
- (15) The investment is considered to be the equity tranche of the issuer.
- (16) Securities of collateralized loan obligations where an affiliate of the Adviser serves as collateral manager.
- (17) Represents an affiliated issuer. Assets with a total aggregate market value of \$16,793, or 0.0% of net assets, were affiliated with the Company as of December 31, 2017 (see Note 10).
- (18) Non-income producing security.
- (19) State Street U.S. Government Money Market Fund.
- (20) 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

See Notes to Financial Statements.

NexPoint Capital, Inc.

Notes to Financial Statements (Unaudited)

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”).

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 as of September 30, 2018, the Adviser controls 2,280,213 total shares, including reinvestment of dividends, for a net amount of approximately \$22.0 million.

The Company has retained the Adviser to manage certain aspects of its affairs on a day-to-day basis. 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 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-Q and Article 10 of Regulation S-X. Certain financial information that is normally included in annual financial statements is not required for interim financial statements and has been condensed or omitted. The current period’s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2018. The interim financial data as of September 30, 2018, and for the three and nine months ended September 30, 2018 and September 30, 2017 is unaudited. In the opinion of management, the interim financial data includes all adjustments, consisting only of normal recurring adjustments, necessary to a fair statement of the results for the interim periods.

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 is determined by converting to U.S. dollars on the date of the Statements of Assets and Liabilities. As of September 30, 2018 and December 31, 2017, the Company had cash and cash equivalents of \$7,104,691 and \$11,044,982, respectively. As of September 30, 2018 and December 31, 2017, \$6,959,715 and \$10,852,235 was held in the State Street U.S. Government Money Market Fund, and \$144,976 and \$192,747 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 September 30, 2018 and December 31, 2017, 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 three and nine months ended September 30, 2018, the Company recognized \$656 and \$10,586 of fee income, respectively. For the three and nine months ended September 30, 2017, the Company recognized \$173 and \$8,337 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 September 30, 2018, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

<u>Instrument</u>	<u>Type</u>	<u>Market value</u>
PAMCO CLO 1997-1A B	Asset-Backed	\$ 143,146
Gambier Bay, LLC.	Common Stock	1,216,469
OmniMax International, Inc.	Common Stock	1,681,568
SteadyMed Ltd.	Common Stocks	14,509
TerreStar Corp.	Common Stocks	4,682,357
TerreStar Corp.	Senior Secured Loans	503,496
OmniMax International, Inc.	Unsecured Loans	3,671,582
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	88,594
OmniMax International, Inc.	Warrant	52,050
SCYNEXIS, Inc.	Warrant	62,770

As of December 31, 2017, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

<u>Instrument</u>	<u>Type</u>	<u>Market value</u>
PAMCO CLO 1997-1A B	Asset-Backed	\$ 294,541
OmniMax International, Inc.	Common Stock	2,566,191
OmniMax International, Inc.	Unsecured Loans	3,326,186
Galena Biopharma, Inc.	Warrant	18
Gemphire Therapeutics, Inc.	Warrant	493,218

Kadmon Holdings, Inc.	Warrant	22,727
OmniMax International, Inc.	Warrant	79,432
SCYNEXIS, Inc.	Warrant	200,511
SteadyMed Ltd.	Warrant	95,893

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 September 30, 2018, the Company's investments consisted of senior secured loans, unsecured loans, bonds, asset-backed securities, common stocks, preferred stock, 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 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.

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 September 30, 2018 and December 31, 2017:

Investments	Level 1	Level 2	Level 3	Total
Assets				
Senior Secured Loans				
Energy	\$ —	\$ 2,368,296	\$ —	\$ 2,368,296
Healthcare	—	9,945,530	—	9,945,530
Media/Telecommunications	—	3,769,150	—	3,769,150
Retail	—	1,293,754	—	1,293,754
Telecommunication Services	—	—	503,496	503,496
Utility	—	7,000	—	7,000
Unsecured Loans	—	—	3,671,582	3,671,582
Asset-Backed Securities	—	1,163,276	143,146	1,306,422
Closed-End Mutual Funds	1,457,747	—	—	1,457,747
Corporate Bonds	—	54,572,514	—	54,572,514
Common Stocks				
Chemicals	261,460	—	—	261,460
Energy	6,191,350	—	—	6,191,350
Healthcare	6,612,865	—	14,509	6,627,374
Materials	—	—	1,681,568	1,681,568
Media/Telecommunications	—	—	1,216,469	1,216,469

Real Estate Investment Trusts (REITs)	2,598,035	—	—	2,598,035
Telecommunication Services	—	—	4,682,357	4,682,357
Utility	2,861,200	—	—	2,861,200
Preferred Stocks	821,716	—	—	821,716
Rights	—	45,430	—	45,430
Warrants				
Healthcare	—	151,364	—	151,364
Materials	—	—	52,050	52,050
Total Assets	<u>\$20,804,373</u>	<u>\$73,316,314</u>	<u>\$11,965,177</u>	<u>\$106,085,864</u>
Liabilities				
Derivatives				
Total Return Swap Contracts	\$ —	\$ —	\$ (399,188)	\$ (399,188)
Total Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (399,188)</u>	<u>\$ (399,188)</u>
Total Investments net of Swap Contracts	<u>\$20,804,373</u>	<u>\$73,316,314</u>	<u>\$11,565,989</u>	<u>\$105,686,676</u>

Investments	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Senior Secured Loans				
Healthcare	\$ —	\$14,006,745	\$ —	\$14,006,745
Retail	—	3,654,624	—	3,654,624
Service	—	1,713,464	—	1,713,464
Utility	—	9,100	—	9,100
Unsecured Loans	—	—	3,326,186	3,326,186
Asset-Backed Securities	—	1,671,636	294,541	1,966,177
Closed-End Mutual Funds	16,793	—	—	16,793
Corporate Bonds	—	52,543,477	—	52,543,477
Common Stocks				
Chemicals	170,000	—	—	170,000
Energy	4,109,050	—	—	4,109,050
Healthcare	2,415,250	—	—	2,415,250
Materials	—	—	2,566,191	2,566,191
Real Estate Investment Trusts (REITs)	2,489,476	—	—	2,489,476
Utility	2,106,808	—	—	2,106,808
Preferred Stocks	1,960,275	—	—	1,960,275
Rights	—	56,897	—	56,897
Warrants				
Healthcare	—	812,367	—	812,367
Materials	—	—	79,432	79,432
Total Assets	\$13,267,652	\$74,468,310	\$6,266,350	\$94,002,312
Liabilities				
Derivatives				
Total Return Swap Contracts	\$ —	\$ —	\$ (563,823)	\$ (563,823)
Total Liabilities	\$ —	\$ —	\$ (563,823)	\$ (563,823)
Total Investments Net of Swap Contracts	\$13,267,652	\$74,468,310	\$5,702,527	\$93,438,489

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 nine months ended September 30, 2018.

	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 September 30, 2018	Change in unrealized gain/(loss) on Level 3 securities still held at period end
Investments:										
Assets										
Senior Secured Loans										
Telecommunication Services	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (504)	\$ 504,000	\$ —	\$ 503,496	\$ (504)
Unsecured Loans										
Materials	3,326,186	—	—	120,324	213	(137,546)	363,662	(1,257)	3,671,582	(137,546)
Asset-Backed Securities										
Financials	294,541	—	—	—	78,797	(44,786)	—	(185,406)	143,146	(44,786)
Common Stocks										
Healthcare	—	—	—	—	—	—	14,509	—	14,509	—
Materials	2,566,191	—	—	—	—	(884,623)	—	—	1,681,568	(884,623)
Media/Telecommunications	—	1,216,469	—	—	—	—	—	—	1,216,469	—
Telecommunication Services	—	—	—	—	—	3,082,367	1,599,990	—	4,682,357	3,082,367
Warrants										
Materials	79,432	—	—	—	—	(27,382)	—	—	52,050	(27,382)
Total	\$ 6,266,350	\$ 1,216,469	\$ —	\$ 120,324	\$ 79,010	\$ 1,987,526	\$ 2,482,161	\$ (186,663)	\$ 11,965,177	\$ 1,987,526
Liabilities										
Total Return Swaps ⁽¹⁾	\$ (563,823)	\$ —	\$ —	\$ —	\$ —	\$ 164,635	\$ —	\$ —	\$ (399,188)	\$ 164,635

(1) During the nine months ended September 30, 2018, the Company recognized a net realized gain on the TRS amounting to \$750,299. The Company received \$653,318 in cash payments from the TRS during the period and paid \$137,472, with an increase of \$234,453 in receivable from BNP Paribas for the nine months ended September 30, 2018.

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 nine months ended September 30, 2017.

	Balance as of December 31, 2016	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	(Sales and redemptions)	Balance as of September 30, 2017	Change in unrealized gain/(loss) on Level 3 securities still held at period end
Investments:										
Assets										
Senior Secured Loans										
Healthcare	\$ 4,005,000	\$ —	\$ —	\$ 6,549	\$ —	\$ 381,576	\$ —	\$ —	\$ 4,393,125	\$ 381,576
Asset-Backed Securities										
Financials	275,625	—	—	—	—	13,151	—	—	288,776	13,151
Common Stocks Chemicals	73,665	—	(136,000)	—	—	62,335	—	—	—	—
Warrants Healthcare	23,851	—	(335)	—	—	(23,516)	—	—	—	—
Total	\$ 4,378,141	\$ —	\$ (136,335)	\$ 6,549	\$ —	\$ 433,546	\$ —	\$ —	\$ 4,681,901	\$ 394,727
Liabilities										
Total Return Swaps ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (633,427)	\$ —	\$ —	\$ (633,427)	\$ (633,427)

(1) During the nine months ended September 30, 2017, the Company recognized a net realized loss on the TRS amounting to \$524,777. The Company received \$194,394 in cash payments from the TRS during the period, with \$719,171 being payable to BNP Paribas as of September 30, 2017.

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 nine months ended September 30, 2018, \$1,216,469 was transferred 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 nine months ended September 30, 2017, \$335 was transferred from Level 3 to Level 2, \$2,149,358 was transferred from Level 2 to Level 1, and \$136,000 was transferred from Level 3 to Level 1.

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 September 30, 2018 and December 31, 2017:

Investment	Fair value at September 30, 2018	Valuation technique	Unobservable inputs	Range of input value(s) (weighted average)
Common Equity	\$ 7,594,903	Discounted Cash Flow	Discount Rate	11.00% - 17.00%
			Terminal Multiple	6.75x
		Multiples Analysis	Multiple of EBITDA	6.75x - 8.00x
			Price/MHz-PoP	\$0.08 - \$0.63
		Transaction Analysis	Risk Discount	33.0% - 35.8%
		Bid Indication of Value	Multiple of EBITDA	7.75x - 8.25x
		Enterprise Value Indications	Per Share Value	\$77.53 - \$347.49
		Pricing Feed	Approach Weightings	20% - 80%
		Implied Value	N/A	N/A
			Cash Payment Value	\$4.46
Senior Secured Loans	4,175,078		Discount Rate	11.1% - 16.5%
		Discounted Cash Flow	Spread Adjustment	0.1% - 0.5%
Warrants	52,050		Discount Rate	12.00%
		Discounted Cash Flow	Terminal Multiple	6.75x
		Multiples Analysis	Multiple of EBITDA	6.75x - 8.00x
		Transaction Analysis	Multiple of EBITDA	7.75x - 8.25x
Asset-Backed Securities	143,146	Discounted Cash Flow	Discount Rate	20.88%
Total	\$11,965,177			
Total Return Swaps	\$ (399,188)	Third Party Pricing Vendor	N/A	N/A
Investment	Fair value at December 31, 2017	Valuation technique	Unobservable inputs	Range of input value(s) (weighted average)
Senior Secured Loans	\$ 3,326,186	Discounted Cash Flow	Discount Rate	16.20%
			Spread Adjustment	0.20%
Common Equity	2,566,191	Discounted Cash Flow	Discount Rate	12.00%
		Multiples Analysis	Minority Discount	20.00%
		Discount for Lack of Marketability	Terminal Multiple	7.0x
			Multiple of EBITDA	7.75x - 8.25x
				15.00%
Warrants	79,432	Discounted Cash Flow	Discount Rate	12.00%
		Multiples Analysis	Minority Discount	20.00%
		Discount for Lack of Marketability	Terminal Multiple	7.0x
			Multiple of EBITDA	7.75x - 8.25x
				15.00%
Asset-Backed Securities	294,541	Discounted Cash Flow	Discount Rate	20.85%
Total	\$ 6,266,350			
Total Return Swaps	\$ (563,823)	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 nine months ended September 30, 2018 and September 30, 2017, 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 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 nine months ended September 30, 2018 and September 30, 2017. Selling commissions and fees of \$413,024 and \$1,453,224 were paid for the nine months ended September 30, 2018 and September 30, 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:

Basic and diluted	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net increase (decrease) in net assets from operations	\$ 1,050,845	\$ (201,833)	\$ 5,205,464	\$4,671,331
Weighted average common shares outstanding	10,408,226	8,966,250	10,332,534	8,287,409
Earnings per common share-basic and diluted	\$ 0.10	\$ (0.02)	\$ 0.50	\$ 0.56

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

The Company generally intends to take advantage of the extended transition period available to emerging growth companies to comply with the new or revised accounting standards below until those standards are applicable to private companies.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this update require the statement of cash flows explain the change during the period in the total of cash, restricted cash and cash equivalents. Amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For public entities this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. For all other entities, this update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. In addition, Accounting Standards Update 2016-18 must be adopted at the same time as Accounting Standards Update 2016-15. The Company is currently evaluating the impact of this new guidance on its financial statement presentation and disclosures.

In December 2016, the FASB issued Accounting Standards Update 2016-19, Technical Corrections and Improvements. The amendments in this update include an amendment to FASB ASC Topic 820, Fair Value Measurement and Disclosures to clarify the difference between a valuation approach and a valuation technique. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. For public entities, this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. For all other entities, this update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this new guidance on its financial statement presentation and disclosures.

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 public entities this update will be effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. For all other entities, this update is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the impact of this new guidance on its financial statement presentation and disclosures.

In February 2018, the FASB issued Accounting Standards Update 2018-03, Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update provide a variety of technical corrections and improvements to how entities should account for financial instruments, shorten the amortization period for certain callable debt securities held at premium. For public entities this update will be effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years beginning after June 15, 2018. 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 September 30, 2018:

	<u>Fair value</u>	<u>Percentage</u>
Assets		
Healthcare	\$64,230,657	60.6%
Financials	9,830,294	9.3%
Energy	8,559,646	8.1%
Materials	5,405,200	5.1%

Telecommunication Services	5,185,853	4.9%
Media/Telecommunications	4,985,619	4.7%
Real Estate Investment Trusts (REITs)	3,419,751	3.2%
Utility	2,913,630	2.7%
Retail	1,293,754	1.2%
Chemicals	261,460	0.2%
Total Assets	\$106,085,864	100.0%

The following table shows the composition of the Company's invested assets by industry classification at fair value at December 31, 2017:

Assets	Fair value	Percentage
Healthcare	\$63,518,400	67.5%
Materials	5,971,809	6.4%
Financials	5,263,970	5.6%
Real Estate Investment Trusts (REITs)	4,449,751	4.7%
Energy	4,109,050	4.4%
Retail	3,654,624	3.9%
Telecommunication Services	2,175,110	2.3%
Utility	2,172,805	2.3%
Service	1,713,464	1.8%
Media/Telecommunications	803,329	0.9%
Chemicals	170,000	0.2%
Total Assets	\$94,002,312	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 September 30, 2018:

Assets	Amortized Cost	Fair value	Percentage of Portfolio (at Fair Value)
Senior Secured Loans – First Lien	\$ 13,507,268	\$ 12,996,084	12.3%
Senior Secured Loans – Second Lien	4,982,406	4,884,142	4.6%
Senior Secured Loans – Escrow Loan	87,816	7,000	0.0%
Unsecured Loans	3,282,820	3,671,582	3.5%
Asset-Backed Securities	1,398,952	1,306,422	1.2%
Closed-End Mutual Funds	1,444,020	1,457,747	1.4%
Corporate Bonds	53,364,468	54,572,514	51.4%
Common Stocks	21,731,160	26,119,813	24.6%
Preferred Stocks	3,215,965	821,716	0.8%
Rights	150,864	45,430	0.0%
Warrants	—	203,414	0.2%
Total Assets	\$103,165,739	\$106,085,864	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, 2017:

Assets	Amortized cost	Fair value	Percentage of portfolio (at fair value)
Senior Secured Loans – First Lien	\$ 15,070,292	\$14,942,333	15.9%
Senior Secured Loans – Second Lien	4,426,629	4,432,500	4.7%
Senior Secured Loans – Escrow Loan	87,816	9,100	0.0%
Unsecured Loans	2,799,878	3,326,186	3.5%
Asset-Backed Securities	1,930,704	1,966,177	2.1%
Closed-End Mutual Funds	14,154	16,793	0.0%
Corporate Bonds	53,545,760	52,543,477	56.0%
Common Stocks	10,786,964	13,856,775	14.7%
Preferred Stocks	3,215,965	1,960,275	2.1%
Rights	150,864	56,897	0.1%
Warrants	—	891,799	0.9%
Total Assets	\$ 92,029,026	\$94,002,312	100.0%

The following table summarizes the amortized cost and the fair value of the Company's invested assets as of September 30, 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 \$55,081,345 and \$54,472,494, respectively, as of September 30, 2018.

	<u>Amortized cost</u>	<u>Fair value</u>	<u>Percentage of portfolio (at fair value)</u>
Assets			
Senior Secured Loans—First Lien	\$ 58,392,033	\$ 57,757,155	36.0%
Senior Secured Loans—Second Lien	15,178,986	14,595,565	9.1%
Senior Secured Loans—Escrow Loan	87,816	7,000	0.0%
Unsecured Loans	3,282,820	3,671,582	2.3%
Asset-Backed Securities	1,398,952	1,306,422	0.8%
Closed-End Mutual Funds	1,444,020	1,457,747	0.9%
Corporate Bonds	53,364,468	54,572,514	34.0%
Common Stocks	21,731,160	26,119,813	16.3%
Preferred Stocks	3,215,965	821,716	0.5%
Rights	150,864	45,430	0.0%
Warrants	—	203,414	0.1%
Total Assets	<u>\$158,247,084</u>	<u>\$160,558,358</u>	<u>100.0%</u>

The following table summarizes the amortized cost and the fair value of the Company's invested assets as of December 31, 2017 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 \$35,960,921 and \$35,231,901, respectively, as of December 31, 2017.

	<u>Amortized cost</u>	<u>Fair value</u>	<u>Percentage of portfolio (at fair value)</u>
Assets			
Senior Secured Loans—First Lien	\$ 41,514,176	\$ 40,683,792	31.5%
Senior Secured Loans—Second Lien	13,943,666	13,922,942	10.8%
Senior Secured Loans—Escrow Loan	87,816	9,100	0.0%
Unsecured Loans	2,799,878	3,326,186	2.6%
Asset-Backed Securities	1,930,704	1,966,177	1.5%
Closed-End Mutual Funds	14,154	16,793	0.0%
Corporate Bonds	53,545,760	52,543,477	40.7%
Common Stocks	10,786,964	13,856,775	10.7%
Preferred Stocks	3,215,965	1,960,275	1.5%
Warrants	—	891,799	0.7%
Rights	150,864	56,897	0.0%
Total Assets	<u>\$127,989,947</u>	<u>\$129,234,213</u>	<u>100.0%</u>

The following table shows the composition of the Company’s invested assets by geographic classification at September 30, 2018:

Geography	Fair value	Percentage
Assets		
Cayman Islands ⁽¹⁾	\$ 1,306,422	1.2%
Luxembourg ⁽¹⁾	2,621,780	2.5%
United States	102,157,662	96.3%
Total Assets	\$106,085,864	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, 2017:

Geography	Fair value	Percentage
Assets		
Cayman Islands ⁽¹⁾	\$ 1,966,177	2.1%
Luxembourg ⁽¹⁾	2,175,110	2.3%
United States	89,861,025	95.6%
Total Assets	\$94,002,312	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 three and nine months ended September 30, 2018, the Company incurred investment advisory fees payable to the Adviser of \$527,229 and \$1,554,540. For the three and nine months ended September 30, 2017, the Company incurred investment advisory fees payable to the Adviser of \$305,288 and \$1,106,346, respectively, which 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 three and nine months ended September 30, 2018, the Company incurred \$95,788 and \$692,793 of incentive fees on capital gains, respectively. For the three and nine months ended September 30, 2017, the Company recognized a reduction of \$(315,928) and \$(111,488) to its incentive fees on capital gains, respectively, all of which was voluntarily waived. Since inception, the Company has accrued \$1,287,098 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 September 30, 2018.

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 three and nine months ended September 30, 2018, the Company incurred administration fees payable to the Adviser of \$103,982 and \$309,444, respectively. For the three and nine months ended September 30, 2017, the Company incurred administration fees payable to the Adviser of \$69,308 and \$229,520, respectively, which 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	December 31, 2019
September 30, 2016	343,320	68,664	September 30, 2019
June 30, 2016	74,421	14,884	June 30, 2019
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 three and nine months ended September 30, 2018 and the three and nine months ended September 30, 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 three and nine months ended September 30, 2018, the Adviser incurred and paid offering costs of \$0 and \$238,568, respectively, on our behalf. For the three and nine months ended September 30, 2017, the Adviser incurred and paid offering costs of \$167,797 and \$898,423, respectively, on our behalf. For the three and nine months ended September 30, 2018, the Company capitalized \$0 and \$61,462 of offering costs, respectively. For the three and nine months ended September 30, 2017, the Company capitalized \$41,632 and \$213,880 of offering costs, respectively. Of the capitalized offering costs, \$38,986 and \$158,831 were amortized to expense during the three and nine months ended September 30, 2018, respectively. Of the capitalized offering costs, \$91,937 and \$308,713 were amortized to expense during the three and nine months ended September 30, 2017, respectively. As of September 30, 2018 and September 30, 2017, \$31,461 and \$133,722 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 September 30, 2018, 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 three and nine months ended September 30, 2018, the Company recorded an expense relating to director fees of \$5,498 and \$14,844, respectively. For the three and nine months ended September 30, 2017, the Company recorded an expense relating to director fees of \$4,526 and \$11,129, respectively, which represents the allocation of the director fees to the Company. As of September 30, 2018, there was \$0 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, 2019.

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 September 30, 2018 is \$928,952. 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 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
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

The following table reflects the fee waivers and expense reimbursements due from the Adviser as of December 31, 2016, September 30, 2016, June 30, 2016 and March 31, 2016, which may become subject to recoupment by the Adviser.

<u>Period ended</u>	<u>Yearly cumulative other expense</u>	<u>Yearly expense limitation</u>	<u>Yearly cumulative expense reimbursement</u>	<u>Quarterly recoupable amount</u>	<u>Recoupment eligibility expiration</u>
December 31, 2016	\$ 1,263,735	\$ 835,904	\$ 427,831	\$147,943	December 31, 2019
September 30, 2016	803,909	524,021	279,888	32,663	September 30, 2019
June 30, 2016	567,248	320,023	247,225	90,124	June 30, 2019
March 31, 2016	259,420	102,319	157,101	157,101	March 31, 2019

The following table reflects the fee waivers and expense reimbursements due from the Adviser as of December 31, 2015, September 30, 2015, June 30, 2015 and March 31, 2015, which may become subject to recoupment by the Adviser.

<u>Period ended</u>	<u>Yearly cumulative other expense</u>	<u>Yearly expense limitation</u>	<u>Yearly cumulative expense reimbursement</u>	<u>Quarterly recoupable amount</u>	<u>Recoupment eligibility expiration</u>
December 31, 2015	\$ 1,440,686	\$ 309,265	\$ 1,131,421	\$ 23,484	December 31, 2018
September 30, 2015	1,272,439	164,502	1,107,937	—	Expired
June 30, 2015	771,350	98,330	673,020	—	Expired
March 31, 2015	353,760	95,291	258,469	—	Expired

During the three and nine months ended September 30, 2018, \$434,917 and \$1,107,937, respectively, 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 nine months ended September 30, 2018 and September 30, 2017, the Adviser did not voluntarily reimburse the Company for unrealized losses sustained. Cumulatively since inception, the Adviser has paid \$2,275,000 to voluntarily reimburse the Company for such losses. Had these payments not been made, the net asset value ("NAV") as of September 30, 2018 would have been lower by approximately this amount.

Amounts committed and paid by the Adviser to reimburse for unrealized losses are non-recurring and not recoupable, and investors should not expect the Adviser to make similar commitments or payments in the future.

Receivable from Adviser / Payable to Adviser

As of September 30, 2018 and December 31, 2017, there were no amounts owed from the Adviser to the Company.

As of September 30, 2018 and December 31, 2017, the Company owed \$607,220 and \$296,092, 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, defaulted bonds, losses deferred to off-setting positions, 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.

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 nine months ended September 30, 2018 and September 30, 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 March 2, 2018, until expiration of March 30, 2018 at 5:00p.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 first quarter tender offer, 73,736 shares of the Company were tendered for repurchase, constituting approximately 0.71% of the Company’s outstanding shares.

The Company conducted its quarterly tender offer from June 1, 2018, until expiration of June 28, 2018 at 5:00p.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 second quarter tender offer, 142,605 shares of the Company were tendered for repurchase, constituting approximately 1.38% of the Company's outstanding shares.

The Company conducted its quarterly tender offer from August 28, 2018, until expiration of September 27, 2018 at 5:00p.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 third quarter tender offer, 73,877 shares of the Company were tendered for repurchase, constituting approximately 0.71% of the Company's outstanding shares.

For the nine months ended September 30, 2018, the Company repurchased 3,752 shares as part of its death and disability repurchase program.

Note 7 — Credit Facility and Leverage Facilities

On January 6, 2015, the Company 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 the Company in an aggregate principal amount of up to \$25 million, at a rate of L +1.15%, subject to borrowing base availability and restrictions on the Company's total outstanding debt.

On January 5, 2016, the Company entered into an amendment to the Credit Facility to, among other things, increase the unused commitment fee from 0.15% to 0.25% and extend the final maturity date to January 3, 2017.

On January 3, 2017, the Company entered into an amendment to the Credit Facility to extend the final maturity date to March 20, 2017. The Credit Facility was fully paid down on February 24, 2017, and expired on March 20, 2017.

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 September 30, 2018, current outstanding and fair value amounts were \$24,048,974 and \$24,149,185, respectively.

For the three and nine months ended September 30, 2018 and September 30, 2017, the components of total interest expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Direct interest expense	\$ 161,124	\$—	\$ 517,747	\$ 42,325
Commitment fees	—	—	—	8,054
Amortization of financing costs	—	—	—	—
Total interest expense	\$ 161,124	\$—	\$ 517,747	\$ 50,379
Average daily amount outstanding	19,692,021	—	21,357,133	2,909,158
Weighted average interest rate	3.20%	—	3.10%	1.95%

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:

<u>Nine months ended</u>	<u>Total amount outstanding</u>	<u>% of asset coverage</u>
09/30/2018	\$60,330,319	267%
06/30/2018	52,950,925	290%
12/31/2017	46,540,921	304%

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 September 30, 2018:

<u>Underlying Loan</u>	<u>Industry</u>	<u>Interest</u>	<u>Base Rate Floor</u>	<u>Maturity Date</u>	<u>Notional Amount⁽¹⁾</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Advantage Sales & Marketing, Inc. (Second Lien Term Loan)	Service	L + 650	1.00%	7/25/2022	\$2,853,750	\$2,490,000	\$ (363,750)
Air Medical Group Holdings (First Lien Term Loan)	Aerospace	L + 425	1.00%	9/26/2024	3,967,506	3,974,987	7,481
ASP AMC Merger Sub, Inc. (First Lien Term Loan)	Financial	L + 350	1.00%	4/21/2024	1,838,000	1,822,500	(15,500)
Avantor, Inc. (First Lien Term Loan)	Chemicals	L + 400	1.00%	11/21/2024	4,024,862	4,019,874	(4,988)
BioClinica, Inc. (First Lien Term Loan)	Healthcare	L + 425	1.00%	10/20/2023	1,898,291	1,876,046	(22,245)
Employbridge, LLC (First Lien Term Loan)	Service	L + 500	1.00%	4/10/2025	960,549	954,635	(5,914)
Endo Luxembourg Finance Company I S.a r.l. (First Lien Term Loan)	Healthcare	L + 425	0.75%	4/29/2024	4,009,848	4,014,836	4,988
Granite Acquisition, Inc. (Second Lien Term Loan)	Utility	L + 725	1.00%	12/19/2022	3,736,725	3,713,506	(23,219)
BW NHHHC Holdco, Inc. (First Lien Term Loan)	Healthcare	L + 500	0.00%	5/15/2025	4,594,965	4,548,784	(46,181)
Lanai Holdings II, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	8/28/2022	2,481,858	2,379,609	(102,249)
Quorum Health Corp. (First Lien Term Loan)	Healthcare	L + 675	1.00%	4/29/2022	7,177,942	7,198,520	20,578
SkillSoft Corp. (First Lien Term Loan)	Technology	L + 475	1.00%	4/28/2021	1,862,628	1,860,190	(2,438)
Sound Inpatient Physicians (First Lien Term Loan)	Healthcare	L + 675	0.00%	6/26/2026	1,575,000	1,557,500	(17,500)
Truck Hero, Inc. (Second Lien Term Loan)	Manufacturing	L + 825	1.00%	5/10/2025	1,666,667	1,679,167	12,500
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)
Vyair Medical, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	4/11/2025	4,867,606	4,956,338	88,732
Weight Watchers International, Inc. (First Lien Term Loan)	Service	L + 475	0.75%	11/29/2024	5,625,710	5,597,252	(28,458)
					Total		\$ (608,851)
						Accrued income and liabilities	209,663
					Total TRS Fair Value		\$ (399,188)

(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, 2017:

<u>Underlying Loan</u>	<u>Industry</u>	<u>Interest</u>	<u>Base Rate Floor</u>	<u>Maturity Date</u>	<u>Notional Amount⁽¹⁾</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Advantage Sales & Marketing, Inc. (Second Lien Term Loan)	Service	L + 650	1.00%	7/25/2022	\$ 2,853,750	\$ 2,775,000	\$ (78,750)
DJO Finance, LLC (First Lien Term Loan)	Healthcare	L + 325	1.00%	6/16/2020	3,989,796	3,934,936	(54,860)
Fieldwood Energy, LLC (First Lien Term Loan)	Energy	L + 700	1.00%	8/31/2020	1,728,527	1,620,494	(108,033)
Fieldwood Energy, LLC (First Lien Term Loan)	Energy	L + 712.5	1.25%	9/30/2020	478,369	389,889	(88,480)
Granite Acquisition, Inc. (Second Lien Term Loan)	Utility	L + 725	1.00%	12/19/2022	3,736,725	3,717,219	(19,506)
iHeartCommunications, Inc. (First Lien Loan)	Media/ Telecommunications	L + 675	—	1/30/2019	4,112,500	3,737,500	(375,000)
Kindred Healthcare, Inc. (First Lien Term Loan)	Healthcare	L + 350	1.00%	4/09/2021	6,503,210	6,499,470	(3,740)
Lanai Holdings II, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	8/28/2022	2,503,122	2,375,000	(128,122)
Quorum Health Corp. (First Lien Term Loan)	Healthcare	L + 675	1.00%	4/29/2022	5,260,919	5,306,952	46,033
SkillSoft Corp. (First Lien Term Loan)	Technology	L + 475	1.00%	4/28/2021	1,867,441	1,877,218	9,777
SkillSoft Corp. (Second Lien Term Loan)	Technology	L + 825	1.00%	4/28/2022	1,259,895	1,327,389	67,494
Truck Hero, Inc. (Second Lien Term Loan)	Manufacturing	L + 825	1.00%	5/10/2025	1,666,667	1,670,834	4,167
						Total	\$ (729,020)
						Accrued income and liabilities	165,197
						Total TRS Fair Value	\$ (563,823)

⁽¹⁾ Notional value of the underlying securities in the TRS is calculated by multiplying par by the initial price.

As of September 30, 2018 and December 31, 2017, the Company had posted \$18,800,000 and \$13,820,000, respectively, 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 nine months ended September 30, 2018, the Company recognized a net realized gain on the TRS amounting to \$750,299. The Company received \$653,318 in cash payments from the TRS during the period and paid \$137,472, with an increase of \$234,453 in receivable from BNP Paribas for the nine months ended September 30, 2018.

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 the termination of the offering, 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.

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 September 30, 2018.

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 12 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

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.

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, we are required 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.

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 September 30, 2018:

	Fair value as of December 31, 2017	Purchases	Sales	Realized gains (losses)	Change in unrealized gains (losses)	Fair value as of September 30, 2018	Dividend income
Affiliated investments							
Gambier Bay, LLC ⁽¹⁾	\$ 803,329	\$ —	\$—	\$ —	\$413,140	\$ 1,216,469	\$ —
NexPoint Strategies Opportunities Fund	16,793	1,429,865	—	—	11,089	1,457,747	56,895
Total affiliated investments	\$ 820,122	\$1,429,865	\$—	\$ —	\$424,229	\$ 2,674,216	\$56,895

⁽¹⁾ Includes the value of iHeart Communications, Inc. bonds as of December 31, 2017 and subsequent activity.

Note 11 — Financial Highlights

Selected data for a share outstanding throughout the nine months ended September 30, 2018 and September 30, 2017 is as follows:

	For the Nine Months Ended September 30, 2018 (Unaudited)	For the Nine Months Ended September 30, 2017 (Unaudited)
Common shares per share operating performance:		
Net asset value, beginning of period	\$ 9.68	\$ 9.47
Income from investment operations:		
Net investment income ⁽¹⁾	0.17	0.63
Net realized and unrealized gain (loss)	0.33	(0.02)
Total from investment operations	0.50	0.61
Less distribution declared to common shareholders:		
From net investment income	(0.54)	(0.54)
From net realized gains	—	—
Total distributions declared to common shareholders	(0.54)	(0.54)
Capital share transactions		
Issuance of common stock ⁽²⁾	0.01	0.02
Shares tendered ⁽¹⁾	0.00 ⁽³⁾	0.00 ⁽³⁾
Net asset value, end of period	\$ 9.65	\$ 9.56
Net asset value total return ⁽⁴⁾⁽⁵⁾	5.35%	6.68%
Ratio and supplemental data:		
Net assets, end of period (in 000's)	\$ 100,526	\$ 87,510
Shares outstanding, end of period	10,416,708	9,156,755
Common share information at end of period:		
Ratios based on weighted average net assets of common shares:		
Gross operating expenses ⁽⁶⁾	5.60%	4.35%
Fees and expenses waived or reimbursed ⁽⁶⁾	(0.20)%	(2.79)%
Net operating expenses ⁽⁶⁾	5.40%	1.56%
Net investment income (loss) before fees waived or reimbursed ⁽⁶⁾	2.11%	5.93%
Net investment income (loss) after fees waived or reimbursed ⁽⁶⁾	2.31%	8.72%
Ratio of interest and credit facility expenses to average net assets ⁽⁶⁾	0.69%	0.08%
Ratio of incentive fees to average net assets ⁽⁶⁾	0.92%	(0.19)% ⁽⁷⁾
Portfolio turnover rate ⁽⁵⁾	52%	91%
Asset coverage ratio	267%	449%
Weighted average commission rate paid ⁽⁸⁾	\$ 0.0380	\$ 0.0229

(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) Not annualized.

(6) Annualized.

(7) All incentive fees were waived for the nine months ended September 30, 2017.

(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 — Subsequent Events

The Company has evaluated subsequent events through the date on which these financial statements were issued.

On September 17, 2018, the Board declared a cash distribution of \$0.013846 per share of the Company's common stock, par value \$0.001 per share, to be paid on October 31, 2018, to the stockholders of record on October 1, 2018, October 8, 2018, October 15, 2018, October 22, 2018, and October 29, 2018. The Board also declared a cash distribution of \$0.013846 per share of the Company's common stock, par value \$0.001 per share, to be paid on November 28, 2018, to the stockholders of record on November 5, 2018, November 12, 2018, November 19, 2018, and November 26, 2018.

On November 7, 2018, the board of directors (the "Board") of NexPoint Capital, Inc. (the "Company") declared a cash distribution of \$0.013846 per share of the Company's common stock, par value \$0.001 per share, payable on January 3, 2019, to the stockholders of record on December 3, 2018, December 10, 2018, December 17, 2018, December 24, 2018 and December 31, 2018.

Item 2. 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 quarterly report on Form 10-Q constitute forward-looking statements because they relate to future events or our future performance or financial condition. The forward-looking statements contained in this quarterly report on Form 10-Q 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 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 quarterly report on Form 10-Q 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 quarterly report on Form 10-Q 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 quarterly report on Form 10-Q on information available to us on the date of this quarterly report on Form 10-Q. 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 quarterly report on Form 10-Q 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-Q 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”) a majority of 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 September 30, 2018 the Adviser controls 2,280,213 total shares, including reinvestment of dividends, for a net amount of approximately \$22.0 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;
- 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, 2019.

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 September 30, 2018 are \$928,952. 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 2018 quarterly fee waivers and expense reimbursements due from the Adviser as of September 30, 2018, and March 31, 2018, which may become subject to recoupment by the Adviser.

Period Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Limitation	Quarterly Recoupable Amount	Recoupment Eligibility Expiration
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.

Period 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

The following table reflects the 2016 quarterly fee waivers and expense reimbursements due from the Adviser as of December 31, 2016, September 30, 2016, June 30, 2016 and March 31, 2016, which may become subject to recoupment by the Adviser.

Quarter Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Reimbursement	Quarterly Recoupable Amount	Recoupment Eligibility Expiration
December 31, 2016	\$ 1,263,735	\$835,904	\$ 427,831	\$147,943	December 31, 2019
September 30, 2016	803,909	524,021	279,888	32,663	September 30, 2019
June 30, 2016	567,248	320,023	247,225	90,124	June 30, 2019
March 31, 2016	259,420	102,319	157,101	157,101	March 31, 2019

The following table reflects the 2015 quarterly fee waivers and expense reimbursements due from the Adviser as of December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, which may become subject to recoupment by the Adviser.

Quarter Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Reimbursement	Quarterly Recoupable Amount	Recoupment Eligibility Expiration
December 31, 2015	\$ 1,440,686	\$309,265	\$ 1,131,421	\$ 23,484	December 31, 2018
September 30, 2015	1,272,439	164,502	1,107,937	—	Expired
June 30, 2015	771,350	98,330	673,020	—	Expired
March 31, 2015	353,760	95,291	258,469	—	Expired

During the three and nine months ended September 30, 2018, \$434,917 and \$1,107,937, respectively, 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, 2019 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 three and nine months ended September 30, 2018 and September 30, 2017.

During the nine months ended September 30, 2018, we made long investments in portfolio companies and other investments totaling \$59,898,327. During the same period, we generated proceeds from sales and principal repayments on long investments of \$51,413,124. As of September 30, 2018, our investment portfolio, with a total fair value of \$106,085,864, consisted of 44 interests in portfolio companies (calculated as a percentage of total invested assets: 12.3% in first lien senior secured loans, 4.6% in second lien senior secured loans, 3.5% in unsecured loans, 0.0% in escrow loans, 51.4% in corporate bonds, 1.2% in asset-backed

securities, 1.4% in closed-end mutual funds, 0.2% in warrants, 24.6% in common stock, 0.8% in preferred stock, and 0.0% in rights). As of September 30, 2018, including investments underlying the TRS with BNP Paribas on a look-through basis, the investments in our portfolio carry a weighted average price of 94.52% 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 6.65% based upon 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 nine months ended September 30, 2017, we made long investments in portfolio companies and other investments totaling \$62,241,424. During the same period, we generated proceeds from sales and principal repayments on long investments of \$72,746,045. As of September 30, 2017, our investment portfolio, with a total fair value of \$69,976,166, consisted of 40 interests in portfolio companies (calculated as a percentage of total investments: 20.5% in first lien senior secured loans, 6.3% in second lien senior secured loans, 0.0% in escrow loans, 53.7% in corporate bonds, 2.8% in asset-backed securities, 0.0% in closed-end mutual funds, 3.0% in warrants, 10.3% in common stock, 3.3% in preferred stock, and 0.1% in rights). As of September 30, 2017, including investments underlying the TRS on a look-through basis, the investments in our portfolio were purchased at a weighted average price of 87.51% of 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, was 8.49% based upon 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 three and nine months ended September 30, 2018 and September 30, 2017:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Net Investment Activity		
Purchases	\$ 16,621,452	\$ 59,898,327
Payment-in-kind	136,910	375,158
Sales and Principal Repayments	(8,678,583)	(51,413,124)
Net Portfolio Activity	\$ 8,079,779	\$ 8,860,361

	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Net Investment Activity		
Purchases	\$ 8,886,781	62,241,424
Payment-in-kind	90,900	182,695
Sales and Principal Repayments	(2,004,759)	(72,746,045)
Net Portfolio Activity	\$ 6,972,922	\$ (10,321,926)

New Investment Activity by Asset Class	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Purchases	Percentage	Purchases	Percentage
Senior Secured Loans—First Lien	\$ 6,069,776	36.5%	\$25,960,529	43.3%
Senior Secure Loans—Second Lien	—	0.0%	3,527,778	5.9%
Corporate Bonds	7,865,000	47.3%	21,092,094	35.2%
Equities	2,686,676	16.2%	7,888,061	13.2%
Closed-End Mutual Funds	—	0.0%	1,429,865	2.4%
Total Investment Activity	\$16,621,452	100.0%	\$59,898,327	100.0%

New Investment Activity by Asset Class	For the Three Months Ended September 30, 2017		For the Nine Months Ended September 30, 2017	
	Purchases	Percentage	Purchases	Percentage
Senior Secured Loans—First Lien	\$3,214,502	36.2%	\$18,641,026	30.0%
Senior Secured Loans—Second Lien	—	0.0%	1,641,667	2.6%
Corporate Bonds – Senior Unsecured	5,252,588	59.1%	30,686,814	49.3%
Closed-End Mutual Funds	—	0.0%	14,154	0.0%
Preferred Stock	419,691	4.7%	3,215,965	5.2%
Equities	—	0.0%	8,041,798	12.9%
Total Investments	\$8,886,781	100.0%	\$62,241,424	100.0%

The following tables summarize the composition of our investment portfolio at amortized cost and fair value as of September 30, 2018 and December 31, 2017:

September 30, 2018			
Portfolio Composition by Investment Type	Amortized Cost ⁽¹⁾	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans — First Lien	\$ 13,507,268	\$ 12,996,084	12.3%
Senior Secured Loans — Second Lien	4,982,406	4,884,142	4.6%
Senior Secured Loans — Escrow Loan	87,816	7,000	0.0%
Unsecured Loans	3,282,820	3,671,582	3.5%
Asset-Backed Securities	1,398,952	1,306,422	1.2%
Closed-End Mutual Funds	1,444,020	1,457,747	1.4%
Corporate Bonds	53,364,468	54,572,514	51.4%
Common Stocks	21,731,160	26,119,813	24.6%
Preferred Stock	3,215,965	821,716	0.8%
Warrants	—	203,414	0.2%
Rights	150,864	45,430	0.0%
Total Invested Assets	\$ 103,165,739	\$106,085,864	100.0%

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

December 31, 2017

<u>Portfolio Composition by Investment Type</u>	<u>Amortized Cost⁽¹⁾</u>	<u>Fair Value</u>	<u>Percentage of Portfolio (at fair value)</u>
Senior Secured Loans — First Lien	\$ 15,070,292	\$14,942,333	15.9%
Senior Secured Loans — Second Lien	4,426,629	4,432,500	4.7%
Senior Secured Loans — Escrow Loan	87,816	9,100	0.0%
Unsecured Loans	2,799,878	3,326,186	3.5%
Asset-Backed Securities	1,930,704	1,966,177	2.1%
Closed-End Mutual Funds	14,154	16,793	0.0%
Corporate Bonds	53,545,760	52,543,477	56.0%
Common Stocks	10,786,964	13,856,775	14.7%
Preferred Stock	3,215,965	1,960,275	2.1%
Warrants	—	891,799	0.9%
Rights	150,864	56,897	0.1%
Total Invested Assets	\$ 92,029,026	\$94,002,312	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 September 30, 2018 and December 31, 2017 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 \$55,081,345 and a market value of \$54,472,494 as of September 30, 2018, and a notional amount of \$35,960,921 and a market value of \$35,231,901 as of December 31, 2017.

September 30, 2018

<u>Portfolio Composition by Investment Type</u>	<u>Amortized Cost⁽¹⁾</u>	<u>Fair Value</u>	<u>Percentage of Portfolio (at fair value)</u>
Senior Secured Loans — First Lien	\$ 58,392,033	\$ 57,757,155	36.0%
Senior Secured Loans — Second Lien	15,178,986	14,595,565	9.1%
Senior Secured Loans — Escrow Loan	87,816	7,000	0.0%
Unsecured Loans	3,282,820	3,671,582	2.3%
Asset-Backed Securities	1,398,952	1,306,422	0.8%
Closed-End Mutual Funds	1,444,020	1,457,747	0.9%
Corporate Bonds	53,364,468	54,572,514	34.0%
Common Stocks	21,731,160	26,119,813	16.3%
Preferred Stock	3,215,965	821,716	0.5%
Warrants	—	203,414	0.1%
Rights	150,864	45,430	0.0%
Total Invested Assets	\$ 158,247,084	\$160,558,358	100.0%

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

December 31, 2017

<u>Portfolio Composition by Investment Type</u>	<u>Amortized Cost⁽¹⁾</u>	<u>Fair Value</u>	<u>Percentage of Portfolio (at fair value)</u>
Senior Secured Loans — First Lien	\$ 41,514,176	\$ 40,683,792	31.5%
Senior Secured Loans — Second Lien	13,943,666	13,922,942	10.8%
Senior Secured Loans — Escrow Loan	87,816	9,100	0.0%
Unsecured Loans	2,799,878	3,326,186	2.6%
Asset-Backed Securities	1,930,704	1,966,177	1.5%
Closed-End Mutual Funds	14,154	16,793	0.0%
Corporate Bonds	53,545,760	52,543,477	40.7%
Common Stocks	10,786,964	13,856,775	10.7%
Preferred Stock	3,215,965	1,960,275	1.5%
Warrants	—	891,799	0.7%
Rights	150,864	56,897	0.0%
Total Invested Assets	\$ 127,989,947	\$129,234,213	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 September 30, 2018 and December 31, 2017:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Number of Investments	44	41
% Variable Rate (based on fair value)	55% ⁽¹⁾	50% ⁽¹⁾
% Non-Income Producing Equity or Other Investments (based on fair value)	11% ⁽¹⁾	6% ⁽¹⁾
Weighted Average Cost Price of Investments (as a % of par or stated value)	94.52% ⁽¹⁾	88.70% ⁽¹⁾
Weighted Average Credit Rating of Investments that were Rated	B3 ⁽¹⁾	Caa1 ⁽¹⁾
% of Fixed Income Investments on Non-Accrual (based on fair value)	4% ⁽¹⁾	1% ⁽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 September 30, 2018 and December 31, 2017:

Portfolio Composition by Strategy	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Broadly Syndicated – Private	\$ 8,099,483	7.6%	\$ 2,172,805	2.3%
Broadly Syndicated – Public	23,059,250	21.7%	17,851,754	19.0%
Middle-Market	72,404,240	68.3%	72,011,576	76.6%
Opportunistic/Other	2,522,891	2.4%	1,966,177	2.1%
Total Invested Assets	<u>\$106,085,864</u>	<u>100.0%</u>	<u>\$94,002,312</u>	<u>100.0%</u>

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 September 30, 2018 and December 31, 2017:

Industry Classifications	September 30, 2018		December 31, 2017	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Chemicals	\$ 261,460	0.2%	\$ 170,000	0.2%
Energy	8,559,646	8.1%	4,109,050	4.4%
Financials	9,830,294	9.3%	5,263,970	5.6%
Healthcare ⁽¹⁾	64,230,657	60.6%	63,518,400	67.5%
Materials	5,405,200	5.1%	5,971,809	6.4%
Media/Telecommunications	4,985,619	4.7%	803,329	0.9%
Real Estate Investment Trusts (REITs)	3,419,751	3.2%	4,449,751	4.7%
Retail	1,293,754	1.2%	3,654,624	3.9%
Service ⁽¹⁾	—	0.0%	1,713,464	1.8%
Telecommunication Services	5,185,853	4.9%	2,175,110	2.3%
Utilities	2,913,630	2.7%	2,172,805	2.3%
Total Invested Assets	\$106,085,864	100.0%	\$94,002,312	100.0%

⁽¹⁾ As of December 31, 2017, Weight Watchers is included in the Service sector, but the Company views Weight Watchers to be related to the Healthcare Industry as defined in the Company’s organizational documents. If this classification change were reflected, the value and percentage of the healthcare sector would increase to \$65,231,864 and 69.3%, respectively, as of December 31, 2017. The value and percentage of the service sector would decrease to \$0 and 0.0%, respectively, as of December 31, 2017. Weight Watchers is not held directly in the Fund as of September 30, 2018.

As of September 30, 2018 and December 31, 2017, the Company was an “affiliated person,” as defined in the 1940 Act, of NexPoint Strategic Opportunities Fund (formally, NexPoint Credit Strategies Fund), one of its investments. 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

Our primary holdings currently include senior secured first and second lien bank loans and bonds as well as total return swaps. Bank loans typically accrue interest at variable rates determined by reference to a base lending rate, such as LIBOR. The base rate typically resets every three months, such that bank loans have a very short duration of 90 days on average and typically have maturities of 3 to 5 years. Corporate notes and bonds typically accrue a fixed rate of interest with maturities of 5 to 7 years.

We focus on healthcare investments, although we may invest without limit in non-healthcare related investments and portfolio companies. The Adviser believes there is an excellent opportunity in the healthcare sector as a result of the aging population (Americans are turning age 65 at a rate of approximately 10,000 per day) and the longer life span of the average American due to increased usage of technology and pharmaceuticals in healthcare. Overarching all of this is the multi-year long implementation of the Affordable Care Act (“ACA”), the largest structural change to the U.S. healthcare sector since the passage of Medicare and Medicaid in the mid 1960’s. The Adviser believes these macro factors will combine to produce above average growth in the healthcare sector for at least the next decade.

The healthcare sector has traditionally been a stable, defensive sector. However, with the macro influences affecting the sector, particularly implementation of the ACA, we believe there will be more volatility and upheaval in the sector than historically has been the case. Investing in credit potentially minimizes unwanted volatility while also positioning the portfolio to participate in the potential growth of the healthcare sector while earning income. We believe lending to middle-market healthcare companies may potentially generate a higher risk adjusted yield. As we grow, it is our intention to do more origination and direct lending, predominantly to healthcare companies, although we will also make investments in non-healthcare companies where an opportunity exists to achieve above average risk adjusted yields and returns.

Summary Description of Top Portfolio Companies/Investments

As of September 30, 2018 and December 31, 2017, 63% and 64% (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 September 30, 2018 and December 31, 2017 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 September 30, 2018 and December 31, 2017, we held corporate bonds of Ortho-Clinical Diagnostics ("Ortho-Clinical") having an aggregate fair value of \$9.1 million and \$7.8 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.

U.S. Renal Care: As of September 30, 2018 and December 31, 2017, we held senior secured loans in US Renal Care, Inc. ("U.S. Renal Care") having an aggregate fair value of \$6.2 million and \$8.4 million, respectively. U.S. Renal Care develops, acquires, and operates a network of outpatient, home, and specialty dialysis centers for serving patients suffering from chronic kidney failures in the United States. The company provides in-center and at-home hemodialysis and peritoneal dialysis services for end stage renal diseases. It operates outpatient, home, and specialty dialysis programs. The company also manages various acute setting dialysis programs in conjunction with local community hospitals. It also serves families, caregivers and physicians. U.S. Renal Care was founded in 2000 and is based in Plano, Texas. Upon completing an acquisition of DSI Renal in January 2016, U.S. Renal Care became third-largest provider of dialysis services in the United States, with approximately 334 outpatient dialysis facilities across 32 states/territories.

Bausch Health Companies, Inc.: As of September 30, 2018 and December 31, 2017, we held senior secured loans and corporate bonds of Bausch Health Companies, Inc. ("Bausch") having an aggregate fair value of \$10.1 million and \$10.6 million, respectively. Bausch is a multinational, specialty pharmaceutical and medical device company that develops, manufactures, 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 over 1,800 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.

Quorum Health Corp.: As of September 30, 2018 and December 31, 2017, we held corporate bonds and common stock of Quorum Health Corp. ("Quorum") having an aggregate fair value of \$13.1 million and \$16.8 million, respectively. Quorum Health Corporation is a leading provider of hospital and outpatient healthcare services focused on facility-based acute care in rural and mid-sized markets. As of September 30, 2018, the company owned or leased 27 hospitals located across 14 states with an aggregate of approximately 2,604 licensed beds. Approximately 84% of the company's hospitals are sole providers in their local markets. Quorum also provides hospital management advisory and healthcare consulting services through its wholly-owned subsidiary, Quorum Health Resources. Quorum was formed through a spin-off of select assets from Community Health Systems Inc. completed in April 2016. The company is headquartered in Nashville, TN.

Surgery Center Holdings, Inc.: As of September 30, 2018 and December 31, 2017, we held corporate bonds of Surgery Center Holdings, Inc. with an aggregate fair value of \$10.5 million and \$7.9 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 124 surgical hospital and ambulatory surgery center locations across 32 states.

DJO Finance, LLC / DJO Finco Inc.: As of September 30, 2018 and December 31, 2017, we held corporate bonds and senior secured loans of DJO Finance, LLC ("DJO") with an aggregate fair value of \$6.7 million and \$10.0 million, respectively. DJO is a global developer, manufacturer and distributor of a diverse range of medical devices for musculoskeletal health, vascular health and pain management, including rigid and soft orthopedic bracing, hot and cold therapy, bone growth stimulators, vascular therapy systems, compression garments, therapeutic shoes, electrical stimulators and physical therapy products.

Endo Finance, LLC / Endo Finco Inc.: As of September 30, 2018 and December 31, 2017, we held corporate bonds of Endo Finance, LLC (“Endo”) with an aggregate fair value of \$10.7 million and \$3.2 million, respectively. Endo is a generics and specialty branded pharmaceutical company, with a portfolio of over 250 prescription product families 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.

iHeart Communications, Inc.: As of September 30, 2018 and December 31, 2017 we held the first lien senior secured loan of iHeart Communications, Inc. (“iHeart”) having an aggregate fair value of \$3.8 million and \$4.5 million, respectively. These values include the Company’s pro-rata portion of iHeart bonds held within Gambier Bay, LLC, a special purpose vehicle created to represent the Company during potential litigation related to chapter 11 bankruptcy proceedings initiated by iHeart in March 2018. iHeart is the largest broadcast radio and events business in the United States, and owns 90% of Clear Channel Outdoor, one of the world’s largest outdoor advertising companies. The company owns and operates approximately 850 broadcast radio stations in the United States and almost 1 million outdoor advertising displays in 45 countries. iHeartMedia also operates the iHeartRadio streaming app with 96 million registered users.

Vistra Energy: As of September 30, 2018 and December 31, 2017, we held common stock and rights shares of Vistra Energy (OTC:VSTE) (“Vistra Energy”) having an aggregate fair value of \$2.9 million and \$2.2 million, respectively. Vistra Energy is the largest electric power generator and retail electric provider in Texas, with other 16 GW of generation capacity and over 1.7 million retail customers. 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 three and nine months ended September 30, 2018 and September 30, 2017

Revenues

We generate a significant portion of our investment income in the form of interest on the debt securities we purchase or originate. 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.

For the three and nine months ended September 30, 2018 we had investment income of \$1,842,814 or \$0.18 per share and \$5,809,895 or \$0.56 per share. For the three and nine months ended September 30, 2017, we had investment income of \$1,571,497 or \$0.18 per share and \$6,162,391 or \$0.74 per share, respectively.

Expenses

For the three and nine months ended September 30, 2018, we had total net operating expenses of \$1,270,907 or \$0.12 per share and \$4,068,396 or \$0.39 per share, respectively. Our net operating expenses were \$193,689 or \$0.02 per share and \$933,621 or \$0.11 per share, for the three and nine months ended September 30, 2017, respectively. Base management fees attributed to the Adviser were \$527,229 and \$1,554,540 for the three and nine months ended September 30, 2018, respectively. Our operating expenses include base management fees attributed to the Adviser of \$305,288 and \$1,106,346 for the three and nine months ended September 30, 2017, respectively, which were voluntarily waived for both periods. Our expenses include administrative services expenses attributed to the Adviser of \$103,982 and \$309,444 for the three and nine months ended September 30, 2018, respectively. Administrative services expenses attributed to the Adviser of \$69,308 and \$229,520, respectively for the three and nine months ended September 30, 2017, respectively, which were voluntarily waived for both periods.

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	December 31, 2019
September 30, 2016	343,320	68,664	September 30, 2019
June 30, 2016	74,421	14,884	June 30, 2019
Total	\$ 2,284,508	\$ 458,275	

⁽¹⁾ The Adviser 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 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 three and nine months ended September 30, 2018 were \$336,236 and \$950,045, respectively, and consisted of the following:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Audit and tax fees	\$ 53,666	\$ 163,919
Legal fees	45,263	133,447
Custodian and accounting service fees	80,037	236,201
Reports to stockholders	17,114	40,576
Stock transfer fee	121,303	270,437
Directors' fees	5,498	14,844
Other expenses	13,355	90,621
Total	\$ 336,236	\$ 950,045

Our other expenses subject to the Expense Limitation Agreement for the three and nine months ended September 30, 2017 were \$351,204 and \$983,110, and consisted of the following:

	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Audit and tax fees	\$ 58,382	\$ 161,527
Legal fees	46,772	127,296
Custodian and accounting service fees	79,982	234,276
Reports to stockholders	—	95,887
Stock transfer fee	136,158	305,530
Directors' fees	4,526	11,129
Other expenses	25,384	47,465
Total	\$ 351,204	\$ 983,110

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

Net Investment Income

We earned net investment income of \$571,907 or \$0.05 per share, and \$1,377,808 or \$0.15 per share, for the three months ended September 30, 2018 and September 30, 2017, respectively. We earned net investment income of \$1,741,499 or \$0.17 per share, and \$5,228,770 or \$0.63 per share for the nine months ended September 30, 2018 and September 30, 2017, respectively.

Net Realized Gains or Losses

We had sales or principal repayments of \$8,678,583 and \$2,004,759 during the three months ended September 30, 2018 and September 30, 2017, respectively, from which we realized a net gains/(losses) of \$203,932 and \$141,187, respectively. We had sales or principal repayments of \$51,413,124 and \$72,746,045 during the nine months ended September 30, 2018 and September 30, 2017, respectively, from which we realized a net gains/(losses) of \$1,602,192 and \$(272,623), respectively.

Net Change in Unrealized Appreciation (Depreciation) on Investments

For the three months ended September 30, 2018 and September 30, 2017, the net change in unrealized appreciation (depreciation) on investments totaled \$143,729 or \$0.01 per share, and \$(774,650) or \$(0.09) per share, respectively. For the nine months ended September 30, 2018 and September 30, 2017, the net change in unrealized appreciation (depreciation) on investments totaled \$946,839 or \$0.09 per share, and \$873,388 or \$0.11 per share, respectively. For the three months ended September 30, 2018 and September 30, 2017, the net change in unrealized appreciation (depreciation) on the TRS was \$(350,600) and \$(421,401), respectively. For the nine months ended September 30, 2018 and September 30, 2017, the net change in unrealized appreciation (depreciation) on the TRS was \$164,635 and \$(633,427), respectively. The net change in unrealized appreciation (depreciation) on our investments during the nine months ended September 30, 2018 and September 30, 2017 was primarily driven by the performance of the Terrestar Corporation Common Stock and the performance of the Gemphire Therapeutics warrants, respectively.

Net Increase from Payment from Affiliates

For the three and nine months ended September 30, 2018 and September 30, 2017, the Adviser did not voluntarily reimburse the Company for unrealized losses sustained. Cumulatively since inception, the Adviser has paid \$2,275,000 to voluntarily reimburse the Company for such losses. Had these payments not been made, the NAV as of September 30, 2018 would have been lower. These payments are not recoupable by the Adviser.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the nine months ended September 30, 2018 and September 30, 2017, the net increase/(decrease) in net assets resulting from operations was \$5,205,464 or \$0.50 per share, and \$4,671,331, or \$0.56 per share, respectively.

	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Income	\$ 5,809,895	\$ 6,162,391
Net expenses	(4,068,396)	(933,621)
Net realized gain/(loss)	2,352,491	(797,400)
Net unrealized appreciation (depreciation)	1,111,474	239,961
Net increase from amounts committed by affiliates	—	—
Total	<u>\$ 5,205,464</u>	<u>\$ 4,671,331</u>

For the three months ended September 30, 2018 and September 30, 2017, the net increase/(decrease) in net assets resulting from operations was \$1,050,845 or \$0.10 per share, and \$(201,833) or \$0.02 per share, respectively.

	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017
Income	\$ 1,842,814	\$ 1,571,497
Net expenses	(1,270,907)	(193,689)
Net realized gain/(loss)	685,809	(383,590)
Net unrealized appreciation (depreciation)	(206,871)	(1,196,051)
Net increase from amounts committed by affiliates	—	—
Total	<u>\$ 1,050,845</u>	<u>\$ (201,833)</u>

Financial Condition, Liquidity and Capital Resources

As of September 30, 2018 and December 31, 2017, we had cash and cash equivalents of \$7,104,691 and \$11,044,982, respectively. As of September 30, 2018 and December 31, 2017, \$6,959,715 and \$10,852,235 was held in the State Street U.S. Government Money Market Fund, and \$144,796 and \$192,747 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 September 30, 2018 the Adviser controls 2,280,213 total shares, including reinvestment of dividends, for a net amount of approximately \$22.0 million.

The sales commissions and dealer manager fees related to the sale of our common stock were \$413,024 and \$1,453,224 for the nine months ended September 30, 2018 and September 30, 2017, respectively, 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.

As of September 30, 2018 and December 31, 2017, \$0 and \$0, respectively, were outstanding under the Credit Facility. The Company incurred costs of \$25,000 in connection with obtaining the Credit Facility. As of September 30, 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 September 30, 2018 and December 31, 2017, \$24,048,974 and \$24,400,000, respectively, were outstanding under the Financing Arrangement.

For the three and nine months ended September 30, 2018 and September 30, 2017, the components of total interest expense were as follows:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Direct interest expense	\$ 161,124	\$ 517,747
Commitment fees	—	—
Amortization of financing costs	—	—
Total	<u>\$ 161,124</u>	<u>\$ 517,747</u>

	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Direct interest expense	\$ —	\$ 42,325
Commitment fees	—	8,054
Amortization of financing costs	—	—
Total	<u>\$ —</u>	<u>\$ 50,379</u>

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 September 30, 2018, the TRS had a notional amount of \$55,081,345 and a market value of \$54,472,494. Cash collateral of \$18,800,000 was posted against the TRS. As of December 31, 2017, the TRS had a notional amount of \$35,960,921 and a market value of \$35,231,901. Cash collateral of \$13,820,000 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 September 30, 2018 and December 31, 2017, 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 three months ended September 30, 2018 and September 30, 2017, the Company incurred \$95,788 and recognized a reduction of \$(315,928) of incentive fees on capital gains, respectively. For the nine months ended September 30, 2018 and September 30, 2017, the Company incurred \$692,793 and recognized a reduction of \$(111,488) of incentive fees on capital gains, respectively. Since inception, the Company has accrued \$1,287,098 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 as of September 30, 2018.

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 as deductible by those stockholders, subject to the 2% “floor” on miscellaneous itemized deductions and other significant limitations on itemized deductions set forth in the Code.

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 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,” to our stockholders on an annual basis. We intend to authorize and declare weekly 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 three and nine months ended September 30, 2018 and September 30, 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 nine months ended September 30, 2018, the Company made the following distributions:

Payable Date	Dividend/Share	Total Dividend	Dividends Reinvested
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	\$ 0.537	\$5,578,090	\$3,580,636

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 September 30, 2018, the Adviser controls 2,280,213 total shares, including reinvestment of dividends, for a net amount of approximately \$22.0 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 September 30, 2018 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 is ultimately and solely 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 September 30, 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	\$ 143,146
Gambier Bay, LLC	Common Stock	1,216,469
OmniMax International, Inc.	Common Stock	1,681,568
SteadyMed Ltd.	Common Stock	14,509
TerreStar Corp.	Common Stock	4,682,357
Terrestar Corp.	Senior Secured Loans	503,496
OmniMax International, Inc.	Unsecured Loans	3,671,582
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	88,594
OmniMax International, Inc.	Warrant	52,050
SCYNEXIS, Inc.	Warrant	62,770

As of December 31, 2017, the Company held the following investments for which a sufficient level of current, reliable market quotations were not available:

<u>Instrument</u>	<u>Type</u>	<u>Market Value</u>
PAMCO CLO 1997-1A B	Asset-Backed	\$ 294,541
OmniMax International, Inc.	Common Stock	2,566,191
OmniMax International, Inc.	Unsecured Loans	3,326,186
OmniMax International, Inc.	Warrant	79,432
Galena Biopharma, Inc.	Warrant	18
Gemphire Therapeutics, Inc.	Warrant	493,218
Kadmon Holdings, Inc.	Warrant	22,727
SCYNEXIS, Inc.	Warrant	200,511
SteadyMed Ltd.	Warrant	95,893

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 three and nine months ended September 30, 2018 and September 30, 2017, the Adviser did not incur or pay any organization costs on our behalf. For the period from our inception to September 30, 2018, the Adviser incurred and paid organization costs of \$33,392 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 three and nine months ended September 30, 2018, the Adviser incurred offering costs of \$0 and \$238,568, respectively, on our behalf. For the three and nine months ended September 30, 2017, the Adviser incurred offering costs of \$167,797 and \$898,423, respectively, on our behalf. For the three and nine months ended September 30, 2018, the Company capitalized \$0 and \$61,462 of offering costs, respectively. For the three and nine months ended September 30, 2017, the Company capitalized \$41,632 and \$213,880 of offering costs, respectively. Of the capitalized offering costs, \$38,986 and \$158,831 were amortized to expense during the three and nine months ended September 30, 2018. Of the capitalized offering costs, \$91,937 and \$308,713 were amortized to expense during the three and nine months ended September 30, 2017, respectively. As of September 30, 2018 and September 30, 2017, \$31,461 and \$133,722 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 September 30, 2018, 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 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, most significantly changes in interest rates. As of September 30, 2018, 55% (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 September 30, 2018 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.

<u>Change in interest rates</u>	<u>Increase (decrease) in interest income</u>	<u>(Increase) decrease in interest expense</u>	<u>Increase (decrease) in NII</u>
Down 25 basis points	(152,117)	197,826	45,709
Up 50 basis points	339,943	(395,652)	(55,709)
Up 100 basis points	679,887	(791,303)	(111,416)
Up 200 basis points	1,359,774	(1,582,606)	(222,832)
Up 300 basis points	2,039,661	(2,373,910)	(334,249)

(1) Includes the net effect of the change in interest rates on the unrealized appreciation (depreciation) on the TRS. As of September 30, 2018, 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 4. *Controls and Procedures*

As of the period covered by this report, we, including our president and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on our evaluation, our management, including our president and chief financial officer, concluded that our disclosure controls and procedures were effective in timely alerting management, including our president and chief financial officer, of material information about us required to be included in our periodic SEC filings. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, are based upon certain assumptions about the likelihood of future events and can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. There has not been any change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Part II – Other Information

Item 1: 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, we are currently not a party to any pending material legal proceedings.

Item 1A: Risk Factors.

None.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3: Defaults Upon Senior Securities.

None.

Item 4: Mine Safety Disclosures.

None.

Item 5: Other Information.

None.

Item 6: Exhibits

Number	Description
3.1	<u>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)</u>
3.2	<u>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)</u>
4.1	<u>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)</u>
4.2	<u>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)</u>
10.1	<u>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)</u>
10.2	<u>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)</u>
10.3	<u>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)</u>
10.4	<u>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)</u>
10.5	<u>Form of Participating Broker-Dealer Agreement (Included as Exhibit A to the Dealer Manager Agreement)</u>
10.6	<u>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)</u>
10.7	<u>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)</u>
10.8	<u>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)</u>
10.9	<u>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)</u>
10.10	<u>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)</u>

Number	Description
10.11	<u>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)</u>
10.12	<u>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)</u>
10.13	<u>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)</u>
10.14	<u>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)</u>
10.15	<u>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)</u>
10.16	<u>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)</u>
10.17	<u>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)</u>
31.1*	<u>Certifications by President pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</u>
31.2*	<u>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*</u>
32.1*	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>

* 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 Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

NEXPOINT CAPITAL, INC.

Date: November 9, 2018

By: /s/ James Dondero
Name: James Dondero
Title: President and Principal Executive Officer

Date: November 9, 2018

By: /s/ Frank Waterhouse
Name: Frank Waterhouse
Title: Treasurer, Principal Accounting Officer and Principal Financial Officer

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 quarterly report on Form 10-Q 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 consolidated 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: November 9, 2018

/s/ James Dondero

James Dondero

President

(Principal Executive Officer)

**Certification of Chief Financial Officer
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Frank Waterhouse, Chief Financial Officer, certify that:

1) I have reviewed this quarterly report on Form 10-Q 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 consolidated 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: November 9, 2018

/s/ Frank Waterhouse

Frank Waterhouse

Treasurer, Principal Accounting Officer and Principal
Financial Officer

**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 Quarterly Report on Form 10-Q of NexPoint Capital, Inc. (the "Company"), for the nine months ended September 30, 2018, 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: November 9, 2018

/s/ James Dondero

James Dondero

President and Principal Executive Officer

/s/ Frank Waterhouse

Frank Waterhouse

Treasurer, Principal Accounting Officer and Principal Financial Officer