
**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 JUNE 30, 2019

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 814-01074

NexPoint Capital, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

75201
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
None

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

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

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

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 June 30, 2019, the Registrant had 10,448,961 shares of common stock, \$0.001 par value, outstanding.

NexPoint Capital, Inc.
Statements of Assets and Liabilities

	June 30, 2019	December 31,
	(Unaudited)	2018
Assets		
Unaffiliated investments, at fair value (cost of \$100,279,346 and \$99,252,969, respectively)	\$ 94,229,680	\$ 92,974,250
Affiliated investments, at fair value (cost of \$5,469,806 and \$5,769,291, respectively) ⁽¹⁾	5,596,743	3,255,591
Cash and cash equivalents	6,627,184	7,112,205
Due from counterparty ⁽²⁾	21,880,000	20,580,000
Receivable for investments sold	278,712	—
Receivable due on total return swaps ⁽²⁾	223,014	366,952
Dividends and interest receivable	1,238,722	1,177,217
Prepaid expenses	5,172	10,930
Capitalized offering costs	—	5,445
Total assets	<u>130,079,227</u>	<u>125,482,590</u>
Liabilities		
Credit facility and notes payable ⁽³⁾	36,566,744	32,583,965
Payable for investments purchased	—	2,573,276
Unrealized depreciation on total return swap ⁽²⁾	2,516,778	2,547,492
Payable to Adviser ⁽⁴⁾	530,585	291,904
Interest expense and commitment fees payable	102,139	7,707
Accrued expenses and other liabilities	329,105	445,304
Distributions payable	—	721,979
Total liabilities	<u>40,045,351</u>	<u>39,171,627</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, 10,448,961 and 10,322,327 shares issued and outstanding, respectively)	10,449	10,322
Paid-in capital in excess of par	93,756,115	92,602,409
Total distributable earnings (loss)	(3,732,688)	(6,301,768)
Total net assets	<u>\$ 90,033,876</u>	<u>\$ 86,310,963</u>
Net asset value per share of common stock	<u>\$ 8.62</u>	<u>\$ 8.36</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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Investment income:				
Interest	\$ 1,586,368	\$ 1,550,043	\$ 3,080,822	\$ 3,377,188
Interest paid in kind	155,393	121,173	303,939	238,248
Dividend income from unaffiliated investments	236,591	141,810	490,883	323,867
Dividend income from affiliated investments ⁽¹⁾	57,347	17,450	103,532	17,848
Other fee income	4,965	—	49,895	9,930
Total investment income	<u>2,040,664</u>	<u>1,830,476</u>	<u>4,029,071</u>	<u>3,967,081</u>
Expenses:				
Investment advisory fees ⁽²⁾	505,660	566,814	996,689	1,027,311
Interest expense and commitment fees ⁽³⁾	339,299	155,891	645,649	356,623
Administration fees ⁽²⁾	100,547	104,171	199,338	205,462
Stock transfer fee	99,673	43,806	198,174	149,134
Custodian and accounting service fees	78,712	79,004	156,196	156,164
Audit and tax fees	61,728	54,034	119,987	110,253
Legal fees	21,472	38,311	48,588	88,184
Reports to stockholders	13,303	11,379	33,104	23,462
Other expenses	14,116	40,490	23,580	79,049
Directors' fees ⁽²⁾	5,232	4,903	10,150	9,346
Amortized offering costs	—	51,691	5,445	119,845
Capital gains incentive fees ⁽²⁾	—	(34,891)	—	597,005
Total expenses	<u>1,239,742</u>	<u>1,115,603</u>	<u>2,436,900</u>	<u>2,921,838</u>
Expenses waived or reimbursed by the Adviser ⁽²⁾	<u>(75,592)</u>	<u>(44,203)</u>	<u>(114,556)</u>	<u>(124,349)</u>
Net expenses	<u>1,164,150</u>	<u>1,071,400</u>	<u>2,322,344</u>	<u>2,797,489</u>
Net investment income	<u>876,514</u>	<u>759,076</u>	<u>1,706,727</u>	<u>1,169,592</u>
Net realized and unrealized gains (losses) on investments:				
Net realized gain/(loss) on:				
Unaffiliated investments and securities sold short	109,755	1,596,602	896,508	1,398,260
Affiliated investments ⁽¹⁾	—	—	—	—
Total return swaps ⁽⁴⁾	444,361	268,706	806,842	268,422
Net change in unrealized appreciation (depreciation) on:				
Unaffiliated investments and securities sold short	(3,583,565)	(1,400,599)	229,053	3,117,951
Affiliated investments ⁽¹⁾	2,229,009	(280,613)	2,640,637	(2,314,841)
Total return swaps ⁽⁴⁾	<u>223,217</u>	<u>(358,549)</u>	<u>30,714</u>	<u>515,235</u>
Net realized and unrealized gains (losses)	<u>(577,223)</u>	<u>(174,453)</u>	<u>4,603,754</u>	<u>2,985,027</u>
Net increase in net assets resulting from operations	299,291	584,623	6,310,481	4,154,619
Per share information—basic and diluted per common share				
Net investment income:	\$ 0.08	\$ 0.07	\$ 0.16	\$ 0.11
Earnings per share:	\$ 0.03	\$ 0.06	\$ 0.61	\$ 0.40
Weighted average shares outstanding:	10,417,096	10,425,752	10,407,806	10,294,061

(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)

	Common Stock		Paid in Capital in	Distributable	Total Net Assets
	Shares	Par Amount	Excess of Par	Earnings	
Balance at March 31, 2019	10,385,280	\$ 10,385	\$ 93,182,381	\$(2,158,903)	\$ 91,033,863
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	876,514	876,514
Net realized gain (loss) on investments and securities sold short	—	—	—	109,755	109,755
Net realized gain (loss) on total return swaps ⁽¹⁾	—	—	—	444,361	444,361
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	(1,354,556)	(1,354,556)
Net change in unrealized appreciation (depreciation) on total return swaps ⁽¹⁾	—	—	—	223,217	223,217
Shareholder distributions:					
Issuance of common stock	—	—	—	—	—
Repurchase of common stock	(71,112)	(71)	(617,895)	—	(617,966)
Reinvestment of common stock	134,793	135	1,191,629	—	1,191,764
Distributions to stockholders ⁽²⁾	—	—	—	(1,873,076)	(1,873,076)
Total increase/(decrease) for the three months ended June 30, 2019	63,771	\$ 64	\$ 573,734	\$(1,573,785)	\$ (999,987)
Balance at June 30, 2019	10,448,961	\$ 10,449	\$ 93,756,115	\$(3,732,688)	\$ 90,033,876
Balance at December 31, 2018	10,322,327	\$ 10,322	\$ 92,602,409	\$(6,301,768)	\$ 86,310,963
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	1,706,727	1,706,727
Net realized gain (loss) on investments and securities sold short	—	—	—	896,508	896,508
Net realized gain (loss) on total return swaps ⁽¹⁾	—	—	—	806,842	806,842
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	2,869,690	2,869,690
Net change in unrealized appreciation (depreciation) on total return swaps ⁽¹⁾	—	—	—	30,714	30,714
Shareholder distributions:					
Issuance of common stock	—	—	—	—	—
Repurchase of common stock	(196,258)	(196)	(1,682,335)	—	(1,682,531)
Reinvestment of common stock	322,892	323	2,836,041	—	2,836,364
Distributions to stockholders ⁽²⁾	—	—	—	(3,741,401)	(3,741,401)
Total increase/(decrease) for the six months ended June 30, 2019	126,634	\$ 127	\$ 1,153,706	\$ 2,569,080	\$ 3,722,913
Balance at June 30, 2019	10,448,961	\$ 10,449	\$ 93,756,115	\$(3,732,688)	\$ 90,033,876
	Common Stock		Paid in Capital in	Distributable	Total Net Assets
	Shares	Par Amount	Excess of Par	Earnings	
Balance at March 31, 2018	10,386,829	\$ 10,387	\$ 93,392,886	\$ 8,935,536	\$102,338,809
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	759,076	759,076
Net realized gain (loss) on investments and securities sold short	—	—	—	1,596,602	1,596,602
Net realized gain (loss) on total return swaps ⁽¹⁾	—	—	—	268,706	268,706
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	(1,681,212)	(1,681,212)
Net change in unrealized appreciation (depreciation) on total return swaps ⁽¹⁾	—	—	—	(358,549)	(358,549)
Shareholder distributions:					
Issuance of common stock	—	—	—	—	—
Repurchase of common stock	(142,605)	(143)	(1,381,698)	—	(1,381,841)
Reinvestment of common stock	122,781	123	1,196,404	—	1,196,527
Distributions to stockholders ⁽²⁾	—	—	—	(1,876,888)	(1,876,888)
Total increase/(decrease) for the three months ended June 30, 2018	(19,824)	\$ (20)	\$ (185,294)	\$(1,292,265)	\$ (1,477,579)
Balance at June 30, 2018	10,367,005	\$ 10,367	\$ 93,207,592	\$ 7,643,271	\$100,861,230
Balance at December 31, 2017	9,804,321	\$ 9,804	\$ 87,656,780	\$ 7,193,373	\$ 94,859,957
Increase (decrease) in net assets resulting from operations					
Net investment income	—	—	—	1,169,592	1,169,592
Net realized gain (loss) on investments and securities sold short	—	—	—	1,398,260	1,398,260
Net realized gain (loss) on total return swaps ⁽¹⁾	—	—	—	268,422	268,422
Net change in unrealized appreciation (depreciation) on investments and securities sold short	—	—	—	803,110	803,110
Net change in unrealized appreciation (depreciation) on total return swaps ⁽¹⁾	—	—	—	515,235	515,235

Shareholder distributions:					
Issuance of common stock	538,995	539	5,314,944	—	5,315,483
Repurchase of common stock	(220,093)	(220)	(2,147,563)	—	(2,147,783)
Reinvestment of common stock	243,782	244	2,383,431	—	2,383,675
Distributions to stockholders ⁽²⁾	—	—	—	(3,704,721)	(3,704,721)
Total increase/(decrease) for the six months ended June 30, 2018	<u>562,684</u>	<u>\$ 563</u>	<u>\$ 5,550,812</u>	<u>\$ 449,898</u>	<u>\$ 6,001,273</u>
Balance at June 30, 2018	<u>10,367,005</u>	<u>\$ 10,367</u>	<u>\$ 93,207,592</u>	<u>\$ 7,643,271</u>	<u>\$100,861,230</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.

See Notes to Financial Statements

NexPoint Capital, Inc.
Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
Cash flows used in operating activities		
Net increase in net assets resulting from operations	\$ 6,310,481	\$ 4,154,619
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	(26,748,956)	(43,276,875)
Payment-in-kind investments	(303,939)	(238,248)
Proceeds from sales and principal repayments of investment securities	27,690,827	42,734,541
Net realized (gain) loss on investments	(896,508)	(1,398,260)
Net change in unrealized (appreciation) depreciation on investments	(2,869,690)	(803,110)
Net change in unrealized depreciation on total return swaps	(30,714)	(515,235)
Amortization of premium/discount, net	(468,316)	(454,861)
Amortization of capitalized offering costs	5,445	119,845
Increase (decrease) in operating assets and liabilities:		
(Increase) decrease in receivable for investments sold	(278,712)	793,395
(Increase) decrease in dividends and interest receivable	(61,505)	318,496
(Increase) decrease in prepaid expenses	5,758	50,198
(Increase) decrease in due from counterparty	(1,300,000)	(5,320,000)
(Increase) decrease in receivable due on total return swap	143,938	(7,298)
Increase (decrease) in payable for investments purchased	(2,573,276)	(405,374)
Increase (decrease) in payable to Adviser	238,681	330,691
Increase (decrease) in incentive fees payable	—	597,004
Increase (decrease) in interest expense and commitment fees payable	94,432	(48,487)
Increase (decrease) in accrued expenses and other liabilities	(116,199)	(151,640)
Net cash flow used in operating activities	<u>(1,158,253)</u>	<u>(3,520,599)</u>
Cash flows provided by financing activities		
Proceeds from issuance of common stock, net of receivable for common stock sold	—	5,321,118
Repurchase of common stock, net of payable	(1,682,531)	(868,947)
Distributions paid in cash	(1,627,016)	(1,321,046)
Offering costs paid, net of due to Adviser	—	(61,462)
Net increase (decrease) in credit facilities and notes payable	3,982,779	(7,844,890)
Net cash flow provided by (used in) financing activities	<u>673,232</u>	<u>(4,775,227)</u>
Net decrease in cash and cash equivalents	(485,021)	(8,295,826)
Cash and cash equivalents		
Beginning of the period	7,112,205	11,044,982
End of the period	<u>\$ 6,627,184</u>	<u>\$ 2,749,156</u>
Supplemental disclosure and non-cash financing activities		
Paid-in-kind interest income	\$ 303,939	\$ 238,248
Cash paid during the period for interest	\$ 551,217	\$ 405,110
Reinvestment of distributions paid	\$ 2,836,364	\$ 2,383,675
Local and excise taxes paid	\$ 139,445	\$ 138,104

See Notes to Financial Statements

NexPoint Capital, Inc.
Schedule of Investments
As of June 30, 2019
(Unaudited)

Portfolio Company ⁽¹⁾⁽²⁾	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost ⁽³⁾	Fair Value
Senior Secured Loans – 8.6% ⁽⁴⁾						
Energy – 2.4%						
Fieldwood Energy, LLC (Second Lien Term Loan) ⁽⁵⁾	L + 725	1.00%	4/11/2023	\$ 567,797	\$ 551,397	\$ 477,801
Fieldwood Energy LLC (First Lien Term Loan) ⁽⁵⁾	L + 525	1.00%	4/11/2022	1,800,549	1,796,324	<u>1,677,040</u>
						<u>2,154,841</u>
Healthcare – 4.8%						
Auris Luxembourg III S.a.r.l. (First Lien Term Loan) ⁽⁶⁾⁽⁷⁾	L + 375	0.00%	7/24/2025	2,579,741	2,566,843	2,588,126
Envision Healthcare Corp. (First Lien Term Loan) ⁽⁶⁾	L + 375	0.00%	10/11/2025	1,990,000	1,883,294	<u>1,763,637</u>
						<u>4,351,763</u>
Media/Telecommunications – 0.6%						
iHeartCommunications, Inc. (First Lien Term Loan) ⁽⁶⁾⁽⁸⁾	L + 400	0.00%	5/1/2026	516,727	1,338,191	<u>517,981</u>
Telecommunication Services – 0.8%						
TerreStar Corp. (First Lien Term Loan) ⁽⁹⁾⁽¹⁰⁾	11% PIK		2/27/2020	553,156	553,156	552,603
TerreStar Corp. (First Lien Term Loan) ⁽⁹⁾⁽¹⁰⁾	11% PIK		2/28/2022	130,956	130,956	<u>130,825</u>
						<u>683,428</u>
Utility – 0.0%						
Texas Competitive Electric Holdings Company LLC (TXU) (Escrow Loan) ⁽¹¹⁾				3,500,000	79,372	<u>1,925</u>
Total Senior Secured Loans						<u>7,709,938</u>
Unsecured Loans – 4.5%						
Materials – 4.5%						
OmniMax International, Inc. ⁽⁶⁾⁽⁹⁾⁽¹⁰⁾	14% PIK, 2% Cash		2/6/2021	4,111,867	3,813,054	<u>4,066,636</u>
Total Unsecured Loans						<u>4,066,636</u>
Asset-Backed Securities – 1.2%						
Financials – 1.2%						
Grayson Investor Corp. ⁽⁷⁾⁽¹²⁾⁽¹³⁾⁽¹⁴⁾			11/1/2021	800	456,000	334,000
Highland Park CDO I Ltd. 2006 1A A2 ⁽⁶⁾⁽⁷⁾⁽¹²⁾⁽¹⁴⁾	L + 40		11/25/2051	594,542	494,788	595,421
PAMCO CLO 1997-1A B ⁽⁷⁾⁽⁹⁾⁽¹⁰⁾⁽¹²⁾⁽¹⁴⁾⁽¹⁵⁾				374,239	215,187	<u>152,278</u>
						<u>1,081,699</u>
Total Asset-Backed Securities						<u>1,081,699</u>
Mortgage-Backed Securities – 4.4%						
Financials – 4.4%						
FREMF 2019-KF60 Mortgage Trust ⁽⁵⁾⁽¹²⁾			2/25/2026	4,005,207	3,998,929	<u>3,997,678</u>
Total Mortgage-Backed Securities						<u>3,997,678</u>
Shares						
Closed-End Mutual Funds – 2.5%						
Financials – 2.5%						
NexPoint Strategic Opportunities Fund ⁽⁷⁾⁽¹⁶⁾⁽¹⁷⁾				120,633	2,419,467	<u>2,282,376</u>
Total Closed-End Mutual Funds						<u>2,282,376</u>
Portfolio Company ⁽¹⁾⁽²⁾	Interest Rate	Base Rate Floor	Maturity Date	Principal Amount	Amortized Cost ⁽³⁾	Fair Value
Corporate Bonds – 54.5%						
Financials – 6.3%						
ASP AMC Merger Sub, Inc. ⁽¹²⁾⁽¹⁷⁾	8.000%		5/15/2025	7,325,000	6,922,777	4,413,313
Freedom Mortgage Corp. ⁽¹²⁾⁽¹⁷⁾	8.250%		4/15/2025	1,500,000	1,500,000	<u>1,297,500</u>
						<u>5,710,813</u>

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of June 30, 2019
(Unaudited)

Healthcare – 47.8%						
Endo Finance LLC / Endo Finco Inc. ⁽¹²⁾⁽¹⁷⁾	6.000%	7/15/2023	\$ 9,500,000	\$ 8,249,018	\$ 6,887,500	
Ortho-Clinical Diagnostics ⁽¹²⁾⁽¹⁷⁾	6.625%	5/15/2022	11,217,000	10,796,724	10,768,320	
Quorum Health Corp. ⁽¹²⁾⁽¹⁷⁾	11.625%	4/15/2023	2,459,000	2,305,687	2,151,625	
Surgery Center Holdings ⁽⁷⁾⁽¹²⁾⁽¹⁷⁾	6.750%	7/1/2025	10,858,000	10,255,319	9,446,460	
Valeant Pharmaceuticals International, Inc. ⁽⁷⁾⁽¹²⁾⁽¹⁷⁾	5.875%	5/15/2023	4,000,000	3,531,779	4,061,480	
Valeant Pharmaceuticals International, Inc. ⁽⁷⁾⁽¹²⁾⁽¹⁷⁾	6.125%	4/15/2025	9,500,000	8,691,106	9,725,340	
						<u>43,040,725</u>
Media/Telecommunications – 0.4%						
iHeartCommunications, Inc. ⁽¹⁷⁾	8.375%	5/1/2027	214,073	584,792	225,316	
iHeartCommunications, Inc. ⁽¹⁷⁾	6.375%	5/1/2026	114,206	313,455	121,772	
						<u>347,088</u>
Total Corporate Bonds						<u>49,098,626</u>

Common Stocks – 27.0%						
			<u>Shares</u>			
Chemicals – 0.1%						
MPM Holdings, Inc. ⁽⁷⁾⁽¹⁸⁾			8,500	17,000	42,500	
Energy – 5.7%						
Enterprise Products Partners L.P. ⁽⁷⁾⁽¹⁷⁾			140,000	3,424,740	4,041,800	
Energy Transfer Equity L.P. ⁽⁷⁾⁽¹⁷⁾			75,000	1,438,740	1,056,000	
						<u>5,097,800</u>
Healthcare – 3.5%						
Acadia Healthcare Co., Inc. ⁽⁷⁾⁽¹⁷⁾⁽¹⁸⁾			24,900	981,583	870,255	
Amarin Corp. Plc ⁽⁷⁾⁽¹⁷⁾⁽¹⁸⁾			70,000	991,130	1,357,300	
Heron Therapeutics, Inc. ⁽⁷⁾⁽¹⁷⁾⁽¹⁸⁾			19,232	500,032	357,523	
Quorum Health Corp. ⁽¹⁷⁾⁽¹⁸⁾			405,514	2,168,874	563,664	
SteadyMed Ltd. ⁽⁷⁾⁽⁹⁾⁽¹⁰⁾⁽¹⁸⁾			54,749	14,508	14,509	
						<u>3,163,251</u>
Materials – 0.5%						
OmniMax International, Inc. ⁽⁹⁾⁽¹⁰⁾⁽¹⁸⁾			6,698	663,115	468,468	
Media/Telecommunications – 2.0%						
Clear Channel Outdoor Holding, Inc. ⁽¹⁷⁾⁽¹⁸⁾			124,986	631,179	589,934	
iHeartMedia, Inc. ⁽¹⁷⁾⁽¹⁸⁾			80,350	2,182,708	1,209,267	
						<u>1,799,201</u>
Real Estate Investment Trusts (REITs) – 6.9%						
Nexpoint Capital REIT, LLC ⁽⁹⁾⁽¹⁰⁾⁽¹⁶⁾			100	2,189,561	2,232,005	
Independence Realty Trust, Inc. ⁽⁷⁾⁽¹⁷⁾			246,727	2,180,872	2,854,631	
NexPoint Residential Trust, Inc. ⁽⁷⁾⁽¹⁶⁾⁽¹⁷⁾			26,144	860,778	1,082,362	
						<u>6,168,998</u>
Retail – 0.9%						
Tru Kids, Inc.			237	1,139,661	838,912	
Service – 0.3%						
Western States Life Insurance			237	379,887	279,637	
Telecommunication Services – 4.5%						
TerreStar Corp. ⁽⁹⁾⁽¹⁰⁾⁽¹⁸⁾			14,035	1,599,990	4,054,150	
Utility – 2.6%						
Vistra Energy Corp. ⁽¹⁷⁾			105,000	1,622,256	2,377,200	
Total Common Stocks						<u>24,290,117</u>

Preferred Stocks – 7.9%						
			<u>Preferred Dividend Rate</u>			
Financials – 2.4%						
Tectonic Financial, Inc.	9.000%		200,000	2,000,000	2,170,000	
Real Estate Investment Trusts (REITs) – 5.5%						
Braemar Hotels & Resorts, Inc. ⁽⁷⁾⁽¹⁷⁾	5.500%		258,065	4,000,008	4,794,847	
RAIT Financial Trust ⁽¹⁷⁾⁽¹⁹⁾	8.875%		148,057	3,113,308	136,953	

Total Preferred Stocks

4,931,800

7,101,800

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of June 30, 2019
(Unaudited)

Rights – 0.1%				
Utility – 0.1%				
	Texas Competitive Electric Holdings Company, LLC (TXU) ⁽¹⁸⁾	58,356	\$ 148,619	\$ 46,218
Total Rights				46,218
Warrants – 0.2%				
Healthcare – 0.1%				
	Galena Biopharma, Inc. ⁽¹⁰⁾⁽¹⁸⁾	1/12/2021	1,500,054	—
	Gemphire Therapeutics, Inc. ⁽¹⁰⁾⁽¹⁸⁾	3/15/2022	118,796	24,458
	SCYNEXIS, Inc. ⁽¹⁰⁾⁽¹⁸⁾	6/21/2021	195,000	67,813
				92,271
Materials – 0.0%				
	OmniMax International, Inc. ⁽⁹⁾⁽¹⁰⁾⁽¹⁸⁾	8/6/2025	207	14,501
Media/Telecommunications – 0.1%				
	iHeartMedia, Inc. ⁽¹⁸⁾	5/1/2039	2,875	52,988
Total Warrants				151,335
Total Investments – 110.9%			\$105,749,152	\$ 99,826,423
Cash Equivalents – 4.1% ⁽²⁰⁾				\$ 3,707,254
Other Assets & Liabilities, net- (15.0%)				\$(13,499,801)
Net Assets – 100.0%				\$ 90,033,876

		Notional Amount ⁽²¹⁾	Unrealized Depreciation
Total Return Swap – (2.8%)			
	BNP Paribas TRS Facility (Note 7)	53,318,467	(2,516,778)

- (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 June 30, 2019. Senior secured loans, while exempt from registration under the Securities Act of 1933 (the “1933 Act”), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.
- (5) The interest rate on these investments is subject to a base rate of 1-Month LIBOR, which at June 30, 2019 was 2.40%. 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) The interest rate on these investments is subject to a base rate of 3-Month LIBOR, which at June 30, 2019 was 2.32%. 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.
- (7) The investment is not a qualifying asset under Section 55 of the 1940 Act. A business development company, such as the Company, may not acquire any asset other than a qualifying asset, unless at the time the acquisition is made, qualifying assets represent at least 70% of the business development company’s total assets. Non-qualifying assets represented 29.7% of the Company’s total assets as of June 30, 2019.
- (8) All or a portion of this position has not settled. Full contract rates do not take effect until settlement date.
- (9) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.
- (10) Represents fair value as determined by the Company’s Board of Directors (the “Board”), or its designee in good faith, pursuant to the policies and procedures approved by the Board. The Board considers fair valued securities to be securities for which market quotations are not readily available and these securities may be valued using a combination of observable and unobservable inputs. Securities with a total aggregate value of \$11,778,246 or 13.1% of net assets were fair valued under the Company’s valuation procedures as of June 30, 2019.
- (11) The investment represents value held in escrow pending future events. No interest is being accrued.

- (12) 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 June 30, 2019, these securities amounted to \$53,830,915, or 59.8% of net assets.
- (13) The investment is considered to be the equity tranche of the issuer.
- (14) Securities of collateralized loan obligations where an affiliate of the Adviser serves as collateral manager.
- (15) The issuer is in default of its payment obligation, or is in danger of default.
- (16) Represents an affiliated issuer. Assets with a total aggregate market value of \$5,596,743, or 6.2% of net assets, were affiliated with the Company as of June 30, 2019 (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 \$72,672,738.

See Notes to Financial Statements.

NexPoint Capital, Inc.
Schedule of Investments (continued)
As of June 30, 2019
(Unaudited)

- (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, 2018

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

See Notes to Financial Statements.

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

Tenet Healthcare Corp. ⁽⁸⁾⁽¹⁷⁾	8.125%	4/1/2022	\$1,000,000	\$ 978,124	\$ 1,006,250
Valeant Pharmaceuticals International, Inc. ⁽⁸⁾⁽¹³⁾⁽¹⁷⁾	5.875%	5/15/2023	4,000,000	3,482,925	3,715,000
Valeant Pharmaceuticals International, Inc. ⁽⁸⁾⁽¹³⁾⁽¹⁷⁾	6.125%	4/15/2025	6,500,000	5,723,046	5,687,500
					<u>43,769,980</u>
Total Corporate Bonds					<u>48,978,855</u>

			<u>Shares</u>		
Common Stocks – 25.6%					
Chemicals – 0.3%					
MPM Holdings, Inc. ⁽⁸⁾⁽¹⁸⁾			8,500	250,750	267,750
Energy – 6.0%					
Enterprise Products Partners L.P. ⁽⁸⁾⁽¹⁷⁾			170,000	4,144,041	4,180,300
Energy Transfer Equity L.P. ⁽⁸⁾⁽¹⁷⁾			75,000	1,438,740	990,750
					<u>5,171,050</u>
Healthcare – 5.3%					
Acadia Healthcare Co., Inc. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			24,900	981,583	640,179
Amarin Corp. Plc ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			140,000	1,982,260	1,905,400
Heron Therapeutics, Inc. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			19,232	500,032	498,878
Nevro Corp. ⁽⁸⁾⁽¹⁷⁾⁽¹⁸⁾			8,000	500,402	311,120
Quorum Health Corp. ⁽¹⁷⁾⁽¹⁸⁾			408,514	2,184,094	1,180,605
SteadyMed Ltd. ⁽⁸⁾⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾			54,749	14,508	14,509
					<u>4,550,691</u>
Materials – 1.5%					
OmniMax International, Inc. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾			6,698	663,115	1,303,257
Media/Telecommunications – 1.2%					
Gambier Bay, LLC ⁽¹⁰⁾⁽¹¹⁾⁽¹⁶⁾⁽¹⁸⁾			9,180,900	3,478,685	1,055,803
Real Estate Investment Trusts (REITs) – 3.7%					
NexPoint Residential Trust, Inc. ⁽⁸⁾⁽¹⁶⁾⁽¹⁷⁾			25,757	846,587	902,783
Independence Realty Trust, Inc. ⁽⁸⁾⁽¹⁷⁾			246,727	2,216,203	2,264,954
					<u>3,167,737</u>
Telecommunication Services – 4.5%					
TerreStar Corp. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾			14,035	1,599,990	3,913,800
Utility – 3.1%					
Vistra Energy Corp. ⁽¹⁷⁾⁽¹⁸⁾			115,000	1,776,757	2,632,350
Total Common Stocks					<u>22,062,438</u>

					<u>Preferred Dividend Rate</u>
Preferred Stocks – 5.5%					
Real Estate Investment Trusts (REITs) – 5.5%					
Braemar Hotels & Resorts, Inc. ⁽⁸⁾⁽¹⁷⁾	5.500%		258,065	4,000,008	4,427,105
RAIT Financial Trust ⁽¹⁷⁾⁽¹⁹⁾	8.875%		148,057	3,113,308	333,128
					<u>4,760,233</u>
Total Preferred Stocks					<u>4,760,233</u>

Rights – 0.1%					
Utility – 0.1%					
Texas Competitive Electric Holdings Company, LLC (TXU) ⁽¹⁸⁾			58,356	148,619	43,183
Total Rights					<u>43,183</u>

Warrants – 0.1%					
Healthcare – 0.1%					
Galena Biopharma, Inc. ⁽¹¹⁾⁽¹⁸⁾		1/12/2021	1,500,054	—	—
Gemphire Therapeutics, Inc. ⁽¹¹⁾⁽¹⁸⁾		3/15/2022	118,796	—	17,159
SCYNEXIS, Inc. ⁽¹¹⁾⁽¹⁸⁾		6/21/2021	195,000	—	32,949
					<u>50,108</u>
Materials – 0.0%					
OmniMax International, Inc. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁸⁾		8/6/2025	207	—	40,340
Total Warrants					<u>90,448</u>

See Notes to Financial Statements.

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

Total Investments – 111.5%	\$105,022,260	\$ 96,229,841
Cash Equivalents – 8.1% ⁽²⁰⁾		\$ 6,957,619
Other Assets & Liabilities, net– (19.6%)		<u>\$(16,876,497)</u>
Net Assets- 100.0%		\$ 86,310,963
	<u>Notional</u>	<u>Unrealized</u>
	<u>Amount⁽²¹⁾</u>	<u>Depreciation</u>
Total Return Swap – (3.0%)		
BNP Paribas TRS Facility (Note 7)	<u>55,763,056</u>	<u>(2,547,492)</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, 2018. Senior secured loans, while exempt from registration under the Securities Act of 1933 (the “1933 Act”), contain certain restrictions on resale and cannot be sold publicly. Senior secured floating rate loans often require prepayments from excess cash flow or permit the borrower to repay at its election. The degree to which borrowers repay, whether as a contractual requirement or at their election, cannot be predicted with accuracy. As a result, the actual remaining maturity may be substantially less than the stated maturity shown.
- (5) The interest rate on these investments is subject to a base rate of 1-Month LIBOR, which at December 31, 2018 was 2.50%. The LIBOR rate used to calculate interest is the higher of the prevailing 1 month LIBOR rate in effect on the date of the monthly reset, or the LIBOR base rate floor shown.
- (6) All or a portion of this position has not settled. Full contract rates do not take effect until settlement date.
- (7) The interest rate on these investments is subject to a base rate of 3-Month LIBOR, which at December 31, 2018 was 2.81%. The LIBOR rate used to calculate interest is the higher of the prevailing 3 month LIBOR rate in effect on the date of the quarterly reset, or the LIBOR base rate floor shown.
- (8) The investment is not a qualifying asset under Section 55 of the 1940 Act. A business development company, such as the Company, may not acquire any asset other than a qualifying asset, unless at the time the acquisition is made, qualifying assets represent at least 70% of the business development company’s total assets. Non-qualifying assets represented 28.5% of the Company’s total assets as of December 31, 2018.
- (9) The issuer is in default of its payment obligation, or is in danger of default.
- (10) Classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.
- (11) Represents fair value as determined by the Company’s Board of Directors (the “Board”), or its designee in good faith, pursuant to the policies and procedures approved by the Board. The Board considers fair valued securities to be securities for which market quotations are not readily available and these securities may be valued using a combination of observable and unobservable inputs. Securities with a total aggregate value of \$10,883,178 or 12.6% of net assets were fair valued under the Company’s valuation procedures as of December 31, 2018.
- (12) The investment represents value held in escrow pending future events. No interest is being accrued.
- (13) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transactions exempt from registration to qualified institutional buyers. As of December 31, 2018, these securities amounted to \$49,003,888, or 56.8% of net assets.
- (14) The investment is considered to be the equity tranche of the issuer.
- (15) Securities of collateralized loan obligations where an affiliate of the Adviser serves as collateral manager.
- (16) Represents an affiliated issuer. Assets with a total aggregate market value of \$3,255,591, or 3.8% of net assets, were affiliated with the Company as of December 31, 2018 (see Note 10).
- (17) All or part of this security is pledged as collateral for margin/facility borrowings. The market value of the securities pledged as collateral was \$69,207,643.
- (18) Non-income producing security.
- (19) The issuer has suspended the quarterly dividend for this security.
- (20) State Street U.S. Government Money Market Fund.
- (21) Notional value of the underlying securities in the Total Return Swap is calculated by multiplying par by the initial price.

Glossary

ADR American Depositary Receipt
PIK Payment-in-Kind

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”). In this report, “we,” “us” and “our” refer to NexPoint Capital, Inc.

The Company was formed in Delaware on September 30, 2013 and formally commenced operations on September 2, 2014 upon satisfying the minimum offering requirement by raising gross proceeds of \$10.0 million in connection with a private placement with NexPoint Advisors, L.P. (the “Adviser”), our external advisor. In aggregate through June 30, 2019, the Adviser controls 2,426,193 total shares, including reinvestment of dividends, for a net amount of approximately \$20.9 million.

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

Note 2 — Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Additionally, the accompanying financial statements of the Company and related financial information have been prepared pursuant to the requirements for reporting on Form 10-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, 2019. The interim financial data as of June 30, 2019, and for the three and six months ended June 30, 2019 and June 30, 2018 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, if any, is determined by converting to U.S. dollars on the date of the Statements of Assets and Liabilities. As of June 30, 2019 and December 31, 2018, the Company had cash and cash equivalents of \$6,627,184 and \$7,112,205, respectively. As of June 30, 2019 and December 31, 2018, \$3,707,254 and \$6,957,619 was held in the State Street U.S. Government Money Market Fund, and \$2,919,930 and \$154,586 was held in a custodial account with State Street Bank and Trust Company, respectively.

Securities Sold Short and Restricted Cash

The Company may sell securities short. A security sold short is a transaction in which the Company sells a security it does not own in anticipation that the market price of that security will decline. When the Company sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. The Company may have to pay a fee to borrow particular securities and is often obligated to pay over any dividends or other payments received on such borrowed securities. Cash held as collateral for securities sold short is classified as restricted cash on the Statements of Assets and Liabilities. Securities held as collateral for securities sold short are shown on the Schedule of Investments for the Company, as applicable. As of June 30, 2019 and December 31, 2018, the Company did not have any securities sold short.

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

Other Fee Income

Fee income may consist of origination/closing fees, amendment fees, administrative agent fees, transaction break-up fees and other miscellaneous fees. Origination fees, amendment fees, and other similar fees are non-recurring fee sources. Such fees are received on a transaction by transaction basis and do not constitute a regular stream of income. For the three and six months ended June 30, 2019, the Company recognized \$4,965 and \$49,895 of fee income, respectively. For the three and six months ended June 30, 2018, the Company recognized \$0 and \$9,930 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 June 30, 2019, 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	\$ 152,278
OmniMax International, Inc.	Common Stocks	468,468
SteadyMed Ltd.	Common Stocks	14,509
NexPoint Capital REIT, LLC	Common Stocks	2,232,005
TerreStar Corp.	Common Stocks	4,054,150
TerreStar Corp.	Senior Secured Loans	130,825
TerreStar Corp.	Senior Secured Loans	552,603
OmniMax International, Inc.	Unsecured Loans	4,066,636
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	24,458
OmniMax International, Inc.	Warrant	14,501
SCYNEXIS, Inc.	Warrant	67,813

As of December 31, 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	\$ 144,044
Gambier Bay, LLC	Common Stocks	1,055,803
OmniMax International, Inc.	Common Stocks	1,303,257
SteadyMed Ltd.	Common Stocks	14,509
TerreStar Corp.	Common Stocks	3,913,800
TerreStar Corp.	Senior Secured Loans	522,845
OmniMax International, Inc.	Unsecured Loans	3,838,472
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	17,159
OmniMax International, Inc.	Warrant	40,340
SCYNEXIS, Inc.	Warrant	32,949

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

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

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

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

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

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

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

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

As of June 30, 2019, the Company's investments consisted of senior secured loans, unsecured loans, bonds, asset-backed securities, mortgage-backed securities, common stocks, preferred stocks, a closed-end mutual fund, a total return swap ("TRS") and rights and warrants, which may be purchased for a fraction of the price of the underlying securities. The fair value of the Company's loans, bonds and asset-backed securities are generally based on quotes received from brokers or independent pricing services. Loans, bonds and asset-backed securities with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Loans, bonds and asset-backed securities that are priced using quotes derived from implied values, indicative bids or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

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

The Company values the TRS in accordance with the agreement (the "TRS Agreement") with BNP Paribas ("BNP Paribas") that establishes the TRS. Pursuant to the TRS Agreement, the value of the TRS is based on the increase or decrease in the value of the loans underlying the TRS, together with accrued interest income, interest expense and certain other expenses incurred under the TRS. The loans underlying the TRS are valued based on indicative bid prices provided by an independent third-party pricing service. Bid prices reflect the highest price that market participants may be willing to pay. These valuations are sent to the Company for review and testing. The Valuation Committee and the Board review 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 June 30, 2019 and December 31, 2018:

	June 30, 2019			
Investments	Level 1	Level 2	Level 3	Total
Assets				
Senior Secured Loans				
Energy	\$ —	\$ 2,154,841	\$ —	\$ 2,154,841
Healthcare	—	4,351,763	—	4,351,763
Media/Telecommunications	—	517,981	—	517,981
Telecommunication Services	—	—	683,428	683,428
Utility	—	1,925	—	1,925
Unsecured Loans				
Materials	—	—	4,066,636	4,066,636
Asset-Backed Securities				
Financials	—	929,421	152,278	1,081,699
Mortgage-Backed Securities				
	—	3,997,678	—	3,997,678
Closed-End Mutual Funds				
	2,282,376	—	—	2,282,376
Corporate Bonds				
Financials	—	5,710,813	—	5,710,813
Healthcare	—	43,040,725	—	43,040,725
Telecommunications	—	347,088	—	347,088
Common Stocks				
Chemicals	—	42,500	—	42,500
Energy	5,097,800	—	—	5,097,800
Healthcare	3,148,742	—	14,509	3,163,251
Materials	—	—	468,468	468,468
Media/Telecommunications	1,799,201	—	—	1,799,201
Real Estate Investment Trusts (REITs)	3,936,993	—	2,232,005	6,168,998
Retail	—	838,912	—	838,912
Service	—	279,637	—	279,637
Telecommunication Services	—	—	4,054,150	4,054,150
Utility	2,377,200	—	—	2,377,200
Preferred Stocks				
Financials	2,170,000	—	—	2,170,000
Real Estate Investment Trusts (REITs)	4,931,800	—	—	4,931,800
Rights				
	—	46,218	—	46,218
Warrants				
Healthcare	—	92,271	—	92,271
Materials	—	—	14,501	14,501
Media/Telecommunications	—	44,563	—	44,563
Total Assets	\$25,744,112	\$62,396,336	\$11,685,975	\$99,826,423
Liabilities				
Warrants	\$ —	\$ —	\$ —	\$ —
Derivatives				
Total Return Swap Contracts	—	—	(2,516,778)	(2,516,778)
Total Liabilities	\$ —	\$ —	\$ (2,516,778)	\$ (2,516,778)
Total Investments net of Securities Sold Short	\$25,744,112	\$62,396,336	\$ 9,169,197	\$97,309,645

	December 31, 2018			
Investments	Level 1	Level 2	Level 3	Total
Assets				
Senior Secured Loans				
Energy	\$ —	\$ 2,196,140	\$ —	\$ 2,196,140
Healthcare	—	6,846,414	—	6,846,414
Media/Telecommunications	—	3,381,950	—	3,381,950
Retail	—	1,171,825	—	1,171,825
Telecommunication Services	—	—	522,845	522,845
Utility	—	8,750	—	8,750
Unsecured Loans				
	—	—	3,838,472	3,838,472
Asset-Backed Securities				
	—	887,239	144,044	1,031,283
Closed-End Mutual Funds				
	1,297,005	—	—	1,297,005
Corporate Bonds				
	—	48,978,855	—	48,978,855
Common Stocks				
Chemicals	267,750	—	—	267,750

Energy	5,171,050	—	—	5,171,050
Healthcare	4,536,182	—	14,509	4,550,691
Materials	—	—	1,303,257	1,303,257
Media/Telecommunications	—	—	1,055,803	1,055,803
Real Estate Investment Trusts (REITs)	3,167,737	—	—	3,167,737
Telecommunication Services	—	—	3,913,800	3,913,800
Utility	2,632,350	—	—	2,632,350
Preferred Stocks	4,760,233	—	—	4,760,233
Rights	—	43,183	—	43,183
Warrants				
Healthcare	—	50,108	—	50,108
Materials	—	—	40,340	40,340
Total Assets	\$21,832,307	\$63,564,464	\$10,833,070	\$96,229,841
Liabilities				
Derivatives				
Total Return Swap Contracts	\$ —	\$ —	\$(2,547,492)	\$(2,547,492)
Total Liabilities	\$ —	\$ —	\$(2,547,492)	\$(2,547,492)
Total Investments Net of Swap Contracts	\$21,832,307	\$63,564,464	\$ 8,285,578	\$93,682,349

The table below sets forth a summary of changes in the Company's Level 3 investments (measured at fair value using significant unobservable inputs) for the six months ended June 30, 2019.

Investments:	Balance as of December 31, 2018	Transfers into Level 3	Transfer out of Level 3	Net amortization (accretion) of premium/ (discount)	Net realized gains/ (losses)	Net change in unrealized gains/ (losses)	Purchases/ PIK	(Sales and redemptions)	Balance as of June 30, 2019	Change in unrealized gain/(loss) on Level 3 securities still held at period end
Assets										
Senior Secured Loans										
Telecommunication Services	\$ 522,845	\$ —	\$ —	\$ —	\$ —	\$ (917)	\$ 161,500	\$ —	\$ 683,428	\$ (161)
Unsecured Loans										
Materials	3,838,472	—	—	85,515	—	(130,746)	273,395	—	4,066,636	(130,746)
Asset-Backed Securities										
Financials	144,044	—	—	—	—	8,234	—	—	152,278	8,234
Common Stocks										
Healthcare	14,509	—	—	—	—	—	—	—	14,509	—
Materials	1,303,257	—	—	—	—	(834,789)	—	—	468,468	(834,789)
Media/Telecommunications	1,055,803	—	—	—	—	2,422,882	—	(3,478,685)	—	2,422,882
Telecommunication Services	3,913,800	—	—	—	—	140,350	—	—	4,054,150	140,350
Real Estate Investment Trusts (REITs)	—	—	—	—	—	42,444	2,189,561	—	2,232,005	42,444
Warrants										
Materials	40,340	—	—	—	—	(25,839)	—	—	14,501	(25,839)
Total	<u>\$10,833,070</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 85,515</u>	<u>\$ —</u>	<u>\$ 1,621,619</u>	<u>\$2,624,456</u>	<u>\$(3,478,685)</u>	<u>\$11,685,975</u>	<u>\$ 1,622,375</u>
Liabilities										
Total Return Swaps ⁽¹⁾	<u>\$(2,547,492)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 30,714</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$(2,516,778)</u>	<u>\$ 30,714</u>

⁽¹⁾ During the six months ended June 30, 2019, the Company recognized a net realized gain on the TRS amounting to \$806,842. The Company received \$960,936 in cash payments from the TRS during the period and paid \$10,157, with a decrease of \$143,937 in receivable from BNP Paribas for the six months ended June 30, 2019.

The table below sets forth a summary of changes in the Company's Level 3 investments (measured at fair value using significant unobservable inputs) for the six months ended June 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 June 30, 2018	Change in unrealized gain/(loss) on Level 3 securities still held at period end
Investments:										
Assets										
Unsecured Loans										
Materials	\$ 3,326,186	\$ —	\$ —	\$ 79,193	\$ 213	\$ (102,327)	\$ 238,248	\$ (1,258)	\$ 3,540,255	\$ (102,327)
Asset-Backed Securities										
Financials	294,541	—	—	—	78,797	2,031	—	(185,405)	189,964	2,031
Common Stocks										
Materials	2,566,191	—	—	—	—	(306,305)	—	—	2,259,886	(306,305)
Media/Telecommunic ations	—	1,182,041	—	—	—	—	—	—	1,182,041	—
Telecommunication Services	—	—	—	—	—	2,074,794	1,599,990	—	3,674,784	2,074,794
Warrants										
Materials	79,432	—	—	—	—	(9,481)	—	—	69,951	(9,481)
Total	\$ 6,266,350	\$ 1,182,041	\$ —	\$ 79,193	\$ 79,010	\$ 1,658,712	\$ 1,838,238	\$ (186,663)	\$ 10,916,881	\$ 1,658,712
Liabilities										
Total Return Swaps ⁽¹⁾	\$ (563,823)	\$ —	\$ —	\$ —	\$ —	\$ 515,235	\$ —	\$ —	\$ (48,588)	\$ 515,235

⁽¹⁾ During the six months ended June 30, 2018, the Company recognized a net realized gain on the TRS amounting to \$268,422. The Company received \$367,942 in cash payments from the TRS during the period and paid \$106,818, with an increase of \$7,298 in receivable from BNP Paribas for the six months ended June 30, 2018.

Investments designated as Level 3 may include investments valued using quotes or indications furnished by brokers which are based on models or estimates and may not be executable prices. In light of the developing market conditions, the Adviser continues to search for observable data points and evaluate broker quotes and indications received for investments. Determination of fair values is uncertain because it involves subjective judgments and estimates that are unobservable. Transfers from Level 2 to Level 3 are due to a decrease in market activity (e.g. frequency of trades), which resulted in a decrease of available market inputs to determine price. For the six months ended June 30, 2019, there was no transfer 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 six months ended June 30, 2018, \$1,182,041 was transferred from Level 2 to Level 3.

The following are summaries of significant unobservable inputs used in the fair valuations of investments categorized within Level 3 of the fair value hierarchy as of June 30, 2019 and December 31, 2018:

Investment	Fair value at June 30, 2019	Valuation technique	Unobservable inputs	Range of input value(s) (weighted average)
Common Equity	\$ 6,769,132	Discounted Cash Flow	Discount Rate	11.00% - 15.5%
			Terminal Multiple	7.0x
		Multiples Analysis	Multiple of EBITDA	7.0x - 8.75x
			Unadjusted Price/MHz-PoP	\$0.12 - \$0.95
			Risk Discount	42.0% - 45.5%
		Transaction Analysis	Multiple of EBITDA	8.0x - 8.5x
		Transaction Indication of Value	Enterprise Value (\$mm)	\$365.0 - \$771.0
Net Asset Value	N/A	N/A		
Senior Secured Loans	683,428	Discounted Cash Flow	Implied Value	\$4.46
			Cash Payment Value	11.1%
			Discount Rate	11.1%
			Spread Adjustment	0.10%

Unsecured Loans	4,066,636	Discounted Cash Flow	Discount Rate	16.75%
Asset-Backed Securities	152,278	Discounted Cash Flow	Discount Rate	20.88%
Warrants	14,501	Discounted Cash Flow	Discount Rate	11.00% - 13.00%
			Terminal Multiple	7.0x
		Multiples Analysis	Multiple of EBITDA	7.0x - 8.75x
		Transaction Analysis	Multiple of EBITDA	8.0x - 8.5x
Total	<u>\$11,685,975</u>			
Total Return Swaps	\$ (2,516,778)	Third Party Pricing Vendor	N/A	N/A

<u>Investment</u>	<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range of input value(s) (weighted average)</u>
Common Equity	\$ 6,287,369	Discounted Cash Flow	Discount Rate	11.00% - 15.00%
			Terminal Multiple	6.5x
		Multiples Analysis	Multiple of EBITDA	6.0x - 7.0x
			Unadjusted	
			Price/MHz-PoP	\$0.120 - \$0.800
			Risk Discount	33.0% - 35.8%
		Transaction Analysis	Multiple of EBITDA	7.25x - 7.75x
		Bid Indication of Value	Enterprise Value (\$mm)	\$720.0 - \$765.0
		Pricing Feed	N/A	N/A
		Implied Value	Cash Payment Value	\$4.46
Senior Secured Loans	522,845	Discounted Cash Flow	Discount Rate	11.1%
			Spread Adjustment	0.10%
Unsecured Loans	3,838,472	Discounted Cash Flow	Discount Rate	16.0%
Warrants	40,340	Discounted Cash Flow	Discount Rate	11.00%
			Terminal Multiple	6.5x
		Multiples Analysis	Multiple of EBITDA	6.0x - 7.0x
		Transaction Analysis	Multiple of EBITDA	7.25x - 7.75x
Asset-Backed Securities	144,044	Discounted Cash Flow	Discount Rate	20.88%
Total	<u>\$ 10,833,070</u>			
Total Return Swaps	\$ (2,547,492)	Third Party Pricing Vendor	N/A	N/A

Derivative Transactions

The Company is subject to equity price risk, interest rate risk and foreign currency exchange rate risk in the normal course of pursuing its investment objective. The Company may invest without limitation in warrants and may also use derivatives, primarily swaps (including equity, variance and volatility swaps), options and futures contracts on securities, interest rates, commodities and/or currencies, as substitutes for direct investments the Company can make. The Company may also use derivatives such as swaps, options (including options on futures), futures, and foreign currency transactions (e.g., foreign currency swaps, futures and forwards) to any extent deemed by the Adviser to be in the best interest of the Company, and to the extent permitted by the 1940 Act, to hedge various investments for risk management and speculative purposes. For additional information on the TRS, please see Note 7.

Options

The Company purchases options, subject to certain limitations. The Company may invest in options contracts to manage its exposure to the stock and bond markets and fluctuations in foreign currency values. Writing puts and buying calls tend to increase the Company's exposure to the underlying instrument while buying puts and writing calls tend to decrease the Company's exposure to the underlying instrument, or economically hedge other Company investments. The Company's risks in using these contracts include changes in the value of the underlying instruments, nonperformance of the counterparties under the contracts' terms and changes in the liquidity of the secondary market for the contracts. Options are valued at the last sale price, or if no sales occurred on that day, at the last quoted bid price. As of and during the six months ended June 30, 2019 and June 30, 2018, the Company did not hold options.

Investment Transactions

Investment transactions are accounted for on trade date. Realized gains/(losses) on investments sold are recorded on the basis of specific identification method for both financial statement and U.S. federal income tax purposes. Payable for investments purchased and receivable for investments sold on the Statements of Assets and Liabilities, if any, represents the cost of purchases and proceeds from sales of investment securities, respectively, for trades that have been executed but not yet settled.

Income Recognition

Corporate actions (including cash dividends from common stock and equity tranches of asset-backed securities) are recorded on the ex-dividend date, net of applicable withholding taxes, except for certain foreign corporate actions, which are recorded as soon after the ex-dividend date as such information becomes available. Interest income is recorded on the accrual basis. The Company does not accrue as a receivable for interest or dividends on loans, asset-backed securities and other securities if there is a reason to doubt the Company's ability to collect such income. For loans with contractual PIK (payment-in-kind) interest income, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will not accrue PIK interest if we believe that the PIK interest is no longer collectible. Loan origination fees, original issue discount and market discount are capitalized and such amounts are amortized as interest income over the respective term of the loan or security. Upon the prepayment of a loan or security, any unamortized loan origination fees and original issue discount are recorded as interest income.

Accretion of discounts and amortization of premiums on taxable bonds, loans and asset-backed securities are computed to the call or maturity date, whichever is shorter, using the effective yield method. Withholding taxes on foreign dividends have been provided for in accordance with the Company's understanding of the applicable country's tax rules and rates.

Organization and Offering Costs

Organization costs are paid by the Adviser and include the cost of incorporating, such as the cost of legal services and other fees pertaining to our organization. Offering costs include legal fees, promotional costs and other costs pertaining to the public offering of our shares of common stock and are also paid by the Adviser. Prior to the termination of the offering, as we raised proceeds, these organization and offering costs were expensed and became payable to the Adviser. Organization and offering costs are limited to 1% of total gross proceeds raised and are not due and payable to the Adviser to the extent they exceed that amount. Please refer to Note 4 for additional information on Organization and Offering Costs.

Paid-in Capital

The proceeds from the issuance of common stock as presented on the Company's Statements of Changes in Net Assets is presented net of selling commissions and fees for the six months ended June 30, 2019 and June 30, 2018. Selling commissions and fees of \$0 and \$413,024 were paid for the six months ended June 30, 2019 and June 30, 2018, respectively.

Earnings Per Share

In accordance with the provisions of ASC Topic 260 — Earnings per Share ("ASC 260"), basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis.

The following table sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations:

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net increase (decrease) in net assets from operations	\$ 299,291	\$ 584,623	\$ 6,310,481	\$ 4,154,619
Weighted average common shares outstanding	10,417,096	10,425,752	10,407,806	10,294,061
Earnings per common share-basic and diluted	\$ 0.03	\$ 0.06	\$ 0.61	\$ 0.40

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 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. For all other entities, the update is effective for fiscal years beginning after December 15, 2017 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.

Note 3 — Investment Portfolio

The following table shows the composition of the Company's invested assets by industry classification at fair value at June 30, 2019:

	<u>Fair value</u>	<u>Percentage</u>
Assets		
Healthcare	\$50,648,010	50.7%
Financials	15,242,566	15.3%
Real Estate Investment Trusts (REITs)	11,100,798	11.1%
Energy	7,252,641	7.3%
Telecommunication Services	4,737,578	4.7%
Materials	4,549,605	4.6%
Media/Telecommunications	2,708,833	2.7%
Utility	2,425,343	2.4%
Retail	838,912	0.8%
Service	279,637	0.3%
Chemicals	42,500	0.1%
Total Assets	\$99,826,423	100.0%

The following table shows the composition of the Company's invested assets by industry classification at fair value at December 31, 2018:

	<u>Fair value</u>	<u>Percentage</u>
Assets		
Healthcare	\$55,217,193	57.4%
Real Estate Investment Trusts (REITs)	7,927,970	8.2%
Financials	7,537,163	7.8%
Energy	7,367,190	7.7%
Materials	5,182,069	5.4%
Media/Telecommunications	4,437,753	4.6%
Telecommunication Services	4,436,645	4.6%
Utility	2,684,283	2.8%
Retail	1,171,825	1.2%
Chemicals	267,750	0.3%
Total Assets	\$96,229,841	100.0%

The following table summarizes the amortized cost and the fair value of the Company's invested assets by class of financial asset as of June 30, 2019:

	<u>Amortized Cost</u>	<u>Fair value</u>	<u>Percentage of Portfolio (at Fair Value)</u>
Assets			
Senior Secured Loans—First Lien	\$ 8,268,764	\$ 7,230,212	7.2%
Senior Secured Loans—Second Lien	551,397	477,801	0.5%
Senior Secured Loans—Escrow Loan	79,372	1,925	0.0%
Unsecured Loans	3,813,054	4,066,636	4.1%
Asset-Backed Securities	1,165,975	1,081,699	1.1%
Mortgage-Backed Securities	3,998,929	3,997,678	4.0%
Closed-End Mutual Funds	2,419,467	2,282,376	2.3%
Corporate Bonds	53,150,657	49,098,626	49.2%
Common Stocks	22,986,614	24,290,117	24.3%
Preferred Stocks	9,113,316	7,101,800	7.1%
Rights	148,619	46,218	0.0%
Warrants	52,988	151,335	0.2%
Total Assets	<u>\$105,749,152</u>	<u>\$99,826,423</u>	<u>100.0%</u>

The following table summarizes the amortized cost and the fair value of the Company's invested assets by class of financial asset as of December 31, 2018:

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

The following table summarizes the amortized cost and the fair value of the Company's invested assets as of June 30, 2019 to include, on a look-through basis, the investments underlying the TRS, as disclosed in Note 7. The investments underlying the TRS had a notional amount and market value of \$50,487,287 and \$53,318,467, respectively, as of June 30, 2019.

	<u>Amortized cost</u>	<u>Fair value</u>	<u>Percentage of portfolio (at fair value)</u>
Assets			
Senior Secured Loans—First Lien	\$ 53,330,099	\$ 50,065,894	33.3%
Senior Secured Loans—Second Lien	8,808,529	8,129,406	5.4%
Senior Secured Loans—Escrow Loan	79,372	1,925	0.0%
Unsecured Loans	3,813,054	4,066,636	2.7%
Asset-Backed Securities	1,165,975	1,081,699	0.7%
Mortgage-Backed Securities	3,998,929	3,997,678	2.7%
Closed-End Mutual Funds	2,419,467	2,282,376	1.5%
Corporate Bonds	53,150,657	49,098,626	32.7%
Common Stocks	22,986,614	24,290,117	16.2%
Preferred Stocks	9,113,316	7,101,800	4.7%
Rights	148,619	46,218	0.0%
Warrants	52,988	151,335	0.1%
Total Assets	<u>\$159,067,619</u>	<u>\$150,313,710</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, 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 \$53,318,467 and \$50,487,287, respectively, as of December 31, 2018.

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

The following table shows the composition of the Company's invested assets by geographic classification at June 30, 2019:

<u>Geography</u>	<u>Fair value</u>	<u>Percentage</u>
Assets		
Cayman Islands ⁽¹⁾	\$ 1,081,699	1.1%
Luxembourg ⁽¹⁾	2,588,126	2.6%
United States	96,156,598	96.3%
Total Assets	\$99,826,423	100.0%

⁽¹⁾ Investment denominated in USD.

The following table shows the composition of the Company's invested assets by geographic classification at December 31, 2018:

<u>Geography</u>	<u>Fair value</u>	<u>Percentage</u>
Assets		
Cayman Islands ⁽¹⁾	\$ 1,031,283	1.1%
Luxembourg ⁽¹⁾	2,526,414	2.6%
United States	92,672,144	96.3%
Total Assets	\$96,229,841	100.0%

⁽¹⁾ Investment denominated in USD

Note 4 — Related Party Transactions and Arrangements

Investment Advisory Fee

Payments for investment advisory services under the Company's investment advisory agreement (the "Investment Advisory Agreement") and administrative services agreement (the "Administration Agreement") are equal to (a) a base management fee calculated at an annual rate of 2.0% of the average value of the Company's gross assets at the end of the two most recently completed calendar quarters and (b) an incentive fee based on the Company's performance. Effective June 5, 2017, the Investment Advisory Agreement and the Administration Agreement were amended to exclude cash and cash equivalents from the calculation of gross assets for the purpose of calculating advisory and administration fees.

For the three and six months ended June 30, 2019, the Company incurred investment advisory fees payable to the Adviser of \$505,660 and \$996,689, respectively. For the three and six months ended June 30, 2018, the Company incurred investment advisory fees payable to the Adviser of \$566,814 and \$1,027,311, respectively. 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 six months ended June 30, 2019, the Company incurred \$0 and \$0 of incentive fees on capital gains, respectively. For the three and six months ended June 30, 2018, the Company incurred \$(34,891) and \$597,005 of incentive fees on capital gains, respectively. Since inception, the Company has accrued \$0 of incentive fees on capital gains in aggregate. Effective December 20, 2017, the Adviser ended its voluntary waiver of incentive fees. No such fees have been paid with respect to realized gains to the Adviser as of June 30, 2019.

Administration Fee

Pursuant to the Administration Agreement with the Adviser, the Company also reimburses the Adviser for expenses necessary for its performance of services related to the Company’s administration and operations. The amount of the reimbursement will be the lesser of (1) the Company’s allocable portion of overhead and other expenses incurred by the Adviser in performing its obligations under the Administration Agreement and (2) 0.40% of the Company’s average gross assets, (excluding cash and cash equivalents). The Adviser is required to allocate the cost of such services to the Company based on objective factors such as assets, revenues, time allocations and/or other reasonable metrics. The Board assesses the reasonableness of such reimbursements based on the breadth, depth and quality of such services as compared to the estimated cost to the Company of obtaining similar services from third-party service providers known to be available. In addition, the Board will consider whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, the Board will compare the total amount paid to the Adviser for such services as a percentage of the Company’s net assets to the same ratio as reported by other comparable BDCs.

For the three and six months ended June 30, 2019, the Company incurred administration fees payable to the Adviser of \$100,547 and \$199,338, respectively. For the three and six months ended June 30, 2018, the Company incurred administration fees payable to the Adviser of \$104,171 and \$205,462, respectively. 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	Expired
Total	\$ 2,284,508	\$ 458,275	

- (1) The Advisor has permanently waived the recoupment of any advisory fees or administration fees calculated on the portion of gross assets attributable to the receivable from Adviser balance on the Statements of Assets and Liabilities. The amounts shown have been reduced by this waiver.

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

Organization and Offering Costs

Organization costs include the cost of incorporating, such as the cost of legal services and other fees pertaining to our organization, and are paid by the Adviser. For the three and six months ended June 30, 2019 and 2018 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 six months ended June 30, 2019, the Adviser incurred and paid offering costs of \$0 and \$0 respectively, on our behalf. For the three and six months ended June 30, 2018, the Adviser incurred and paid offering costs of \$0 and \$238,568, respectively, on our behalf. For the three and six months ended June 30, 2019, the Company capitalized \$0 and \$0 of offering costs, respectively. For the three and six months ended June 30, 2018, the Company capitalized \$0 and \$61,462 of offering costs, respectively. Of the capitalized offering costs, \$0 and \$5,445 were amortized to expense during the three and six months ended June 30, 2019, respectively. Of the capitalized offering costs, \$51,691 and \$119,845 were amortized to expense during the three and six months ended June 30, 2018, respectively. As of June 30, 2019 and June 30, 2018, \$0 and \$70,447 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 June 30, 2019, the cumulative aggregate amount of \$5,327,574 of organization and offering costs exceeds 1% of total proceeds raised. Subsequent to the termination of the offering, the Adviser forfeited the right to reimbursement of the remaining \$4,305,091 of these costs.

Fees Paid to Officers and Directors

Each director who is not an “interested person” of the Company as defined in the 1940 Act (the “Independent Directors”) receives an annual retainer of \$150,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund Complex based on relative net assets. The “Highland Fund Complex” consists of all of the registered investment companies advised by the Adviser and any affiliates as of the period covered by this report. The Company pays no compensation to any of its officers, all of whom are employees of an affiliate of the Adviser. Prior to December 8, 2017, Mr. Powell was treated as an “interested person” of the Company for all purposes other than compensation and the Company’s code of ethics.

For the three and six months ended June 30, 2019, the Company recorded an expense relating to director fees of \$5,232 and \$10,150, respectively. For the three and six months ended June 30, 2018, the Company recorded an expense relating to director fees of \$4,903 and \$9,346, respectively, which represents the allocation of the director fees to the Company. As of June 30, 2019, there was \$125 of expenses payable relating to director fees.

Expense Limits and Reimbursements

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

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

Reimbursable Expenses Table

The cumulative total of fees waived by the Adviser under the Expense Limitation Agreement, which are recoupable as of June 30, 2019 is \$1,051,878. 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 June 30, 2019 and March 31, 2019, 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>
June 30, 2019	\$ 586,411	\$ 471,855	\$ 114,556	\$ 75,592	June 30, 2022
March 31, 2019	295,177	256,213	38,964	38,964	March 31, 2022

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

<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, 2018	\$ 1,352,097	\$ 924,677	\$ 427,420	\$279,079	December 31, 2021
September 30, 2018	950,045	801,704	148,341	23,992	September 30, 2021
June 30, 2018	613,809	489,460	124,349	44,203	June 30, 2021
March 31, 2018	341,882	261,736	80,146	80,146	March 31, 2021

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

<u>Period ended</u>	<u>Yearly cumulative other expense</u>	<u>Yearly expense limitation</u>	<u>Yearly cumulative expense reimbursement</u>	<u>Quarterly recoupable/ (recouped) amount</u>	<u>Recoupment eligibility expiration</u>
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	—	Expired
March 31, 2016	259,420	102,319	157,101	—	Expired

During the three and six months ended June 30, 2019, \$90,124 and \$247,225, 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 six months ended June 30, 2019 and June 30, 2018, the Adviser did not voluntarily reimburse the Company for unrealized losses sustained. Cumulatively since inception, the Adviser has committed \$2,275,000 to voluntarily reimburse the Company for such losses. Had these commitments not been made, the net asset value ("NAV") as of June 30, 2019 would have been lower by approximately this amount. These commitments are shown in the Statements of Operations as net increase from amounts committed by affiliates and are not recoupable.

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

Receivable from Adviser / Payable to Adviser

As of June 30, 2019 and December 31, 2018, there were no amounts owed from the Adviser to the Company.

As of June 30, 2019 and December 31, 2018, the Company owed \$530,585 and \$291,904, respectively, to the Adviser, largely related to advisory fees, administration fees, and the expense limitation agreement.

Indemnification

Under the Company's organizational documents, the officers and Directors have been granted certain indemnification rights against certain liabilities that may arise out of performance of their duties to the Company. Additionally, in the normal course of business, the Company may enter into contracts with service providers that contain a variety of indemnification clauses. The Company's maximum exposure under these arrangements is dependent on future claims that may be made against the Company and, therefore, cannot be estimated.

Note 5 — U.S. Federal Income Tax Information

The Company has elected to be treated for federal income tax purposes, and intends to qualify annually, as a RIC under Subchapter M of the Code. To maintain its qualification as a RIC, the Company must, among other things, meet certain source-of-income and asset diversification requirements and distribute to its stockholders, for each taxable year, at least 90% of its "investment company taxable income," which is generally the Company's net ordinary income plus the excess, if any, of realized net short-term capital gains over realized net long-term capital losses. As a RIC, the Company will not be subject to corporate-level federal income taxes on any income that it timely distributes to its stockholders. The Company intends to make distributions in an amount sufficient to maintain its RIC status each year and to avoid any federal income taxes on income so distributed. The Company will also be subject to nondeductible federal excise taxes if it does not distribute at least 98% of net ordinary income, 98.2% of any capital gain net income, if any, and any recognized and undistributed income from prior years on which it paid no federal income taxes.

The character of income and capital gains to be distributed is determined in accordance with the Code, U.S. Treasury regulations, and other applicable authority, which may differ from U.S. GAAP. These differences include (but are not limited to) investments organized as partnerships for tax purposes, total return swaps, loan investments, and losses deferred due to wash sale transactions. Reclassifications are made to the Company's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under the Code, U.S. Treasury regulations, and other applicable authority. These reclassifications have no impact on net investment income, realized gains or losses, or net asset value of the Company. The calculation of net investment income per share in the Financial Highlights table excludes these adjustments.

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 six months ended June 30, 2019 and June 30, 2018, 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 June 1, 2019, until expiration of June 24, 2019 at 5:00 p.m. New York City time, during which the Company offered to purchase for cash up to 2.5% of its outstanding shares of common stock. During the second quarter tender offer, 71,112 shares of the Company were tendered for repurchase, constituting approximately 0.69% of the Company's outstanding shares.

For the six months ended June 30, 2019, the Company repurchased 0 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 $\text{Libor} + 1.15\%$, 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 June 30, 2019, current outstanding and fair value amounts were \$36,566,744 and \$36,875,757, respectively. At December 31, 2018, current outstanding and fair value amounts were \$32,583,965 and \$32,742,192, respectively.

For the three and six months ended June 30, 2019 and June 30, 2018, the components of total interest expense were as follows:

	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Direct interest expense	\$ 339,299	\$ 155,891	\$ 645,649	\$ 356,623
Commitment fees	—	—	—	—
Amortization of financing costs	—	—	—	—
Total interest expense	\$ 339,299	\$ 155,891	\$ 645,649	\$ 356,623
Average daily amount outstanding	37,178,889	19,044,611	35,300,202	22,203,489
Weighted average interest rate	3.61%	3.22%	3.64%	3.05%

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:

Six months ended	Total amount outstanding	% of asset coverage
06/30/2019	\$68,005,211	232%
12/31/2018	67,767,021	227%

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 June 30, 2019:

<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	\$2,340,000	\$ (513,750)
Air Medical Group Holdings (First Lien Term Loan)	Aerospace	L + 425	1.00%	9/26/2024	3,937,505	3,687,563	(249,942)
ASP AMC Merger Sub, Inc. (First Lien Term Loan)	Financial	L + 350	1.00%	4/13/2024	1,831,571	1,574,474	(257,097)
VVC Holding Corp. (First Lien Term Loan)	Healthcare	L + 450	0.00%	2/5/2026	3,910,200	3,990,000	79,800
BioClinica, Inc. (First Lien Term Loan)	Healthcare	L + 425	1.00%	10/20/2023	1,883,800	1,844,555	(39,246)
Employbridge, LLC (First Lien Term Loan)	Service	L + 450	1.00%	4/18/2025	910,866	907,450	(3,416)
Endo Luxembourg Finance Company I S.a r.l. (First Lien Term Loan)	Healthcare	L + 425	0.75%	4/29/2024	3,979,394	3,692,323	(287,071)
Envision Healthcare Corp. (First Lien Term Loan)	Healthcare	L + 375	0.00%	9/28/2025	2,929,031	2,582,025	(347,006)
Granite Acquisition, Inc. (Second Lien Term Loan)	Utility	L + 725	1.00%	12/17/2022	3,736,715	3,694,938	(41,777)
BW NHHHC Holdco, Inc. (First Lien Term Loan)	Healthcare	L + 500	0.00%	5/15/2025	4,560,417	4,228,125	(332,292)
Lanai Holdings II, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	8/28/2022	2,462,718	2,336,661	(126,057)
Quorum Health Corp. (First Lien Term Loan)	Healthcare	L + 675	1.00%	4/29/2022	7,045,153	6,906,395	(138,757)
Sound Inpatient Physicians (First Lien Term Loan)	Healthcare	L + 675	0.00%	6/26/2026	1,575,000	1,547,778	(27,222)
Truck Hero, Inc. (Second Lien Term Loan)	Manufacturing	L + 825	1.00%	5/10/2025	1,666,667	1,616,667	(50,000)
Vyaire Medical, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	4/11/2025	4,818,930	4,508,360	(310,570)
Weight Watchers International, Inc. (First Lien Term Loan)	Service	L + 475	0.75%	11/20/2024	5,216,750	5,029,973	(186,777)
					Total		<u>\$ (2,831,180)</u>
					Accrued income and liabilities		<u>314,402</u>
					Total TRS Fair Value		<u>\$ (2,516,778)</u>

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

The following is a summary of the underlying loans subject to the TRS as of December 31, 2018:

<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	\$2,340,000	\$ (513,750)
Air Medical Group Holdings (First Lien Term Loan)	Aerospace	L + 425	1.00%	9/26/2024	3,957,513	3,681,407	(276,106)
ASP AMC Merger Sub, Inc. (First Lien Term Loan)	Financial	L + 350	1.00%	4/21/2024	1,838,000	1,570,000	(268,000)
Avantor, Inc. (First Lien Term Loan)	Chemicals	L + 400	1.00%	11/21/2024	3,818,053	3,666,656	(151,397)
BioClinica, Inc. (First Lien Term Loan)	Healthcare	L + 425	1.00%	10/20/2023	1,893,461	1,809,636	(83,825)
Employbridge, LLC (First Lien Term Loan)	Service	L + 500	1.00%	4/10/2025	934,525	914,274	(20,251)
Endo Luxembourg Finance Company I S.a r.l. (First Lien Term Loan)	Healthcare	L + 425	0.75%	4/29/2024	3,999,697	3,780,808	(218,889)
Envision Healthcare Corp. (First Lien Term Loan)	Healthcare	L + 375	0.00%	9/28/2025	2,943,750	2,793,750	(150,000)
Granite Acquisition, Inc. (Second Lien Term Loan)	Utility	L + 725	1.00%	12/19/2022	3,736,715	3,616,026	(120,689)
BW NHC Holdco, Inc. (First Lien Term Loan)	Healthcare	L + 500	0.00%	5/15/2025	4,583,449	4,508,594	(74,855)
Lanai Holdings II, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	8/28/2022	2,475,478	2,243,692	(231,786)
Quorum Health Corp. (First Lien Term Loan)	Healthcare	L + 675	1.00%	4/29/2022	7,151,645	7,038,182	(113,463)
Sound Inpatient Physicians (First Lien Term Loan)	Healthcare	L + 675	0.00%	6/26/2026	1,575,000	1,495,278	(79,722)
Truck Hero, Inc. (Second Lien Term Loan)	Manufacturing	L + 825	1.00%	5/10/2025	1,666,666	1,633,334	(33,332)
U.S Renal Care, Inc. (Second Lien Term Loan)	Healthcare	L + 800	1.00%	12/31/2023	1,939,438	1,828,750	(110,688)
Vyair Medical, Inc. (First Lien Term Loan)	Healthcare	L + 475	1.00%	4/11/2025	4,843,267	4,691,915	(151,352)
Weight Watchers International, Inc. (First Lien Term Loan)	Service	L + 475	0.75%	11/29/2024	5,552,649	5,394,812	(157,837)
					Total		<u>\$ (2,755,942)</u>
						Accrued income and liabilities	208,450
						Total TRS Fair Value	<u>\$ (2,547,492)</u>

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

As of June 30, 2019 and December 31, 2018, the Company had posted \$21,880,000 and \$20,580,000, 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 six months ended June 30, 2019, the Company recognized a net realized gain on the TRS amounting to \$806,842. The Company received \$930,936 in cash payments from the TRS during the period and paid \$10,157, with a decrease of \$143,937 in receivable from BNP Paribas for the quarter ended June 30, 2019.

Note 8 — Economic Dependency and Commitments and Contingencies

Under various agreements, the Company has engaged the Adviser and its affiliates to provide certain services that are essential to the Company, including asset management services, asset acquisition and disposition decisions, the sale of shares of the Company's common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations. Additionally, prior to termination of the offer, the Adviser paid all of the Company's organization and offering costs subject to reimbursement to the extent organization and offering costs paid by the Adviser did not exceed 1% of gross proceeds raised. Please see Note 4 for additional details on organization and offering costs.

As a result of these relationships, the Company is dependent upon the Adviser and its affiliates. In the event that these companies are unable to provide the Company with the respective services, the Company will be required to find alternative providers of these services.

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 June 30, 2019.

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties that provide general indemnification. The Company's maximum exposure under these agreements is unknown, as this would involve future claims that may be made against the Company that have not occurred. The Company believes the risk of material obligations under these indemnities to be low. See also Note 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, there is a requirement to post collateral to secure our obligations to BNP Paribas under the TRS. BNP Paribas, however, is not required to collateralize any of its obligations to us under the TRS. We bear the risk of depreciation with respect to the value of the securities underlying the TRS and are required under the terms of the TRS to post additional collateral on a dollar-for-dollar basis in the event of depreciation in the value of the underlying securities after such value decreases below a specified amount. The amount of collateral required to be posted by us is determined primarily on the basis of the aggregate value of the underlying securities.

In addition, because a TRS is a form of leverage, such arrangements are subject to risks similar to those associated with the use of leverage.

Valuation Risk

Certain of the Company's assets are fair valued, including the Company's investment in equity issued by TerreStar Corporation ("TerreStar"). TerreStar is a nonoperating company that does not currently generate revenue and which primarily derives its value from two spectrum frequencies, the license with respect to one of which was terminated by the FCC and is being contested by TerreStar on technical and public policy grounds. TerreStar currently anticipates such contest may take between 12 to 30 months and expects deployment of its other spectrum asset to require a similar period of time. If TerreStar is ultimately unsuccessful in its efforts, the terminated license would not be reinstated and the value of the TerreStar equity would likely be materially negatively impacted. The fair valuation of TerreStar involves uncertainty as it is materially dependent on these estimates. With regard to the likelihood of TerreStar regaining the terminated license, the Investment Adviser assigned a high probability of success, based in part in consultation with outside experts.

Note 10 — Affiliated Investments

Under Section 2(a)(3) of the 1940 Act, a portfolio company is defined as "affiliated" if a fund owns five percent or more of its outstanding voting securities or if the portfolio company is under common control. The table below shows affiliated issuers of the Company as of June 30, 2019:

Affiliated investments	Shares at December 31, 2018	Fair value as of December 31, 2018	Purchases	Sales	Realized gains (losses)	Change in unrealized gains (losses)	Fair value as of June 30, 2019	Shares at June 30, 2019	Affiliated Dividend income
Gambier Bay, LLC	9,180,900	\$ 1,055,803	\$ —	\$(3,478,685)	\$ —	\$2,422,882	\$ —	—	\$ —
NexPoint Strategies Opportunities Fund	65,078	1,297,005	987,213	(11,765)	—	9,923	2,282,376	120,633	89,204
NexPoint Residential Trust, Inc.	25,757	902,783	14,221	(30)	—	165,388	1,082,362	26,144	14,328
Nexpoint Capital REIT, LLC	—	—	2,189,561	—	—	42,444	2,232,005	100	—
Total affiliated investments	9,271,735	\$ 3,255,591	\$3,190,995	\$(3,490,480)	\$ —	\$2,640,637	\$5,596,743	146,877	\$103,532

Note 11 — Financial Highlights

Selected data for a share outstanding throughout the six months ended June 30, 2019 and June 30, 2018 is as follows:

	For the Six Months Ended June 30, 2019 (Unaudited)	For the Six Months Ended June 30, 2018 (Unaudited)
Common shares per share operating performance:		
Net asset value, beginning of period	\$ 8.36	\$ 9.68
Income from investment operations:		
Net investment income ⁽¹⁾	0.16	0.11
Net realized and unrealized gain (loss)	0.46	0.29
Total from investment operations	<u>0.62</u>	<u>0.40</u>
Less distribution declared to common shareholders:		
From net investment income	(0.36)	(0.36)
From net realized gains	—	—
Total distributions declared to common shareholders	<u>(0.36)</u>	<u>(0.36)</u>
Capital share transactions		
Issuance of common stock ⁽²⁾	0.00	0.01
Shares tendered ⁽¹⁾	0.00 ⁽³⁾	0.00 ⁽³⁾
Net asset value, end of period	\$ 8.62	\$ 9.73
Net asset value total return ⁽⁴⁾⁽⁵⁾	7.38%	4.27%
Ratio and supplemental data:		
Net assets, end of period (in 000's)	\$ 90,034	\$ 100,861
Shares outstanding, end of period	10,448,961	10,367,005
Common share information at end of period:		
Ratios based on weighted average net assets of common shares:		
Gross operating expenses ⁽⁶⁾	5.35%	5.85%
Fees and expenses waived or reimbursed ⁽⁶⁾	(0.25)%	(0.25)%
Net operating expenses ⁽⁶⁾	5.10%	5.60%
Net investment income (loss) before fees waived or reimbursed ⁽⁶⁾	3.50%	2.09%
Net investment income (loss) after fees waived or reimbursed ⁽⁶⁾	3.75%	2.34%
Ratio of interest and credit facility expenses to average net assets ⁽⁶⁾	1.42%	0.71%
Ratio of incentive fees to average net assets ⁽⁶⁾	—%	1.20%
Portfolio turnover rate ⁽⁵⁾	26%	44%
Asset coverage ratio	232%	290%
Weighted average commission rate paid ⁽⁷⁾	\$ 0.0259	\$ 0.0372

(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) 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 June 14, 2019, the board of directors (the “Board”) of NexPoint Capital, Inc. (the “Company”) declared a cash distribution of \$0.06 per share of the Company’s common stock, par value \$0.001 per share, payable on July 31, 2019, to the stockholders of record on July 29, 2019, and a cash distribution of \$0.06 per share of the Company’s common stock, par value \$0.001 per share, payable on August 28, 2019, to the stockholders of record on August 26, 2019.

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

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

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

We have based the forward-looking statements included in this annual report on Form 10-K on information available to us on the date of this annual report on Form 10-K. Except as required by the federal securities laws, we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. Stockholders are advised to consult any additional disclosures that we may make directly to stockholders or through reports that we may file in the future with the U.S. Securities and Exchange Commission, or the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The forward-looking statements and projections contained in this annual report on Form 10-K are

excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This quarterly report on Form 10-K may contain statistics and other data that have been obtained from or compiled from information made available by third-party service providers. We have not independently verified such statistics or data.

Overview

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

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

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

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

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

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

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

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

Public Offering

As a result of a series of private placements to the Adviser, we successfully satisfied the minimum offering requirement and officially commenced operations on September 2, 2014. In connection with the satisfaction of the minimum offering requirement and the commencement of our operations, the Investment Advisory Agreement became effective and the base management fee and any incentive fees, as applicable, payable to the Adviser under the Investment Advisory Agreement began to accrue. In aggregate as of June 30, 2019 the Adviser controls 2,426,193 total shares, including reinvestment of dividends, for a net amount of approximately \$20.9 million. In February 2018, we closed our continuous public offering of shares of common stock.

Revenues

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

Expenses

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

- our organization (expenses initially paid by the Adviser until sufficient equity proceeds are raised);
- calculating our net asset value and net asset value per share (including the costs and expenses of independent valuation firms);
- fees and expenses, including travel expenses, incurred by the Adviser or payable to third parties in performing due diligence on prospective portfolio companies, monitoring our investments and, if necessary, enforcing our rights;
- interest payable on debt, if any, incurred to finance our investments;
- the costs of this and all future offerings of common shares and other securities, and other incurrence of debt;
- the base management fee and any incentive fee;
- distributions on our shares;
- administration fees payable to the Adviser under the Administration Agreement;

- transfer agent and custody fees and expenses;
- the actual costs incurred by the Adviser as our administrator in providing managerial assistance to those portfolio companies that request it;
- amounts payable to third parties relating to, or associated with, evaluating, making and disposing of investments;
- brokerage fees and commissions;
- registration fees;
- listing fees;
- taxes;
- independent director fees and expenses;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable U.S. federal and state securities laws;
- the costs of any reports, proxy statements or other notices to our stockholders, including printing costs;
- costs of holding stockholder meetings;
- our fidelity bond;
- directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- litigation, indemnification and other non-recurring or extraordinary expenses;
- direct costs and expenses of administration and operation, including audit and legal costs;
- fees and expenses associated with marketing efforts, including deal sourcing fees and marketing to financial sponsors;
- dues, fees and charges of any trade association of which we are a member; and
- all other expenses reasonably incurred by us or the Adviser in connection with administering our business.

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

Expense Limitation

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

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

Reimbursable Expenses Table

The cumulative total of fees waived by the Adviser under the Expense Limitation Agreement which are recoupable as of June 30, 2019 are \$1,051,878. This balance, and the balances in the tables below, only include amounts pertaining to the Expense Limitation Agreement, and do not include waived advisory and administration fees subject to recoupment discussed elsewhere herein.

The following table reflects the 2019 quarterly fee waivers and expense reimbursements due from the Adviser as of June 30, 2019, which are subject to recoupment by the Adviser.

Quarter Ended	Yearly Cumulative Other Expenses	Yearly Expense Limitation	Yearly Cumulative Expense Reimbursement	Quarterly Recoupable/ (Recouped) Amount	Recoupment Eligibility Expiration
June 30, 2019	\$ 586,411	471,855	114,556	75,592	June 30, 2022
March 31, 2019	295,177	256,213	38,964	38,964	March 31, 2022

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

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

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

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

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	—	Expired
March 31, 2016	259,420	102,319	157,101	—	Expired

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	\$ —	Expired
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 six months ended June 30, 2019, \$90,124 and \$247,225, 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, 2020 or that the Adviser will reimburse any portion of our expenses in future quarters not covered by the Expense Limitation Agreement. Amounts shown do not include the amounts committed by the Adviser to voluntarily reimburse the Company for unrealized losses, all of which are not recoupable.

Portfolio Investment Activity for the three and six months ended June 30, 2019 and June 30, 2018:

During the six months ended June 30, 2019, we made long investments in portfolio companies and other investments totaling \$26,748,956. During the same period, we generated proceeds from sales and principal repayments on long investments of \$27,690,827. As of June 30, 2019, our investment portfolio, with a total fair value of \$99.8 million, consisted of 51 interests in portfolio companies (calculated as a percentage of total invested assets: 7.2% in first lien senior secured loans, 0.5% in second lien senior secured loans, 4.1% in unsecured loans, 0.0% in escrow loans, 49.2% in corporate bonds, 1.1% in asset-backed securities, 2.3% in closed-end mutual funds, 0.2% in warrants, 24.3% in common stock, 7.1% in preferred stock, 4.0% in mortgage-backed securities, and 0.0% in rights). As of June 30, 2019, including investments underlying the TRS with BNP Paribas on a look-through basis, the investments in our portfolio carry a weighted average price of 96.88% on par or stated value, as applicable, and our estimated gross annual portfolio yield (which represents the expected yield to be generated by us on our investment portfolio based on the composition of our portfolio as of such date), prior to leverage costs, was 7.05% 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 six months ended June 30, 2018, we made long investments in portfolio companies and other investments totaling \$43,276,875. During the same period, we generated proceeds from sales and principal repayments on long investments of \$42,734,541. As of June 30, 2018, our investment portfolio, with a total fair value of \$97,439,125, consisted of 45 interests in portfolio companies (calculated as a percentage of total invested assets: 13.7% in first lien senior secured loans, 6.8% in second lien senior secured loans, 3.6% in unsecured loans, 0.0% in escrow loans, 47.5% in corporate bonds, 1.7% in asset-backed securities, 1.5% in closed-end mutual funds, 1.0% in warrants, 23.1% in common stock, 1.1% in preferred stock, and 0.0% in rights). As of June 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 94.63% 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 6.96% 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 six months ended June 30, 2019 and June 30, 2018:

<u>Net Investment Activity</u>	<u>For the Three Months Ended June 30, 2019</u>	<u>For the Six Months Ended June 30, 2019</u>
Purchases	\$ 12,174,537	\$ 26,748,956
Payment-in-kind	155,393	303,939
Sales and Principal Repayments	(19,167,964)	(27,960,827)
Net Portfolio Activity	\$ (6,838,034)	\$ (637,932)

<u>Net Investment Activity</u>	<u>For the Three Months Ended June 30, 2018</u>	<u>For the Six Months Ended June 30, 2018</u>
Purchases	\$ 22,600,296	\$ 43,276,875
Payment-in-kind	121,173	238,248
Sales and Principal Repayments	(29,672,673)	(42,734,541)
Net Portfolio Activity	\$ (6,951,204)	\$ 780,582

<u>New Investment Activity by Asset Class</u>	<u>For the Three Months Ended June 30, 2019</u>		<u>For the Six Months Ended June 30, 2019</u>	
	<u>Purchases</u>	<u>Percentage</u>	<u>Purchases</u>	<u>Percentage</u>
Senior Secured Loans—First Lien	\$ 2,920,820	24.0%	\$ 4,806,095	17.9%
Senior Secure Loans—Second Lien	—	0.0%	—	0.0%
Mortgage-Backed-Securities	—	0.0%	4,000,000	15.0%
Corporate Bonds	1,872,945	15.4%	8,365,445	31.2%
Preferred Stocks	2,000,000	16.4%	4,189,561	15.7%
Warrants	52,987	0.4%	52,987	0.2%
Equities	4,340,573	35.7%	4,347,656	16.3%
Closed-End Mutual Funds	987,212	8.1%	987,212	3.7%
Total Investment Activity	\$12,174,537	100.0%	\$26,748,956	100.0%

<u>New Investment Activity by Asset Class</u>	<u>For the Three Months Ended June 30, 2018</u>		<u>For the Six Months Ended June 30, 2018</u>	
	<u>Purchases</u>	<u>Percentage</u>	<u>Purchases</u>	<u>Percentage</u>
Senior Secured Loans—First Lien	\$10,799,576	47.8%	\$19,980,753	46.0%
Senior Secure Loans—Second Lien	3,527,778	15.6%	3,527,778	8.2%
Corporate Bonds	6,051,000	26.8%	13,227,094	30.5%
Equities	792,076	3.5%	5,201,384	12.0%
Closed-End Mutual Funds	1,429,866	6.3%	1,429,866	3.3%
Total Investment Activity	\$22,600,296	100.0%	\$43,276,875	100.0%

The following tables summarize the composition of our investment portfolio at amortized cost and fair value as of June 30, 2019 and December 31, 2018:

June 30, 2019

Portfolio Composition by Investment Type	Amortized Cost⁽¹⁾	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans — First Lien	\$ 8,268,764	7,230,212	7.2
Senior Secured Loans — Second Lien	551,397	477,801	0.5
Senior Secured Loans — Escrow Loan	79,372	1,925	0.0
Unsecured Loans	3,813,054	4,066,636	4.1
Asset-Backed Securities	1,165,975	1,081,699	1.1
Mortgage-Backed-Securities	3,998,929	3,997,678	4.0
Closed-End Mutual Funds	2,419,467	2,282,376	2.3
Corporate Bonds	53,150,657	49,098,626	49.2
Common Stocks	22,986,614	24,290,117	24.3
Preferred Stock	9,113,316	7,101,800	7.1
Warrants	52,988	151,335	0.2
Rights	148,619	46,218	0.0
Total Invested Assets	\$ 105,749,152	\$99,826,423	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, 2018

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

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

The following tables summarize the amortized cost and the fair value of the Company's invested assets by class of financial asset as of June 30, 2019 and December 31, 2018 to include, on a look-through basis, the investments underlying the TRS, as disclosed in Note 7 of the financial statements included herein. The investments underlying the TRS had a notional amount of \$53,318,467 and a market value of \$50,487,287 as of June 30, 2019, and a notional amount of \$55,763,056 and a market value of \$53,007,114 as of December 31, 2018.

June 30, 2019

Portfolio Composition by Investment Type	Amortized Cost⁽¹⁾	Fair Value	Percentage of Portfolio (at fair value)
Senior Secured Loans — First Lien	\$ 53,330,099	50,065,894	33.3
Senior Secured Loans — Second Lien	8,808,529	8,129,406	5.4
Senior Secured Loans — Escrow Loan	79,372	1,925	0.0
Unsecured Loans	3,813,054	4,066,636	2.7
Asset-Backed Securities	1,165,975	1,081,699	0.7
Mortgage-Backed-Securities	3,998,929	3,997,678	2.7
Closed-End Mutual Funds	2,419,467	2,282,376	1.5
Corporate Bonds	53,150,657	49,098,626	32.7
Common Stocks	22,986,614	24,290,117	16.2
Preferred Stock	9,113,316	7,101,800	4.7
Warrants	52,988	151,335	0.1
Rights	148,619	46,218	0.0
Total Invested Assets	\$ 159,067,619	\$150,313,710	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, 2018

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

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

The following table presents certain selected information regarding the composition of our investment portfolio as of June 30, 2019 and December 31, 2018:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Number of Investments	51	45
% Variable Rate (based on fair value)	53% ⁽¹⁾	55% ⁽¹⁾
% Non-Income Producing Equity or Other Investments (based on fair value)	9% ⁽¹⁾	10% ⁽¹⁾
Weighted Average Cost Price of Investments (as a % of par or stated value)	96.88% ⁽¹⁾	94.66% ⁽¹⁾
Weighted Average Credit Rating of Investments that were Rated	B3 ⁽¹⁾	B3 ⁽¹⁾
% of Fixed Income Investments on Non-Accrual (based on fair value)	0.1% ⁽¹⁾	4% ⁽¹⁾

⁽¹⁾ Includes value of investments underlying the TRS.

Portfolio Composition by Strategy and Industry

The table below summarizes the composition of our investment portfolio by strategy and enumerates the percentage, by fair value, of the total portfolio assets in such strategies as of June 30, 2019 and December 31, 2018:

<u>Portfolio Composition by Strategy</u>	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Broadly Syndicated – Private	\$ 4,737,578	4.7%	\$ 7,120,928	7.4%
Broadly Syndicated – Public	28,016,474	28.1%	17,955,500	18.7%
Middle-Market	65,990,672	66.1%	69,066,327	71.7%
Opportunistic/Other	1,081,699	1.1%	2,087,086	2.2%
Total Invested Assets	<u>\$99,826,423</u>	<u>100.0%</u>	<u>\$96,229,841</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 June 30, 2019 and December 31, 2018:

<u>Industry Classifications</u>	<u>June 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Chemicals	\$ 42,500	0.0	\$ 267,750	0.3%
Energy	7,252,641	7.3	7,367,190	7.7%
Financials	15,242,566	15.3	7,537,163	7.8%
Healthcare	50,648,010	50.8	55,217,193	57.4%
Materials	4,549,605	4.6	5,182,069	5.4%
Media/Telecommunications	2,708,833	2.7	4,437,753	4.6%
Real Estate Investment Trusts (REITs)	11,100,798	11.1	7,927,970	8.2%
Retail	838,912	0.8	1,171,825	1.2%
Service	279,637	0.3	—	0.0%
Telecommunication Services	4,737,578	4.7	4,436,645	4.6%
Utility	2,425,343	2.4	2,684,283	2.3%
Total Invested Assets	\$98,826,423	100.0%	\$96,229,841	100.0%

As of June 30, 2019, the Company was an “affiliated person,” as defined in the 1940 Act, of NexPoint Strategic Opportunities Fund (formally, NexPoint Credit Strategies Fund), NexPoint Capital REIT, LLC, and NexPoint Residential Trust, Inc. In general, under the 1940 Act, we are presumed to “control” a portfolio company if we owned 25% or more of its voting securities or we had the power to exercise control over the management or policies of such portfolio company, and would be an “affiliated person” of a portfolio company if we owned 5% or more of its voting securities. See Note 10 to the financial statements included herein for additional information regarding the investment in NexPoint Strategic Opportunities Fund.

Summary Description of Portfolio Companies/Investments

As of June 30, 2019 and December 31, 2018, 52% and 60% (based on fair value), respectively, of our portfolio consisted of healthcare related and opportunistic investments. Information regarding these investments is provided below, and includes investments underlying the TRS on a look-through basis. Included in the value at June 30, 2019 is the investment in Weight Watchers, which the Company views as related to the Healthcare Industry as defined in the Company’s organizational documents. Information regarding these investments is provided below. This additional information is limited to publicly available information, and does not address credit worthiness or financial viability of the issuer, or our future plans as it relates to a specific investment:

Healthcare Investments

Ortho-Clinical Diagnostics: As of June 30, 2019 and December 31, 2018, we held corporate bonds of Ortho-Clinical Diagnostics (“Ortho-Clinical”) having an aggregate fair value of \$10.8 million and \$8.3 million, respectively. Ortho-Clinical is a provider of in-vitro diagnostic solutions for screening, diagnosing, monitoring and confirming diseases, as well as immunohematology to ensure compatibility for blood transfusions and plasma screening for infectious diseases.

Bausch Health Companies, Inc: As of June 30, 2019 and December 31, 2018, we held senior secured loans and corporate bonds of Bausch Health Companies, Inc. (“Bausch”) having an aggregate fair value of \$13.8 million and \$9.4 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 June 30, 2019 and December 31, 2018, we held corporate bonds and common stock of Quorum Health Corp. ("Quorum") having an aggregate fair value of \$9.6 million and \$11.5 million, respectively. Quorum Health Corporation is an operator of general acute care hospitals and provider of outpatient healthcare services focused on rural and mid-sized markets. As of July 31, 2019, the company owned or leased 26 hospitals located across 14 states with an aggregate of approximately 2,458 licensed beds. 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 June 30, 2019 and December 31, 2018, we held corporate bonds of Surgery Center Holdings, Inc. with an aggregate fair value of \$9.4 million and \$9.3 million, respectively. Surgery Center Holdings, Inc. is a leading healthcare services company with a differentiated outpatient delivery model focused on providing high quality, cost effective solutions for surgical and related ancillary care. The company is one of the largest and fastest growing surgical services businesses in the US, with more than 180 surgical hospital and ambulatory surgery center locations across 31 states.

Endo Finance, LLC / Endo Finco Inc.: As of June 30, 2019 and December 31, 2018, we held corporate bonds and senior secured loans of Endo Finance, LLC ("Endo") with an aggregate fair value of \$10.6 million and \$9.5 million, respectively. Endo is a generics and specialty branded pharmaceutical company, with a portfolio of over 230 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 June 30, 2019 and December 31, 2018 we held the first lien senior secured loan, corporate bonds, common stock, and warrants of iHeart Communications, Inc. ("iHeart") having an aggregate fair value of \$2.1 million and \$3.4 million, respectively. iHeart Communications filed for voluntary petitions for reorganization under Chapter 11 on March 14th, 2018 and emerged on May 1st, 2019. Before emerging, iHeart Communications had a 90% ownership stake in Clear Channel Outdoor Holdings, Inc. ("CCO"). Post-emergence, iHeart Communications spun-off its ownership stake in CCO and formed iHeartMedia, Inc ("IHRT") as the parent company. CCO is one of the world's largest outdoor advertising companies with about 450 thousand outdoor advertising displays across 31 countries, including 43 of the top 50 U.S. markets. IHRT is the largest broadcast radio and events business in the United States with about 850 broadcast radio stations in the United States. Additionally, IHRT has a subscription on-demand streaming service with about 120 million registered users. As of June 30, 2019, we held the first lien senior secured loan, corporate bonds, common stock, and warrants of IHRT and common stock of CCO.

Vistra Energy: As of June 30, 2019 and December 31, 2018, we held common stock and rights shares of Vistra Energy (NYSE:VST) ("Vistra Energy") having an aggregate fair value of \$2.4 million and \$2.7 million, respectively. Vistra Energy is a premier, integrated power company based in Irving, Texas. Through its retail and generation businesses which include TXU Energy, Homefield Energy, Dynegy, and Luminant, Vistra operates in 12 states and six of the seven competitive markets in the U.S., with about 5,400 employees. Vistra's retail brands serve approximately 2.9 million residential, commercial, and industrial customers across five top retail states, and its generation fleet totals approximately 41,000 megawatts of highly efficient generation capacity, with a diverse portfolio of natural gas, nuclear, coal, and solar facilities. Vistra Energy was formerly named Texas Competitive Electric Holdings. The company emerged from bankruptcy on October 3, 2016. Upon emergence from bankruptcy, 1st lien creditor interests were converted into equity in the reorganized company. The reorganized equity is now listed on the New York Stock Exchange.

Results of Operations for the three and six months ended June 30, 2019 and June 30, 2018

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.

Expenses

For the three and six months ended June 30, 2019, we had total net operating expenses of \$1,164,150 or \$0.11 per share and \$2,322,344 or \$0.22 per share, respectively. For the three and six months ended June 30, 2018, we had total net operating expenses of \$1,071,400 or \$0.10 per share and \$2,797,489 or \$0.27 per share, respectively. Base management fees attributed to the Adviser were \$505,660 and \$996,689 for the three and six months ended June 30, 2019, respectively. Base management fees attributed to the Adviser were \$566,814 and \$1,027,311 for the three and six months ended June 30, 2018, respectively. Our expenses include administrative services expenses attributed to the Adviser of \$100,547 and \$199,338 for the three and six months ended June 30, 2019, respectively. Administrative services expenses attributed to the Adviser were \$104,171 and \$205,462 for the three and six months ended June 30, 2018, respectively.

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:

<u>Period Ended</u>	<u>Advisory Fees Waived and Subject to Recoupment⁽¹⁾</u>	<u>Administrator fees Waived and Subject to Recoupment⁽¹⁾</u>	<u>Recoupment Eligibility Expiration</u>
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	Expired
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 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 six months ended June 30, 2019 were \$291,234 and \$586,411, respectively, and consisted of the following:

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Audit and tax fees	\$ 61,728	\$ 119,987
Legal fees	21,472	48,588
Custodian and accounting service fees	78,712	156,196
Reports to stockholders	13,303	33,104
Stock transfer fee	99,673	198,174
Directors' fees	5,232	10,150
Other expenses	11,114	20,212
Total	\$ 291,234	\$ 586,411

Our other expenses subject to the Expense Limitation Agreement for three and six months ended June 30, 2018 were \$271,927 and \$613,809, respectively, and consisted of the following:

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
Audit and tax fees	\$ 54,034	\$ 110,253
Legal fees	38,311	88,184
Custodian and accounting service fees	79,004	156,164
Reports to stockholders	11,379	23,462
Stock transfer fee	43,806	149,134
Directors' fees	4,903	9,346
Other expenses	40,490	77,266
Total	\$ 271,927	\$ 613,809

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

Net Investment Income

We earned net investment income of \$876,514 or \$0.08 per share, and \$759,076 or \$0.07 per share, for the three months ended June 30, 2019 and June 30, 2018, respectively. We earned net investment income of \$1,706,727 or \$0.16 per share, and \$1,169,592 or \$0.11 per share for the six months ended June 30, 2019 and June 30, 2018, respectively.

Net Realized Gains or Losses

We had sales or principal repayments of \$19,167,964 and \$29,672,673 during the three months ended June 30, 2019 and June 30, 2018, respectively, from which we realized a net gains/(losses) of \$109,755 and \$1,596,602, respectively. We had sales or principal repayments of \$27,960,827 and \$42,734,541 during the six months ended June 30, 2019 and June 30, 2018, respectively, from which we realized a net gains/(losses) of \$896,508 and \$1,398,260, respectively. Additionally, during the three months ended June 30, 2019 and June 30, 2018, we realized gains/(losses) on total return swaps of \$444,361 and \$268,706, respectively. During the six months ended June 30, 2019 and June 30, 2018, we realized gains/(losses) on total return swaps of \$806,842 and \$268,422, respectively.

Net Change in Unrealized Appreciation (Depreciation) on Investments

For the three months ended June 30, 2019 and June 30, 2018, the net change in unrealized appreciation (depreciation) on investments totaled \$(1,351,556) or \$(0.13) per share, and \$(1,681,212) or \$(0.16) per share, respectively. For the six months ended June 30, 2019 and June 30, 2018, the net change in unrealized appreciation (depreciation) on investments totaled \$2,869,690 or \$0.28 per share, and \$803,110 or \$0.08 per share, respectively. For the three months ended June 30, 2019 and June 30, 2018, the net change in unrealized appreciation (depreciation) on the TRS was \$223,217 and \$(358,549), respectively. For the six months ended June 30, 2019 and June 30, 2018, the net change in unrealized appreciation (depreciation) on the TRS was \$30,714 and \$515,235, respectively. The net change in unrealized appreciation (depreciation) on our investments during the six months ended June 30, 2019 and June 30, 2018 was primarily driven by the performance of the Valeant Pharmaceuticals, Inc. 6.125% Corporate Bonds and the performance of the TerreStar Corp. common stock, respectively.

Net Increase from Payment from Affiliates

For the three and six months ended June 30, 2019 and June 30, 2018, 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 June 30, 2019 would have been lower. These payments are not recoupable.

Net Increase (Decrease) in Net Assets Resulting from Operations

For the six months ended June 30, 2019 and June 30, 2018, the net increase/(decrease) in net assets resulting from operations was \$6,310,481 or \$0.61 per share, and \$4,154,619 or \$0.40 per share, respectively.

	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
Income	\$ 4,029,071	\$ 3,967,081
Net expenses	(2,322,344)	(2,797,489)
Net realized gain/(loss)	1,703,350	1,666,682
Net unrealized appreciation (depreciation)	2,900,404	1,318,345
Net increase from amounts committed by affiliates	—	—
Total	<u>\$ 6,310,481</u>	<u>\$ 4,154,619</u>

For the three months ended June 30, 2019 and June 30, 2018, the net increase/(decrease) in net assets resulting from operations was \$299,291 or \$0.03 per share, and \$584,623 or \$0.06 per share, respectively.

	For the Three Months Ended June 30, 2018	For the Three Months Ended June 30, 2018
Income	\$ 2,040,664	\$ 1,830,476
Net expenses	(1,164,150)	(1,071,400)
Net realized gain/(loss)	554,116	1,865,308
Net unrealized appreciation (depreciation)	(1,131,339)	(2,039,761)
Net increase from amounts committed by affiliates	—	—
Total	<u>\$ 299,291</u>	<u>\$ 584,623</u>

Financial Condition, Liquidity and Capital Resources

As of June 30, 2019 and December 31, 2018, we had cash and cash equivalents of \$6,627,184 and \$7,112,205, respectively. As of June 30, 2019 and December 31, 2018, \$3,707,254 and \$6,957,619 was held in the State Street U.S. Government Money Market Fund, and \$2,919,930 and \$154,586 was held in a custodial account with State Street Bank and Trust Company, respectively. Cash and cash equivalents are available to fund new investments, pay operating expenses and pay distributions.

In aggregate as of June 30, 2019 the Adviser controls 2,426,193 total shares, including reinvestment of dividends, for a net amount of approximately \$20.9 million.

The sales commissions and dealer manager fees related to the sale of our common stock were \$0 and \$413,024 for the six months ended June 30, 2019 and June 30, 2018, respectively, and were offset against capital in excess of par value on the financial statements.

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

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

We may borrow funds to make investments, including before we have fully invested the proceeds of our continuous public offering, to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities. On January 6, 2015, we entered into a senior, secured revolving credit facility (the “Credit Facility”) with State Street Bank and Trust Company (“State Street”) as lender and agent. Under the Credit Facility, State Street had agreed to extend credit to us, in an aggregate principal amount of up to \$25 million, subject to borrowing base availability and restrictions on our total outstanding debt. Loans under the Credit Facility bore interest (at our election) at either (1) the higher of (i) the federal funds rate plus 1.25% per annum and (ii) the daily one-month London Interbank Offered Rate (“LIBOR”) plus 1.25% per annum or (2) one-, two- or three-month LIBOR plus 1.15% per annum. Interest was payable monthly in arrears. On January 5, 2016, the Company amended the Credit Facility with State Street and extended the maturity to January 3, 2017. The amendment to the Credit Facility did not contain any other material changes to the original agreement which was entered into on January 6, 2015 other than increasing the commitment fee from 0.15% to 0.25% per annum on the daily unutilized portion of the \$25 million program amount. On January 3, 2017, the Company amended the Credit Facility with State Street and extended the maturity to March 20, 2017. The Credit Facility was fully paid down on February 24, 2017 and expired on March 20, 2017. The Company incurred costs of \$25,000 in connection with obtaining the Credit Facility. As of December 31, 2018, all such financing costs have been amortized to interest expense.

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

As of June 30, 2019 and December 31, 2018, \$36,566,744 and \$32,583,965, respectively, were outstanding under the Financing Arrangement.

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

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Direct interest expense	\$ 339,299	\$ 645,649
Commitment fees	—	—
Amortization of financing costs	—	—
Total	<u>\$ 339,299</u>	<u>\$ 645,649</u>

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
Direct interest expense	\$ 155,891	\$ 356,623
Commitment fees	—	—
Amortization of financing costs	—	—
Total	<u>\$ 155,891</u>	<u>\$ 356,623</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 June 30, 2019, the TRS had a notional amount of \$53,318,467 and a market value of \$50,487,287. Cash collateral of \$21,880,000 was posted against the TRS as of June 30, 2019. As of December 31, 2018, the TRS had a notional amount of \$55,763,056 and a market value of \$53,007,114. Cash collateral of \$20,580,000 was posted against the TRS as of December 31, 2018. 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 June 30, 2019 and December 31, 2018, we had no outstanding commitments to fund investments.

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

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

The second part of the incentive fee, which is referred to as the incentive fee on capital gains, is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement). This fee equals 20.0% of our incentive fee capital gains, which will equal our realized capital gains on a cumulative basis from formation, calculated as of the end of the applicable period, computed net of all realized capital losses (proceeds less amortized cost) and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gains incentive fees. We will accrue for the capital gains incentive fee, which, if earned, will be paid annually. We will accrue for the capital gains incentive fee based on net realized and unrealized gains; however, under the terms of the Investment Advisory Agreement, the fee payable to the Adviser will be based on realized gains and no such fee will be payable with respect to unrealized gains unless and until such gains are actually realized. For the three months ended June 30, 2019 and June 30, 2018, the Company incurred \$0 and \$(34,891) of incentive fees on capital gains, respectively. For the six months ended June 30, 2019 and June 30, 2018, the Company incurred \$0 and \$597,005 of incentive fees on capital gains, respectively. 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 June 30, 2019.

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

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

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

If for any taxable year we were not a “publicly offered” RIC within the meaning of Code Section 67(c)(2)(B), certain of our direct and indirect expenses, including the management fee, the incentive fee and certain other advisory expenses, would be subject to special “pass-through” rules. Such rules would treat these expenses as additional dividends to certain of our direct or indirect stockholders (generally including individuals and entities that compute their taxable income in the same manner as an individual) and 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 monthly distributions to be paid monthly to our stockholders as determined by the Board. In addition, we also intend to distribute any realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) at least annually.

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

To the extent our taxable earnings fall below the total amount of our distributions for a taxable year, a portion of those distributions may be deemed a return of capital to our stockholders for U.S. federal income tax purposes. Thus, the source of a distribution to our stockholders may be the original capital invested by the stockholder rather than our income or gains. Stockholders should read any written disclosure accompanying a distribution payment carefully and should not assume that the source of any distribution is our ordinary income or gains. Required distributions are driven by tax laws and thus tax accounting applies, not GAAP. Therefore, it is possible that we pay more in required distributions than we earn for book purposes. For the three and six months ended June 30, 2019 and June 30, 2018, 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 six months ended June 30, 2019, the Company made the following distributions:

Payable Date	Dividend/ Share⁽¹⁾	Total Dividend⁽¹⁾	Dividends Reinvested
6/26/2019	0.060	624,201	396,249
5/30/2019	0.060	625,758	398,933
5/01/2019	0.060	623,117	396,582
3/27/2019	0.060	620,420	392,542
2/27/2019	0.060	625,257	397,969
1/30/2019	0.060	622,648	397,645
1/03/2019 ⁽²⁾	—	—	456,444
Total	\$ 0.180	\$3,741,401	\$2,836,364

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

² The December 2018 Dividend was reinvested in January 2019, see total December 2018 Dividend in table below.

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

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

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

² The December 2018 Dividend will be reinvested in January 2019.

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

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

Related Party Transactions

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

- We entered into the Investment Advisory Agreement with the Adviser. James Dondero, our president, controls the Adviser by virtue of his control of its general partner, NexPoint Advisors GP, LLC.
- Pursuant to an expense limitation agreement, the Adviser has agreed to waive fees or, if necessary, reimburse us to limit certain expenses to 1.0% of the quarter-end value of our gross assets.
- The Adviser provides us with the office facilities and administrative services necessary to conduct our day-to-day operations pursuant to the Administration Agreement.
- The Adviser has entered into an agreement with Highland, its affiliate, pursuant to which Highland makes available to the Adviser experienced investment professionals and other resources of Highland and its affiliates.
- The dealer manager for our continuous public offering, Highland Capital Funds Distributor, Inc., is an affiliate of the Adviser.
- In aggregate as of June 30, 2019, the Adviser controls 2,426,193 total shares, including reinvestment of dividends, for a net amount of approximately \$20.9 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 June 30, 2019 would have been lower. These payments are not recoupable by the Adviser.

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

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

Critical Accounting Policies

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

Fair Value of Financial Instruments

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

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

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

The Board 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 June 30, 2019, 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	\$ 152,278
OmniMax International, Inc.	Common Stocks	468,468
SteadyMed Ltd.	Common Stocks	14,509
NexPoint Capital REIT, LLC	Common Stocks	2,232,005
TerreStar Corp.	Common Stock	4,054,150
Terrestar Corp.	Senior Secured Loans	130,825
Terrestar Corp.	Senior Secured Loans	552,603
OmniMax International, Inc.	Unsecured Loans	4,066,636
Galena Biopharma, Inc.	Warrant	—
Gemphire Therapeutics, Inc.	Warrant	24,458
OmniMax International, Inc.	Warrant	14,501
SCYNEXIS, Inc.	Warrant	67,813

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

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

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

Organization Costs

Organization costs include the cost of incorporation, such as the cost of legal services and other fees pertaining to our organization. Organization costs, together with offering costs, are limited to 1% of total gross proceeds raised in the offering and are not due and payable to the Adviser to the extent they exceed that amount. For the three and six months ended June 30, 2019 and June 30, 2018, the Adviser did not incur or pay any organization costs on our behalf. For the period from our inception to June 30, 2019, 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 six months ended June 30, 2019, the Adviser incurred offering costs of \$0 and \$0, respectively, on our behalf. For the three and six months ended June 30, 2018, the Adviser incurred offering costs of \$0 and \$238,568, respectively, on our behalf. For the three and six months ended June 30, 2019, the Company capitalized \$0 and \$0 of offering costs, respectively. For the three and six months ended June 30, 2018, the Company capitalized \$0 and \$61,462 of offering costs, respectively. Of the capitalized offering costs, \$0 and \$5,445 were amortized to expense during the three and six months ended June 30, 2019, respectively. Of the capitalized offering costs, \$51,691 and \$119,845 were amortized to expense during the three and six months ended June 30, 2018. As of June 30, 2019 and June 30, 2018, \$0 and \$70,447 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 June 30, 2019, the cumulative aggregate amount of \$5,327,574 of organization and offering costs exceeds 1% of total proceeds raised. Subsequent to the termination of the Offering, the Adviser forfeited the right to reimbursement of the remaining \$4,305,091 of these costs.

Investment Transactions and Related Investment Income and Expense

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

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

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

Loan Origination, Facility, Commitment and Amendment Fees

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

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

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

U.S. Federal Income Taxes

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, most significantly changes in interest rates. As of June 30, 2019, 53% (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 June 30, 2019 were to remain constant and that we took no actions to alter our existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

<u>Change in interest rates</u>	<u>Increase (decrease) in interest income⁽¹⁾</u>	<u>(Increase) decrease in interest expense⁽¹⁾</u>	<u>Increase (decrease) in net investment income</u>
Down 25 basis points	(163,364)	240,227	76,863
Up 50 basis points	326,727	(480,453)	(153,726)
Up 100 basis points	653,454	(960,907)	(307,453)
Up 200 basis points	1,306,909	(1,921,813)	(614,904)
Up 300 basis points	1,960,363	(2,882,720)	(922,357)

⁽¹⁾ Includes the net effect of the change in interest rates on the unrealized appreciation (depreciation) on the TRS. As of June 30, 2019, 100% of the loans underlying the TRS paid variable interest rates.

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

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

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Investment Company Act of 1940, as amended, is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the principal executive officer and principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. 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 upon that evaluation, our president and chief financial officer concluded that our disclosure controls and procedures were effective.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

As of June 30, 2019, management remediated the material weakness previously identified as of December 31, 2018 relating to the application of ASC 820 and the reasonableness and reliability of assumptions used in the fair value model process which are monitored by the Valuation Committee through the operation of a review control (the "Material Weakness"). This control was not designed at an appropriate level of precision to ensure the accurate valuation of Level 3 securities. The Material Weakness resulted in material pricing errors related to a hard-to-value security held by the Company over a period of time.

The steps we took to remediate this material weakness included: i) enhancing a separate review control by adding control activities designed to operate at a level of precision which will enable such errors to be detected and by adding an additional member to the Valuation Sub-Committee to conduct such control activities, ii) providing additional training to members of its Valuation Sub-Committee and Valuation Committee with respect to the application of ASC 820 and the usage of subject matter expert inputs as inputs to fair value determinations, and iii) creating and implementing a guide for use of the Valuation Sub-Committee and Valuation Committee for the application of ASC 820 to fair value models.

As a result of the remediation activities, we have determined that our controls were designed appropriately and at a sufficient level of precision, and have been operating effectively for a sufficient period of time, such that the material weakness previously identified as of December 31, 2018 has been remediated as of June 30, 2019.

Changes in Internal Control over Financial Reporting

There have been no material changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control 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>
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>

Number	Description
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 23, 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: August 14, 2019

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

Date: August 14, 2019

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: August 14, 2019

/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: August 14, 2019

/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 six months ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, James Dondero and Frank Waterhouse, President and Principal Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: August 14, 2019

/s/ James Dondero

James Dondero
President and Principal Executive Officer

/s/ Frank Waterhouse

Frank Waterhouse
*Treasurer, Principal Accounting Officer and Principal
Financial Officer*