

NEXPOINT STRATEGIC OPPORTUNITIES FUND

Performance Summary

The NexPoint Strategic Opportunities Fund (the “Fund,” ticker: NHF) had a total market return of -10.35% and a NAV return of -5.88% during the second quarter of 2019. These compare to a gross return of 2.35% for the Credit Suisse Hedge Fund Index and 1.58% for the HFRX Global Hedge Fund index during the same period. Positive contributors was CLO Equity and Private Real Estate. Detractors to performance were driven by single name equity positions.

For the quarter ended June 30, 2019, the top contributing investments to performance was the Joint Venture with Jernigan Capital and CLO Equity positions. Overall, positions in real estate contributed the most to NAV. The top detracting investments in the portfolio were Portola Pharmaceuticals, Aerie Pharmaceuticals and Vistra Energy.

Total Return Analysis

	1 Year	3 Year	5 Year	10 Year	ITD
NHF Market Price	-3.5	9.9	3.2	15.4	3.2
NHF NAV	-1.3	9.4	2.3	13.1	3.7
MARKET INDICES					
DJCS Hedge Fund Index ¹	2.5	4.4	2.4	5.0	4.2
HFRX Global Hedge Index ¹	-2.0	2.1	-0.1	1.4	0.2

Top Holdings

Bond/Loan/Other		Bond/Loan/Other	
FREMF Mortgage Trust	5.1%	NexPoint RE	
FREMF Mortgage Trust	5.1%	Opportunities, REIT	27.4%
Grayson CLO	2.4%	Jernigan Capital	11.3%
Greenbriar CLO	2.3%	Specialty Financial	
Stratford CLO	2.1%	Products	3.8%
		TerreStar Corporation	3.8%
		NexPoint Real Estate	
		Capital, REIT	3.6%

FEES AND EXPENSES

Expense Ratios: Management Fee: 1.00%; Interest Expense: 0.73%; Other: 0.41%; Total Expense Ratio: 2.14%; Expense Ratio Excluding Interest: 1.41%
Expense ratios are based on managed net assets as reported in the Fund’s Annual Report dated December 31, 2018.

¹ Index Definitions: The Dow Jones Credit Suisse Hedge Fund Index is an asset-weighted index that includes funds with assets of \$50m or more. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. Indices are unmanaged, have no fees or costs, and are not available for investment.

This commentary contains information about prior investments made by the Adviser of the Fund. This information was prepared by the Adviser based on its experience in the industry and on assumptions of fact and opinion as to future events which the Adviser believed to be reasonable when made. There can be no assurance that the Adviser and/or the Fund will be as successful as these earlier investments. Prior investment returns are not indicative of future results. It should not be assumed that investment recommendations made in the future will be profitable or will equal the performance of the securities included herein.

Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange and frequently trade at prices lower than their net asset value. Net Asset Value (NAV) is total assets less total liabilities, which includes preferred shares, divided by the number of common shares outstanding. When net asset value (NAV) is lower than market price, dividends are assumed to be reinvested at the greater of NAV or 95% of the market price. When NAV is higher, dividends are assumed to be reinvested at market price. For additional information, please contact your investment adviser or visit our website, www.nexpointadvisors.com.

Portfolio Highlights

On April 11, 2019, the Fund announced the commencement of a non-transferable rights offering to purchase additional shares of common stock of the Fund. The offering was a success, with total subscriptions equaling over 230% of the primary offering. The Fund successfully raised \$240 million in new investor capital to take advantage of accretive and opportunistic investment ideas.

NHF has invested in three separate Freddie Mac sponsored K-Deals securitizations, more specifically B-Pieces, which have been, in our opinion, a successful and sought-after exclusive securitization program offering a wide-range of multifamily products. As of June 30, 2019, there have been 291 K-Deal transactions for a combined \$317.4 billion in issuance and 16,188 loan originated and securitized with less than 1 basis point of losses. B-Pieces offer an attractive risk-adjusted return with a strong underlying credit profile, pooled diversification, and are backed by an asset class we intimately understand.

NREO has recently made a number of investments in real estate assets. These investments included VineBrook, SAFStor, CityPlace Tower, and Marriott Modern Uptown Dallas.

- VineBrook owns and operates approximately 4,900 cash flowing single family rental homes in well-located areas across the Midwest. VineBrook looks to exploit the fundamental mispricing of workforce single-family residential assets in the U.S., leveraging supply-demand imbalances to acquire units at significant discounts to replacement cost and to generate attractive income from rental operations.
- SAFStor owns, develops and redevelops single and multi-story self-storage properties. As of June 30, 2019, NREO has invested \$44.5 million of equity to fund the development of 7 individual storage facilities.
- CityPlace Tower is a 42-story, 1.3 million square foot, trophy office building located adjacent to the Uptown submarket in Dallas, Texas. We plan to invest significant capital to provide class-A amenities and reposition the asset to achieve higher rental rates in both the office and retail spaces. The building will house a five-star hotel operated by InterContinental Hotels Group. The Hotel will occupy eight of the building's 42 floors and will contain a restaurant, full bar, and lounge. Plans for the restaurant include a terrace overlooking Uptown and Downtown Dallas. The hotel is expected to open in early 2022.

- In March NREO contributed shares of the NexPoint Hospitality Trust to be listed on the Toronto Venture Exchange and are traded under the symbol "NHT". In connection with the offering the REIT acquired a portfolio of 11 full time-service and select-service hotel properties located across five states and six major metropolitan markets in the United States.
- As of June 30, 2019, NREO has invested \$25.5 million of equity to fund an upscale Marriott hotel in the heart of the Uptown submarket of Dallas, Texas. The total project costs is roughly \$103 million and upon completion, will boast 255 upscale guestrooms with approximately 13,000 square feet of meeting space. The Marriott Uptown will fill a void in the immediate submarket which lacks an affordable, quality hotel for the business traveler.

Lastly, the preferred equity real estate positions in NREC made a meaningful contribution to the Fund's performance. For the first half of 2019, NREC received gross distributions of \$4.4 million, which included \$3.0 million from 1 investment redeemed during the period. The redeemed investments generated a 13.9% internal rate of return throughout its hold period. As of June 30, 2019, NREC had preferred equity positions in 6 multifamily properties, representing \$30.3 million of invested capital.

RISKS AND DISCLOSURES

The information herein has been prepared by the Investment Adviser, is based upon unaudited information, and has not been independently audited or verified. This summary is for informational purposes only and is subject to change.

Past performance is no guarantee of future results. The rate of return will vary and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Returns are historical and include change in share price and reinvestment of all distributions. Total investment return does not reflect broker sales charges or commissions. All performance information is for common shares of the Trust. See the prospectus and financial statements for more information before investing.

Portfolio and industry composition may change with market conditions. The Fund's portfolio holdings are subject to change without notice. The mention of specific securities is not a recommendation or solicitation for any person to buy, sell or hold any particular security.

Shares of closed-end funds frequently trade at a discount to their net asset value. Because of this possibility and the recognition that any such discount may not be in the interest of shareholders, the Board might consider from time to time engaging in open-market repurchases tender offers for shares or other programs intended to reduce the discount.

Interest Rate Risk. The risk that debt securities, and the Trust's net assets, may decline in value because of changes in interest rates. Generally, debt securities will decrease in value when interest rates rise and increase in value when interest rates decline.

Credit Risk. The risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty of a derivatives contract or repurchase agreement, is unable or unwilling (or is perceived to be unable or unwilling) to make a timely payment of principal and/or interest, or to otherwise honor its obligations.

Leverage Risk. Leverage may increase the risk of loss, cause fluctuations in the market value of the Fund's portfolio to have disproportionately large effects or cause the NAV of the Fund generally to decline faster than it would otherwise.

Illiquidity Risk. The investments made by the Trust may be very illiquid, and consequently, the Trust may not be able to sell such investments at prices that reflect the Investment Adviser's assessment of their fair value or the amount paid for such investments by the Trust.

Before investing in the Fund, you should carefully consider the Fund's investment objectives, risks, charges and expenses. For a copy of a prospectus which contains this and other information, please visit our website at www.nexpointadvisors.com or call 1-866-351-4440. Please read the fund prospectus carefully before investing.