

NEXPOINT STRATEGIC OPPORTUNITIES FUND

Performance Summary

The NexPoint Strategic Opportunities Fund (the “Fund,” ticker: NHF) had a total market return of 2.30% and a NAV return of 2.53% during the fourth quarter of 2019. These compare to a total return of 2.44% for the Credit Suisse Hedge Fund Index and 2.57% for the HFRX Global Hedge Fund index during the same period. Some of the largest contributors to performance include Private Real Estate, Fortinet, MGM, Pioneer Natural Resources, and Argentine Sovereign debt. Some of the largest detractors to performance included Vistra Energy and Portola Pharmaceuticals.

On October 25, 2019 the Board of Trustees approved a repurchase program to repurchase up to \$25 million of the Fund's shares over a six month period. The program allows for the Fund to repurchase shares, if trading at a discount, in open market transactions until the conclusion of the repurchase period on April 24, 2020.

Total Return Analysis

	1 Year	3 Year	5 Year	10 Year	ITD
NHF Market Price	5.66	8.28	4.62	12.32	5.52
NHF NAV	4.76	6.39	4.65	14.38	3.68
MARKET INDICES					
DJCS Hedge Fund Index ¹	9.31	4.26	2.65	4.25	4.25
HFRX Global Hedge Index ¹	8.62	2.40	1.19	1.11	0.53

Top Holdings

NexPoint Real Estate Opportunities, REIT	20.1%
Jernigan Capital	9.8%
NexPoint Hospitality Trust	5.7%
FREMF 2018-KC02	4.7%
FREMF 2019-K90	4.7%
SFR WLIF I	3.4%
Terrestar Corp	3.1%
Speciality Financial Products	3.0%
NexPoint Real Estate Capital	2.9%
SFR WLIF II	2.3%

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.

A significant amount of the proceeds of the rights offering have been invested in high conviction private real estate including Freddie Mac K-Deals, a portfolio of single family mortgage loans as well as in the Fund's wholly owned Private REITs. NHF has two private REITs, NexPoint Real Estate Opportunities, LLC ("NREO") and NexPoint Real Estate Capital, LLC ("NREC"). As of December 31, 2019, NREC had preferred equity positions in 6 multifamily properties, representing \$30.5 million of invested capital.

NREO includes several private real estate assets. These investments include SAFStor, CityPlace Tower, and Marriott Modern Uptown Dallas, and a single-family rental private REIT.

- NREO has an interest in a single-family rental private REIT that owns and operates nearly 7,000 cash flowing single family rental homes in 12 markets across the Midwest. The REIT looks to benefit from the fundamental mispricing of workforce single-family rental (SFR) assets in the U.S., leveraging supply-demand imbalances and fragmentation in the market to acquire units at significant discounts to replacement cost and capitalization rates significantly higher than comparable multifamily assets. The workforce SFR sector has been helped by the expansion of the U.S. rental base as well as the well documented shortage of lower priced housing options in the country.
- SafStor owns, develops and redevelops single and multi-story self-storage properties. The properties are located in markets with high barriers to entry and are undersupplied. We look for markets that offer low delinquency, high traffic count, high population growth with above average household income. Property management is performed by reputable operators such as Extra Space Storage and CubeSmart. As of December 31, 2019, NREO has invested \$47.6 million of equity to fund the development of 8 individual storage facilities. Additionally, we have 36 projects in the construction or planning phase with expected completion in May 2020 – December 2022. The weighted average yield on cost is 8.6% for all 43 properties. We expect appreciation of the storage portfolio once development is complete.
- CityPlace Tower is a 42-story, 1.35 million square foot, trophy office building located adjacent to the Uptown submarket in Dallas, Texas. We acquired the property in 2018 and according to an appraisal performed by JLL the property was purchased at a 5.1% discount to the current as-is market value and a 50.8% discount to replacement cost. The prior owners were unwilling to invest significant capital to remain competitive with the properties competitive set. For example, due to prior ownership, CityPlace

was budgeted to average approximately \$14/square foot in NNN rent equivalent during 2019. Similar office assets in the Uptown-Dallas submarket are achieving average NNN rents of \$30/square foot. We are investing significant capital to provide class-A amenities and reposition the asset to achieve higher rental rates in both the office and retail spaces. The office tower will house a 223-key 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 and is expected to more than double NOI of the building once stabilized. There are also plans to enhance shared spaces and amenities for tenants, renovating the lobby, introduce concourse-level fast food and retail offerings, and build a new fitness center. We also built a datacenter in a space that was considered unusable and is expected to generate an additional \$700k in ancillary income.

- As of December 31, 2019, NREO has invested \$37.3 million of equity to fund the development of an upscale Marriott hotel in the heart of the Uptown submarket of Dallas, Texas. The total project costs is roughly \$105 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. The hotel is scheduled for completion in the 3rd quarter of 2020, and we anticipate significant appreciation potential after completion.

NHF owns an interest in Nexpoint Hospitality Trust which trades on Toronto Venture Exchange under symbol NHT.V. NHT oversees 11 full-service and select-service hotels located in the United States. NHT announced an agreement to acquire Condor Hospitality Trust, Inc. (NYSE: CDOR) in July 2019, with the pending acquisition still subject to certain closing conditions being met

NHF has invested in several 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 December 31, 2019, there have been 330 K-Deal transactions for a combined \$353.4 billion in issuance and 17,650 loan originated and securitized with less than 1 basis point of losses. We believe 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.

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.