NEXPOINT

MIDYEAR UPDATE AND OUTLOOK

NEXPOINT STRATEGIC OPPORTUNITIES FUND

SUMMARY

We are approaching the midpoint of 2020—a year marked by unprecedented medical, economic, and social challenges that will have lasting effects around the world. While NexPoint, like all other organizations, was impacted by the global outbreak of COVID-19, we had plans and procedures in place that helped mitigate major issues and ensure the continuity of our business and investment operations.

The NexPoint Strategic Opportunities Fund (NYSE:NHF) (the "Fund") felt the effects of the pandemic in the turmoil that swept through markets in the first quarter; however, we saw resiliency in the Fund's net asset value ("NAV") during that time, substantiating our confidence in the portfolio's ability to weather volatility. Now, as we look out to the remainder of 2020—and across a longer-term time horizon—our conviction in the portfolio remains in place. We believe the Fund is well positioned to not only endure subsequent bouts of volatility, but also to capture the opportunities that arise as the economy recovers and markets continue to stabilize.

With the unprecedented start to the year, we wanted to use this juncture to provide an update on the Fund, a look at the current portfolio, an overview of 2020 thus far, and an outlook for the remainder of the year (and beyond).

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I. MARKET OUTLOOK

The Road to Recovery: Signs of Stability Following First Quarter Chaos

The first quarter was marked by extreme volatility, with the spread of COVID-19 creating chaos across global markets. Equity markets plummeted into bear market territory in just 20 days—the fastest bear market to arise in history. In the 21 trading days between February 27 and March 27 alone, we saw:

- The largest daily percentage gain since 1933;
- The second-largest percentage loss in *history;* and
- 18 days where the S&P 500 either rose or fell more than 2%.

Credit markets also experienced significant pressure. In a matter of weeks, leveraged loan prices dropped from an average of 96.70 to their March 23 lows of 76.23.

Fortunately, the chaos of Q1 waned as we entered the second quarter. Markets began to stabilize, as policymakers launched fiscal and monetary stimulus programs in record time to bolster the economy and provide direct relief to individuals and businesses.

As we started Q2, it also became apparent that the U.S. had avoided the worst-case scenario in terms of COVID-19 cases, reining in some of the biggest fears held by investors in March.

Though we are still facing significant uncertainty today around COVID-19, we believe the global economy and financial markets are in the early stages of an extended recovery.

The Amplifying Effect of COVID-19: Key Trends Accelerated by the Pandemic

As the recovery progresses, we see opportunity in a number of themes, formed around trends that existed prior to the pandemic, but were accelerated by the pandemic's effects.

The following includes some of the trends we were following that were augmented by the COVID-19 outbreak and the investment themes derived from them:

TREND	Growth of secondary and tertiary markets in the U.S.
DRIVEN BY	▪ Unsustainable cost of living in the largest U.S. cities ▪ Major employers shifting operations to more affordable regions with more attractive business climates
ACCELERATED BY	▪ High-density, urban areas looking less desirable during the pandemic ▪ Remote work providing flexibility for employees, eliminating the need to live in close proximity to the office
INVESTMENT OPPORTUNITIES	▪ Multifamily and single-family rental assets in high-growth markets ▪ Self-storage

TREND	Changes in the demographics—and desires—of renters
DRIVEN BY	▪ Declining homeownership due to financial barriers to purchasing a home and lack of supply for first-time buyers ▪ Growth in the overall U.S. renter population and a rise in the number of families renting ▪ Changing attitudes towards renting, creating more renters by choice
ACCELERATED BY	▪ Desire to leave high-density, urban areas as a result of the pandemic ▪ Renters seeking more space to promote distancing measures and/or to accommodate a home office setup for remote work
INVESTMENT OPPORTUNITIES	▪ Single-family rental assets

TREND	Institutionalization, consolidation, and modernization of real estate assets
DRIVEN BY	▪ Property owners unwilling to invest capital to modernize properties, yet unable to compete without improvements ▪ Increasing expectations for high-quality amenities from tenants at every price point
ACCELERATED BY	▪ Financial constraints from the economic shut-down eliminating the prospects for future capital investments ▪ Demand for pandemic-related amenities and services
INVESTMENT OPPORTUNITIES	▪ Single-family rental properties that can be acquired from smaller owners, renovated, and professionally managed in a larger portfolio ▪ Opportunistic office properties available at a discount with potential to achieve higher rental rates through renovations ▪ Hospitality assets that can be enhanced through capital and operational improvements

TREND	Prolonged, low-rate environment
DRIVEN BY	▪ Interest-rate trends pre-pandemic, with rates at generally low levels going into 2020
ACCELERATED BY	▪ The monetary response to the pandemic, which included drastic rate cuts and suggestions that accommodative monetary policies could stay in place for an extended period of time
INVESTMENT OPPORTUNITIES	▪ Defensive real estate, which has the ability to generate more attractive returns relative to other asset classes in this environment

TREND	Technology changing industry landscapes
DRIVEN BY	▪ Changing consumer habits and increased use of technology in all aspects of day-to-day life ▪ Continued adoption of technology by businesses, often replacing entire functions
ACCELERATED BY	▪ Stay-at-home restrictions forcing adoption of technology across industries (e.g. retail forced into e-commerce, healthcare forced into telemedicine, etc.) ▪ Shut-down of the economy having outsized effects on businesses that had been slow to embrace technology and unable to adapt during the pandemic
INVESTMENT OPPORTUNITIES	▪ Wireless spectrum assets, which benefit from growth in smartphone technology, streaming, internet-connected devices, etc., as well as need to expand capacity for critical services like telemedicine

These were investment themes already represented in our portfolios; however, the pandemic had a magnifying effect on the underlying trends, creating additional opportunity.

II. FUND UPDATE: NAVIGATING 2020

Fund Performance in Q1

During the first quarter, the Fund had a total market return of -51.65%; however, the NAV showed relative strength over the quarter, with a return of -19.57%. During the same period the Closed-End Tactical Allocation Category returned -23.43%, the Credit Suisse Hedge Fund Index returned -8.98%, and the HFRX Global Hedge Fund Index returned -6.85%.

Despite the challenges in Q1, we maintain high conviction in the Fund's portfolio. In particular, we believe the Fund's allocation to opportunistic, durable, and defensive real estate makes it well positioned both in the current environment and over the long term. We believe the real estate sector has the potential to generate the best risk-adjusted return of any sector over the next several years, and the current portfolio composition reflects our constructive outlook in the space.

We recognize that this outlook is not captured in the Fund's share price relative to its NAV. The Fund has been trading at a significant discount, which widened in the first quarter. We saw deep discounts across much of the closed-end fund universe during this time, with discounts in Q1 widening by 54% among our closed-end fund peer group. However, the Fund's discount was driven by more than just the peer group's first quarter performance. We believe the Fund's trading value is a result of factors that existed prior to the pandemic (described more below); the issues plaguing the closed-end fund universe in Q1 only added to those challenges.

Addressing the Fund's Trading Value

Historically, the Fund has traded at an average discount of approximately 11%. This includes performance during the 2008-2009 financial crisis, when the Fund's discount reached 41%. The discount in Q1 was thus a new low. But while the volatility in the quarter was certainly unprecedented, we believe it is only partially responsible for the Fund's performance. In our view, misperceptions of the portfolio, investment process, and certain holdings, among other things, have had a greater influence on performance.

We take the Fund's performance and discount very seriously. As such, we have pursued several initiatives to narrow the discount, and are actively considering additional measures. We also have a number of firm policies and practices (listed below) in place that support a more favorable trading value.

The lack of recognition of these features has contributed to the discount, so we are working to address this. The following information is part of that effort. Below we highlight key factors that we believe may enhance trading value and narrow the current discount, but have largely been misunderstood.

Key factors that we believe justify a more favorable trading value include:

ONGOING REPURCHASE PROGRAM

Among the current initiatives in place to help narrow the Fund's discount is a repurchase program that allows the Fund to repurchase and retire shares:

- Under the program, the Fund can repurchase shares, if trading at a discount, in open-market transactions until the conclusion of the repurchase period.
- On October 25, 2019, the Board of Trustees (the "Board") approved repurchases of up to $25 million of the Fund's shares over a six-month period.
    - This period coincided with the pandemic, and repurchases were thus affected by market volatility and other conditions; repurchases during this period ultimately totaled approximately $7 million.
- On April 24, 2020, the Board approved a new repurchase program, whereby the Fund may repurchase up to 10% of its stock in open market transactions over a one-year period.
    - The total repurchase amount and the timing of repurchases will be subject to the Fund's available cash, after consideration of reserves necessary for anticipated fund expenses and contingencies, and compliance with all applicable laws and regulations. The Fund may sell portfolio securities in order to generate cash. There is no assurance that the Fund will repurchase shares in any amount.
    - Since this repurchase program was approved, the Fund has been legally restricted from buying its own shares due to a pending proposal for a material corporate event, and therefore has not completed any repurchases to date under the plan. We currently expect that as of June 22, the Fund will not be restricted and able to repurchase, subject to the Fund's available cash, after consideration of reserves necessary for anticipated fund expenses, contingencies, and compliance with all applicable laws and regulations.

VALUATION POLICIES AND PROCEDURES

The Fund operates as part of an integrated investment platform that is comprised of a range of investment vehicles. The platform is supported by a robust back-office infrastructure, equipped to manage complex operations and preemptively address any potential conflicts of interest.

Accurate valuation is central to many of our investment strategies, and we have numerous funds and accounts on our platform for which this process is part of routine operations. Our valuation capabilities match the scope of our investment operations; we have experience that spans a wide variety of industries, asset classes, and investment structures, along with access to extensive resources and expertise that we can draw on to support valuation activities as necessary.

The following provides more detail on our valuation policies and procedures, which reflect regulatory best practices and include multiple levels of review:

(I) VALUATION COMMITTEE

The firm has a Valuation Committee that assists with the determination of fair value. The Valuation Committee is comprised of senior front- and back-office personnel and members of the compliance team.

(II) COMMITTEE MEETING REQUIREMENTS AND REVIEW PRACTICES

The Valuation Committee is required to meet once a month at a minimum; however, additional meetings may be held for both security- and fund-specific purposes.

- We continuously review securities that are subject to fair value pricing, and the Valuation Committee will meet on an ad-hoc basis to address any material events or developments that may affect an individual security.
- The frequency of Valuation Committee meetings is also based on the type of fund or account holding a fair value security. For example, the committee will meet more frequently to review fair value securities held in vehicles that conduct daily NAV calculations (such as closed-end funds), ensuring that all relevant inputs are kept up to date and the vehicle's NAV reflects the underlying security's fair value at any given time.

(III) FAIR VALUE METHODOLOGIES

In determining the fair value of a security, several methodologies may be employed, including those based on discounted cash flows, multiples, recovery rates, yields to maturity, discounts to public comparable, appraisals, local changes in cap rates, broker opinions of value, and other methodologies appropriate under the ASC 820 accounting standard.

(IV) INDEPENDENT, THIRD-PARTY ANALYSIS

We also use reputable third-party valuation firms in conjunction with our internal valuation processes. These firms provide objective, third-party analysis to support fair value determinations. They can also bring independence to the valuation process, providing impartial assessment and eliminating any potential conflicts of interest.

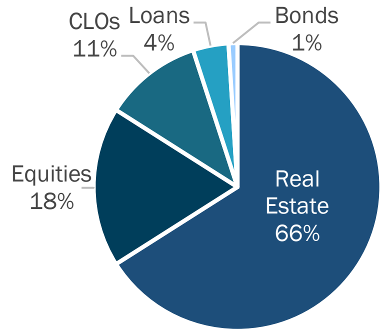
TRADING VALUE MOVING FORWARD

In our view, these factors support an improved trading value and, with adequate recognition, have the potential to narrow the Fund's current discount. In the meantime, given our conviction in the underlying valuation and growth opportunities within the portfolio, we view the Fund's current discount as a potential buying opportunity.

III. HIGHLIGHTS OF TOP HOLDINGS

As of March 31, 2020, the portfolio had the following allocation:

- Real Estate – 66%*
- Equities – 18%
- Collateralized Loan Obligations (CLOs) – 11%
- Loans – 4%
- Bonds – 1%



**Includes public and private real estate, credit, and equity.*

Top Holdings: Real Estate

NexPoint's real estate team has continued to drive growth at the firm. The team invests across property types, with experience in multifamily, single-family rentals, office, self-storage, healthcare, and hospitality, among other areas. Our real estate investment capabilities include debt, equity, agency MBS, direct origination, structured credit/preferred, and opportunistic and tax-advantaged transactions. Since 2012, our gross real estate transactions totaled more than $9.0 billion.[i] We have 49 realized real estate investments to date with a total return of $590 million, resulting in a combined 1.96x multiple on invested capital and a 31.6% gross IRR.[ii] Our real estate investments are held in a number of funds and investment vehicles across our platform. We also manage several dedicated real estate vehicles, including three publicly listed REITs.

As our real estate team continues to pursue compelling opportunities, we have increased the Fund's allocation to real estate. The following provides information on the Fund's top real estate holdings:

NEXPOINT REAL ESTATE OPPORTUNITIES

The Fund's largest holding is NexPoint Real Estate Opportunities, LLC ("NREO"), a wholly owned REIT comprised of direct real estate investments. These include investments in self-storage and single-family rentals, which we believe are well-positioned in today's environment, as well as office and hospitality properties that represent long-term potential.

HOLDING	NexPoint Real Estate Opportunities
% OF PORTFOLIO	25.4%
THEME(S)	Real Estate (Various)
OVERVIEW	Includes real estate investments in self-storage, single-family rentals, office, hospitality, etc.

The following provides more detail on the individual investments within NREO:

(I) SAFSTOR: SELF-STORAGE FACILITIES

SafStor owns, develops, and redevelops single- and multi-story self-storage properties in undersupplied markets with high barriers to entry. The company looks for markets that offer low delinquency, high traffic count, and high population growth, with above average household income. Property management is performed by reputable operators such as Extra Space Storage and CubeSmart.

As of March 31, 2020, through NREO, the Fund has invested $47.6 million of equity to fund the development of eight individual storage facilities. An additional 36 projects are in the construction and planning phases, with completions expected between Q3 2020 and Q4 2022. The weighted average yield on cost is 8.6% for all SafStore properties. Stabilized cap rates for similar properties average approximately 5.5%, reflecting the potential for SafStore properties to see significant increases in value once stabilized. Additionally, we expect appreciation of the storage portfolio once development is complete.

Self-storage is viewed as one of the most stable sub-sectors in real estate and has been able to withstand periods of economic weakness. While certain aspects of the self-storage business were temporarily impacted by COVID-19, SafStor projects did not experience any delays due to the pandemic. Leasing has remained steady and in line with underwriting.

(II) VINEBROOK: SINGLE-FAMILY RENTALS

NREO owns an interest in a NexPoint-advised real estate vehicle managed by VineBrook Homes, LLC (together, "VineBrook"), a real estate company that specializes in acquiring, renovating, and leasing single-family homes. VineBrook owns and operates a portfolio of 7,400 cash flowing single-family rental ("SFR") homes in 12 markets across the Midwest.

The SFR asset class has a strong fundamental backdrop, with macroeconomic conditions and shifting demographics contributing to the growing demand for single-family rental homes—an affordable alternative to homeownership. This demand is particularly strong in secondary and tertiary markets in the U.S. where there are favorable employment conditions and a reasonable cost of living.

Despite the strong demand for single-family rental homes, it is still an emergent asset class, evident in the fragmented landscape of owners and operators. The nascent development of the market presents opportunities for institutionalization, giving companies like VineBrook the potential to create value via scale and sophistication.

The SFR space is among the areas of real estate that has performed well during the pandemic, as rent collection and home prices remained stable in most markets. VineBrook's April rent collections came in at 97%, and May rent collections were similar, with 97.1% collected. Retention rates also rose sharply; the portfolio's tenet retention rate rose to 76%, significantly reducing turnover cost, and contributing to a strong occupancy rate of over 97%.

The sector could see additional tailwinds from COVID-19, including increased demand as renters move away from high-density, urban areas, facilitated by the rise of remote work.

(III) CITYPLACE TOWER: OFFICE

Cityplace Tower ("Cityplace") is a 42-story, 1.35 million-square-foot, trophy office building acquired in 2018. The building is adjacent to the Uptown submarket in Dallas, Texas. 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 keep up with the property's 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 submarket in Dallas are achieving average NNN rents of $30/square foot.

Plans include significant capital investments to bring class-A amenities to the property and reposition the asset, providing the potential to achieve higher rental rates in both the office and retail spaces.

Since the 2018 acquisition, the property announced plans to establish a 223-key, five-star hotel within the building, 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. The hotel is slated to open in early 2022 and is expected to more than double NOI of the building once stabilized.

(IV) MARRIOTT HOTEL PROJECT: HOSPITALITY

As of March 31, 2020, 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 cost is roughly $105 million and, upon completion, will boast 255 upscale guestrooms with approximately 13,000 square feet of meeting space. The property aims to fill a void in the immediate submarket, which lacks an affordable, quality hotel for the business traveler.

The project is currently over 80% complete and is expected to open in 2021.

FREDDIE MAC K-DEALS

The Fund has invested in several Freddie Mac sponsored K-Deals securitizations, a program offering a wide-range of multifamily products. The Fund's investments have focused on B-Pieces, which we believe offer an attractive risk-adjusted return with a strong underlying credit profile and pooled diversification.

HOLDING	Freddie Mac K-Deals
% OF PORTFOLIO	16.6%
THEME(S)	Defensive Real Estate – Affordable Housing
OVERVIEW	Securitization program offering a wide-range of multifamily products

Additionally, B-Pieces are backed by an asset class we intimately understand, as the underlying collateral is affordable workforce housing—an area that has proven to be resilient in economic downturns, is in short supply for necessity-based renters, and is squarely in our wheelhouse. NexPoint together with its advised funds, owns, oversees, and operates over 20,000 multifamily units across the U.S. and has worked with many of the underlying sponsors in the program. As a result, in each securitization, we have confidence in the underlying sponsors/borrowers, ensuring we are working with first-class operators and well-capitalized, prudent stewards of capital.

Summary of securitizations (as of April 30, 2020):

- K-Deal transactions: 342
- Combined issuance: $365.6 billion
- Number of loans originated and securitized: 18,151
- Losses: <1 bps of total issuance
- Performance: 99.95% of loans are current
  - Only 13 loans are in special servicing (less than .06% of outstanding principal)

We believe that the implied (albeit minimal) default and loss risk is lessened by the equity cushion, as well as Freddie Mac's rigorous underwriting standards. Only pre-approved investors can participate in B-Piece offerings and to qualify, investors must own and operate multifamily properties and demonstrate a relevant history of fixed-income and subordinated debt investing. These qualifications limit the demand for the B-Piece; in 2018, only 17 different buyers were approved.

HOLDING Jernigan Capital	
% OF PORTFOLIO	8.3%
THEME(S)	Defensive Real Estate - Self-Storage
OVERVIEW	Publicly traded REIT that provides debt and equity capital to private developers, owners, and operators of self-storage facilities

JERNIGAN CAPITAL, INC. (NYSE:JCAP)

Jernigan Capital, Inc. (NYSE: JCAP) ("JCAP") is a publicly traded REIT that provides debt and equity capital to private developers, owners, and operators of self-storage facilities, primarily focused on construction/development lending.

In July 2016, the Fund participated in a deal to purchase up to $125 million of Series A Preferred Stock, with each share entitled to receive cumulative cash distributions of 7% per annum. Holders of the Series A Preferred Stock are also entitled to receive an additional 7% dividend payable in common or preferred stock. The transaction also secured one seat on the company's board, which is held by the Fund's portfolio manager.

We believe self-storage development is an attractive area of commercial real estate, and with its highly-regarded management team and robust pipeline, we consider Jernigan Capital a strong partner to capture the opportunities in the space.

NEXPOINT REAL ESTATE FINANCE (NYSE:NREF)

NexPoint Real Estate Finance (NYSE:NREF) ("NREF") is a mortgage REIT that was listed on the NYSE in early February. NREF is focused on originating, structuring, and investing in a range of a range of commercial real estate financing opportunities, including: first mortgage loans; mezzanine loans; preferred equity; alternative structured financings in commercial real estate properties; and multifamily commercial mortgage backed securities.

NREF primarily pursues investments in areas where NexPoint's real estate team has operating expertise, including in the multifamily, single-family rental, self-storage, hospitality, and office sectors, with a geographical focus in the top 50 metropolitan statistical areas.

On February 11, 2020, as part of the formation transaction for NREF, certain assets held in the Fund,

HOLDING NexPoint Real Estate Finance	
% OF PORTFOLIO	7.2%
THEME(S)	Defensive Real Estate – Affordable Housing
OVERVIEW	Mortgage REIT focused on originating, structuring, and investing in a range of a range of commercial real estate financing opportunities

valued at $140 million, were contributed in exchange for operating partnership units of NREF valued at $140 million at the time of the IPO. We believe this has the ability to create additional value to Fund shareholders as mortgage REITs have historically traded between 1.2x and 1.5x book value.

Following the formation transaction, the initial portfolio (based on net equity) is comprised of:

- Senior pooled mortgage loans backed by SFR properties – 43%
- Multifamily CMBS B-Pieces – 39%
- Mezzanine loan and preferred equity investments in real estate companies and properties and other structured real estate investments – 18%

Other portfolio characteristics include:

- High credit quality, with 99.7% of the investments collateralized by stabilized properties with 92% occupancy;
- Weighted average DSCR of 1.8x;
- Weighted average loan to value of 66.9%; and
- Weighted average years to maturity of 8.1, with associated leverage that is matched in term structure, providing earnings stability.

We remain confident in NREF's underlying portfolio; however, the stock price was down 48% since listing, as mortgage REITs were significantly affected by the pandemic. We believe NREF's price, however, reflects indiscriminate selling across mortgage REITs—not any fundamental issues, as its net debt/book value is substantially lower than its peers. Further, NREF does not currently use repo financing and did not face margin calls like other mortgage REITs. Ultimately, the market appeared to recognize these critical differences, as the stock price has since rebounded 69.2% through April and May.

HOLDING	NexPoint Hospitality Trust
% OF PORTFOLIO	3.1%
THEME(S)	Long-Term, Value-Add Real Estate
OVERVIEW	Hospitality REIT focused on select-service hotels in the U.S.

NEXPOINT HOSPITALITY TRUST (TSXV:NHT.U)

The Fund owns an interest in NexPoint Hospitality Trust (TSXV:NHT.U) ("NHT"), a public REIT that trades on the Toronto Venture Exchange under symbol NHT.U. NHT oversees 11 full-service and select-service hotels located in the U.S. While the hospitality space is another area that has suffered as a result of the pandemic, NHT's management has launched numerous initiatives to help mitigating these effects. They have significantly reduced workforce, cut food and beverage offerings, and consolidated hotel floors to help fight superfluous expenses.

In July 2019, NHT announced a planned merger with Condor Hospitality Trust (NYSE:CDOR) ("Condor"), a hospitality REIT that owns 15 hotel properties across the U.S.; however, the deal has been delayed, and NHT is currently working with Condor to restructure the original agreement. With the delay of this deal and the impact that COVID-19 has had on the hospitality business, NHT was among the largest detractors to performance in the first quarter. However, we see long-term value in the position and believe it has the potential to experience shorter-term benefits tied to re-opening initiatives and other any signs of recovery.

CREEK PINE HOLDINGS

HOLDING	Creek Pine Holdings
% OF PORTFOLIO	2.3%
THEME(S)	Opportunistic Real Estate
OVERVIEW	Joint venture with ownership of timberlands located near top U.S. homebuilding markets

Creek Pine Holdings is a joint venture structured in May 2018 with a consortium of institutional investors to purchase 1.1 million acres of prime East Texas timberlands. The timberlands are located near top quartile mills, within approximately 100 miles of three of the top five U.S. homebuilding

markets: Austin, Dallas, and Houston. These markets provide strong and growing demand fundamentals.

The $1,264-per-acre acquisition cost basis, before transaction costs, compares favorably to regional industry benchmarks and supports an attractive return profile. We view this investment as a value-add opportunity, with improving inventory enhancing the harvest potential and providing an opportunity to restructure operations for optimal future cash flow and value. While the economic downturn has slowed housing supply, it has increased demand for pulp, which is used in materials such as boxes, tissues, and toilet paper.

Top Holdings: Other Sectors

Outside of real estate the Fund holds other opportunistic investments. The top holding in this group is comprised of debt and equity positions in TerreStar, which licenses wireless spectrum.

TERRESTAR[iii]

HOLDING	TerreStar (Debt & Equity)
% OF PORTFOLIO	6.9%
THEME(S)	Wireless Spectrum Demand
OVERVIEW	Hard asset with favorable supply/demand dynamics

TerreStar Corporation ("TerreStar") is a privately held, nationwide licensee of wireless spectrum, an asset that most people use every day. Spectrum is the radio frequency that carries all wireless communication signals. The Federal Communications Commission (the "FCC"), which has regulatory oversight in the space, administers spectrum for non-federal use. The FCC typically sells or assigns initial wireless spectrum licenses to market participants using an auction process. Access to spectrum may also be attained through the secondary market, which allows licensees like TerreStar to transfer, sell, or lease spectrum, in whole or in part.

We believe wireless spectrum assets, in general, represent significant value, as they benefit from a favorable supply-demand dynamic: there is limited available spectrum capacity in low- and mid-tier bands; yet, demand is tied to exponential growth in wireless bandwidth usage from smartphones, HD video, data, and the Internet of Things, among other technology trends. Licenses of wireless spectrum are therefore valued on potential future "rents" derived from broadband communications against spectrum scarcity and future capacity.

These secular trends have led to attractive spectrum valuations in the broadband industry, illustrated by participants such as AT&T, Sprint, Dish Network ("Dish"), Verizon, and T-Mobile spending billions of dollars to secure licenses. A recent wireless spectrum auction closed with winning bids valued at $44.9 billion, with AT&T and Verizon spending approximately $18.0 billion and $10.0 billion respectively. Despite these significant upfront costs, it is generally understood by licensees of wireless spectrum that no revenue generation will occur for 5-10 years as the spectrum is developed and integrated for active spectrum network uses. For example, Dish purchased approximately $2.5 billion worth of wireless spectrum licenses in 2011 and 2012, which currently do not produce revenue, but still have market-implied intrinsic value.

TerreStar's value is derived from two spectrum assets: a license for 1.7 GHz band spectrum covering 11 of the top 30 U.S. markets and approximately 19% of the population; and a license for 1.4 GHz band for use in wireless medical telemetry, with the ability to expand into other areas.

(I) TERRESTAR'S 1.7 GHZ LICENSE

TerreStar owns a license for 1.7 GHz band spectrum covering 11 of the top 30 U.S. markets and approximately 19% of the population. Dish owns the license covering the remaining 1.7 GHz band spectrum. TerreStar's ownership of key markets and significant population coverage could make the company an attractive partner for other spectrum holders.

On April 1, 2020 T-Mobile completed its merger with Sprint—a deal that only received approval from the Department of Justice under the condition that Dish would become the fourth national carrier, replacing Sprint. Therefore, as part of the merger, Dish has agreed to build out spectrum assets over the next several years. This news is a positive for the wireless spectrum market, and TerreStar, which shares a portion of a nationwide wireless spectrum band with Dish, is among the participants poised to benefit.

(II) TERRESTAR'S 1.4 GHZ LICENSE

TerreStar also owns a license for 1.4 GHz band spectrum for use that includes wireless medical telemetry service ("WMTS"). The license renewal was denied in 2017; however, TerreStar appealed the decision, stressing the importance of this band, which provides dedicated spectrum capacity for crucial healthcare activities, mitigating the risk of interference, which can affect the ability to deliver life-critical medical services.

On April 30, 2020, the FCC reversed its 2017 decision and restored TerreStar's license for development of this band of spectrum in the WMTS space, noting that with "the COVID-19 outbreak causing increased reliance on medical telemetry monitoring in hospitals and on telehealth in general," use of this band "will help ensure that traditional health care facilities have more spectrum capacity to meet a surge of additional monitoring demands that may occur in emergencies." FCC Chairman Ajit Pai commented on the decision: "It's important that we do what we can to support telehealth and the tools used by health care professionals during this health crisis."

Once the required hospital WMTS buildout is finished and certification of completion and non-interference is filed, TerreStar will be granted flexible use (i.e. for non-WMTS) within 90 days, absent an affirmative finding that such additional service will not cause harmful interference to WMTS.

IV. FUND OUTLOOK

While the pandemic created an unprecedented market environment, we are confident in the Fund's portfolio and the way it endured the volatility in the first quarter. As the second quarter comes to an end, we are optimistic in our outlook for a recovery; however, we remain cautious given the likelihood that uncertainty persists, as there is no concrete timeline for a COVID-19 treatment and/or vaccine, and we continue to see residual effects in a number of different areas. This prolonged uncertainty could prevent risk assets from bouncing back to pre-pandemic levels for the foreseeable future.

Our approach to portfolio management reflects this current environment. One component of this is defensive positioning, ensuring the Fund is equipped to withstand unforeseen events and endure another wave of volatility. At the same time, we are making sure the portfolio can capture the opportunities that arise as the country begins to reopen, the economy continues to recover, and markets reflate.

We have reduced leverage in the Fund to 19.8%, mitigating the risk of forced selling in the event of major asset price declines.

Additionally, we maintain high conviction in the Fund's core themes, and believe we have optimized the portfolio to weather forthcoming market turbulence, while capturing potential upside.

Many themes in the portfolio are designed to withstand a recessionary environment. These include:

- Self-storage (approximately 13% of the portfolio across various positions), which tends to be counter-cyclical and has performed well in periods of economic stress; and
- Affordable housing, a theme expressed in a number of holdings tied to multifamily and single-family rental assets, which likewise has shown resilience in market downturns.

Other major investments like Cityplace were purchased with a margin of safety, allowing the long-term investment strategy to continue as planned. The redevelopment process can move forward unencumbered, positioning the property to significantly grow its NOI over time.

Additionally, investments in areas like hospitality enable the Fund to benefit from a strong recovery; however, those investments comprise smaller positions thereby limiting the overall exposure and risk profile.

Right now, we are in a transition phase, with the chaos of the first quarter behind us, but lingering uncertainty preventing the recovery from moving forward unfettered. While concerns remain, and this period brings its own risks, our overall outlook is constructive. As such, we look forward to the second half of 2020, and believe the remainder of the year will bring meaningful opportunities for the NexPoint Strategic Opportunities Fund.

RISKS, DISCLOSURES, AND NOTES

Fees & Expenses

Total Expense Ratio: 2.48%; Expense ratios are based on managed assets as reported in the Fund's Annual Report dated December 31, 2019.

Risks & Disclosures

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.nexpointgroup.com.

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.

The information herein 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.

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.

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.

Real Estate Risk. Real estate investments are subject to various risk factors. Generally, real estate investments could be adversely affected by a recession or general economic downturn where the properties are located. The full extent of the impact and effects of the recent outbreak of COVID-19 on the future financial performance of the Fund, and specifically, on its investments and tenants to properties held by its REIT subsidiaries, are uncertain at this time. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown.

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.nexpointgroup.com or call 1-866-351-4440. Please read the fund prospectus carefully before investing.

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[i] Inclusive of NexPoint Advisors, L.P. and affiliates.

[ii] Real estate assets acquired from January 1, 2012 to March 31, 2020, inclusive of affiliates. Full cycle represents investments in real estate that NexPoint no longer owns.

[iii] TerreStar is a non-operating company that does not currently generate revenue. While TerreStar is fair valued by an independent third-party valuation service, its analysis relies on significant inputs from the Adviser. The fair valuation of TerreStar involves uncertainty as it is materially dependent on these inputs.