

FORM ADV PART II

NEXPOINT REAL ESTATE ADVISORS, L.P.

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This brochure provides information about the qualifications and business practices of NexPoint Real Estate Advisors, L.P. If you have any questions about the contents of this brochure, please contact us at compliance@nexpointadvisors.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about NexPoint Real Estate Advisors, L.P. is also available at the Securities and Exchange Commission's website www.adviserinfo.sec.gov. Our registration as an investment adviser does not imply any level of skill or training.

ITEM 2. MATERIAL CHANGES

Not applicable.

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ITEM 4. ADVISORY BUSINESS

NexPoint Real Estate Advisors, L.P. (“NexPoint,” “Advisor,” “we” or “us”) was formed in September 2014 and we plan to provide investment advice to one or more residential investment trusts (“REIT” or “REITs”).

OWNERSHIP

NexPoint Advisors, L.P., a registered investment adviser which is indirectly owned by James Dondero, is the principal owner of NexPoint Real Estate Advisors, L.P.

TYPES OF ADVISORY SERVICES

We plan to advise one or more REIT clients primarily with respect to acquiring, owning, operating and selectively developing multifamily properties, but may also provide advice regarding other real estate assets, including real estate-related debt and securities.

TAILORING SERVICES

We plan to tailor our investment advice to the needs of our clients and would be subject to applicable investment restrictions set forth in the governing documents for the applicable client.

ITEM 5. FEES AND COMPENSATION

We expect to receive compensation from our clients in the form of fees which may be based on a percentage of assets under management and/or performance-based incentive fees.

ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

To the extent we receive performance-based incentive fees, they may give us an economic incentive to make riskier investments and/or pursue riskier strategies than we might otherwise.

ITEM 7. TYPES OF CLIENTS

We expect one or more REITs to be our sole advisory clients.

ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

INVESTMENT STRATEGY

We expect our REIT clients to primarily focused on directly or indirectly acquiring, owning, operating and selectively developing well-located multifamily properties with “value-add” potential in large cities and suburban submarkets of large cities

We may also cause our clients to invest in real estate-related securities and debt, including mezzanine and preferred equity in situations where the risk/return correlation is more attractive than investments in common equity. This strategy would be designed to minimize losses during market downturns and maximize risk-adjusted returns to our client in all market cycles.

METHOD OF ANALYSIS

Our investment approach combines our management team’s experience with a structure that emphasizes thorough market research, local market knowledge, underwriting discipline, and risk management in evaluating potential investments.

MATERIAL RISKS OF SIGNIFICANT STRATEGIES AND METHODS OF ANALYSIS:

In this section we’ve summarized some of the material risks of our expected investment strategy and methods of analysis. More complete information about specific risks associated with an investment in a REIT will be provided in detail in the governing documents for the applicable client. All methods of investments involve risk of loss including risk that an investor will lost the entire value of their investment. . No guarantee or representation is made that our investment program will be successful, and investment results may vary substantially over time.

Risks Related to the Real Estate Industry

Unfavorable market and economic conditions in the United States and globally and in the specific markets or submarkets where our client’s properties are located could adversely affect occupancy levels, rental rates, rent collections, operating expenses, and the overall market value of our client’s assets, including our client’s joint ventures, and impair our ability to sell, recapitalize or refinance a REIT’s assets.

Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions in the United States and globally may significantly affect a REIT’s occupancy levels, rental rates, rent collections, operating expenses, the market value of a REIT’s properties and our ability to strategically acquire, dispose, recapitalize or refinance a REIT’s multifamily properties on economically favorable terms or at all. Our ability to

lease a REIT's properties at favorable rates is adversely affected by increases in supply of multifamily communities in our markets and is dependent upon overall economic conditions, which are adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, a downturn in the housing market, stock market volatility and uncertainty about the future. Some of a REIT's major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. We expect that any declines in a REIT's occupancy levels, rental revenues and/or the values of a REIT's multifamily properties would cause a REIT to have less cash available to pay its indebtedness, fund necessary capital expenditures and to make distributions to its stockholders, which could negatively affect its financial condition and the market value of its securities. Factors that may affect a REIT's occupancy levels, rental revenues, net operating income and/or the value of its properties include the following, among others:

- downturns in global, national, regional and local economic conditions, particularly the current high level of unemployment in our core markets;
- declines in the financial condition of our client's residents, which may make it more difficult for us to collect rents from these residents;
- the inability or unwillingness of our client's residents to pay rent increases;
- a decline in household formation;
- a decline in employment or lack of employment growth;
- an oversupply of, or a reduced demand for, apartment homes;
- changes in market rental rates in our core markets;
- declines in mortgage interest rates, making home and condominium ownership more affordable;
- changes in home loan lending practices, including the easing of credit underwriting standards, increasing the availability of home loans and thereby reducing demand for apartment homes;
- government or builder incentives which enable first-time homebuyers to put little or no money down, making alternative housing options more attractive;
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents to offset increases in operating costs; and
- economic conditions that could cause an increase to a REIT's operating expenses, such as increases in property taxes (particularly as a result of increased local, state and national government budget deficits and debt and potentially reduced federal aid to state and local governments), utilities, insurance, compensation of on-site associates and routine maintenance.

Risks inherent in ownership of real estate.

Real estate cash flows and values are affected by a number of factors, including competition from other available properties and the ability to provide adequate property maintenance and insurance and to control operating costs. Real estate cash flows and values are also affected by such factors as government regulations (including zoning, usage and tax laws), limitations on rent and rent increases, interest rate levels, the availability of financing, property tax rates, utility expenses, potential liability under environmental and other laws and changes in environmental and other laws.

Real estate investments are relatively illiquid and may limit our flexibility.

Equity real estate investments are relatively illiquid, which may tend to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of client assets in the future will depend on prevailing economic and market conditions. Our inability to sell a REIT's properties on favorable terms or at all could have a material adverse effect on a REIT's sources of working capital and a REIT's ability to satisfy its debt obligations. In addition, real estate can at times be difficult to sell quickly at prices we find acceptable. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the number of multifamily properties in a REIT's portfolio promptly in response to changes in economic or other conditions.

Our strategy for acquiring value-enhancement multifamily properties involves greater risks than more conservative investment strategies.

Our primary strategy is a value-add strategy. Therefore, for a majority of a REIT's portfolio, we intend to execute a "value-enhancement" strategy whereby a REIT will acquire under-managed assets in high-demand neighborhoods, invest additional capital, and reposition the properties to increase both average rental rates and resale value. Our strategy for acquiring value-enhancement multifamily properties involves greater risks than more conservative investment strategies. The risks related to these value-enhancement investments include risks related to delays in the repositioning or improvement process, higher than expected capital improvement costs, the additional capital needed to execute our value-add program, including possible borrowings or raising additional equity necessary to fund such costs, and ultimately that the repositioning process may not result in the higher rents and occupancy rates anticipated. In addition, our value-enhancement properties may not produce revenue while undergoing capital improvements. Furthermore, we may also be unable to complete the improvements of these properties and a REIT may be forced to hold or sell these properties at a loss.

Risks involved in real estate activity through joint ventures.

Most of the REIT's properties may be owned through joint ventures. We may continue to acquire properties on behalf of a REIT in joint ventures when we believe circumstances warrant the use of such structures. Joint venture investments involve risks, including: the

possibility that our partners might refuse to make capital contributions when due; that we may be responsible to our partner for indemnifiable losses; that our partner might at any time have business or economic goals which are inconsistent with ours; and that our partner may be in a position to take action or withhold consent contrary to our recommendations, instructions or requests. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest. Further, our joint venture partners may fail to meet their obligations to the joint venture as a result of financial distress or otherwise, and a REIT may be forced to make contributions to maintain the value of the property. To the extent a REIT's partners do not meet their obligations to a REIT or its joint ventures or they take action inconsistent with the interests of the joint venture, a REIT may be adversely affected.

We may be required to make decisions jointly with the other investors who have interests in the relevant property. We might not have the same interests as the other investors in relation to these decisions or transactions. Accordingly, we might not be able to favorably resolve any of these issues, or we might have to provide financial or other inducements to the other investors to obtain a favorable resolution.

In addition, various restrictive provisions and third-party rights, including consent rights to certain transactions, apply to sales or transfers of interests in a REIT's properties owned in joint ventures. Consequently, decisions to buy or sell interests in a property or properties relating to our joint ventures may be subject to the prior consent of other investors. These restrictive provisions and third-party rights may preclude us from achieving full value of these properties because of our inability to obtain the necessary consents to sell or transfer these interests.

We may be unable to refinance current or future indebtedness on favorable terms, if at all.

We may not be able to refinance a REIT's existing debt on terms as favorable as the terms of existing indebtedness, or at all, including as a result of increases in interest rates or a decline in the value of the portfolio or portions thereof. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, a REIT's operating cash flow will not be sufficient in all years to repay all maturing debt. As a result, certain of a REIT's other debt may cross default, we may be forced to postpone capital expenditures necessary for the maintenance of a REIT's properties, a REIT may have to dispose of one or more properties on terms that would otherwise be unacceptable to us or we may be forced to allow the mortgage holder to foreclose on a property. Foreclosure on mortgaged properties or an inability to refinance existing indebtedness would likely have a negative impact on the REIT's financial condition and results of operations.

ITEM 9. DISCIPLINARY INFORMATION

Not applicable.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

BROKER-DEALER AND BANKING

James Dondero owns a majority interest in NexBank Capital, Inc., whose wholly owned subsidiaries include NexBank Securities, Inc. (“NexBank Securities”) and NexBank, SSB. NexPoint and NexBank Capital, Inc. may be deemed to be under common control and may share certain employees in limited capacities. Additional entities operating under NexBank Capital, Inc. also perform consulting, title insurance and property management services.

NexBank Securities, Inc.

NexBank Securities is a registered broker-dealer and a Member of FINRA/SIPC.

NexBank, SSB

NexBank, SSB is a state chartered bank.

Highland Capital Management Funds Distributor, Inc.

Highland Capital Management Funds Distributor, Inc., a SEC-registered broker dealer, may be deemed to be under common control with us because James Dondero controls the Highland Capital Management Funds Distributor.

INVESTMENT ADVISER AFFILIATES

A related person of James Dondero is the general partner of a number of other collective investment vehicles organized as partnerships including those managed by the following affiliated investment advisers:

Falcon E&P Opportunities GP, LLC

Falcon E&P Opportunities GP, LLC, a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero may be deemed to control Falcon E&P Opportunities GP, LLC.

PetroCap, LLC

PetroCap, LLC, a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero controls over 25% of the membership interest in PetroCap, LLC.

Highland Capital Management, L.P.

Highland Capital Management, L.P., a SEC-registered investment adviser may be deemed to be under common control with us because James Dondero controls the general partner of Highland Capital Management, L.P.

Highland Capital Management Fund Advisors, L.P.

Highland Capital Management Fund Advisors, L.P., a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero controls the general partner of Highland Capital Management Fund Advisors, L.P.

Additionally, Highland Capital Management Fund Advisors, L.P. serves as advisor to a total of 13 investment companies registered under the Investment Company Act of 1940, as amended.

Highland Capital Healthcare Advisors, L.P. (fka Cummings Bay Capital Management, L.P.)

Highland Capital Healthcare Advisors, L.P., a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero controls its general partner.

Acis Capital Management, L.P.

Acis Capital Management, L.P., a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero controls its general partner.

Granite Bay Advisors, L.P.

Granite Bay Advisors, L.P., a SEC-registered investment adviser, is controlled by Mark Okada, Highland Capital Management, L.P.'s Chief Investment Officer.

NexPoint Advisors, L.P.

NexPoint is owned 100% by NexPoint Advisors, L.P., a registered investment adviser which is indirectly owned by James Dondero.

Tunstall Capital Management, L.P.

Tunstall Capital Management, L.P., a SEC-registered investment adviser, may be deemed to be under common control with us because James Dondero controls its general partner.

Thomas Surgent, our Chief Compliance Officer, is also the Chief Compliance Officer of each of the affiliates listed above.

INSURANCE COMPANY AFFILIATES

Highland Capital Management Services, Inc. is an affiliate of NexPoint and parent company of Governance Re Ltd., a captive insurance agency issuing directors & officers' liability insurance and employment practice liability insurance to affiliates of NexPoint. A conflict of interest exists due to the fact that Governance Re Ltd. may receive premiums from portfolio companies of Client Accounts. NexPoint may be incentivized to choose Governance RE to provide these services over a third party even though such party's services may be better suited for the company. Other NexPoint affiliates may provide insurance related products or services from time to time to clients and/or portfolio companies and receive arm's length fees for such services.

Additional information regarding potential conflicts of interest is provided in the section titled Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

We maintain a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the SEC, and have adopted policies and procedures described in our Code of Ethics. The Code of Ethics applies to each of our “access persons”. It is designed to ensure compliance with legal requirements of our standard of business conduct.

A complete copy of our Code of Ethics is available to any client or prospective client upon request.

STANDARDS OF CONDUCT

We and our access persons are expected to comply with all applicable federal and state laws and regulations. Access persons are expected to adhere to the highest standards of ethical conduct and maintain confidentiality of all information obtained with respect to client matters and bring any risk issues, violations, or potential violations to the attention of our Chief Compliance Officer. Access persons are expected to deal with clients fairly and disclose any activity that may create an actual or potential conflict of interest between them and us or any client.

ETHICAL BUSINESS PRACTICES

Falsification or alteration of records or reports, also known as a prohibited financial practice, or knowingly approving such conduct is prohibited. Payments to government officials or employees are prohibited except for political contributions approved by our Chief Compliance Officer. We seek to outperform our competition fairly and honestly and seek competitive advantages through superior performance not illegal or unethical dealings. Access persons are strictly prohibited from participating in online blogging, unapproved communication with the media, and the spreading of false rumors pertaining to any publicly traded company unless approved by the Chief Compliance Officer or the Compliance Department.

CONFIDENTIALITY

Access persons must maintain the confidentiality of our proprietary and confidential information and that of our clients, and must not disclose that information unless the necessary approval is obtained. We have a particular duty and responsibility, as investment adviser, to safeguard client information. Information concerning the identity and transactions of investors is confidential, and such information will only be disclosed to those access persons and outside parties who may need to know it in order to fulfill their responsibilities.

GIFT AND ENTERTAINMENT POLICY

Access persons are permitted, on occasion, to accept gifts and invitations to attend entertainment events. When doing so, however, employees should always act in our best interests and that of our clients and should avoid any activity that might create an actual or perceived conflict of interest or impropriety in the course of our business relationships.

PERSONAL TRADING

Personal Trading Policy

Access persons are allowed to trade reportable securities. Access persons are not permitted to trade any security of which we or the REIT own any portion of the capital structure or that is on our restricted list without permission. Access persons who violate the personal trading policy are reprimanded in accordance with the sanctions provisions outlined in the Code of Ethics. Personal securities transactions are reviewed by the Chief Compliance Officer or his/her designee for compliance with the personal trading policy and applicable SEC rules and regulations.

Prohibition against Insider Trading

We forbid any access person from trading, either personally or on behalf of others, including the Fund, on material non-public information or communicating material non-public information to others in violation of the law or duty owed to another party. This conduct is frequently referred to as “insider trading”. The concepts of material non-public information, penalties for insider trading, and processes for identifying insider trading are addressed in detail in the Compliance Manual and Code of Ethics.

Reporting Requirements

In compliance with SEC rules, access persons are required to disclose all of their reportable securities holdings within 10 days becoming an access person, within 10 days of opening a new account, and annually thereafter. Additionally, at the end of each month after quarter-end, all access persons must report all transactions in reportable securities over which the access person had any direct or indirect beneficial ownership. Access persons are also required annually to affirm all reportable transactions from the prior year.

The following briefly summarizes certain potential and actual conflicts of interest which may arise from the overall investment activity of our Advisor, its clients and its affiliates, but is not intended to be an exhaustive list of all such conflicts. The scope of the activities of the affiliates of our Advisor and the funds and clients advised by affiliates of our Advisor may give rise to conflicts of interest or other restrictions and/or limitations imposed on NexPoint in the future that cannot be foreseen or mitigated at this time.

Other Accounts and Relationships

As part of our regular business, our Advisor, its affiliates and their respective officers, directors, trustees, stockholders, members, partners and employees and their respective funds and investment accounts (collectively, the “Related Parties”) hold, purchase, sell, trade or take other related actions both for their respective accounts and for the accounts of their respective clients, on a principal or agency basis, subject to applicable law including Section 206(3) of the Investment Advisers Act of 1940 (the “Advisers Act”), with respect to loans, securities and other investments and financial instruments of all types. The Related Parties also provide investment advisory services, among other services, and engage in private equity, real estate and capital markets-oriented investment activities. The Related Parties will not be restricted in their performance of any such services or in the types of debt, equity, real estate or other investments which they may make. The Related Parties may have economic interests in or other relationships with respect to investments made by NexPoint. In particular, the Related Parties may make and/or hold an investment, including investments in securities, that may compete with, be *pari passu*, senior or junior in ranking to an, investment, including investments in securities, made and/or held by NexPoint or in which partners, security holders, members, officers, directors, agents or employees of such Related Parties serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in restrictions on transactions by NexPoint and otherwise create conflicts of interest for NexPoint. In such instances, the Related Parties may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to NexPoint’s investments. In connection with any such activities described above, the Related Parties may hold, purchase, sell, trade or take other related actions in securities or investments of a type that may be suitable for NexPoint. The Related Parties will not be required to offer such securities or investments to NexPoint or provide notice of such activities to NexPoint. In addition, in managing NexPoint’s portfolio, our Advisor may take into account its relationship or the relationships of its affiliates with obligors and their respective affiliates, which may create conflicts of interest. Furthermore, in connection with actions taken in the ordinary course of business of our Advisor in accordance with its fiduciary duties to its other clients, our Advisor may take, or be required to take, actions which adversely affect the interests of NexPoint.

The Related Parties have invested and may continue to invest in investments that would also be appropriate for NexPoint. Such investments may be different from those made on behalf of NexPoint. Neither our Advisor nor any Related Party has any duty, in making or maintaining such investments, to act in a way that is favorable to NexPoint or to offer any such opportunity to NexPoint, subject to our Advisor’s allocation policy set forth below. The investment policies, fee arrangements and other circumstances applicable to such other parties may vary from those applicable to NexPoint. Our Advisor and/or any Related Party may also provide advisory or other services for a customary fee with respect to investments made or held by NexPoint, and neither NexPoint’s stockholders nor NexPoint shall have

any right to such fees. Our Advisor and/or any Related Party may also have ongoing relationships with, render services to or engage in transactions with other clients, including NexPoint Value Add Realty Trust, Inc., an inactive REIT, and other REITs, who make investments of a similar nature to those of NexPoint, and with companies whose securities or properties are acquired by NexPoint and may own equity or debt securities issued by NexPoint's joint ventures. In connection with the foregoing activities our Advisor and/or any Related Party may from time to time come into possession of material nonpublic information that limits the ability of our Advisor to effect a transaction for NexPoint, and NexPoint's investments may be constrained as a consequence of our Advisor's inability to use such information for advisory purposes or otherwise to effect transactions that otherwise may have been initiated on behalf of its clients, including NexPoint. In addition, officers or affiliates of our Advisor and/or Related Parties may possess information relating to NexPoint's joint ventures that is not known to the individuals at our Advisor responsible for monitoring NexPoint's joint ventures and performing the other obligations under the Advisory Agreement.

Although the professional staff of our Advisor will devote as much time to NexPoint as our Advisor deems appropriate to perform its duties in accordance with the Advisory Agreement and in accordance with reasonable commercial standards, the staff may have conflicts in allocating its time and services among NexPoint and our Advisor's or any Related Parties' other accounts. The Advisory Agreement places restrictions on our Advisor's ability to buy and sell investments for NexPoint. Accordingly, during certain periods or in certain circumstances, our Advisor may be unable as a result of such restrictions to buy or sell investments or to take other actions that it might consider to be in the best interests of NexPoint and its stockholders.

The directors, officers, employees and agents of the Related Parties, and our Advisor may, subject to applicable law, serve as directors (whether supervisory or managing), officers, employees, partners, agents, nominees or signatories, and receive arm's length fees in connection with such service, for NexPoint or any Related Party, or for any of NexPoint's joint ventures or any affiliate thereof, and neither NexPoint nor its stockholders shall have the right to any such fees.

The Related Parties serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as NexPoint, or of other investment funds managed by our Advisor or its affiliates. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interests of NexPoint or its stockholders. NexPoint may compete with other entities managed by our Advisor and its affiliates for capital and investment opportunities.

There is no limitation or restriction on our Advisor or any of its Related Parties with regard to acting as investment manager (or in a similar role) to other parties or persons. This and

other future activities of our Advisor and/or its Related Parties may give rise to additional conflicts of interest. Such conflicts may be related to obligations that our Advisor or its affiliates have to other clients.

Certain Related Parties, including NexBank SSB and Governance Re among others, may provide banking, agency, insurance and other services to NexPoint and its operating affiliates for customary fees, and neither NexPoint, nor its subsidiaries will have a right to any such fees.

Allocation of Investment Opportunities

In addition, the Related Parties may, from time to time, be presented with investment opportunities that fall within the investment objectives of NexPoint and other clients, funds or other investment accounts managed by the Related Parties, and in such circumstances, the Related Parties expect to allocate such opportunities among NexPoint and such other clients, funds or other investment accounts on a basis that the Related Parties determine in good faith is appropriate taking into consideration such factors as the fiduciary duties owed to NexPoint and such other clients, funds or other investment accounts, the primary mandates of NexPoint and such other clients, funds or other investment accounts, the capital available to NexPoint and such other clients, funds or other investment accounts, any restrictions on investment, the sourcing of the transaction, the size of the transaction, the amount of potential follow-on investing that may be required for such investment and the other investments of NexPoint and such other clients, funds or other investment accounts, the relation of such opportunity to the investment strategy of NexPoint and such other clients, funds or other investment accounts, reasons of portfolio balance and any other consideration deemed relevant by the Related Parties in good faith. Our Advisor will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (1) its internal conflict of interest and allocation policies and (2) the requirements of the Advisers Act. Our Advisor will seek to allocate investment opportunities among such entities in a manner that is fair and equitable over time and consistent with its allocation policy. However, there is no assurance that such investment opportunities will be allocated to NexPoint fairly or equitably in the short-term or over time and there can be no assurance that NexPoint will be able to participate in all such investment opportunities that are suitable for it.

Cross Transactions and Principal Transactions

As further described below, our Advisor may effect client cross-transactions where our Advisor causes a transaction to be effected between NexPoint and another client advised by our Advisor or any of its affiliates. Our Advisor may engage in a client cross-transaction involving NexPoint any time that our Advisor believes such transaction to be fair to NexPoint and the other client of our Advisor or its affiliates.

As further described below, our Advisor may effect principal transactions where NexPoint may make and/or hold an investment, including an investment in securities, in which our Advisor and/or its affiliates have a debt, equity or participation interest, in each case in accordance with applicable law, which may include our Advisor obtaining the consent and approval of NexPoint prior to engaging in any such principal transaction between NexPoint and our Advisor or its affiliates.

Our Advisor may direct NexPoint to acquire or dispose of investments in cross trades between NexPoint and other clients of our Advisor or its affiliates in accordance with applicable legal and regulatory requirements. In addition, NexPoint may make and/or hold an investment, including an investment in securities, in which our Advisor and/or its affiliates have a debt, equity or participation interest, and the holding and sale of such investments by NexPoint may enhance the profitability of our Advisor's own investments in such companies. Moreover, NexPoint and its operating affiliates may invest in assets originated by, or enter into loans, borrowings and/or financings with our Advisor or its affiliates, including but not limited to NexBank, including in primary and secondary transactions with respect to which the Advisor or a Related Party may receive customary fees from the applicable issuer, and neither NexPoint nor its subsidiaries shall have the right to any such fees. In each such case, our Advisor and such affiliates may have a potentially conflicting division of loyalties and responsibilities regarding NexPoint and the other parties to such investment. Under certain circumstances, our Advisor and its affiliates may determine that it is appropriate to avoid such conflicts by selling an investment at a fair value that has been calculated pursuant to our Advisor's valuation procedures to another fund managed or advised by our Advisor or such affiliates. In addition, our Advisor may enter into agency cross-transactions where it or any of its affiliates acts as broker for NexPoint and for the other party to the transaction, to the extent permitted under applicable law. Our Advisor may obtain NexPoint's written consent as provided herein if any such transaction requires the consent of NexPoint under Section 206(3) of the Advisers Act.

Participation in Creditor Committees, Underwriting and Other Activities

Our Advisor and/or its Related Parties may participate in creditors or other committees with respect to the bankruptcy, restructuring or workout of our joint ventures. In such circumstances, our Advisor may take positions on behalf of itself or Related Parties that are adverse to the interests of NexPoint.

Our Advisor and/or its Related Parties may act as an underwriter, arranger or placement agent, or otherwise participate in the origination, structuring, negotiation, syndication or offering of investments purchased by NexPoint. Such transactions are on an arm's-length basis and may be subject to arm's-length fees. There is no expectation for preferential access to transactions involving investments that are underwritten, originated, arranged or

placed by our Advisor and/or its Related Parties and neither NexPoint nor its stockholders shall have the right to any such fees.

Material Non-Public Information

There are generally no ethical screens or information barriers among our Advisor and certain of its affiliates of the type that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. If our Advisor, any of its personnel or its affiliates were to receive material non-public information about an investment or issuer, or have an interest in causing NexPoint to acquire a particular investment, our Advisor may be prevented from causing NexPoint to purchase or sell such asset due to internal restrictions imposed on our Advisor. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible that such controls could fail and result in our Advisor, or one of its investment professionals, buying or selling an asset while, at least constructively, in possession of material non-public information. Inadvertent trading on material non-public information could have adverse effects on our Advisor's reputation, result in the imposition of regulatory or financial sanctions, and as a consequence, negatively impact our Advisor's ability to perform its investment management services to NexPoint. In addition, while our Advisor and certain of its affiliates currently operate without information barriers on an integrated basis, such entities could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, our Advisor's ability to operate as an integrated platform could also be impaired, which would limit our Advisor's access to personnel of its affiliates and potentially impair its ability to manage NexPoint's investments.

ITEM 12. BROKERAGE PRACTICES

BROKER-DEALER SELECTION

NexPoint has an obligation to obtain “best execution” for client transactions considering the execution price and overall commission costs paid and certain other factors. Our trading desk route orders to various broker-dealers for execution at their discretion. Where possible, we deal directly with the dealers who make a market in the securities involved, except in those circumstances where it believes better prices and execution are available elsewhere.

Factors involved in selecting brokerage firms include:

Broker Specific

- ❖ Size of broker
- ❖ Reputation
- ❖ Quality of service
- ❖ Experience
- ❖ Financial stability and creditworthiness
- ❖ Financial statements
- ❖ Regulatory filings
- ❖ Standing in financial community
- ❖ Ability to handle block trades
- ❖ Acceptable record of delivery and payment on past transactions
- ❖ Quality of research and investment information provided

Transaction Specific

- ❖ Best available execution
- ❖ Market knowledge regarding specific industries and securities
- ❖ Access to sources of supply or markets
- ❖ Nature of the market for the security

SOFT DOLLARS

In those circumstances where more than one broker-dealer is able to satisfy our obligation to obtain best execution, NexPoint may place a trade order on behalf of client accounts with a broker-dealer that charges more than the lowest available commission cost or price. NexPoint may do this in exchange for certain brokerage and research services provided either directly from the broker-dealer or through a third party (“Soft Dollar Arrangements”), such that each of the following is met:

- ❖ NexPoint determines:
 1. The research or brokerage product or service constitutes an eligible brokerage or research service;
 2. The product or service provides lawful and appropriate assistance in the performance of NexPoint’s investment decision making responsibilities; and
 3. In good faith the amount of client commissions paid is reasonable in light of the value of the products or services provided.
- ❖ The brokerage or research is “provided by” a broker-dealer who participates in effecting the trade that generates the commission. NexPoint may not incur a direct obligation for research with a third party vendor and then arrange to have a broker-dealer pay for that research in exchange for brokerage commissions.
- ❖ NexPoint may only generate soft dollars with commissions in agency transactions. NexPoint may not use dealer markups in principal transactions to generate soft dollars. In addition, a trade for a fixed income security or over-the-counter (“OTC”) security may be done on an agency basis only if the trader determines that it would not result in a broker-dealer unnecessarily being inserted between NexPoint and the market for that security.
- ❖ No soft dollars are generated on accounts for which:
 1. Investment discretion resides with the client (i.e. non-discretionary accounts);
 2. Client mandates restrict or prohibit the generation of soft dollar commissions;
 3. The client has a directed brokerage arrangement.
- ❖ The brokerage trade placed is for “securities” transactions (and not, for example, futures transactions).

Research services furnished by brokers through whom NexPoint effects securities transactions may be used in servicing all of NexPoint’s accounts, and not all such services

may be used in connection with the accounts which paid commissions to the broker providing such services. However, NexPoint seeks to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

If client account is under the custody of one brokerage firm and another brokerage firm is a selling group member for an underwriting syndicate, such client account may not be able to participate in the purchase of securities in the underwriting because the custodial brokerage firm was not a selling group member. In addition, to the extent that a client directs brokerage trades to be placed with a particular broker, the allocation of securities transactions may be impacted.

When NexPoint uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, NexPoint receives a benefit because the firm does not have to produce or pay for research, products, or services. Consequently, NexPoint may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than the client's interest in receiving most favorable execution.

PRODUCTS AND SERVICES ACQUIRED WITH SOFT DOLLARS

All products and services acquired with soft dollars qualify under the Safe Harbor of 28(e) of the Securities Exchange Act of 1934.

BROKERAGE FOR CLIENT REFERRALS

In selecting or recommending broker-dealers, we do not consider whether we or a related person receives client referrals from a broker-dealer or third party.

DIRECTED BROKERAGE

NexPoint does not require clients to direct brokerage, but in those situations where a client directs NexPoint to place trades with a particular broker-dealer, NexPoint may not be free to seek the best price, volume discounts or best execution by placing transactions with other broker-dealers. Additionally, as a result of directing NexPoint to place trades with a particular broker-dealer, a disparity in commission charges may exist between the commissions charged to clients who direct us to use a particular broker-dealer and those clients who do not direct us to use a particular broker-dealer as well as a disparity among the brokers to which different clients have directed trades.

TRADE AGGREGATION

Orders of clients may be combined (or "bunched") when possible to obtain volume discounts resulting in a lower per share commission. Please see the section entitled Code of Ethics.

Participation or Interest in Client Transactions, and Personal Trading for additional information regarding NexPoint's trade aggregation procedures.

ITEM 13. REVIEW OF ACCOUNTS

ACCOUNT REVIEW

All of our existing and potential investments are expected to be reviewed no less frequently than monthly, by the portfolio management team, which consists of James Dondero, our President, Matthew McGranner, our Executive Vice President-Investments, and Matthew Goetz, our Senior Vice President-Investments.

REPORTING

We expect our clients to receive the periodic and or other reporting required under the Securities Act of 1933 and the Exchange Act of 1934, each as amended.

**ITEM 14. CLIENT REFERRALS AND
OTHER COMPENSATION**

Not applicable.

ITEM 15. CUSTODY

We do not act as custodian for client assets.

ITEM 16. INVESTMENT DISCRETION

We intend to manage one or more REITs on a discretionary basis. For a description of limitations imposed on our discretionary authority to manage securities, please see the section titled Our Advisory Business. Prior to assuming this authority, we plan to enter into an advisory agreement with one or more REITs pursuant to which we will be granted a power of attorney (subject to any limitations imposed by the REIT's board of directors).

ITEM 17. VOTING CLIENT SECURITIES

SECURITIES HELD IN CLIENT ACCOUNTS

NexPoint's proxy voting policy ensures proxies are voted on behalf of each client account's securities and in the best economic interests of such client, without regard to the interests of NexPoint or any other client of NexPoint. Portfolio Manager(s) of the applicable client account(s) evaluate the subject matter of each proxy and vote on behalf of the client account in accordance to the guidelines set forth in our proxy voting policy.

The client cannot direct proxy voting.

If the Portfolio Manager(s) determines that NexPoint may have a potential material conflict of interest in voting a proxy, the Portfolio Manager(s) will contact NexPoint's Compliance Department prior to the voting deadline. NexPoint also may determine not to vote proxies with respect to securities of any issuer if it determines it would be in its client's overall best interests not to vote.

OBTAINING A COPY OF THE POLICY

Clients and prospective clients can obtain a copy of the proxy voting policy or information on how we voted proxies by contacting our Chief Compliance Officer at compliance@nexpointadvisors.com.

ITEM 18. FINANCIAL INFORMATION

Not applicable.

ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.