

NEXPOINT

ADVISORS

NexPoint Real Estate Strategies Fund

Annual Report
December 31, 2018

NexPoint Real Estate Strategies Fund

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Economic and market conditions change frequently.
There is no assurance that the trends described in this report will continue or commence.

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PORTFOLIO MANAGER COMMENTARY (unaudited)

Year ending December 31, 2018

NexPoint Real Estate Strategies Fund

Dear Shareholders,

We are pleased to present NexPoint Real Estate Strategies Fund's (NRES) annual report for the 2018 calendar yearend. We continue to spend an enormous amount of time, energy, and effort in constructing a strategy that we believe provides investors unique access to the real estate sector while strategically allocating capital in a thoughtful, forward-thinking manner throughout the entire real estate cycle. We aim to achieve four primary objectives: to provide (i) current income, (ii) long-term total return, (iii) lower correlation to the equity markets and consistently outperform the MSCI US REIT Index, and (iv) minimize drawdowns during market downturns while maximizing risk-adjusted returns. Our investment philosophy employs a "hands on" approach whereby each step of the investment process is performed in-house by an investment team that is active in the capital markets, real estate markets and private market. As a result, we believe we can identify and effectively exploit the arbitrage between public and private real estate values. Not only do we believe that our style and approach provide greater control, transparency, and efficiencies, but we firmly believe it is the superior method in running an actively managed, real estate-focused interval fund.

REITs posted a total return, as measured by the MSCI US REIT Index (RMZ), of (4.51)% for the calendar year of 2018. Material weakness stemming from slowing fundamentals and aggressive interest rate policy was a large driver of the sectors negative returns. NRES uses derivatives, such as options, to protect from and/or to take advantage of quantifiable systematic and issuer-related risks. These derivatives had a positive impact on performance during the period. For the year, the MSCI US REIT Index narrowly lagged the S&P 500, which returned (4.39)%. NexPoint Real Estate Strategies Class Z shares returned (2.17)% during 2018, besting the MSCI US REIT Index, the Fund's primary benchmark, by 2.34%. Since inception, NexPoint Real Estate Strategies Class Z shares returned 12.01%, besting the MSCI US REIT Index by 16.09%.

Looking ahead, with the Federal Reserve looking to be more cautious on additional interest rate increases, we believe that an improving economy will act as a catalyst to help drive performance in 2019. We remain positive on companies who focus on assets located in high-growth job markets with short-duration lease terms which we believe will outperform if we see meaningful acceleration in wage inflation. Since the Fund's inception in July 2016, there have been significant opportunities in the public real estate market for several key reasons. First, continued volatility, the byproduct of interest rate sensitivity and (for some property types) decelerating fundamentals, has jostled the real estate market creating attractive valuations. Finally, with REITs trading 5.0% to 10.0% below consensus net asset values, many REITs provide attractive total return profiles when considering both dividend yields and NAV discounts. Due to these factors, we were able to exploit idiosyncratic dislocations and allocate capital to undervalued, mispriced securities. We have also continued to make concentrated debt investments in proprietary, or unique, real estate deals that we believe are more insulated from systematic risk. We believe these themes will continue to exist in 2019, thereby creating similar opportunities for active managers to outperform. We will continue to seek to take advantage of market dislocations and be tactical in our investment decisions by shifting the portfolio's asset-mix based upon where we believe we are in the real estate cycle.

We want to thank you for your support and we will continue to work diligently to create value for our shareholders.

Sincerely,

Jim Dondero
Portfolio Manager
NexPoint Real Estate Strategies Fund

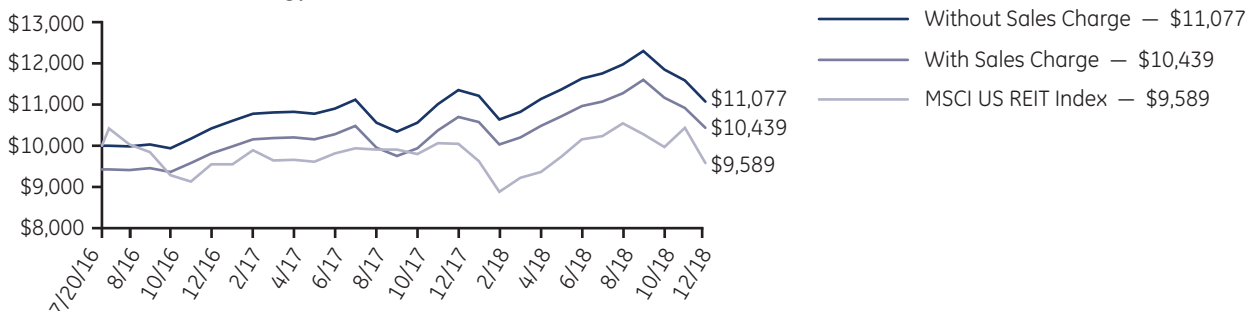
Matt McGraner
Portfolio Manager
NexPoint Real Estate Strategies Fund

PORTFOLIO MANAGER COMMENTARY (unaudited)

December 31, 2018

NexPoint Real Estate Strategies Fund

NexPoint Real Estate Strategies Fund - Class A
Growth of Hypothetical \$10,000 Investment



	Total Returns					
	Class A		Class C		Class Z	
	Without Sales Charge	With Sales Charge	Without Sales Charge	With Sales Charge	Without Sales Charge	With Sales Charge
Year Ended December 31, 2018	-2.42%	-8.04%	-2.90%	-3.82%	-2.17%	-2.17%
Five Year	n/a	n/a	n/a	n/a	n/a	n/a
Since Inception: (July 21, 2016) for Class A and C (July 01, 2016) for Class Z	4.26%	1.77%	3.84%	3.84%	4.63%	4.63%

Returns shown in the chart and table do not reflect taxes that a shareholder would pay on Fund distributions or on the sale of the Fund shares.

“Without Sales Charge” returns do not include sales charges or contingent deferred sales charges (“CDSC”). “With Sales Charge” returns reflect the maximum sales charge of 5.75% on Class A Shares. The CDSC on Class C Shares is 1.00% within 18 months after purchase; there is no CDSC on Class C Shares thereafter. The performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so that an investor’s share when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please visit our website at www.nexpointres.com. The gross annualized expense ratios of the Fund are: Class A: 4.20%, Class C: 4.93%, Class Z: 3.94%. NexPoint Advisors, L.P. (the “Investment Adviser” has contractually agreed to limit the total annual operating expenses (including organizational and offering expenses, but excluding distribution fees, interest, dividend expenses on short sales, brokerage commissions and other transaction costs, acquired fund fees and expenses, taxes, litigation expenses and extraordinary expenses), to the extent that they exceed 1.75% per annum of the Fund’s average Daily Gross Assets (as defined in Note 7). Total net annualized operating expenses for each class after reimbursement are Class A 2.47%, Class C 3.46%, Class Z 2.13%. Performance results reflect any contractual waivers and/or reimbursements of fund expenses by the Investment Adviser. Absent this limitation, performance results would have been lower.

See Notes to Performance on page 1 for more information.

Stock and bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, factors related to a specific issuer or industry and, with respect to bond prices, changing market perceptions of the risk of default and changes in government intervention. These factors may also lead to increased volatility and reduced liquidity in the bond markets. The Fund may invest in foreign securities which may cause more volatility and less liquidity due to currency changes, political instability and accounting differences.

Interval fund investing involves risk including the possible loss of principal.

FUND PROFILE

NexPoint Real Estate Strategies Fund

Objective

NexPoint Real Estate Strategies Fund seeks long-term total return with an emphasis on current income.

Net Assets as of December 31, 2018

\$14.1 million

Portfolio Data as of December 31, 2018

The information below provides a snapshot of NexPoint Real Estate Strategies Fund at the end of the reporting period. NexPoint Real Estate Strategies Fund is actively managed and the composition of its portfolio will change over time. Current and future holdings are subject to risk.

Industry Classification as of 12/31/2018 (%)⁽¹⁾

Real Estate	83.3
Other Assets & Liabilities	16.2

Real Estate Investments (Debt vs. Equity) as of 12/31/2018 (%)⁽¹⁾

Public Debt & Preferred Stock	47.7
Public Equities	39.4
Private Debt ⁽²⁾	23.1
Other Investments and Assets & Liabilities	-10.2

Top 10 Holdings as of 12/31/2018 (%)⁽¹⁾

Jernigan Capital, Inc. (Preferred Stocks)	20.0
RCP Keystone Hotel LLC 14.50%, 11/15/19 (U.S. Senior Loans)	15.6
TexMark Timber Treasury, L.P. (Preferred Stocks)	11.3
NexPoint Residential Trust, Inc. (Common Stocks) ⁽³⁾	9.1
Braemar Hotels & Resorts, Inc. (Convertible Preferred Stocks)	7.9
Bridgeview Louetta LLC 12.00%, 08/04/21 (U.S. Senior Loans)	7.3
FREMF Mortgage Trust 0.01%, 08/25/50 (Agency Collateralized Mortgage Obligations)	7.2
Zayo Group Holdings, Inc. (Common Stocks)	5.1
Uniti Group, Inc. (Common Stocks)	4.6
Summit Hotel Properties, Inc. (Common Stocks)	4.3

⁽¹⁾ Industries and holdings are calculated as a percentage of total net assets.

⁽²⁾ Includes NRESF REIT Sub, LLC, as the entity is intended to hold private debt. NRESF REIT Sub, LLC is an affiliated issuer.

⁽³⁾ Affiliated issuer.

A guide to understanding the Fund's financial statements

Investment Portfolio	The Investment Portfolio details all of the Fund's holdings and their market value as of the last day of the reporting period. Portfolio holdings are organized by type of asset and industry to demonstrate areas of concentration and diversification.
Statement of Assets and Liabilities	This statement details the Fund's assets, liabilities, net assets and share price for each share class as of the last day of the reporting period. Net assets are calculated by subtracting all of the Fund's liabilities (including any unpaid expenses) from the total of the Fund's investment and noninvestment assets. The net asset value per share for each class is calculated by dividing net assets allocated to that share class by the number of shares outstanding in that class as of the last day of the reporting period.
Statement of Operations	This statement reports income earned by the Fund and the expenses incurred by the Fund during the reporting period. The Statement of Operations also shows any net gain or loss the Fund realized on the sales of its holdings during the period as well as any unrealized gains or losses recognized over the period. The total of these results represents the Fund's net increase or decrease in net assets from operations.
Statement of Changes in Net Assets	This statement details how the Fund's net assets were affected by its operating results, distributions to shareholders and shareholder transactions (e.g., subscriptions, redemptions and distribution reinvestments) during the reporting period. The Statement of Changes in Net Assets also details changes in the number of shares outstanding.
Statement of Cash Flows	This statement reports net cash and foreign currency provided or used by operating, investing and financing activities and the net effect of those flows on cash and foreign currency during the period.
Financial Highlights	The Financial Highlights demonstrate how the Fund's net asset value per share was affected by the Fund's operating results. The Financial Highlights also disclose the classes' performance and certain key ratios (e.g., net expenses and net investment income as a percentage of average net assets).
Notes to Financial Statements	These notes disclose the organizational background of the Fund, certain of their significant accounting policies (including those surrounding security valuation, income recognition and distributions to shareholders), federal tax information, fees and compensation paid to affiliates and significant risks and contingencies.

INVESTMENT PORTFOLIO

As of December 31, 2018

Principal Amount (\$)	Amortized Cost (\$) (a)	Value (\$)
U.S. Corporates Bonds & Notes - 2.9%		
REAL ESTATE (b)(c) - 2.9%		
500,000	459,774	412,500
Uniti Group L.P. / Uniti Fiber Holdings, Inc. / CSL Capital LLC 7.13%, 12/15/2024		
Total U.S. Corporates Bonds & Notes (Cost \$459,774)		412,500
U.S. Senior Loans - 22.9%		
REAL ESTATE (d)(e) - 22.9%		
1,000,000	1,053,558	1,023,347
Bridgeview Louetta LLC Mezzanine Term Loan 12.00%, 08/04/2021		
2,200,000	2,192,381	2,200,000
RCP Keystone Hotel LLC 2nd Lien Term Loan, 1-month LIBOR + 9.000% 14.50%, 11/15/2019		
Total U.S. Senior Loans (Cost \$3,245,939)		3,223,347
Agency Collateralized Mortgage Obligations (c) - 12.4%		
26,700,082	166,905	192,241
FREMF Mortgage Trust Series 2018-K80, Class X2A 0.10%, 08/25/2050 (f)		
6,266,021	40,256	43,236
Series 2018-K80, Class X2B 0.10%, 08/25/2050 (f)		
2,473,426	1,096,249	1,035,623
Series 2018-K80, Class D 0.01%, 08/25/2050 (g)(i) ..		
1,491,164	414,657	372,344
FREMF Trust Series 2018-KW04, Class C 0.00%, 12/25/2032 (g)(i) ..		
17,844,761	95,873	91,900
Series 2018-KW04, Class X2A 0.10%, 09/25/2028 (f)		
1,988,235	13,076	12,625
Series 2018-KW04, Class X2B 0.10%, 12/25/2032 (f)		
Total Agency Collateralized Mortgage Obligations (Cost \$1,827,016)		1,747,969
Asset-Backed Securities (c) - 2.5%		
250,000	206,654	173,750
CIFC Funding, Ltd. Series 2015-1A, Class SUB, VRN 0.00%, 01/22/2031 (h)		
250,000	177,500	177,500
CIFC FUNDING, Ltd. CIFIC 2014 5A SUB 144A 1.00%, 10/17/2031		
Total Asset-Backed Securities (Cost \$384,154)		351,250

NexPoint Real Estate Strategies Fund

Shares	Amortized Cost (\$) (a)	Value (\$)
Common Stocks - 39.6%		
2,070	343,165	269,887
CONSUMER DISCRETIONARY (b)(i) - 1.9% Cavco Industries, Inc.		
REAL ESTATE - 36.4%		
88,900	880,961	595,630
Brookdale Senior Living, Inc. (b)(i)		
31,175	590,479	492,253
Colony Credit Real Estate, Inc., REIT		
81	1,686	1,606
Jernigan Capital, Inc., REIT		
36,539	925,909	1,280,692
NexPoint Residential Trust, Inc., REIT (b)(j)		
1,012,750	—	21,268
NRESF REIT SUB LLC (e)(j) ..		
16,600	360,904	327,186
Starwood Property Trust, Inc., REIT (b)		
62,680	830,972	609,876
Summit Hotel Properties, Inc., REIT (b)		
23,917	277,568	216,449
Tremont Mortgage Trust (b)(i)		
55,029	128,441	206,359
United Development Funding IV, REIT (i)		
41,218	809,697	641,764
Uniti Group, Inc., REIT (b)		
31,595	1,117,688	721,630
Zayo Group Holdings, Inc. (b)		
		5,114,713
INFORMATION TECHNOLOGY (b)(i) - 1.3%		
44,416	463,313	184,326
Internap Corp.		
Total Common Stocks (Cost \$6,730,783)		5,568,925
Preferred Stocks - 36.2%		
FINANCIAL - 14.6%		
1,508	1,508,333	1,584,157
TexMark Timber Treasury, L.P., REIT 10.25% (e)		
22,900	507,198	469,335
Bluerock Residential Growth REIT, Inc., Series D, 7.13% (b)(k)		
		2,053,492
REAL ESTATE INVESTMENT TRUST - 21.6%		
12,000	247,430	222,120
Farmland Partners, Inc., Series B 6.00% (b)(k)		
2,500	2,500,000	2,805,357
Jernigan Capital, Inc., REIT 7.00% cash/7.00% PIK (e)		
		3,027,477
Total Preferred Stocks (Cost \$4,762,961)		5,080,969
Contracts		
Purchased Put Options (m) - 0.3%		
Total Purchased Put Options (Proceeds \$23,585)		39,000

INVESTMENT PORTFOLIO (continued)

As of December 31, 2018

Principal Amount (\$)	Amortized Cost (\$) (a)	Value (\$)
Convertible Preferred Stocks - 7.9%		
FINANCIAL (b) - 7.9%		
	Braemar Hotels & Resorts, Inc.	
64,516	5.50%, 12/31/2049 ...	999,998
		1,106,772
	Total Convertible Preferred Stocks (Cost \$999,998) ...	1,106,772
	Total Investments - 124.7%	17,530,733
	(Cost \$18,434,210)	
	Other Assets & Liabilities, Net (l) - (24.7)%	(3,473,910)
	Net Assets - 100.0%	14,056,821

- (a) Amortized cost represents the original cost adjusted for the amortization of premiums and/or accretion of discounts, as applicable, on investments.
- (b) All or part of this security is pledged as collateral for short sales and written options contracts, or the Fund's leverage facility. The market value of the securities pledged as collateral was \$7,058,167.
- (c) Securities exempt from registration under Rule 144A of the 1933 Act. These securities may only be resold in transaction exempt from registration to qualified institutional buyers. At December 31, 2018, these securities amounted to \$2,511,719 or 17.9% of net assets.
- (d) Fixed rate senior loan. Under the terms of the credit agreement, the borrower is required to pay a minimum monthly interest payment of 9.00%, and any residual accrued interest not paid monthly continues to accrue at the full rate shown. The minimum monthly interest payment is 8.00% for the Bridgeview Louetta loan and 9.00% for the RCP Keystone Hotel loan.

(m) Purchased options contracts outstanding as of December 31, 2018 were as follows:

Description	Exercise Price	Expiration Date	Number of Contracts	Notional Value	Premium	Value
PURCHASED PUT OPTIONS:						
Uniti Group, Inc.	\$15.00	January 2019	650	\$65,000	\$23,585	\$39,000

NexPoint Real Estate Strategies Fund

- (e) Represents fair value as determined by the Fund's Board of Trustees (the "Board"), or its designee in good faith, pursuant to the policies and procedures approved by the Board. Securities with a total aggregate value of \$7,634,129, or 54.3% of net assets, were fair valued under the Fund's valuation procedures as of December 31, 2018. These investments were also classified as Level 3 within the three-tier fair value hierarchy. Please see Note 2 for an explanation of this hierarchy, as well as a list of unobservable inputs used in the valuation of these instruments.
- (f) Interest only security ("IO"). These types of securities represent the right to receive the monthly interest payments on an underlying pool of mortgages. Payments of principal on the pool reduce the value of the "interest only" holding.
- (g) Principal only security ("PO"). These types of securities represent the right to receive the monthly principal payments on an underlying pool of mortgages. No payments of interest on the pool are passed through to the "principal only" holder.
- (h) Variable or floating rate security. As of December 31, 2018, the Prime rate was 5.50%.
- (i) Non-income producing security.
- (j) Affiliated issuer. Assets with a total aggregate market value of \$1,301,960, or 9.3% of net assets, were affiliated with the Fund as of December 31, 2018. See Note 11 to the financial statements.
- (k) Perpetual maturity. Maturity date presented represents the next call date.
- (l) As of December 31, 2018, \$7,398 in cash was segregated or on deposit with the brokers to cover investments sold short and or written option contracts and is included in "Other Assets & Liabilities, Net."

STATEMENT OF ASSETS AND LIABILITIES

As of December 31, 2018

NexPoint Real Estate Strategies Fund

	(\$)
Assets	
Investments from unaffiliated issuers, at value	16,228,773
Affiliated investments, at value (Note 11)	<u>1,301,960</u>
Total Investments, at value (cost \$18,434,210)	17,530,733
Restricted Cash — Written Options (Note 3)	7,398
Receivable for:	
Dividends and interest	378,158
Fund shares sold	6,462
Prepaid expenses and other assets	<u>16,937</u>
Total assets	<u>17,939,688</u>
Liabilities	
Due to custodian	141,573
Leverage Facility payable (Note 5)	3,354,013
Due to Investment Adviser (Note 7)	97,491
Payable for:	
Investments purchased	179,186
Fund shares redeemed	45,313
Transfer agent fees	7,641
Distribution and shareholder service fees (Note 7)	16
Accrued expenses and other liabilities	<u>57,634</u>
Total liabilities	<u>3,882,867</u>
Commitments and Contingencies (Note 5)	
Net Assets	<u><u>14,056,821</u></u>
Net Assets Consist of:	
Paid-in capital	14,953,987
Total distributable earnings (loss)	<u>(897,166)</u>
Net Assets	<u><u>14,056,821</u></u>
Investments, at cost	17,508,301
Affiliated investments, at cost (Note 11)	925,909
Class A:	
Net assets	413,910
Shares outstanding (\$0.001 par value; unlimited shares authorized)	21,793
Net asset value per share ^{(a)(b)}	18.99
Maximum offering price per share ^(c)	20.15
Class C:	
Net assets	510,794
Shares outstanding (\$0.001 par value; unlimited shares authorized)	26,739
Net asset value and offering price per share ^(a)	19.10
Class Z:	
Net assets	13,132,117
Shares outstanding (\$0.001 par value; unlimited shares authorized)	688,154
Net asset value, offering and redemption price per share	19.08

^(a) Redemption price per share is equal to net asset value per share less any applicable contingent deferred sales charge ("CDSC").

^(b) Purchases of \$500,000 or more are subject to a 1.00% CDSC if redeemed within eighteen months of purchase.

^(c) The sales charge is 5.75%. On sales of \$500,000 or more, there is no sales charge and therefore the offering will be lower.

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2018

NexPoint Real Estate Strategies Fund

	(\$)
Investment Income	
Income:	
Dividends from unaffiliated issuers	182,846
Dividends from affiliated issuers (Note 11)	4,622
Less: Foreign taxes withheld	(448)
Interest from unaffiliated issuers	655,342
Other income	7,500
Total Income	<u>849,862</u>
Expenses:	
Investment advisory (Note 7)	147,337
Distribution and shareholder service fees: (Note 7)	
Class A	601
Class C	1,539
Legal fees	79,074
Audit fees	54,986
Registration fees	47,110
Transfer agent fees	43,244
Reports to shareholders	41,495
Accounting services fees	10,910
Dividends and fees on securities sold short (Note 2)	8,964
Trustees fees (Note 7)	2,253
Insurance	711
Tax expense	75
Interest expense (Note 5)	25,546
Other	4,326
Total operating expenses before waiver and reimbursement (Note 7)	468,171
Less: Expenses waived or borne by the adviser and administrator	<u>(214,266)</u>
Net operating expenses	<u>253,905</u>
Net investment income	<u>595,957</u>
Net Realized and Unrealized Gain (Loss) on Investments	
Realized gain (loss) on:	
Investments from unaffiliated issuers	39,629
Investments from affiliated issuers (Note 11)	8,831
Securities sold short (Note 2)	(39,971)
Written options contracts (Note 3)	25,212
Foreign currency related transactions	(222)
Change unrealized appreciation (depreciation) on:	
Investments in unaffiliated issuers	(1,154,556)
Investments in affiliated issuers (Note 11)	<u>158,996</u>
Net realized and unrealized gain (loss) on investments	<u>(962,081)</u>
Total decrease in net assets resulting from operations	<u><u>(366,124)</u></u>

STATEMENTS OF CHANGES IN NET ASSETS

NexPoint Real Estate Strategies Fund

	Year Ended December 31, 2018 (\$)	Year Ended December 31, 2017 (\$)
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	595,957	490,767
Net realized gain on investments, securities sold short and foreign currency transactions	33,479	240,315
Net change in unrealized appreciation on investments, securities sold short, written options contracts and translation of assets and liabilities denominated in foreign currency	<u>(995,560)</u>	<u>(63,132)</u>
Net increase (decrease) from operations	<u>(366,124)</u>	<u>667,950</u>
Total distributions to shareholders^(a):		
Distribution		
Class A	(15,665)	(3,363)
Class C	(9,213)	(75)
Class Z	<u>(764,727)</u>	<u>(610,734)</u>
Total distributions	<u>(789,605)</u>	<u>(614,172)</u>
Increase (decrease) in net assets from operations and distributions	<u>(1,155,729)</u>	<u>53,778</u>
Share transactions:		
Proceeds from sale of shares		
Class A	319,716	124,785
Class C	549,871	—
Class Z	6,321,695	173,488
Value of distributions reinvested		
Class A	4,360	84
Class C	2,411	75
Class Z	393,492	505,548
Repurchase of shares		
Class A	(311)	—
Class Z	<u>(517,032)</u>	<u>—</u>
Net increase from shares transactions	<u>7,074,202</u>	<u>803,980</u>
Total increase in net assets	<u>5,918,473</u>	<u>857,758</u>
Net Assets		
Beginning of period	<u>8,138,348</u>	<u>7,280,590</u>
End of period	<u>14,056,821</u>	<u>8,138,348</u>

^(a) Per the Securities Exchange Commission release #33-10532 "Disclosure Update and Simplification"; it is no longer required to differentiate distributions from earnings as either from net investment income or net realized capital gains.

The presentation for the year ended 12/31/2017 has been adjusted for this change.

For the year ended 12/31/2017 the distributions to shareholders from net investment income were \$2,100, \$64, and \$532,434 for Class A, Class C, and Class Z, respectively, and the distributions to shareholders from net realized gains were \$1,263, \$11, and \$78,300 for Class A, Class C, and Class Z, respectively. The Fund's accumulated net investment income balance as of 12/31/2017 was \$0.

STATEMENTS OF CHANGES IN NET ASSETS (continued)

	NexPoint Real Estate Strategies Fund	
	Year Ended December 31, 2018	Year Ended December 31, 2017
CAPITAL STOCK ACTIVITY - SHARES		
Class A:		
Shares sold	15,477	6,064
Issued for distribution reinvested	214	4
Shares repurchased	(16)	—
Net increase in fund shares	<u>15,675</u>	<u>6,068</u>
Class C:		
Shares sold	26,564	—
Issued for distribution reinvested	121	4
Net increase in fund shares	<u>26,685</u>	<u>4</u>
Class Z:		
Shares sold	307,177	8,228
Issued for distribution reinvested	19,416	24,486
Shares repurchased	(24,938)	—
Net increase in fund shares	<u>301,655</u>	<u>32,714</u>

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

NexPoint Real Estate Strategies Fund

(\$)

Cash Flows Provided by (Used for) Operating Activities:	
Net decrease in net assets resulting from operations	(366,124)
Adjustments to Reconcile Net Investment Income to Net Cash Used In Operating Activities	
Operating Activities:	
Purchases of investment securities from unaffiliated issuers	(15,415,328)
Purchases of investment securities from affiliated issuers	(535,208)
Proceeds from disposition of investment securities from unaffiliated issuers	4,754,665
Proceeds from disposition of investment securities from affiliated issuers	8,867
Proceeds of securities sold short	247,802
Purchases of securities sold short	(287,773)
Proceeds from short-term portfolio investments, net	114,532
Purchased options transactions	(104,900)
Proceeds from written options	25,212
Paydowns at cost	1,001,456
Net accretion of discount	(36,767)
Net realized loss on investments from unaffiliated issuers	(39,629)
Net realized loss on investments from affiliated issuers	(8,831)
Net realized loss on securities sold short, written options contracts and foreign currency transactions	14,981
Net change in unrealized appreciation (depreciation) on investments	995,560
Increase in receivable for dividends and interest	(218,130)
Increase in prepaid expenses and other assets	(16,486)
Increase in payable for investments purchased	179,186
Increase in payable for transfer agent fees	7,641
Decrease in due to Investment Adviser	(74,010)
Decrease in prepaid interest income	(67,500)
Decrease in accrued expenses and other liabilities	(15,968)
Net cash flow used in operating activities	<u>(9,836,752)</u>
Cash Flows Received from (Used In) Financing Activities:	
Increase in leverage facility payable	3,354,013
Increase in due to custodian	141,573
Distributions paid in cash	(389,326)
Proceeds from shares sold, net of receivable	7,209,820
Payments from shares redeemed, net of payable	(472,030)
Net cash flow received from (used in) financing activities	<u>9,844,050</u>
Effect of exchange rate changes on cash	(222)
Net increase in Cash	<u>7,076</u>
Restricted Cash*:	
Beginning of period	<u>322</u>
End of period	<u>7,398</u>
Supplemental disclosure of cash flow information:	
Reinvestment of Distributions	400,263
Cash paid during the period for interest	<u>25,546</u>

* Restricted cash consists of cash that has been segregated to cover the Portfolio's collateral or margin obligations under derivative contracts. It is separately reported on the Statement of Assets and Liabilities as Restricted Cash — Written Options.

FINANCIAL HIGHLIGHTS

NexPoint Real Estate Strategies Fund, Class A

Selected data for a share outstanding throughout each period is as follows:

	For the Years Ended December 31,		For the Period Ended December 31, 2016 ^(a)
	2018	2017	
Net Asset Value, Beginning of Period	\$ 20.65	\$ 20.62	\$ 20.00
Income from Investment Operations:			
Net investment income ^(b)	0.95	1.44	0.14
Net realized and unrealized gain/(loss)	<u>(1.33)</u>	<u>0.19</u>	<u>0.68</u>
Total from investment operations	(0.38)	1.63	0.82
Less Distributions Declared to Shareholders:			
From net investment income	(1.28)	(1.39)	(0.20)
From net realized gains	<u>—</u>	<u>(0.21)</u>	<u>—</u>
Total distributions declared to shareholders	(1.28)	(1.60)	(0.20)
Net Asset Value, End of Period^(c)	\$ 18.99	\$ 20.65	\$ 20.62
Total Return ^{(c)(d)}	(2.42)%	8.18%	4.12% ^(e)
Ratios to Average Net Assets^(f)/Supplemental Data:			
Net assets, end of period (in 000's)	\$ 414	\$ 126	\$ 1
Gross operating expenses ^(g)	4.20%	4.75%	10.78%
Net investment income	4.82%	6.99%	1.56%
Portfolio turnover rate	49%	99%	14% ^(e)
Average commission rate paid ^(h)	\$0.0111	\$0.0155	\$0.0295

(a) Class commenced operations on July 21, 2016.

(b) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(c) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(d) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(e) Not annualized.

(f) All ratios for the period have been annualized, unless otherwise indicated.

(g) Supplemental expense ratios are shown below:

	For the Years Ended December 31,		For the Period Ended December 31, 2016 ^(a)
	2018	2017	
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.38%	2.01%	2.08%
Interest expense and commitment fees	0.22%	—%	—%
Dividends and fees on securities sold short	0.08%	0.01%	—%

(h) Represents the total dollar amount of commissions paid on portfolio transactions divided by total number of portfolio shares purchased and sold for which commissions were charged.

FINANCIAL HIGHLIGHTS

NexPoint Real Estate Strategies Fund, Class C

Selected data for a share outstanding throughout each period is as follows:

	For the Years Ended December 31,		For the Period Ended December 31, 2016 ^(a)
	2018	2017	
Net Asset Value, Beginning of Period	\$ 20.72	\$ 20.58	\$ 20.00
Income from Investment Operations:			
Net investment income ^(b)	0.83	1.12	0.04
Net realized and unrealized gain/(loss)	<u>(1.30)</u>	<u>0.46</u>	<u>0.71</u>
Total from investment operations	(0.47)	1.58	0.75
Less Distributions Declared to Shareholders:			
From net investment income	(1.15)	(1.23)	(0.17)
From net realized gains	<u>—</u>	<u>(0.21)</u>	<u>—</u>
Total distributions declared to shareholders	(1.15)	(1.44)	(0.17)
Net Asset Value, End of Period^(c)	\$ 19.10	\$ 20.72	\$ 20.58
Total Return ^{(c)(d)}	(2.90)%	7.94%	3.78% ^(e)
Ratios to Average Net Assets^(f)/Supplemental Data:			
Net assets, end of period (in 000's)	\$ 511	\$ 1	\$ 1
Gross operating expenses ^(g)	4.93%	5.05%	11.53%
Net investment income	4.08%	5.39%	0.45%
Portfolio turnover rate	49%	99%	14% ^(e)
Average commission rate paid ^(h)	\$0.0111	\$0.0155	\$0.0295

(a) Class commenced operations on July 21, 2016.

(b) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(c) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(d) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(e) Not annualized.

(f) All ratios for the period have been annualized, unless otherwise indicated.

(g) Supplemental expense ratios are shown below:

	For the Years Ended December 31,		For the Period Ended December 31, 2016 ^(a)
	2018	2017	
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	3.12%	2.87%	2.83%
Interest expense and commitment fees	0.22%	—%	—%
Dividends and fees on securities sold short	0.08%	0.13%	—%

(h) Represents the total dollar amount of commissions paid on portfolio transactions divided by total number of portfolio shares purchased and sold for which commissions were charged.

FINANCIAL HIGHLIGHTS

NexPoint Real Estate Strategies Fund, Class Z

Selected data for a share outstanding throughout each period is as follows:

	For the Years Ended December 31,		For the Period Ended December 31, 2016 ^(a)
	2018	2017	
Net Asset Value, Beginning of Period	\$ 20.73	\$ 20.57	\$ 19.95
Income from Investment Operations:			
Net investment income ^(b)	1.04	1.33	0.24
Net realized and unrealized gain/(loss)	<u>(1.36)</u>	<u>0.48</u>	<u>0.59</u>
Total from investment operations	(0.32)	1.81	0.83
Less Distributions Declared to Shareholders:			
From net investment income	(1.33)	(1.44)	(0.21)
From net realized gains	<u>—</u>	<u>(0.21)</u>	<u>—</u>
Total distributions declared to shareholders	(1.33)	(1.65)	(0.21)
Net Asset Value, End of Period^(c)	\$ 19.08	\$ 20.73	\$ 20.57
Total return ^{(c)(d)}	(2.17)%	9.12%	4.17% ^(e)
Ratios to Average Net Assets^(f)/Supplemental Data:			
Net assets, end of period (in 000's)	\$13,132	\$ 8,011	\$ 7,279
Gross operating expenses ^(g)	3.94%	4.60%	11.26%
Net investment income	5.08%	6.44%	2.45%
Portfolio turnover rate	49%	99%	14% ^(e)
Average commission rate paid ^(h)	\$0.0111	\$0.0155	\$0.0295

(a) Class commenced operations on July 1, 2016.

(b) Net investment income (loss) per share was calculated using average shares outstanding during the period.

(c) The Net Asset Value per share and total return have been calculated based on net assets which include adjustments made in accordance with U.S. Generally Accepted Accounting Principles required at period end for financial reporting purposes. These figures do not necessarily reflect the Net Asset Value per share or total return experienced by the shareholder at period end.

(d) Total return is at net asset value assuming all distributions are reinvested and no initial sales charge or CDSC. For periods with waivers/reimbursements, had the Fund's investment adviser not waived or reimbursed a portion of expenses, total return would have been lower.

(e) Not annualized.

(f) All ratios for the period have been annualized, unless otherwise indicated.

(g) Supplemental expense ratios are shown below:

	For the Years Ended December 31,		For the Period Ended December 31, 2016 ^(a)
	2018	2017	
Net operating expenses (net of waiver/reimbursement, if applicable, but gross of all other operating expenses)	2.13%	1.87%	1.83%
Interest expense and commitment fee	0.22%	—%	—%
Dividends and fees on securities sold short	0.08%	—%	—%

(h) Represents the total dollar amount of commissions paid on portfolio transactions divided by total number of portfolio shares purchased and sold for which commissions were charged.

Note 1. Organization

NexPoint Real Estate Strategies Fund (the “Fund”) is a Delaware statutory trust and is registered with the U.S. Securities and Exchange Commission (the “SEC”) under the Investment Company Act of 1940, as amended (the “1940 Act”), as a non-diversified, closed-end management investment company that operates as an interval fund. The Fund commenced operations on July 1, 2016. This report includes information for the year ended December 31, 2018. The Fund pursues its investment objective by investing, under normal circumstances, at least 80% of its assets (defined as net assets plus the amount of any borrowing for investment purposes) in real estate and real estate related securities. NexPoint Advisors, L.P. (“NexPoint” or “the Investment Adviser”), an affiliate of Highland Capital Management, L.P. (“Highland”), is the investment adviser to the Fund. Once each quarter, the Fund will offer to repurchase at net asset value (“NAV”) no less than 5% of the outstanding shares of the Fund, unless such offer is suspended or postponed in accordance with regulatory requirements. The offer to purchase shares is a fundamental policy that may not be changed without the vote of the holders of a majority of the Fund’s outstanding voting securities (as defined in the 1940 Act).

Fund Shares

The Fund is authorized to issue an unlimited number of shares of beneficial interest with no par value (each a “Share” and collectively, the “Shares”). The Fund currently offers the following three share classes to investors, Class A, Class C and Class Z Shares. A fourth share class, the Class L Shares, has been registered but is not currently offered. Class A Shares are sold with a front-end sales charge. Maximum sales load imposed on purchases of Class A Shares (as a percentage of offering price) is 5.75%. There is no front-end sales charge imposed on individual purchases of Class A Shares of \$500,000 or more. The front-end sales charge is also waived in other instances as described in the Fund’s prospectus. Purchases of \$500,000 or more of Class A Shares at net asset value (“NAV”) pursuant to a sales charge waiver are subject to a 1.00% contingent deferred sales charge (“CDSC”) if redeemed within eighteen months of purchase. Class C Shares may be subject to a CDSC. The maximum CDSC imposed on redemptions of Class C Shares is 1.00% within the first eighteen months of purchase and 0.00% thereafter. No front-end or CDSCs are assessed by the Trust with respect to Class Z Shares of the Fund.

Note 2. Significant Accounting Policies

The following summarizes the significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

Use of Estimates

The Fund is an investment company that applies the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies. The Fund’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which require the Investment Adviser to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

Fund Valuation

The net asset value (“NAV”) of the Fund’s common shares is calculated daily on each day that the NYSE is open for business as of the close of the regular trading session on the NYSE, usually 4:00 PM, Eastern Time. The NAV is calculated by dividing the value of the Fund’s net assets attributable to common shares by the numbers of common shares outstanding.

Valuation of Investments

In computing the Fund’s net assets attributable to shares, securities with readily available market quotations on the NYSE, National Association of Securities Dealers Automated Quotation (“NASDAQ”), or other nationally recognized exchange, use the closing quotations on the respective exchange for valuation of those securities. Securities for which there are no readily available market quotations will be valued pursuant to policies adopted by the Fund’s Board of Trustees (the “Board”). Typically, such securities will be valued at the mean between the most recently quoted bid and ask prices provided by the principal market makers. If there is more than one such principal market maker, the value shall be the average of such means. Securities without a sale price or quotations from principal market makers on the valuation day may be priced by an independent pricing service. Generally, the Fund’s loan and bond positions are not traded on exchanges and consequently are valued based on a mean of the bid and ask price from the third-party pricing services or broker-dealer sources that the Investment Adviser has determined to have the capability to provide appropriate pricing services which have been approved by the Board.

Securities for which market quotations are not readily available, or for which the Fund has determined that the price received from a pricing service or broker-dealer is “stale” or otherwise does not represent fair value (such as when events materially affecting the value of securities occur between the time when market price is determined and

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NexPoint Real Estate Strategies Fund

calculation of the Fund's NAV), will be valued by the Fund at fair value, as determined by the Board or its designee in good faith in accordance with procedures approved by the Board, taking into account factors reasonably determined to be relevant, including, but not limited to: (i) the fundamental analytical data relating to the investment; (ii) the nature and duration of restrictions on disposition of the securities; and (iii) an evaluation of the forces that influence the market in which these securities are purchased and sold. In these cases, the Fund's NAV will reflect the affected portfolio securities' fair value as determined in the judgment of the Board or its designee instead of being determined by the market. Using a fair value pricing methodology to value securities may result in a value that is different from a security's most recent sale price and from the prices used by other investment companies to calculate their NAVs. Determination of fair value is uncertain because it involves subjective judgments and estimates.

There can be no assurance that the Fund's valuation of a security will not differ from the amount that it realizes upon the sale of such security. Those differences could have a material impact to the Fund. The NAV shown in the Fund's financial statements may vary from the NAV published by the Fund as of its period end because portfolio securities transactions are accounted for on the trade date (rather than the day following the trade date) for financial statement purposes.

Fair Value Measurements

The Fund has performed an analysis of all existing investments and derivative instruments to determine the significance and character of inputs to their fair value determination. The levels of fair value inputs used to measure the Fund's investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment's valuation. The three levels of the fair value hierarchy are described below:

- Level 1* — Quoted unadjusted prices for identical instruments in active markets to which the Fund has access at the date of measurement;
- Level 2* — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active, but are valued based on executed trades; broker quotations that constitute an executable price; and alternative pricing sources supported by observable inputs are classified within Level 2. Level 2 inputs are either directly or indirectly observable for the asset in connection with market data at the measurement date; and

Level 3 — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. In certain cases, investments classified within Level 3 may include securities for which the Fund has obtained indicative quotes from broker-dealers that do not necessarily represent prices the broker may be willing to trade on, as such quotes can be subject to material management judgment. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The Investment Adviser has established policies and procedures, as described above and approved by the Board, to ensure that valuation methodologies for investments and financial instruments that are categorized within all levels of the fair value hierarchy are fair and consistent. A Pricing Committee has been established to provide oversight of the valuation policies, processes and procedures, and is comprised of personnel from the Investment Adviser and its affiliates. The Pricing Committee meets monthly to review the proposed valuations for investments and financial instruments and is responsible for evaluating the overall fairness and consistent application of established policies.

As of December 31, 2018, the Fund's investments consisted of REITs and other real estate investments, senior loans, corporate bonds and notes, common stocks, preferred stocks, mortgage-backed securities and cash equivalents. The fair value of the Fund's bonds are generally based on quotes received from brokers or independent pricing services. Bonds with quotes that are based on actual trades with a sufficient level of activity on or near the measurement date are classified as Level 2 assets. Bonds that are priced using quotes derived from implied values, indicative bids, or a limited number of actual trades are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable.

The fair value of the Fund's common and preferred stocks that are not actively traded on national exchanges are generally priced using quotes derived from implied values, indicative bids, or a limited amount of actual trades and are classified as Level 3 assets because the inputs used by the brokers and pricing services to derive the values are not readily observable. The Fund's real estate investments include equity interests in limited liability companies and equity issued by Real Estate Investment Trusts ("REITs") that invest in commercial real estate. The fair value of real estate investments that are not actively traded on national exchanges are based on internal models developed by the Investment Adviser. The significant inputs to the models include cash flow projections for the underlying properties, capitalization rates

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

and appraisals performed by independent valuation firms. These inputs are not readily observable, and the Fund has classified the investments as Level 3 assets.

At the end of each calendar quarter, the Investment Adviser evaluates the Level 2 and 3 assets and liabilities for changes in liquidity, including but not limited to: whether a broker is willing to execute at the quoted price, the depth and consistency of prices from third party services, and the existence of contemporaneous, observable trades in the market. Additionally, the Investment Adviser evaluates the Level 1 and 2 assets and liabilities on a quarterly basis for changes in listings or delistings on national exchanges.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of the levels are recognized at the value at the end of the period. A summary of the inputs used to value the Fund's assets as of December 31, 2018 is as follows:

	Total value at December 31, 2018	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Assets				
U.S. Corporates Bonds & Notes	\$ 412,500	\$ —	\$ 412,500	\$ —
U.S. Senior Loans	3,223,347	—	—	3,223,347
Agency Collateralized Mortgage Obligations	1,747,969	—	1,747,969	—
Asset-Backed Securities	351,250	—	351,250	—
Common Stocks				
Consumer Discretionary	269,887	269,887	—	—
Information Technology	184,326	184,326	—	—
Real Estate	5,114,713	5,093,445	—	21,268
Preferred Stocks				
Financial	2,053,492	469,335	—	1,584,157
Real Estate Investment Trust	3,027,477	222,120	—	2,805,357
Convertible Preferred Stocks	1,106,772	—	1,106,772	—
Purchased Put Options	39,000	39,000	—	—
Total Assets	\$17,530,733	\$6,278,113	\$3,618,491	\$7,634,129

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Fund's investments may fluctuate from period to period. Additionally, the fair value of investments may differ significantly from the values that would have been used had a ready market existed for such investments and may differ materially from the values the Fund may ultimately realize. Further, such investments may be subject to legal and other restrictions on resale or otherwise less liquid than publicly traded securities.

NOTES TO FINANCIAL STATEMENTS (continued)

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NexPoint Real Estate Strategies Fund

The table below sets forth a summary of changes in the Fund's assets measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2018.

	Balance as of December 31, 2017	Transfers Into Level 3	Transfers Out of Level 3	Accrued Discounts (Premiums)	Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Net Purchases	Net Sales	Balance as of December 31, 2018	Change in Unrealized Appreciation (Depreciation) from Investments Held at December 31, 2018
U.S. Senior Loans										
Real Estate	\$3,200,000	\$ —	\$ —	\$2,190	\$1,107	\$(54,948)	\$1,074,998	\$(1,000,000)	\$3,223,347	\$(54,948)
Preferred Stocks										
Financial	—	—	—	—	—	75,824	1,508,333	—	1,584,157	75,824
Real Estate Investment Trust	—	—	—	—	—	305,357	2,500,000	—	2,805,357	305,357
Common Stocks										
Real Estate	58,436	—	—	—	—	(37,168)	—	—	21,268	(37,168)
Total	<u>\$3,258,436</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,190</u>	<u>\$1,107</u>	<u>\$289,065</u>	<u>\$5,083,331</u>	<u>\$(1,000,000)</u>	<u>\$7,634,129</u>	<u>\$289,065</u>

Investments designated as Level 3 may include assets valued using quotes or indications furnished by brokers which are based on models or estimates and may not be executable prices. In light of the developing market conditions, the Investment Adviser continues to search for observable data

points and evaluate broker quotes and indications received for portfolio investments.

For the year ended December 31, 2018, there were no transfers between Levels.

The following is a summary of significant unobservable inputs used in the fair valuations of assets and liabilities categorized within Level 3 of the fair value hierarchy:

Category	Market Value at 12/31/2018	Valuation Technique	Unobservable Inputs	Input Value(s)
Preferred Stock	\$4,389,514	Discounted Cash Flow Net Asset Value	Discount Rate	8.50%
			N/A	N/A
U.S. Senior Loans	3,223,347	Broker Opinion of Value Discounted Cash Flow	Cap Rate	7.75% - 8.25%
			Discount Rate	12.00%
Common Stock	21,268	Net Asset Value	N/A	N/A
Total	<u>\$7,634,129</u>			

The significant unobservable inputs used in the fair value measurement of the Fund's preferred stock, senior loans and common stocks are described above. Significant increases (decreases) in any of those inputs in isolation could result in a significantly lower (higher) fair value measurement.

Security Transactions

Security transactions are accounted for on the trade date. Realized gains/(losses) on investments sold are recorded on the basis of the specific identification method for both financial statement and U.S. federal income tax purposes taking into account any foreign taxes withheld.

Income Recognition

Corporate actions (including cash dividends) are recorded on the ex-dividend date, net of applicable withholding taxes, except for certain foreign corporate actions, which are recorded as soon after ex-dividend date as such information becomes available and is verified. Interest income is recorded on the accrual basis.

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

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NexPoint Real Estate Strategies Fund

U.S. Federal Income Tax Status

The Fund is treated as a separate taxpayer for U.S. federal income tax purposes. The Fund intends to qualify each year as a “regulated investment company” under Subchapter M of the Internal Revenue Code of 1986, as amended, and will distribute substantially all of its taxable income and gains, if any, for the tax year, and as such will not be subject to U.S. federal income taxes. In addition, the Fund intends to distribute, in each calendar year, all of its net investment income, capital gains and certain other amounts, if any, such that the Fund should not be subject to U.S. federal excise tax. Therefore, no U.S. federal income or excise tax provisions are recorded.

The Investment Adviser has analyzed the Fund’s tax positions taken on U.S. federal income tax returns for all open tax years (current and prior three tax years), and has concluded that no provision for U.S. federal income tax is required in the Fund’s financial statements. The Fund’s U.S. federal and state income and U.S. federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue. Furthermore, the Investment Adviser of the Funds is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next 12 months.

Distributions to Shareholders

The Fund plans to pay distributions from net investment income monthly and net realized capital gains annually to common shareholders. To permit the Fund to maintain more stable monthly distributions and annual distributions, the Fund may from time to time distribute less than the entire amount of income and gains earned in the relevant month or year, respectively. The undistributed income and gains would be available to supplement future distributions. In certain years, this practice may result in the Fund distributing, during a particular taxable year, amounts in excess of the amount of income and gains earned therein. Such distributions would result in a portion of each distribution occurring in that year to be treated as a return of capital to shareholders. Shareholders of the Fund will automatically have all distributions reinvested in Common Shares of the Fund issued by the Fund in accordance with the Fund’s Dividend Reinvestment Plan (the “Plan”) unless an election is made to receive cash. The number of newly issued Common Shares to be credited to each participant’s account will be determined by dividing the dollar amount of the dividend by the lesser of (i) the NAV per Common Share determined on the Declaration Date and (ii) the market price per Common Share as of the close of regular trading on the NYSE on the Declaration Date. Participants in the Plan requesting a sale of

securities through the plan agent of the Plan are subject to a sales fee and a brokerage commission.

Organization and Offering Costs

Organization costs include the cost of incorporating, such as the cost of legal services and other fees pertaining to the Fund’s organization, and are expensed as incurred. Offering costs include legal fees pertaining to the preparation of the Fund’s initial registration statement and other costs pertaining to the public offering of the Fund’s shares of common stock. Offering costs are accounted for as a deferred charge until operations begin and thereafter are amortized to expense over 12 months on a straight-line basis. Both organization costs and offering costs are subject to an expense limitation agreement as described further in Note 7.

Cash & Cash Equivalents

The Fund considers liquid assets deposited with a bank and certain short-term debt instruments of sufficient credit quality with original maturities of three months or less to be cash equivalents. The Fund also considers money market instruments that invest in cash equivalents to be cash equivalents. These investments represent amounts held with financial institutions that are readily accessible to pay Fund expenses or purchase investments. Cash and cash equivalents are valued at cost plus accrued interest, which approximates market value. The value of cash equivalents denominated in foreign currencies is determined by converting to U.S. dollars on the date of the Statement of Assets and Liabilities.

Foreign Currency

Accounting records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates using the current 4:00 PM London Time Spot Rate. Fluctuations in the value of the foreign currencies and other assets and liabilities resulting from changes in exchange rates, between trade and settlement dates on securities transactions and between the accrual and payment dates on dividends, interest income and foreign withholding taxes, are recorded as unrealized foreign currency gains/(losses). Realized gains/(losses) and unrealized appreciation/(depreciation) on investment securities and income and expenses are translated on the respective dates of such transactions. The effects of changes in foreign currency exchange rates on investments in securities are not segregated in the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities.

Securities Sold Short

The Funds may sell securities short. A security sold short is a transaction in which the Fund sells a security it does not own

NOTES TO FINANCIAL STATEMENTS (continued)

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NexPoint Real Estate Strategies Fund

in anticipation that the market price of that security will decline. When the Fund sells a security short, it must borrow the security sold short from a broker-dealer and deliver it to the buyer upon conclusion of the transaction. The Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any dividends or other payments received on such borrowed securities. In some circumstances, a Fund may be allowed by its prime broker to utilize proceeds from securities sold short to purchase additional investments, resulting in leverage.

Note 3. Derivative Transactions

The Fund is subject to equity rate risk in the normal course of pursuing its investment objectives. The Fund enters into derivative transactions for the purpose of hedging against the effects of changes in the value of portfolio securities due to anticipated changes in market conditions, to gain market exposure for residual and accumulating cash positions and for managing the duration of fixed income investments.

Options

The Fund may utilize options on securities or indices to varying degrees as part of their principal investment strategy. An option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option at a specified exercise or "strike" price. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. The Fund may hold options, write option contracts, or both.

If an option written by the Fund expires unexercised, the Fund realizes on the expiration date a capital gain equal to the premium received by the Fund at the time the option was written. If an option purchased by the Fund expires unexercised, the Fund realizes a capital loss equal to the premium paid. Prior to the earlier of exercise or expiration, an exchange-traded option may be closed out by an off-setting purchase or sale of an option of the same series (type, underlying security, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Fund desires. The Fund will realize a capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if the cost of the closing option is more than the premium received from writing the option, a capital loss. The Fund will realize a capital gain from a closing sale transaction if the premium received from the sale is more than the original premium paid when the option position was opened, or a capital loss, if the premium received from a sale is less than the original premium paid.

Additional Derivative Information

The Funds follow adopted amendments to authoritative guidance on disclosures about derivative instruments and hedging activities which require that the Fund disclose; a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted for; c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows; and d) how the netting of derivatives subject to master netting arrangements (if applicable) affects the net exposure of the Fund related to the derivatives.

The fair value of derivative instruments on the Statement of Assets and Liabilities have the following risk exposure at December 31, 2018:

Risk Exposure	Fair Value	
	Asset Derivative	Liability Derivative
Equity Price Risk	\$39,000	\$—

The effect of derivative instruments on the Statement of Operations for the year ended December 31, 2018, is as follows:

Risk Exposure	Net Realized Gain(Loss) on Derivatives	Net Change in Unrealized Appreciation/(Depreciation) on Derivatives
Equity Price Risk	\$(56,103) ⁽¹⁾⁽²⁾	\$15,415 ⁽³⁾

- (1) Statement of Operations location: Realized gain (loss) on investments from unaffiliated issuers.
- (2) Statement of Operations location: Realized gain (loss) on written options contracts.
- (3) Statement of Operations location: Net change in unrealized appreciation/(depreciation) on investments.

The average monthly volume of derivative activity for the periods in which the Fund had outstanding activity is as follows:

	Units/Contracts
Purchased Options Contracts	819
Written Options Contracts	750

Note 4. U.S. Federal Income Tax Information

The character of income and gains to be distributed is determined in accordance with income tax regulations which may differ from U.S. GAAP. These differences include (but are not limited to), losses deferred due to wash sale transactions. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. These reclassifications have no impact on

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

the NAV of the Fund. The calculation of net investment income per share in the Financial Highlights table excludes these adjustments.

For the year ended December 31, 2018, permanent differences chiefly resulting from foreign currency gains and losses, and distribution redesignations were identified and reclassified among the components of the Fund's net assets as follows:

Paid-in Capital	Total Distributable Earnings (Loss)
\$(907)	\$907

For the year ended December 31, 2018, the Fund's most recent tax year end, components of distributable earnings on a tax basis are as follows:

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Tax Appreciation/ (Depreciation) ⁽¹⁾
\$6,321	\$—	\$(903,487)

⁽¹⁾ Other temporary differences is comprised of deferred REIT income.

For the period ended December 31, 2018, the Fund did not have capital loss carryovers.

The tax character of distributions paid during the year ended December 31, 2018 (unless otherwise indicated) is as follows:

Distributions Paid From:	2018	2017
Ordinary Income ⁽¹⁾	\$746,076	\$565,049
Realized Gains	43,529	49,123

⁽¹⁾ For tax purposes, short-term capital gains distributions, if any, are considered ordinary income distributions.

The above mentioned distributions are reflected on a tax basis. The tax basis distributions are less than the book basis distributions reflected on the Statement of Changes in Net Assets.

Unrealized appreciation and depreciation at December 31, 2018, based on cost of investments for U.S. federal income tax purposes is:

Gross Appreciation	Gross Depreciation	Net Appreciation/ (Depreciation) ⁽¹⁾	Cost
\$981,053	\$(1,884,540)	\$(903,487)	\$18,434,210

⁽¹⁾ Any differences between book-basis and tax-basis net unrealized appreciation/(depreciation) are primarily due to wash sales.

Note 5. Leverage Facility Agreement

On September 20, 2018, the Fund entered into a leverage facility agreement (the "BNP Agreement") with BNP Paribas Prime Brokerage International, Ltd., BNP Prime Brokerage, Inc., acting through its New York Branch, and BNP Paribas (together, the "BNPP Entities"). Under the BNP Agreement,

the BNPP Entities may make margin loans to the Fund at rates ranging from 1 month LIBOR + 0.60% to 1 month LIBOR + 1.30%. The BNP Agreement may be terminated by either the Fund or the BNPP Entities with 30 days' notice.

At December 31, 2018, current debt outstanding and fair value of collateral were \$3,354,013 and \$6,415,153, respectively. The Fund's average daily balance was \$3,176,879 at a weighted average interest rate of 3.04% for the days outstanding.

Note 6. Asset Coverage

The Fund is required to maintain 300% asset coverage with respect to any amounts borrowed. Asset coverage is calculated by subtracting the Fund's total liabilities, not including any amount representing bank borrowings and senior securities, from the Fund's total assets and dividing the result by the principal amount of the borrowings outstanding. As of the dates indicated below, the Fund's debt outstanding and asset coverage was as follows:

Date	Total Amount Outstanding	% of Asset Coverage of Indebtedness
12/31/2018	3,354,013	519.10%
12/31/2017	—	N/A
12/31/2016	—	N/A

Note 7. Investment Advisory, Service and Distribution, Trustee and Other Fees

Investment Advisory Fee

The Investment Adviser to the Fund receives an annual fee, paid monthly, in an amount equal to 1.25% of the Fund's Daily Gross Assets. The Fund's "Daily Gross Assets" is an amount equal to the total assets of the Fund, including assets resulting from leverage, less any liabilities not representing leverage.

Service and Distribution Fees

Highland Capital Funds Distributor, Inc. (the "Distributor"), an affiliate of the Investment Advisor, serves as the principal underwriter and distributor of the Fund's shares. The Distributor receives the front-end sales charge imposed on the sale of Class A Shares and the contingent deferred sales charge ("CDSC") imposed on certain redemptions of Class A and Class C Shares. The Fund has adopted a "Shareholder Servicing Plan and Agreement" (the "Plan") under which the Fund may compensate financial industry professionals for providing ongoing services in respect of clients with whom they have distributed shares of the Fund. The Plan operates in a manner consistent with Rule 12b-1 under the 1940 Act, which regulates the manner in which an open-end investment company may directly or indirectly bear the expenses of distributing its shares. Although the Fund is not an

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

open-end investment company, it has undertaken to comply with the terms of Rule 12b-1 as a condition of an exemptive order under the 1940 Act which permits it to have a multi-class structure, CDSCs and distribution and shareholder servicing fees. Under the Plan, the Fund may incur expenses on an annual basis equal to 0.25% of the average net assets of the Class A and Class C Shares.

Class C shares will pay to the Distributor a distribution fee that will accrue at an annual rate equal to 0.75% of the Fund's average daily net assets attributable to Class C shares and will be payable on a quarterly basis.

Expense Limitation Agreement

The Investment Adviser and the Fund have entered into an expense limitation and reimbursement agreement (the "Expense Limitation Agreement") under which the Investment Adviser has agreed contractually to waive its fees and to pay or absorb the ordinary operating expenses of the Fund (including organizational and offering expenses, but excluding distribution fees, interest, dividend expenses on short sales, brokerage commissions and other transaction costs, acquired fund fees and expenses, taxes, expenses payable by the Fund for third party administration services, litigation expenses and extraordinary expenses), to the extent that they exceed 1.75% per annum of the Fund's average Daily Gross Assets (the "Expense Limitation"). "Daily Gross Assets" is defined in the Expense Limitation Agreement as an amount equal to total assets, less any liabilities, but excluding liabilities evidencing leverage. If the Fund incurs expenses excluded from the Expense Limitation Agreement, the Fund's expense ratio would be higher and could exceed the Expense Limitation. In consideration of the Investment Adviser's agreement to limit the Fund's expenses, the Fund has agreed to repay the Investment Adviser in the amount of any fees waived and Fund expenses paid or absorbed, subject to the limitations that: (1) the reimbursement for fees and expenses will be made only if payable not more than three years from the date of the reimbursement; and (2) the reimbursement may not be made if it would cause the Expense Limitation as of the time of waiver to be exceeded. The Expense Limitation Agreement will remain in effect until at least May 1, 2019 unless and until the Board approves its modification or termination. The Expense Limitation Agreement may be terminated only by the Board. After the expiration of the Expense Limitation Agreement, the agreement may be renewed at the discretion of the Investment Adviser and the Board.

On December 31, 2018, the amount subject to possible future recoupment under the Expense Limitation were as follows:

Expiring during Fiscal Years Ending December 31,		
2019	2020	2021
\$69,121	\$61,880	\$214,266

During the year ended December 31, 2018, the Investment Adviser did not recoup any amounts previously waived or reimbursed.

Fees Paid to Officers and Trustees

Each Trustee who is not an "interested person" of the Fund as defined in the 1940 Act (the "Independent Trustees") receives an annual retainer of \$150,000 payable in quarterly installments and allocated among each portfolio in the Highland Fund Complex overseen by such Trustee based on relative net assets. The "Highland Fund Complex" consists of all of the registered investment companies advised by the Investment Adviser or its affiliated advisers and NexPoint Capital, Inc., a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act as of the date of this report. Effective December 4, 2015, Mr. Powell resigned from his position with the Investment Adviser. Prior to December 8, 2017, Mr. Powell was treated as an Interested Trustee of the Trust for all purposes other than compensation and the Trust's code of ethics.

The Fund pays no compensation to its officers, all of whom are employees of the Investment Adviser or one of its affiliates.

Due to Adviser

The balance shown as "Due to Investment Adviser" on the Statement of Assets and Liabilities represents amounts owed to the Investment Adviser for advisory fees and Fund expenses paid by the Investment Adviser.

Indemnification

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

Note 8. Repurchase of Shares

Once each quarter, the Fund will offer to repurchase at NAV no less than 5% of the outstanding shares of the Fund (the "Repurchase Offer Amount"), unless such offer is suspended or postponed in accordance with regulatory requirements. The offer to purchase shares is a fundamental policy that may not be changed without the vote of the holders of a majority of the Fund's outstanding voting securities (as defined in the 1940 Act). Shareholders will be notified in writing of each quarterly repurchase offer and the date the repurchase offer ends (the "Repurchase Request Deadline"). Shares will be repurchased at the NAV per share determined

December 31, 2018

NexPoint Real Estate Strategies Fund

as of the close of regular trading on the NYSE no later than the 14th day after the Repurchase Request Deadline, or the next business day if the 14th day is not a business day.

If shareholders tender for repurchase more than the Repurchase Offer Amount for a given repurchase offer, the Fund will repurchase the shares on a pro rata basis. However, the Fund may accept all shares tendered for repurchase by shareholders who own less than one hundred shares and who tender all of their shares, before prorating other amounts tendered. In addition, the Fund will accept the total number of shares tendered in connection with required minimum distributions from an IRA or other qualified retirement plan.

The Fund conducted its quarterly tender offer from March 2, 2018, until expiration on March 30, 2018 at 4:00 p.m. New York City time, during which the Fund offered to purchase for cash up to 5.0% of its outstanding shares of common stock. During the first quarter tender offer, 95 shares of the Fund were tendered for repurchase at an average price of \$19.60/share, constituting approximately 0.02% of the Fund's outstanding shares.

The Fund conducted its quarterly tender offer from May 29, 2018, until expiration on June 28, 2018 at 4:00 p.m. New York City time, during which the Fund offered to purchase for cash up to 5.0% of its outstanding shares of common stock. During the second quarter tender offer, 11,303 shares of the Fund were tendered for repurchase at an average price of \$20.75/share, constituting approximately 1.76% of the Fund's outstanding shares.

The Fund conducted its quarterly tender offer from August 28, 2018, until expiration on September 27, 2018 at 4:00 p.m. New York City time, during which the Fund offered to purchase for cash up to 5.0% of its outstanding shares of common stock. During the third quarter tender offer, 11,178 shares of the Fund were tendered for repurchase at an average price of \$21.08 per share, constituting approximately 1.59% of the Fund's outstanding shares.

The Fund conducted its quarterly tender offer from November 28, 2018, until expiration on December 27, 2018 at 4:00 p.m. New York City time, during which the Fund offered to purchase for cash up to 5.0% of its outstanding shares of common stock. During the fourth quarter tender offer, 2,378 shares of the Fund were tendered for repurchase at an average price of \$19.06 per share, constituting approximately 0.32% of the Fund's outstanding shares.

Note 9. Disclosure of Significant Risks and Contingencies

The primary risks of investing in the Fund are described below in alphabetical order:

Concentration in Real Estate Securities Risk

Although the fund does not invest directly in real estate, the Fund will concentrate its investments in investment vehicles that invest principally in real estate and real estate related securities, its portfolio will be significantly impacted by the performance of the real estate market and may experience more volatility and be exposed to greater risk than a more diversified portfolio. The values of companies engaged in the real estate industry are affected by: (i) changes in general economic and market conditions; (ii) changes in the value of real estate properties; (iii) risks related to local economic conditions, overbuilding and increased competition; (iv) increases in property taxes and operating expenses; (v) changes in zoning laws; (vi) casualty and condemnation losses; (vii) variations in rental income, neighborhood values or the appeal of property to tenants; (viii) the availability of financing and (ix) changes in interest rates and leverage.

Debt Securities Risk

When the Fund invests in debt securities, the value of the investment in the Fund will fluctuate with changes in interest rates. Typically, a rise in interest rates causes a decline in the value of debt securities. In general, the market price of debt securities with longer maturities will increase or decrease more in response to changes in interest rates than shorter-term securities. Other risk factors include credit risk (the debtor may default) and prepayment risk (the debtor may pay its obligation early, reducing the amount of interest payments). These risks could affect the value of a particular investment, possibly causing the Fund's share price and total return to be reduced or fluctuate more than other types of investments. This kind of market risk is generally greater for funds investing in debt securities with longer maturities.

Leverage Risk

The use of leverage, such as borrowing money to purchase securities, will cause the Fund or a Public Investment Fund or Private Real Estate Investment Fund in which the Fund has invested, to incur additional expenses and significantly magnify the Fund's losses in the event of underperformance of the Fund's (or Public Investment Fund's or Private Real Estate Investment Fund's) underlying investments. Interest payments and fees incurred in connection with such borrowings will reduce the amount of distributions available to the Fund's shareholders. The Fund's investments in Public Investment Funds and REITs managed by affiliated or unaffiliated institutional asset managers may incur higher levels of leverage. Accordingly, the Fund, through these investments, may be exposed to the higher levels of leverage than the Fund is permitted to, including a greater risk of loss with respect to such investments as a result of higher leverage employed by such entities.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

Liquidity Risk

There is currently no secondary market for the shares and the Fund expects that no secondary market will develop. Limited liquidity is provided to shareholders only through the Fund's quarterly repurchase offers for no less than 5% of the shares outstanding at NAV. There is no guarantee that shareholders will be able to sell all of the shares they desire in a quarterly repurchase offer.

REIT Risk

Real estate investments trusts ("REITs") may be affected by changes in the real estate markets generally as well as changes in the values of the properties owned by the REIT or securing the mortgages owned by the REIT. REITs are dependent upon management skill and are not diversified. REITs are also subject to heavy cash flow dependency,

defaults by borrowers, self-liquidation, and the possibility of failing to qualify for special tax treatment under the Code, and to maintain an exemption under the 1940 Act. Finally, certain REITs may be self-liquidating at the end of a specified term, and run the risk of liquidating at an economically inopportune time.

Note 10. Investment Transactions Purchases & Sales of Securities

The cost of purchases and the proceeds from sales of investments, other than short-term securities, for the year ended December 31, 2018, were as follows:

Other Securities	
Purchases	Sales
\$15,950,536	\$5,764,988

Note 11. Affiliated Issuers

Under Section 2 (a)(3) of the Investment Company Act of 1940, as amended, a portfolio company is defined as "affiliated" if a fund owns five percent or more of its outstanding voting securities or if the portfolio company is under common control. The table below shows affiliated issuers of the Fund for the year ended December 31, 2018:

Issuer	Shares at December 31, 2017	Beginning Value as of December 31, 2017	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss) on Sales of Affiliated Issuers	Change Unrealized Appreciation/Depreciation	Ending Value as of December 31, 2018	Shares at December 31, 2018	Affiliated Income
Majority Owned, Not Consolidated									
NRESF REIT Sub, LLC (Common Stocks)	1,012,750	\$ 58,436	\$ —	\$ —	\$ —	\$ (37,168)	\$ 21,268	1,012,750	\$ —
Other Affiliates									
NexPoint Residential Trust, Inc., REIT (Common Stocks)	19,662	549,356	535,208	(8,867)	8,831	196,164	1,280,692	36,539	4,622
Total	<u>1,032,412</u>	<u>\$607,792</u>	<u>\$535,208</u>	<u>\$(8,867)</u>	<u>\$8,831</u>	<u>\$158,996</u>	<u>\$1,301,960</u>	<u>1,049,289</u>	<u>\$4,622</u>

Note 12. Significant Shareholders

The number of shareholders each owning 5% or more of the Fund is listed below. The total percentage of the Fund held by such external shareholders as well as percentage of the Fund held by certain affiliates of the Investment Adviser at December 31, 2018 were:

Number	% of Fund Held
6	81.24%

Investment activities of these shareholders could have a material impact on the Fund and remaining shareholders.

Note 13. New Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this

update shorten the amortization period for certain callable debt securities held at premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities this update will be effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements.

In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify a number of disclosure

December 31, 2018

NexPoint Real Estate Strategies Fund

requirements on fair value measurements required to be reported under Topic 820, Fair Value Measurement. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Investment Adviser is currently evaluating the impact of this new guidance on the Fund's financial statements.

Note 14. Changes of Independent Registered Public Accounting Firms

On November 14, 2018, KPMG LLP ("KPMG") resigned as the independent registered public accounting firm of NexPoint Real Estate Strategies Fund (the "Fund"), effective on such date. On December 7, 2018, the board of trustees of the Fund (the "Board") approved the appointment of Cohen & Company, Ltd. ("Cohen") as the Fund's independent registered public accounting firm. Cohen was formally engaged by the Fund on December 19, 2018.

KPMG's audit reports on the Fund's financial statements for the period from July 1, 2016 (commencement of operations) to December 31, 2016 and the year ended December 31, 2017 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the period from July 1, 2016 (commencement of operations) to December 31, 2016, the year ended December 31, 2017, and the subsequent interim period through November 14, 2018, there were no: (1) disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) with KPMG involving the Fund on any matter of accounting principles or practices, financial

statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events (as described in Item 304(a)(1)(v) of Regulation S-K).

During the period from July 1, 2016 (commencement of operations) to December 31, 2016, the year ended December 31, 2017, and the subsequent interim period through November 14, 2018, neither Management, the Fund, nor anyone on its behalf, consulted Cohen regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of the Fund, and no written report or oral advice was provided to the Fund by Cohen that Cohen concluded was an important factor considered by the Fund in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Note 15. Subsequent Events

Management has evaluated the impact of all subsequent events on the Fund through the date the financial statements were issued, and has determined that there were no subsequent events to report which have not already been recorded or disclosed in these financial statements and accompanying notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Trustees of NexPoint Real Estate Strategies Fund

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of NexPoint Real Estate Strategies Fund (the “Fund”) as of December 31, 2018, and the related statements of operations, changes in net assets and cash flows, and the financial highlights for the year then ended, including the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, the results of its operations, cash flows, changes in net assets and financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Fund’s financial statements and financial highlights for the periods ended December 31, 2017, and prior, were audited by other auditors whose report dated February 28, 2018, expressed an unqualified opinion on those financial statements and financial highlights.

Basis for Opinion

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018, by correspondence with the custodians, brokers and others, or by other appropriate auditing procedures where replies from brokers were not received. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Fund’s auditor since 2018.



COHEN & COMPANY, LTD.
Cleveland, Ohio
March 1, 2019

ADDITIONAL INFORMATION

December 31, 2018

NexPoint Real Estate Strategies Fund

Additional Portfolio Information

The Investment Adviser and its affiliates manage other accounts, including registered and private funds and individual accounts. Although investment decisions for the Fund are made independently from those of such other accounts, the Investment Adviser may, consistent with applicable law, make investment recommendations to other clients or accounts that may be the same or different from those made to the Fund, including investments in different levels of the capital structure of a company, such as equity versus senior loans, or that involve taking contradictory positions in multiple levels of the capital structure. The Investment Adviser has adopted policies and procedures that address the allocation of investment opportunities, execution of portfolio transactions, personal trading by employees and other potential conflicts of interest that are designed to ensure that all client accounts are treated equitably over time. Nevertheless, this may create situations where a client could be disadvantaged because of the investment activities conducted by the Investment Adviser for other client accounts. When the Fund and one or more of such other accounts is prepared to invest in, or desires to dispose of, the same security, available investments or opportunities for each will be allocated in a manner believed by the Investment Adviser to be equitable to the Fund and such other accounts. The Investment Adviser also may aggregate orders to purchase and sell securities for the Fund and such other accounts. Although the Investment Adviser believes that, over time, the potential benefits of participating in volume transactions and negotiating lower transaction costs should benefit all accounts including the Fund, in some cases these activities may adversely affect the price paid or received by the Fund or the size of the position obtained or disposed of by the Fund. Where trades are aggregated, the investments or proceeds, as well as the expenses incurred, will be allocated by the Investment Adviser in a manner designed to be equitable and consistent with the Investment Adviser's fiduciary duty to the Fund and its other clients (including its duty to seek to obtain best execution of client trades).

Approval of NexPoint Real Estate Strategies Fund Investment Advisory Agreement

The Fund has retained NexPoint Advisors, L.P. (the "Investment Adviser") to manage the assets of the Fund pursuant to an investment advisory agreement between the Investment Adviser and the Fund (the "Agreement"). The Agreement was initially approved by the Fund's Board of Trustees, including a majority of the Independent Trustees, at a meeting held on February 18-19, 2016.

Following the initial two-year term, the Agreement continues in effect from year-to-year, provided that such continuance is specifically approved at least annually by the vote of holders

of at least a majority of the outstanding shares of the Fund or by the Board of Trustees and, in either event, by a majority of the Independent Trustees of the Fund casting votes in person at a meeting called for such purpose.

During telephonic meetings held on August 16, 2018 and August 28, 2018, the Board of Trustees gave preliminary consideration to information bearing on the continuation of the Agreement for a one-year period commencing November 1, 2018 with respect to the Fund. The primary objective of the meetings was to ensure that the Trustees had the opportunity to consider matters they deemed relevant in evaluating the continuation of the Agreement, and to request any additional information they considered reasonably necessary for their deliberations.

At an in-person meeting held on September 16-17, 2018, the Board of Trustees, including the Independent Trustees, approved the continuance of the Agreement for a one-year period commencing on November 1, 2018. As part of its review process, the Board of Trustees requested, through Fund counsel and its independent legal counsel, and received from the Investment Adviser, various information and written materials in connection with meetings of the Board of Trustees, including: (1) information regarding the financial soundness of the Adviser and the profitability of the Agreement to the Investment; (2) information on the advisory and compliance personnel of the Investment Adviser, including compensation arrangements; (3) information on the internal compliance procedures of the Investment Adviser; (4) comparative information showing how the Fund's fees and operating expenses compare to those of other accounts of the Investment Adviser and comparable funds managed by unaffiliated advisers, both of which follow investment strategies similar to those of the Fund; (5) information on the investment performance of the Fund, including comparisons of the Fund's performance against that of other registered investment companies and comparable funds that follow investment strategies similar to those of the Fund; (6) information regarding brokerage and portfolio transactions; and (7) information on any legal proceedings or regulatory audits or investigations affecting the Investment Adviser. After the August 2018 meetings, the Trustees requested that the Investment Adviser provide additional information regarding various matters. In addition, the Trustees received an independent report from Morningstar Inc. ("Morningstar"), an independent source of investment company data, relating to the Fund's performance, volatility and expenses compared to the performance, volatility and expenses of a peer group determined by Morningstar to be comparable. The Trustees also relied on information provided at periodic meetings of the Board of Trustees over the course of the year. The Trustees reviewed various factors discussed in independent counsel's legal memoranda regarding their responsibilities in considering

ADDITIONAL INFORMATION (continued)

December 31, 2018

the Agreement, the detailed information provided by the Investment Adviser and other relevant information and factors. The Trustees' conclusions as to the approval of the Agreement were based on a comprehensive consideration of all information provided to the Trustees without any single factor being dispositive in and of itself. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

The nature, extent, and quality of the services to be provided by the Investment Adviser. The Board of Trustees considered the portfolio management services to be provided by the Investment Adviser under the Agreement and the activities related to portfolio management, including use of technology, research capabilities, and investment management staff. The Trustees discussed the relevant experience and qualifications of the personnel providing advisory services, including the background and experience of the members of the Fund's portfolio management team. The Trustees reviewed the management structure, assets under management and investment philosophies and processes of the Investment Adviser. The Trustees also reviewed and discussed information regarding the Investment Adviser's compliance policies, procedures and personnel, including portfolio manager compensation arrangements. The Trustees concluded that the Investment Adviser had the quality and depth of personnel and investment methods essential to performing their duties under the Agreement, and that the nature and the quality of such advisory services were satisfactory.

The Investment Adviser's historical performance in managing the Fund. The Board of Trustees reviewed the historical performance of the Fund over various time periods and reflected on previous discussions regarding matters bearing on the Investment Adviser's performance at its meetings throughout the year. With respect to the Fund, the Trustees discussed the historical performance of the Fund and contrasted the relative performance of the Fund and its portfolio management team to that of the Fund's peers, as represented by certain other registered investment companies and comparable funds that follow investment strategies similar to the Fund, as well as comparable indices and the Fund's applicable Morningstar category. The Trustees concluded that the Fund's performance or other relevant factors supported the continuation of the Agreement relating to the Fund for an additional one-year period.

Among other data relating specifically to the Fund's performance, the Board took note of Morningstar's explanatory note concerning its peer group analysis that, while the Fund is an unlisted closed-end fund, peer group funds were selected from the universe of listed closed-end funds as data with

NexPoint Real Estate Strategies Fund

respect to unlisted closed-end funds often contain self-reported and incomplete data. Morningstar relaxed its asset size criterion significantly in order to include a sufficient number of funds. The Board then considered that the Fund commenced operations on July 1, 2016 and has a limited operating history. The Board noted that the Fund does not have a stated prospectus benchmark. The Board further noted that the Fund outperformed the S&P United States REIT TR USD Index, the Morningstar peer group median and category median for the 6-month, 9-month and one-year periods ended June 30, 2018; however, it underperformed over the three-month period ended June 30, 2018. With respect to performance that lagged the Fund's Morningstar peer group median, category median and/or benchmark for certain periods, the Trustees considered information provided by the Investment Adviser relating to the attribution of performance results for the Fund, including information that demonstrated that the Fund's underperformance was attributable, to a significant extent, to investment decisions (such as security selection or sector allocation) by the Investment Adviser that were reasonable under the circumstances prevailing at the time and consistent with the Fund's investment objective and policies.

With respect to the Fund, the Trustees concluded that the Fund's performance and other relevant factors supported the continuation of the Agreement.

The costs of the services to be provided by the Investment Adviser and the profits to be realized by the Investment Adviser and its affiliates from their relationship with the Fund. The Board of Trustees also gave consideration to the fees payable under the Agreement, the expenses the Investment Adviser incur in providing advisory services and the profitability to the Investment Adviser from managing the Fund, including: (1) information regarding the financial condition of the Investment Adviser; (2) information regarding the total fees and payments received by the Investment Adviser for its services and, with respect to the Investment Adviser, whether such fees are appropriate given economies of scale and other considerations; (3) comparative information showing (a) the fees payable under the Agreement versus the investment advisory fees of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund and (b) the expense ratios of the Fund versus the expense ratios of certain registered investment companies and comparable funds that follow investment strategies similar to those of the Fund; and (4) information regarding the total fees and payments received and the related amounts waived and/or reimbursed by the Investment Adviser for providing administrative services with respect to the Fund under separate agreements and whether such fees are appropriate. The Trustees also considered the so-called "fall-out benefits" to

ADDITIONAL INFORMATION (continued)

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the Investment Adviser with respect to the Fund, such as the reputational value of serving as Investment Adviser to the Fund, potential fees paid to the Investment Adviser's affiliates by the Fund or portfolio companies for services provided, including administrative services provided to the Fund by the Investment Adviser pursuant to separate agreements, the benefits of scale from investment by the Fund in affiliated funds, and the benefits of research made available to the Investment Adviser by reason of brokerage commissions (if any) generated by the Fund's securities transactions, and, with respect to any Fund investments in one or more other funds in the Highland fund complex, the fees paid to the Investment Adviser of the underlying Fund and its affiliates with respect to such investments. After such review, the Trustees determined that the anticipated profitability rates to the Investment Adviser with respect to the Agreement were fair and reasonable. The Trustees also took into consideration the amounts waived and/or reimbursed, if any, where expense caps or advisory fee waivers had been implemented.

The extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of shareholders. The Board of Trustees considered the respective asset levels of the Fund over time and historical net expenses relative to such asset levels, the information provided by the Investment Adviser relating to their costs and information comparing the fee rates charged by the Investment Adviser with fee

NexPoint Real Estate Strategies Fund

rates charged by other unaffiliated investment advisers to their clients. The Trustees concluded that the fee structures are reasonable, and with respect to the Investment Adviser, should result in a sharing of economies of scale in view of the information provided. The Board determined to continue to review ways, and the extent to which, economies of scale might be shared between the Investment Adviser, on the one hand and shareholders of the Fund on the other. The Board also requested that the Investment Adviser consider ways in which economies of scale can be shared with Fund shareholders.

Conclusion

Throughout the process, the Board of Trustees was advised by Fund counsel and independent legal counsel, and was empowered to engage such other third parties or request additional information as it deemed appropriate. Following a further discussion of the factors above and the merits of the Agreement and its various provisions, it was noted that in considering the approval of the Agreement, no single factor was determinative to the decision of the Board of Trustees. Rather, after weighing all of the factors and reasons discussed above, the Trustees, including the Independent Trustees, unanimously agreed that the Agreement, including the advisory fees to be paid to the Investment Adviser, is fair and reasonable to the Fund in light of the services that the Investment Adviser provides, the expenses that it incurs and the reasonably foreseeable asset levels of the Fund.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name and Date of Birth</u>	<u>Position(s) with the Trust</u>	<u>Term of Office¹ and Length of Time Served</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by the Trustees²</u>	<u>Other Directorships/Trusteeships Held During the Past Five Years</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
Independent Trustees						
Timothy K. Hui (6/13/1948)	Trustee	Indefinite Term; Trustee since inception in 2006.	Dean of Educational Resources Emeritus and Special Assistant to the President at Cairn University since July 2018; Dean of Educational Resources at Cairn University from July 2012 until June 2018 and from July 2006 to January 2008.	24	None	Significant experience on this board of directors/trustees; administrative and managerial experience; legal training and practice.
Bryan A. Ward (2/4/1955)	Trustee	Indefinite Term; Trustee since inception in 2006.	Private Investor, BW Consulting, LLC since 2014; Senior Manager, Accenture, LLP (a consulting firm) from 2002 until retirement in 2014.	24	Director of Equity Metrix, LLC.	Significant experience on this and/or other boards of directors/trustees; significant managerial and executive experience; significant experience as a management consultant.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name and Date of Birth</u>	<u>Position(s) with the Trust</u>	<u>Term of Office¹ and Length of Time Served</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by the Trustees²</u>	<u>Other Directorships/Trusteeships Held During the Past Five Years</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
Independent Trustees						
Dr. Bob Froehlich (4/28/1953)	Trustee	Indefinite Term; Trustee since December 2013.	Executive Vice President and Chief Investment Strategist, The Hartford Mutual Funds from 2009 until retirement in 2012.	24	Trustee of ARC Realty Finance Trust, Inc. (from January 2013 to May 2016); Director of KC Concessions, Inc. (since January 2013); Trustee of Realty Capital Income Funds Trust (from January 2014 to December 2016); Director of American Realty Capital Healthcare Trust II (from January 2013 to June 2016); Director, American Realty Capital Daily Net Asset Value Trust, Inc. (from November 2012 to July 2016); Director of AmericanSports Enterprise, Inc. (since January 2013); Director of Davidson Investment Advisors (July 2009 to July 2016); Chairman and owner, Kane County Cougars Baseball Club (since January 2013); Advisory Board of Directors, Internet Connectivity Group, Inc. (January 2014 to April 2016); Director of AXAR Acquisition Corp. (formerly AR Capital Acquisition Corp.) (from October 2014 to October 2017); Director of The Midwest League of Professional Baseball Clubs, Inc.; Director of Kane County Cougars Foundation, Inc.; Director of Galen Robotics, Inc.; Chairman and Director of FC Global Realty, Inc. (from May 2017 to June 2018); and Chairman and Director of First Capital Investment Corp. (from March 2017 until March 2018).	Significant experience in the financial industry; significant managerial and executive experience; significant experience on other boards of directors, including as a member of several audit committees.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name and Date of Birth</u>	<u>Position(s) with the Trust</u>	<u>Term of Office¹ and Length of Time Served</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by the Trustees²</u>	<u>Other Directorships/ Trusteeships Held During the Past Five Years</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
Independent Trustees						
John Honis ³ (6/16/1958)	Trustee	Indefinite Term; Trustee since July 2013.	President of Rand Advisors, LLC since August 2013; Partner of Highland Capital Management, L.P. (“HCM”) from February 2007 until his resignation in November 2014.	24	Manager of Turtle Bay Resort, LLC (August 2011 – December 2018); and Manager of American Home Patient (from November 2011 to February 2016).	Significant experience in the financial industry; significant managerial and executive experience, including experience as president, chief executive officer or chief restructuring officer of five telecommunication firms; experience on other boards of directors/trustees.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name and Date of Birth</u>	<u>Position(s) with the Trust</u>	<u>Term of Office¹ and Length of Time Served</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by the Trustees²</u>	<u>Other Directorships/Trusteeships Held During the Past Five Years</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
Independent Trustees						
Ethan Powell ⁴ (6/20/1975)	Trustee and Chairman of the Board	Indefinite Term; Trustee since December 2013; Chairman of the Board since December 2013; and Executive Vice President and Principal Executive Officer from June 2012 until December 2015.	President and Founder of Impact Shares LLC since December 2015; Trustee/Director of the Highland Fund Complex from June 2012 until July 2013 and since December 2013; Chief Product Strategist of Highland Capital Management Fund Advisors, L.P. ("HCMFA") from 2012 until December 2015; Senior Retail Fund Analyst of HCM from 2007 until December 2015 and HCMFA from its inception until December 2015; President and Principal Executive Officer of NexPoint Strategic Opportunities Fund ("NHF") from June 2012 until May 2015; Secretary of NHF from May 2015 until December 2015; Executive Vice President and Principal Executive Officer of Highland Funds I ("HFI") and Highland Funds II ("HFII") from June 2012 until December 2015; and Secretary of HFI and HFII from November 2010 to May 2015.	24	Trustee of Impact Shares Funds I Trust	Significant experience in the financial industry; significant executive experience including past service as an officer of funds in the Highland Fund Complex; significant administrative and managerial experience.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name and Date of Birth</u>	<u>Position(s) with the Trust</u>	<u>Term of Office¹ and Length of Time Served</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of Portfolios in Highland Fund Complex Overseen by the Trustees²</u>	<u>Other Directorships/ Trusteeships Held During the Past Five Years</u>	<u>Experience, Qualifications, Attributes, Skills for Board Membership</u>
Interested Trustee						
Dustin Norris ⁵ (1/6/1984)	Trustee and Secretary	Indefinite Term; Secretary since March 2016; Trustee since February 2018.	President of Highland Capital Funds Distributor, Inc. since April 2018; Head of Distribution at HCMFA since November 2017; Secretary of Highland Floating Rate Opportunities Fund (“HFRO”), Highland Global Allocation Fund (“GAF”), HFI and HFII since October 2017; Assistant Secretary of HFRO and GAF from August 2017 to October 2017; Chief Product Strategist at HCMFA since September 2015; Director of Product Strategy at HCMFA from May 2014 to September 2015; Assistant Secretary of HFI and HFII from March 2017 to October 2017; Secretary of NHF since December 2015; Assistant Treasurer of NexPoint Real Estate Advisors, L.P. since May 2015; Assistant Treasurer of NexPoint Real Estate Advisors II, L.P. since June 2016; Assistant Treasurer of HFI and HFII from November 2012 to March 2017; Assistant Treasurer of NHF from November 2012 to December 2015; Secretary of NexPoint Capital, Inc. since 2014; Secretary of NexPoint Real Estate Strategies Fund, NexPoint Strategic Income Fund, NexPoint Energy and Materials Opportunities Fund, NexPoint Discount Strategies Fund, NexPoint Healthcare Opportunities Fund, NexPoint Event-Driven Fund and NexPoint Latin American Opportunities Fund (the “Interval Funds”) since March 2016; and Senior Accounting Manager at HCMFA from August 2012 to May 2014.	24	None	Significant experience in the financial industry; significant managerial and executive experience, including experience as an officer of the Highland Funds Complex since 2012.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name, Address and Age*</u>	<u>Position/Term of Office**</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation During the Past Five Years</u>
Officers			
James Dondero (6/29/1962)	President and Principal Executive Officer	Indefinite term; President since March 2016.	President of Highland Capital Management, L.P., which he co-founded in 1993; Chairman of the Board of NexPoint Residential Trust, Inc. since May 2015; Portfolio Manager of NHF, Portfolio Manager of Highland Energy MLP Fund, Highland Global Allocation Fund, Highland Small-Cap Equity Fund and Highland Premier Growth Equity Fund (all series of HFII); Portfolio Manager of Highland Opportunistic Credit Fund and Highland Long/Short Healthcare Fund (each a series of HFI) and a Portfolio Manager of NexPoint Capital, Inc. since 2014; President of NexPoint Real Estate Advisors, L.P. since May 2015; President of NexPoint Real Estate Advisors II, L.P. since June 2016; President and Portfolio Manager of NexPoint Real Estate Strategies Fund, NexPoint Discount Strategies Fund, NexPoint Energy and Materials Opportunities Fund, NexPoint Healthcare Opportunities Fund, NexPoint Latin American Opportunities Fund, NexPoint Event-Driven Fund and NexPoint Strategic Income Fund (formerly, NexPoint Opportunistic Credit Fund) since 2016.
Brian Mitts (8/26/1970)	Executive Vice President and Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)	Indefinite term; Executive Vice President and Chief Financial Officer since January 2016; Treasurer from January 2016 to March 2016.	Chief Financial Officer, Executive Vice President and Treasurer of NexPoint Residential Trust, Inc. since 2014; Chief Financial Officer and Treasurer of NexPoint Capital, Inc. from 2014 to October 2017; Chief Financial Officer, Executive VP-Finance, Treasurer and Director of NexPoint Hospitality Trust, Inc. since 2014; Executive Vice President of NexPoint Real Estate Advisors, L.P. since May 2015; Executive President of NexPoint Real Estate Advisors II, L.P. since June 2016; Vice President and Chief Financial Officer of NexPoint Discount Yield Fund, NexPoint Energy and Materials Opportunities Fund, NexPoint Healthcare Opportunities Fund, NexPoint Latin American Opportunities Fund, NexPoint Strategic Income Fund (formerly, NexPoint Opportunistic Credit Fund) and NexPoint Merger Arbitrage Fund since 2016; Chief Financial Officer, Executive VP-Finance, Treasurer and Director of NexPoint Multifamily Capital Trust, Inc. from 2014 to April 2018; Chief Financial Officer and Financial and Operations Principal of Highland Capital Funds Distributor, Inc. from November 2013 to October 2017; Chief Operations Officer of HCMFA from 2012 to October 2017; Chief Operations Officer of NexPoint Advisors, L.P. since 2012; Principal Accounting Officer and Treasurer of the other funds in the Fund Complex from November 2010 until October 2017; Financial and Operations Principal of NexBank Securities, Inc. from 2014 until October 2017.

ADDITIONAL INFORMATION (continued)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name, Address and Age*</u>	<u>Position/Term of Office**</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation During the Past Five Years</u>
Officers			
Frank Waterhouse (4/14/1971)	Treasurer	Indefinite Term; Treasurer since March 2016	Principal Executive Officer of HFI, HFII, HFRO, and GAF since February 2018; Principal Financial Officer and Principal Accounting Officer of HFRO, GAF, NexPoint Capital, Inc., NHF, HFI, HFII, and NexPoint Real Estate Advisors, L.P. since October 2017; Treasurer of HFRO and GAFII since August 2017; Assistant Treasurer of Acis Capital Management, L.P. from December 2011 until February 2012; Treasurer of Acis Capital Management, L.P. since February 2012; Assistant Treasurer of HCM from November 2011 until April 2012; Treasurer of HCM since April 2012; Assistant Treasurer of HCMFA from December 2011 until October 2012; Treasurer of HCMFA since October 2012; Treasurer of NexPoint Advisors, L.P. since March 2012 and Treasurer of NexPoint Capital, Inc., NHF, HFI, HFII, and NexPoint Real Estate Advisors, L.P. since May 2015; Treasurer of NexPoint Real Estate Advisors II, L.P. since June 2016; and Treasurer of NexPoint Real Estate Strategies Fund, NexPoint Discount Strategies Fund, NexPoint Energy and Materials Opportunities Fund, NexPoint Healthcare Opportunities Fund, NexPoint Latin American Opportunities Fund, NexPoint Event-Driven Fund, and NexPoint Opportunistic Credit Fund since March 2016.
Clifford Stoops (11/17/1970)	Assistant Treasurer	Indefinite Term; Assistant Treasurer since March 2017	Assistant Treasurer of HFRO and GAF since August 2017; Assistant Treasurer of HFI, HFII, NHF, NexPoint Capital, Inc. and NexPoint Real Estate Strategies Fund since March 2017; and Chief Accounting Officer at HCM since December 2011.
Jason Post (1/9/1979)	Chief Compliance Officer and Anti- Money Laundering Officer	Indefinite term; Chief Compliance Officer since March 2016.	Chief Compliance Officer and Anti-Money Laundering Officer of HFRO and GAF since August 2017; Chief Compliance Officer and Anti-Money Laundering Officer of HFI, HFII, NHF, and NexPoint Capital, Inc. since September 2015; and Chief Compliance Officer and Anti-Money Laundering Officer of the Interval Funds since March 2016; and Chief Compliance Officer for HCMFA and NexPoint Advisors, L.P. since September 2015. Prior to this role served as Deputy Chief Compliance Officer and Director of Compliance for HCM.

ADDITIONAL INFORMATION (concluded)

December 31, 2018

NexPoint Real Estate Strategies Fund

<u>Name, Address and Age*</u>	<u>Position/Term of Office**</u>	<u>Term of Office and Length of Time Served</u>	<u>Principal Occupation During the Past Five Years</u>
Officers			
Dustin Norris ⁵ (1/6/1984)	Secretary and Trustee	Indefinite Term; Secretary since March 2017.	President of Highland Capital Funds Distributor, Inc. since April 2018; Head of Distribution at HCMFA since November 2017; Secretary of HFRO and GAF, HFI and HFII since October 2017; Assistant Secretary of HFRO and GAF from August 2017 to October 2017; Secretary of the Interval Funds since March 2016; Chief Product Strategist at HCMFA since September 2015; Director of Product Strategy at HCMFA from May 2014 to September 2015; Secretary of NHF since December 2015; Assistant Secretary of HFI and HFII from March 2017 to October 2017; Assistant Treasurer of NexPoint Real Estate Advisors, L.P. since May 2015; Assistant Treasurer of NexPoint Real Estate Advisors II, L.P. since June 2016; Assistant Treasurer of HFI and HFII from November 2012 to March 2017; Assistant Treasurer of NHF from November 2012 to December 2015; Secretary of NexPoint Capital, Inc. since 2014; and Senior Accounting Manager at HCMFA from August 2012 to May 2014.

- 1 On an annual basis, as a matter of Board policy, the Governance Committee reviews each Trustee's performance and determines whether to extend each such Trustee's service for another year. Effective June 2013, the Board adopted a retirement policy wherein the Governance Committee shall not recommend the continued service as a Trustee of a Board member who is older than 80 years of age at the time the Governance Committee reports its findings to the Board.
- 2 The "Highland Fund Complex" consists of NHF, each series of HFI, each series of HFII, HFRO, GAF, the Interval Funds, and NexPoint Capital, Inc., a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act.
- 3 Since May 1, 2015, Mr. Honis has been treated as an Independent Trustee of the Trust. Prior to that date, Mr. Honis was treated as an Interested Trustee because he was a partner of an investment adviser affiliated with the Adviser until his resignation in November 2014. As of September 30, 2018, Mr. Honis was entitled to receive aggregate severance and/or deferred compensation payments of approximately \$556,000 from another affiliate of the Adviser. Mr. Honis also serves as a director of a portfolio company affiliated with the Adviser. During the Trust's last two fiscal years, Mr. Honis' aggregate compensation from this portfolio company for his services as a director was approximately \$50,000. In addition, Mr. Honis serves as a trustee of a trust that owns substantially all of the economic interest in an investment adviser affiliated with the Adviser. Mr. Honis indirectly receives an asset-based fee in respect of such interest, which is projected to range from \$450,000- \$550,000 annually. In light of these relationships between Mr. Honis and affiliates of the Adviser, it is possible that the SEC might in the future determine Mr. Honis to be an interested person of the Trust.
- 4 Prior to December 8, 2017, Mr. Powell was treated as an Interested Trustee of the Trust for all purposes other than compensation and the Trust's code of ethics.
- 5 On February 7, 2018, Mr. Norris was appointed as an Interested Trustee of the Trust.

IMPORTANT INFORMATION ABOUT THIS REPORT

Investment Adviser

NexPoint Advisors, L.P.
200 Crescent Court, Suite 700
Dallas, TX 75201

Transfer Agent

DST Systems, Inc.
210 W 10th, 8th Floor
Kansas City, MO 64105

Custodian

State Street Bank and Trust Company
One Lincoln Street
Boston, Massachusetts 02111

Independent Registered Public Accounting Firm

Cohen & Company, Ltd.
1350 Euclid Ave., Suite 800
Cleveland, OH 44115

Fund Counsel

K&L Gates LLP
1 Lincoln Street
Boston, MA 02111

This report has been prepared for shareholders of NexPoint Real Estate Strategies Fund (the "Fund"). The Fund mails one shareholder report to each shareholder address. If you would like more than one report, please call shareholder services at 1-844-485-9167 to request that additional reports be sent to you.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities, and the Fund's proxy voting records for the most recent 12-month period ended December 31, are available (i) without charge, upon request, by calling 1-844-485-9167 and (ii) on the SEC's website at <http://www.sec.gov>.

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and also may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the Public Reference Room may be obtained by calling 1-800-SEC-0330. Shareholders may also obtain the Form N-Q by visiting the Fund's website at www.NexPointAdvisors.com.

As required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund's principal executive officer and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Fund's disclosure controls and procedures and internal controls over financial reporting, as applicable.

The Statement of Additional Information includes additional information about the Fund's Trustees and is available upon request without charge by calling 1-844-485-9167.

Beginning on January 1, 2021, as permitted by regulations adopted by the U.S. Securities and Exchange Commission, paper copies of the Funds' annual and semi-annual shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports. Instead, the reports will be made available on the Funds' website (highlandfunds.com), and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from a Fund electronically by contacting your financial intermediary (such as a broker-dealer or bank) or, if you are a direct investor, by contacting the Funds' transfer agent at 1-844-485-9167.

Beginning on January 1, 2019, you may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. If you invest directly with a Fund, you can call 1-844-485-9167 to let the Fund know you wish to continue receiving paper copies of your shareholder reports. Your election to receive reports in paper will apply to all funds held in your account if you invest through your financial intermediary or all funds held with the fund complex if you invest directly with a Fund.

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NEXPOINT

ADVISORS

**NexPoint Real Estate Strategies Fund
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P.O. Box 219630
Kansas City, MO 64121-9630**

NexPoint Real Estate Strategies Fund

Annual Report, December 31, 2018

www.nexpointadvisors.com

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