April 1, 2019

VIA EMAIL

Mr. Arthur S. Ainsberg
Ms. Karin Hirtler-Garvey
Medley Capital Corporation
280 Park Avenue, 6th Floor East
New York, NY 10017

Re: NexPoint Proposal

Dear Ms. Hirtler-Garvey & Mr. Ainsberg:

NexPoint Advisors, L.P. ("***NexPoint***", and together with its affiliates, "***we***"), is writing the two of you, as the only remaining members of the Special Committee (the "***Special Committee***") of the Board of Directors (the "***Board***") of Medley Capital Corporation ("***MCC***" or the "***Company***") to reiterate our willingness to negotiate with the Special Committee and to propose enhancements to the terms of our original proposal to become the external investment advisor of MCC (the "***Proposal***"). We believe this offer (even before any negotiations with the Special Committee) represents the best alternative for your stockholders as compared to every other alternative available to the Company.

As we are sure you're both well aware, on March 11, 2019, the Court of Chancery of the State of Delaware (the "***Court***"), handed down a Memorandum Opinion (the "***Opinion***"), which, among other things, enjoined the vote of the stockholders of the Company with respect to the proposed merger (the "***MCC/Sierra Merger***" and the underlying Merger Agreement dated August 9, 2018, the "***MCC/Sierra Agreement***"), between the Company and Sierra Income Corporation ("***Sierra***"). The Court's opinion was – frankly – scathing, finding that the Board violated its fiduciary duties for (among other reasons) its failure to negotiate with us in any way. LET US HELP YOU CORRECT THAT FLAGRANT BREACH OF YOUR FIDUCIARY DUTIES AND DO WHAT IS IN THE BEST INTEREST OF YOUR STOCKHOLDERS – ENGAGE WITH US NOW.

First and foremost, we urge you to NOT approve any extension of the "Outside Date" of March 31, 2019. Even though the Court stated that "the deal protections [in the MCC/Sierra Agreement] are not within the range of reasonableness", rather than creating a potential contractual issue with Sierra, you should terminate the MCC/Sierra Agreement now (which would be without liability to MCC) so that you can negotiate with us.[1]

As noted above, we have enhanced our Proposal since it was last presented, and we remain eager to engage with the Special Committee on each and every aspect of the Proposal. We also stand

[1] See pages 48-50 of the Opinion. In the alterative, you could agree not to terminate the MCC/Sierra Agreement so long as Sierra agrees that the definitions of "Competing Proposal" and "Superior Proposal" would cover this Proposal.

ready to negotiate an external management agreement with Sierra and MCC on a combined basis, and have prepared enhanced terms of that proposal (the "Post Merger Proposal") which are set forth on Exhibit A hereto.

The Proposal:

1. External Investment Advisory Agreement between MCC and NexPoint:

- Reduced annualized management fee of 1.25% on the gross assets of the Company.
- Reduced incentive fee of 15% on income and capital gains (with retention of the current hurdle rate of 2.1875%).
- Implementation of an Expense Cap of 0.50%[2].
- We expect these terms result in an aggregate annual savings to the Company's stockholders of approximately $5.7 million (based on assets as of September 30, 2018) over the Company's current fee arrangement and expense reimbursement.

These savings would inure directly to the benefit of the Company's stockholders, and we believe will help eliminate some of the discount in the Company's shares (we believe a large part of the remaining discount results simply from Medley Management, Inc. being your manager, which our Proposal also addresses).

Finally, we believe that remaining an externally managed Business Development Company ("***BDC***"), mitigates potential conflicts of interest in a manner that benefits stockholders and is responsive to the concerns voiced by the Court and many large stockholders.

2. $10 Million Payment from NexPoint to the Company

- Upon execution of the investment advisory agreement with NexPoint, we will make a one-time $10 million payment to MCC.
- The $10 million injection would inure directly to the benefit of MCC's stockholders and would represent the equivalent of a 5.7% increase of $0.18 on a per share market value of $3.22.

3. NexPoint will purchase at least $30 Million of MCC shares

- One-third of which would be made during the 60 days following the transaction, an additional one-third of which would be made during the following 90 days, and the final one-third of which would be made during the following 90 days, in each case either in open market purchases at the then current market price, if below net asset value ("NAV"), or directly from the Company at NAV.

---

[2] "Expense Cap" means that NexPoint will pay, absorb or reimburse the ordinary operating expenses of the Company (the "Ordinary Operating Expenses"), to the extent necessary so that, for any fiscal year, the Company's Ordinary Operating Expenses do not exceed 0.50% per annum of the Company's average daily gross assets.

- We believe these purchases will further align our interests with stockholders, and will provide liquidity to support trading prices of the Company's common stock.

Benefits of the Proposal

1. Replaces Management with a Top Quartile Manager with a Track Record of Success

- NexPoint-advised funds include:
  - NexPoint Strategic Opportunities Fund's ("NHF"), which has returned a cumulative 124% from September 2012 through December 31, 2018, while MCC is down over 59% during the same time period.
  - NexPoint Residential Trust, Inc. ("NXRT"), which spun out from NHF in 2015, has returned 204.1% since the spin-off.
  - NexPoint Capital, Inc., the NexPoint-advised non-traded BDC, has returned 24.5% since inception (September 2014).

2. Appoints an Adviser with Unrivaled Expertise

- Our team not only has decades of experience in managing credit investments and originations, but also has unrivaled expertise in maximizing value in stressed and distressed investments and is therefore well positioned to maximize the value of the Company's portfolio. In addition, as one of the country's largest and most experienced credit managers, we are well positioned to successfully manage MCC's portfolio of secured floating rate instruments.

- We also have significant acquisition experience and have continued to provide investors with unique opportunities to create stockholder value.
  - In 2017, Highland Capital Management Fund Advisors, L.P., an affiliate of NexPoint ("HCMFA"), successfully completed the unprecedented conversion of a 1940 Act registered open-end mutual fund, the Highland Floating Rate Opportunities Fund ("FRO"; NYSE:HFRO), to a closed-end fund in order to preserve for FRO's existing stockholders a $279 million judgment in favor of the fund.
  - In 2015, the spin-off of NXRT from NHF, noted above. Investors that held their NHF and NXRT shares through and after the spin-off have experienced a combined 250% return since September 25, 2012.
  - Most recently, HCMFA successfully completed the conversion of another open-end mutual fund, Highland Global Allocation Fund (NYSE:HGLB), to a closed-end fund in order to preserve the fund's access to a unique private equity-style asset that the fund would have otherwise been required to sell due to new liquidity guidelines governing open-end funds.

3. Compensates Stockholders instead of Management

- The Proposal provides nearly $68.5 million of consideration that inures directly to the benefit of MCC's stockholders, including $10 million of immediate cash, $30 million in share purchases and over $28.5 million of aggregate fee and expense savings over at least the next five years.

- The Proposal eliminates the inappropriate valuation disparity present in the MCC/Sierra Merger and also ensures that more than $100 million of cash is properly retained by the Company as opposed to being paid as merger consideration to Medley Management Inc.'s stockholders.

4. Unprecedented Stockholder Loyalty Program.

- To promote loyalty and long-time alignment of interests among stockholders, NexPoint offers an incentive to investors that buy and hold shares of its advised funds for a period of at least twelve months through its Stockholder Loyalty Program. For example, if a participant contributes $10,000 to his or her account during a defined trading period to purchase shares and NexPoint has determined the participant's gross-up will be 2%, NexPoint will make a corresponding contribution of $200, or 2% of the total $10,000, to purchase additional shares for the participant.

NexPoint continues to be interested in pursuing our Proposal with the Company and stands ready and able to negotiate. Based upon what we have outlined above, we believe that you have a fiduciary obligation to negotiate with us, and the MCC/Sierra Agreement should not create an impediment to doing so.

We have retained advisors to assist us with the Proposal. We are ready to engage immediately and anticipate that we could proceed with negotiating and finalizing an agreement with respect the Proposal expeditiously.

You still have a chance to act in the best interest of stockholders and fulfill your fiduciary duties by engaging with us with respect to the Proposal. WE URGE YOU TO DO SO IMMEDIATELY.

We hope to meet with you or to discuss by phone all aspects of either Proposal. Please contact Thomas Surgent as soon as possible (phone: (972) 419-6205, email: tsurgent@NexPointAdvisors.com).

Regards,

NexPoint Advisors, L.P.

NexPoint Advisors, L.P.

NexPoint, together with its affiliates, is a multibillion-dollar global alternative investment manager founded in 1993 by Jim Dondero and Mark Okada. A pioneer in the leveraged loan market, the firm has evolved over 25 years, building on its credit expertise and value-based approach to expand into other asset classes. Today, NexPoint and its affiliates operate a diverse investment platform, serving both institutional and retail investors worldwide. In addition to high yield credit, our investment capabilities include public equities, real estate, private equity and special situations, structured credit, and sector- and region-specific verticals built around specialized teams. Our registered products house $6.1 billion in AUM across multiple vehicles, including two publicly traded closed-end funds; one externally-managed, publicly traded REIT; one business development company; 13 open-end mutual funds; one ETF; and two closed-end interval funds, and are supported by over 48 investment professionals.

NexPoint and its affiliates are under common ownership along with NexBank Capital, Inc., a financial services company that includes a commercial and investment bank with assets of approximately $8.3 billion. We bring over 25 years of experience in credit, distressed and private equity investing, including the investment of over $10 billion in special situations, stressed and/or distressed assets over the past five years and current investments in such assets totaling $1.0 billion.

<u>Exhibit A</u>

Option B: The Post-Merger Proposal

1. External Investment Advisory Agreement between the Surviving Company in the Merger Between MCC and Sierra (the "*Surviving Company*") and NexPoint

- Reduced annualized management fee of 1.25% on the gross assets of the Surviving Company.
- Reduced incentive fee of 15% on income and capital gains (with retention of the current hurdle rate of 2.1875%).
- Implementation of an Expense Cap of 0.50%.
- The Post-Merger Proposal provides nearly $108 million of consideration that inures directly to the benefit of MCC's stockholders, including $25 million of immediate cash, $50 million in share purchases and over $33 million of aggregate fee and expense savings over at least the next five years.

2. $25 Million Payment from NexPoint to the Company

- Upon execution of the investment advisory agreement with NexPoint, we will make a one-time $25 million payment to the Surviving Company.
- The $25 million injection would inure directly to the benefit of the Surviving Company's stockholders, would represent the equivalent of a 14.3% increase of $0.46 on MCC's per share market value of $3.22 and 3.6% increase of $0.26 on Sierra's per share value of $7.05.

3. NexPoint Will Purchase at Least $50 Million of the Surviving Company's Shares.

- One-third of which would be made during the 60 days following the transaction, an additional one-third of which would be made during the following 90 days, and the final one-third of which would be made during the following 90 days, in each case either in open market purchases at the then current market price, if below NAV, or directly from the Company at NAV.
- These purchases would be made in addition to the share repurchase program proposed to be conducted by the Surviving Company.