NEXPOINT

May 24, 2022

Lawrence S. Jones, Chairman of Board of Trustees
United Development Funding IV
1301 Municipal Way, Suite 200
Grapevine, Texas 76051

RE: Request for Board Engagement

Dear Mr. Jones:

As we are sure you know, affiliates and other parties related to NexPoint Advisors, L.P. (collectively, "NexPoint") own 1,818,610 of shares of common stock of United Development Funding IV (the "Company"), the large majority of which are owned by a wholly-owned subsidiary of a publicly-traded closed-end fund, NexPoint Diversified Real Estate Trust (NYSE: NXDT, formerly known as NexPoint Strategic Opportunities Fund – NYSE: NHF). As the largest shareholder of the Company and as fiduciaries for our own public shareholders, we are keenly interested in maximizing value of the Company for all its shareholders. We trust that in your role as chairman you agree with and support that objective. As you might imagine, the events of the past several months, culminating in the sentencing of Messrs. Greenlaw, Wissink and Jester and Ms. Obert, have been extremely troubling to all shareholders.

NexPoint originally crossed the 5% ownership threshold in late 2018 and reported its then-passive position on Schedule 13G on February 14, 2019. The Schedule 13G was amended on February 14, 2020, to reflect purchases made by NexPoint in 2019. At that time NexPoint still considered the investment to be a passive investment. Our average cost, including commissions paid, is $3.32 per share. As you might imagine, as the price of Company common stock declined 50% in the relatively short period between November 2019 and May 2020, and as shareholders continued to receive no information from the Company, we became very concerned about the current and future value of our investment in the Company. Consequently, we filed Schedule 13D with the SEC in July 2020 acknowledging our intent to influence management or effect a change of control of the Company for the benefit of our investment and that of all the Company's other shareholders.

Over the ensuing 20 months, the Company has stonewalled us (and other shareholders with whom we have been communicating) on the production of any records and from otherwise being able to value our respective investments. The lone balance sheet, dated as of December 31, 2020, that was produced in August 2021 was not only out-of-date but also lacked context with respect to the operations of the Company. Moreover, upon review of the tax allocation schedule for 2021, we noticed that all distributions were 100% return of capital, meaning that the Company appears to be in some form of slow liquidation while at the same time continuing to pay over $8 million per year to an advisor whose principals have all been convicted of numerous felonies in connection with the operation of the Company and its affiliates. The simple math based on public disclosures and testimony in the criminal trial of former Company officers supports Company revenues of upward to $50 million per year, assuming the assets are still accruing interest. As the Company hasn't been a public company for two years, there is no public company cost, and we have to believe investor relations expense is light, as the Company has gone out of its way to not communicate with shareholders. Thus, with almost $50 million per year in revenue, reduced general and administrative cost from no longer being a reporting company and less than $10 million in Advisory Fees, how is it possible that 100% of distributions to shareholders are characterized as a return of capital? As audit committee chair, you of all people should have a good answer to that question.

Since inception, the Company has been an externally advised REIT. Since May 2014, the governing contract has been the Advisory Agreement dated May 29, 2014 (the "Advisory Agreement") between the Company and UMTH General Services, L.P. (the "Advisor"). Under the Advisory Agreement, responsibilities for virtually all day-to-day business activities of the Company are delegated to the Advisor. Certain of those duties include, among many other duties: "(f) provide the daily management of the Trust and perform and supervise the various administrative functions reasonably necessary for the management and operation of the Trust;… (v) supervise the preparation and filing and distribution of returns and reports to governmental agencies and to Shareholders and other investors and act on behalf of the Trust in connection with investor relations;… (x) assist the Trust in preparing all reports and returns required by the Securities and Exchange Commission, Internal Revenue Service and other state or federal governmental agencies; and (y) do all things necessary to assure its ability to render the services described in this Agreement."

In fact, in the last proxy statement filed by the Company with the SEC on April 30, 2014, it is definitively stated: "With the exception of Stacey H. Dwyer, our Chief Operating Officer, we have no employees. Except for Ms. Dwyer, our executive officers are all employees of our Advisor and/or its affiliates and are compensated by these entities for their services to us. Our day-to-day management is performed by our Advisor and its affiliates. We pay our Advisor fees and reimburse expenses pursuant to our advisory agreement. Other than Ms. Dwyer, we have not previously paid any compensation directly to our executive officers."

Because of the unique contractual delegation of virtually all corporate responsibilities to the Advisor, the Advisory Agreement contains an expansive indemnification section pursuant to which the Company agreed to indemnify the Advisor and its affiliates (including their respective officers, directors, trustees, partners and employees). Indemnification is subject to satisfaction of certain conditions, including the condition that "any liability or loss was not the result of ***negligence or misconduct by the Advisor or its Affiliates, including their respective officers, directors, trustees, partners and employees*** (emphasis added)." Moreover, the Advisory Agreement provides as follows:

> "Notwithstanding the foregoing, the Advisor and its Affiliates, including their respective officers, directors, trustees, partners and employees, ***shall not be indemnified by the Trust for any losses, liability or expenses*** arising from or out of an alleged violation of federal or state securities laws by such party unless one or more of the following conditions are met: (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee; (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee; and (iii) the court of competent jurisdiction approves a settlement of claims against a particular indemnitee

> and finds that indemnification of the settlement and the related costs should be made, and ***the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission … as to indemnification for violations of securities laws***." (emphasis added)

In light of the foregoing, we and other shareholders were astounded to learn during the detention hearing for the convicted UMTH General Services, LP principals/employees on January 24, 2022 that the Company had actually used investor funds to pay $7.2 million of disgorgement and pre-judgment interest that the individual defendants had agreed to pay in the July 2018 settled SEC enforcement case. We are also fearful that the Company has paid the legal bills for the criminal defendants under the same indemnification principle, as Michael Stockham testified at the detention hearing that there had been "an advancement" of legal fees in the criminal proceeding. That might explain why there has been no taxable income, all distributions have been a return of capital, and almost $100 million of equity value (as disclosed by the December 31, 2020 balance sheet) of the Company has disappeared over the last few years. Perhaps it also partially explains why no financial statements have been given to shareholders, no annual meeting has been held and the Company has spent millions of dollars fighting the production of books and records to which we, as a shareholder, are entitled under Maryland law and the organizational documents of the Company.

All of this begs the question: why has there been any indemnification or advancement for violations of securities laws in light of the indemnification provision of the Advisory Agreement that expressly states that the Company shall not indemnify these parties from any losses, liability or expense arising from an ***alleged*** securities law violations (unless and until one of ten enumerated exemptions apply, which were not met in the SEC enforcement action and certainly have not been met in the criminal action)? Is it the Board's or counsel's belief that the indemnification provisions of the Advisory Agreement, which governs the totality of the Company's operations, are of no legal significance? All board members are required to perform their duties as directors in good faith and in the best interests of the Company's shareholders and are required to exercise reasonable care and judgment such that the Company and its shareholders are protected. Even if the Advisory Agreement and its carve-out language did not exist, we are shocked that a board would saddle shareholders with SEC sanctions that were intended to be a disgorgement of ill-gotten gains collected by the principals of the Advisor.

If the so-called "independent counsel" for the Board who investigated the facts advised that payment of the disgorgement and pre-judgment interest by the Company was permissible, then they clearly missed the securities law carve-out from the indemnification provision in the Advisory Agreement, which is a contract expressly governed by Texas law. To the extent those lawyers were advising the Board on matters of indemnification as covered by the Maryland General Corporation Law and the Maryland REIT Law, we question how lawyers licensed only in Texas are qualified to provide opinions on matters of Maryland law (and did not engage in the unauthorized practice of law).

Setting aside whether the Company and the Board were legally permitted to indemnify "the Advisor or its Affiliates, including their respective officers, directors, trustees, partners and employees" at a cost of millions of dollars to shareholders—and whether the Board ***should have*** approved the indemnification—a potentially more serious question is why the Company did not disclose to the securities markets the payment by the Company of disgorgement and pre-judgment interest ordered by the U.S. District Court to be paid by the Advisor's principals. At the time of such payment, the Company still had a class of securities registered under the Securities Exchange Act of 1934 (the "34 Act") and such class traded on a day-to-day basis in the over-the-counter market (we know, as we bought a material amount of Company stock after such payment was made). Because it remained a 34 Act registrant, the Company continued to be subject to the periodic reporting rules of the SEC, which rules mandate disclosure of material compensation arrangements, modifications to material contracts and material related-party transactions. At no time was there any disclosure by the Company of the indemnification benefits bestowed upon the individual employees of the Advisor who were subject to the fines, disgorgement and pre-judgment interest, which payments were material compensation arrangements, material related-party transactions and, most likely, constituted a material modification and waiver of the "no indemnification" carve-out for securities law violations as set forth in the Advisory Agreement. Many shareholders who purchased shares during that time were injured by that disclosure failure, and this failure to disclose material information about material payments on behalf of related parties is, in itself, a perpetuation of the securities fraud that has been the subject of so much litigation over the past several years.

We expect the Company's board to act in the best interests of its shareholders, including: safeguarding the Company's assets; enforcing the Advisory Agreement's exclusion for indemnification in connection with any request to pay any legal fees or expenses for Messrs. Greenlaw, Wissink and Jester and Ms. Obert; considering whether it is in the best interest of shareholders to continue to pay advisory fees of over $8 million per year to an advisor whose principals have been convicted of felony securities violations ***in connection with their operation of the Company;*** and, finally, undertaking its ***obligation*** to invoke Section 5.02 of the Advisory Agreement to recoup losses, improperly paid indemnification expenses, and management fees incurred by the Company as a result of the bad faith, fraud, malfeasance, negligence and recklessness of the employees and principals of the Advisor in carrying out their duties under the Advisory Agreement. We also believe the Board should immediately terminate the Advisory Agreement.

We continue to believe that NexPoint and the Company's board could together craft solutions regarding the future of the Company that would benefit all shareholders if the board would simply engage with us in a constructive dialogue. We respectfully request that the Company's Board of Trustees immediately engage in dialogue with us to seek ways to maximize shareholder value.

You may contact John Good (jgood@nexpoint.com) or D.C. Sauter (dsauter@nexpoint.com) if you wish to engage in those discussions. We respectfully request a response no later than May 31, 2022.

Sincerely,

NexPoint Advisors