Market Update as of 11 March 2020

Recent Market Volatility

Global credit markets have experienced significant volatility in recent weeks due to the spread of COVID-19, its impact on global growth expectations and movement toward an oil price war.

Limited visibility on the duration and magnitude of outbreak makes assessing the impact to GDP growth extremely challenging. This is creating significant dislocations as capital markets do not like uncertainty or low information environments. As information about the extent and spread of the virus becomes more apparent to markets, we expect individual credit selection to increase in importance as investors will be able to better assess the impact on specific industries and credit profiles.

The Coronavirus outbreak had already caused a material decline in oil prices over the past month. The sell-off accelerated Friday, 6th March with WTI down 10% to $41.30 after OPEC+ abdicated its role in balancing the global market. Over the weekend, it was reported that Saudi Arabia is preparing to flood the market with supply as it looks to gain market share and impose maximum pressure on global competitors including Russia and U.S. Shale. WTI is now trading down in the low $30’s as of Monday, 9th March.

Global High Yield Market

Credit spreads in Global High Yield have widened materially into the +600bps range. Additionally, we have seen hedging costs decline by over 100bps for non-dollar denominated asset owners seeking to invest in USD credit. Following recent spread widening and dollar price declines, we think global high yield credit is at an attractive long-term entry point for investors.

- Sectors most directly impacted by recent events are Travel / Leisure exposed industries as well as Energy and Gas Distribution. We think price declines experienced in Travel / Leisure exposed industries will be transitory, while we expect higher defaults and permanent impairments within Energy.

- Liquid bonds and loans are typically sold first during periods of sharp drawdown in markets, followed by a sorting out of issuers that can survive stressed conditions and those that require restructuring.

- Bottom-up, fundamental analysis of individual credits with a focus on default avoidance will continue to be the primary determinant of long-term performance in high yield and leveraged loans.

Despite recent global market sell off and volatility, corporate high yield bonds to date continued to demonstrate resilience compared to equities.

Market Performance YTD

<table>
<thead>
<tr>
<th>Index</th>
<th>1 Jan – 10 March 2020</th>
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<tbody>
<tr>
<td>MSCI World (AUD Hedged)</td>
<td>-13.22%</td>
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<tr>
<td>S&amp;P 500 (AUD Hedged)</td>
<td>-11.08%</td>
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<tr>
<td>ASX 200 TR</td>
<td>-11.14%</td>
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<tr>
<td>ICE BofA Global High Yield Index (AUD Hedged)</td>
<td>-4.73%</td>
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Source: Bloomberg.

Avoiding credit deterioration in portfolios remains a primary focus. To this end, the investment team focused their research efforts of late on understanding which issuers’ balance sheets and enterprise values can weather a stall in global economic growth. The research and portfolio management team has been focused on assessing the direct and secondary affects from Coronavirus risks specifically on an individual issuer basis. NBI continues to experience 0 default within the portfolio.
Opportunities and Outlook

High yield spreads in excess of +600bps have historically provided investors with good prospective return opportunities even in the face of higher expected defaults. Additionally, interest rate cuts and potential fiscal response have the potential to limit the duration and severity of economic disruption as well as improve hedged return profiles for non-dollar denominated investors.

We continue to be focused on monitoring employment and how companies deal with current and expected disruptions. With unemployment recently at 3.5%, will companies lay off employees or will they keep them out of fear of not being able to hire them back later? Will governments intervene to encourage employment, such as through a payroll tax holiday? These are some of the factors that will tilt our outlook negatively or positively depending on the outcomes.

While initial periods of volatility typically sees declines in the value of bonds across all companies, the market quickly works towards sorting winners and losers. As this dispersion begins, it favors investment managers with scale and research resources to be on the leading edge of sorting through the market to find opportunities. We are already seeing attractive relative value trading opportunities across ratings categories where we are adding to names we believe will be accretive to future returns.