NEUBERGER BERMAN GLOBAL SENIOR FLOATING RATE INCOME FUND

Share Class Currency Hedging Explained

Introduction

Share class Currency Hedging is a practice frequently used throughout the investment management industry, as investors look to subscribe, redeem, and receive distributions in currencies other than the Base Currency of a fund.

Neuberger Berman Global Senior Floating Rate Income Fund (the "Fund") offers a range of currency hedged share classes across its sub funds.

Investors often choose currency hedged share classes when investing in a currency other than the Base Currency of the portfolio, particularly for fixed income funds. Investors may also choose to invest in unhedged share classes for a number of reasons.

Participants investing in the Base Currency of the portfolio do not require currency hedging, as there is a natural match between assets and liabilities.

For the full list of share classes, please refer to the Prospectus and relevant Supplements.

Why Hedge?

The aim of the currency hedge is to protect against fluctuations, caused by movements in currency rates, between the currency of the hedged class and the Base Currency of the portfolio.

In other words, the goal is to provide a similar return for the currency hedged share class as would be obtained through an investment in a Base Currency share class, all other things being equal. A consequence of currency hedging is that the interest rate differential between the hedged share class currency and the Base Currency (often known as "carry") is included in the return of the hedged share class. This difference would be positive if interest rates in the hedged currency exceed those in the base currency and vice versa, and it explains some of the difference in returns between the hedged and base currency share classes.

However, investors should note that no currency hedge is perfect, and there is no guarantee that the return profile of a currency hedged share class will equate to that of a Base Currency share class.

How does the Hedge work?

Execution is carried out by the dedicated Currency Team of the Investment Manager, Neuberger Berman Europe Limited ("NBEL"). NBEL employs passive Currency Hedging, so does not seek to extract an economic gain from the activity. For the majority of sub-funds NBEL aims to achieve a target of 100% Hedge cover ratio with a tolerance of +/- 50bps. NBEL hedges most commonly on a three month rolling basis, which it believes is an effective balance between efficacy and transaction cost.

There are four key events in the lifecycle of a currency Hedged share class, during which for the Currency Team will carry out trades to effect a currency Hedge in line with the target.

1) Launching a new Hedged share class

Investors buy an estimated quantity of shares (on T+0). The settlement of these proceeds in that non-Base Currency occurs three days later (T+3).

The value is Hedged by the Currency Team, simultaneously, using a currency swap. The swap is split into two legs:

- 1st leg (or "near leg"): converting the non-Base currency to the Base currency for the value date T+3, and;
- 2nd leg (or "far leg"): buying back the non-Base currency against the Base currency, with the value date approximately at the next quarter-end. Effectively, this takes the opposite direction to the first leg and hedges the investment (the difference between the forward rate used on the 2nd leg and the spot rate obtained on the 1st leg is the interest rate differential between the currencies and is the source of the interest rate difference that is included in the returns of the hedged share class).

2) Investor flows – Subscriptions T+3 and Redemptions T+10

Flows occur when investors subscribe and redeem shares; the Fund offers daily subscriptions (T+3) and redemptions (T+10). The redemption flow cycle has been extended to T+10 to accommodate the liquidity conditions in the loans market. Here, we are specifically interested in flows to Hedged share classes denominated in a non-Base currency to ensure that the Hedge is in line with the target.

Investors buy for settlement T+3 or sell for settlement T+10 a number of shares at an estimated price (on T+0) and subscribe for settlement T+3 or redeem for settlement T+10 a fixed amount of cash.

The net value of the flow is Hedged by the Currency Team, simultaneously, which models and trades a currency swap. The value of this trade is estimated, based on the net subscriptions/redemptions received before the 3pm dealing deadline. The swap is split into two legs:

- 1st leg (or "near leg"): converting the non-Base currency to the Base currency for the settlement date.

- 2nd leg (or "far leg"): adjusts the hedge of the entire share class, by buying back the non-Base currency against the Base currency, with the value date approximately at the next quarter-end (the difference between the forward rate used on the 2nd leg and the spot rate obtained on the 1st leg is the interest rate differential between the currencies and is the source of the interest rate difference that is included in the returns of the hedged share class).

Trading the near and far leg in a swap locks in the same spot rate for both, and should help to neutralize the currency impact to investors.

3) Adjusting to movements in the underlying assets

On a daily basis, the Currency Team monitors the Hedge cover ratio to check whether movements in the market price of the funds' underlying assets (which we assume are in the Base Currency) is outside a Hedged share class's Hedge cover ratio.

The Currency Team will adjust the hedge when a crossing of the hedge cover ratio threshold has been identified and confirmed. If the value of the underlying assets falls, the Currency Team will model and execute a reduction of the forward Hedge trade (far leg) and, for an appreciation in value, an increase in the forward Hedge trade (far leg). These adjustments are carried out for the for value date approximately at the quarter end.

4) Rolling a share class

As the Hedge's maturity date approaches, usually at the end of the quarter, the current open forward contracts need to be "rolled" to a new maturity date. The following steps are taken to ensure the roll is correctly carried out, and any profit/loss associated with the transaction is realised.

i. 12-15 days before the maturity date the Currency Team will begin the process of identifying a new roll date (a business day when the two currency markets for the Base and non-Base currencies can settle)
ii. Model and execute a roll trade of a two-legged swap. The near leg closes the existing Hedge, and the far leg opens the new Hedge, which locks in the same spot rate for both, and should help to neutralize the currency impact to investors
iii. Herein, all trades will now have a value date consistent with the date identified in step i).
iv. As the near leg of the rolling swap trade closes out the existing hedge, a profit and loss is generated and reflected

Considerations

NBEL uses Currency Hedging as a way to minimise the effect of fluctuations in the exchange rate between currencies, but there can be no guarantee to the extent to which this is successful.

Investors are likely to see a disparity between the return profiles of a Base Currency share class, and a Currency Hedged share class. This disparity may be explained by any of the following factors: i) transaction costs, ii) the yield differential between the two currencies (known as "carry"), and iii) the efficacy of the execution.

Execution is aggregated to minimise transaction cost, but these costs may fluctuate depending on the currency pair and liquidity on offer in the market at the time of execution.

NBEL's Currency Hedging is overseen by the Neuberger Berman Group's independent Risk function, both in terms of efficacy of execution and for adequacy of process and systems to mitigate operational risk.

DISCLAIMER

The Neuberger Berman Investment Funds II PLC (the "Company") is an investment company with variable capital and segregated liability between sub-funds incorporated in Ireland, authorised as a qualifying investor scheme by the Central Bank of Ireland pursuant to Part XIII of the Companies Act 1990 and is solely intended for qualifying investors.

Investors should be aware that investment in the Company carries with it the potential for above average risk and is only suitable for people who are in a position to take such risks. The value of Shares may go down as well as up and investors may not get back any of the amount invested. The difference at any one time between the issue and repurchase price of Shares means that an investment in the Company should be viewed as medium to long-term. Investment in the Company should not constitute a substantial proportion of an investor's portfolio and it may not be appropriate for all investors.

This document is intended as a broad overview of the portfolio manager's current style, philosophy and process. This material is presented solely for informational purposes and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. We do not represent that this information, including any third party information, is accurate or complete and it should not be relied upon as such. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. Third-party economic or market estimates discussed herein may or may not be realised and no representation is being given regarding such estimates. Any views or opinions expressed may not reflect those of the firm as a whole. All information is current as of the date of this material and is subject to change without notice. Certain products and services may not be available in all jurisdictions or to all client types. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results.

Risk factors for an investor to consider are set out in the "Investment Risks" section of the Company prospectus. The Company may invest in senior loans and other debt securities which may be rated below investment grade. The risks of investing in such securities, such as risk of default, could result in loss of principal. Economic and other market events may reduce demand for certain senior loans held by the Company, which may impact their value. Loans and other debt securities are also subject to the risk of increases in prevailing interest rates. Generally, bond values will decline as interest rates rise. However, because floating rates on senior loans only reset periodically, changes in prevailing interest rates can be expected to cause some fluctuation in the value of these securities. Similarly, a sudden and significant increase in market interest rates, a default in a loan in which the Company owns an interest or a material deterioration of a borrower's creditworthiness may cause a decline in the value of these securities. Floating rate loans may be more susceptible to adverse economic and business conditions and other developments affecting the issuers of such loans. Although senior floating rate loans are generally collateralised, there is no guarantee that the value of collateral will not decline, causing a loan to be substantially unsecured. No active trading market may exist for many loans, and some loans may be subject to restrictions on resale, which may also prevent the Company from obtaining the full value of a loan when sold.

Investors should be aware that the directors may declare dividends out of capital in respect of the Distributing Classes and that in the event that they do, the capital of such Shares will be eroded, such distributions will be achieved by forgoing the potential for future capital growth and that this cycle may be continued until all capital in respect of the Shares is depleted. Investors in the Distributing Classes should also be aware that the payment of distributions out of capital by the Company may have different tax implications for them from distributions of income and you are therefore recommended to seek tax advice in this regard.

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