Investment Process

The investment process underpinning the NB GCIT has been in existence and refined for over 20 years. This robust approach consists of multiple layers across analysis, implementation and subsequent, risk management ensuring strong risk control is embedded at all stages of portfolio management. The Neuberger Berman Global High Yield strategy is collaboratively administered through NB's Global Non-Investment Grade and EMD Corporate platform. The investment process allows the firm to apply its overarching investment philosophy, where the proactive avoidance of credit deterioration, in-depth relative value analysis, sector and quality rotation, EM country selection and regional asset allocation are all utilised to generate portfolio alpha.

Portfolio Construction

NB's team network consists of 55 investment professionals, helmed by five portfolio managers. The team dynamic contributes to the portfolio construction process through several functions beginning with the idea generation process and ending with the regional asset allocation overlay function.

The portfolio managers have final discretion regarding portfolio construction, but individual research analysts have primary responsibility, utilising the firm's proprietary credit research processes to identify potential opportunities for the portfolio. The credit research function is segregated into specialist teams across either Developed Markets (DM) or Emerging Markets (EM), and then further split into sector classifications, namely Consumer, Cyclical, Telecom and Energy / Utilities. Credit selection at a team level is first filtered into appropriate issuers / securities which are then subject to extensive fundamental analysis, defined by Neuberger Berman's proprietary "Credit Best Practices Checklist". This set of criteria incorporates material quantitative (financial statements, security covenants, market valuations) and qualitative (management, strategy, governance) factors which are considered from a macroeconomic, industry and issuer perspective. In EM credit analysis, the country of origin is another important variable utilised by analysts.

Any substantive portfolio recommendations undergo a two-stage vetting process, initially within respective sector teams and then subsequently by the Global High Yield Credit Committee. Committee members are dependent on whether the recommended security / issuer will be included in the Developed Market high-yield sleeves (US or Europe) or the Emerging Markets high-yield sleeve. Regional sleeve construction is the primary responsibility of the portfolio management team with a strong focus on intra-region geographical, sectoral and credit quality diversification. Sector and quality rotation strategies are employed by the portfolio managers within individual sleeves.

To control regional-specific risk and return profiles, the Global High Yield strategy employs an additional asset allocation overlay. This function is managed by the Global High Yield Asset Allocation Committee which comprises the portfolio managers and the Chief Investment Officer & Global Head of Fixed Income. Top-down views for the U.S., European and Emerging Markets high yield landscapes are formulated and then weighted accordingly based on the Global High Yield scorecard. These weightings are applied to the regional sleeves generated collaboratively by the research and portfolio management teams. While separate portfolio managers are responsible for either Developed Market or Emerging Market sleeves, they are collectively responsible alongside the Chief Investment Officer & Global Head of Fixed Income for asset allocation decisions.

Portfolio Management

The portfolio management process is largely focused on monitoring and managing portfolio risks. Risk management is a firm-wide foundation of Neuberger Berman and consequently, there is a dedicated firm-wide risk management team. This acts as an additional check to ensure portfolio managers do not hold unintended risks in the portfolio. At a portfolio level, a number of quantitative tools are utilised to stress deployed capital and draw comparisons to the benchmark index. From a governance perspective, the firm employs many risk management professionals to operate internal controls which are established and overseen by the IRC (Investment Risk Committee) and ORC (Operating Risk Committee).

With this continual oversight, managing risk is a shared responsibility together with the Global High Yield research teams and portfolio managers. The most prominent and consistent risk of the portfolio is the credit risk of the underlying issuers. The monitoring of credit risk is the responsibility of the respective analyst covering the sector and issuer. For each company, the analyst will conduct scenario analysis and other forward-looking exercises to determine the likelihood of debt servicing. If the analyst has conviction that the issuer will be unable to meet debt obligations, a sell decision will most likely be triggered. We note a review is triggered automatically if a security declines by greater than 5% against the benchmark index, ensuring idiosyncratic risk is identified and managed early. This proactive approach allows the portfolio managers to avoid deteriorating credits, a key contributor to the manager's outperformance over the past 20 years.

Other decisions to sell holdings may be due to relative value analysis (i.e. over- or under-priced) or sector/credit quality rotation strategies at a sleeve level (i.e. to generate alpha or de-risk concentrations). The active management of the NB GCIT is reflected in typical annual turnover for the strategy being 50-75% of the portfolio (noting that typically half of this is reinvestment of maturities).

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Liquidity risk is considered at both a security and issuer level. This consideration is largely managed at the filtering stage of the idea generation process where only large, non-investment grade companies are considered for investment based on EBITDA and publicly-traded debt outstanding. If a portfolio recommendation proceeds to implementation, any one security holding is limited to less than 15% of that security's outstanding principal amount, to ensure the holding can be liquidated relatively efficiently.

Currency and interest rate risks are managed using derivatives to hedge any unintended exposure. The portfolio managers do not intend to take strategic positions in currencies, and fully hedge all foreign currency exposures (USD, GBP, EUR) back to Australian dollars. Yield curve positioning is a function of underlying credit analysis, with interest duration expected to be within 1.5 years of the benchmark index duration.

Figure 9. Investment Process

Universe	• Developed Market: 1,200 Issuers • Emerging Market: 350 Issuers
Filters	• US: >US$500m of publicly-traded debt and >US$100 of EBITDA • Europe: >US$200m of publicly-traded debt • Emerging Markets: >US$300m of publicly-traded debt • No defaulted or severely distressed securities, one-time issuers or other outliers • = 1,100 Issuers (93% of $Index Value)
Fundamental Credit Analysis	• Proprietary "Credit Best Practices Checklist" across economic, industry and issuer factors • Includes forward-looking scenario analysis of financial position and internally generate credit rating of each issuer • Analysts cover 25-30 issuers each and visit management bi-annually • Relative Value analysis in regards to security valuations, technical factors and fundamentals.
Evaluation	• 1st level evaluation undertaken by respective sector team • 2nd level and final evaluation undertaken by Global High Yield Credit Committee • This committee is split into sub-committees regarding Developed Markets and Emerging Markets high yield investment decisions
End Result	• 200 – 300 Issuers in Developed Markets & 40– 60 Issuers in Emerging Markets

Regional Sleeve Construction

- Approved individual credits are populated into regional sleeves across US, Europe and Emerging Markets by the Global High Yield Strategy portfolio managers
- At this level, there is a strong focus on diversification across industries, geography (within the regional sleeve) and credit quality
- Any issuer cannot exceed 3% of the total portfolio and on average, position sizes (by issuer) are expected to range from 0.25 – 0.50%

Asset Allocation Overlay

- Driven by NB's global macroeconomic outlook. Asset allocation between sleeves is toggled to best reflect the risk / return profile of the global high-yield market
- The Global High Yield Asset Allocation Committee is responsible for this stage of the process which consists of the Global High Yield Strategy portfolio managers and CIO & Global Head of Fixed Income
- Top-down indicators are used for a 'scorecard' based on macro/fundamental (40%), valuation (30%) and technical (30%) factors

Risk Management

- The fixed income platform has a dedicated team for risk management
- Risks are quantified into sector, industry, issuer, country, coupon, maturity, duration, quality, liquidity and seniority on a daily basis using a number of internal and external risk management tools
- Any >5% adverse change in a position relative to the benchmark index automatically triggers a Global High Yield Credit Committee review
- Strong governance mechanisms across the network complement internal controls

Source: BondAdviser, Neuberger Berman

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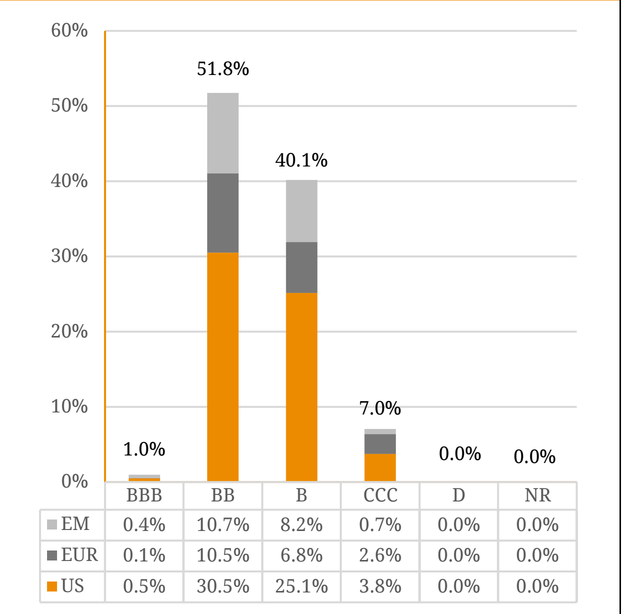
Appendix 1: Target Portfolio Overview (as at 31 March 2019)

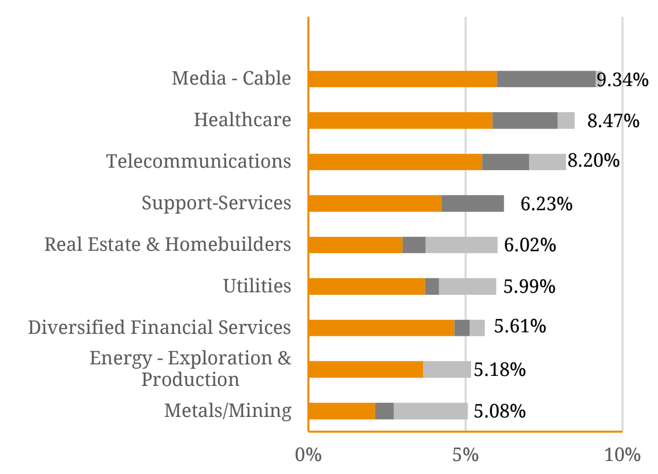
NB GCIT Breakdown

Composition	US	EUR	EM	Total
Asset Allocation	60%	20%	20%	**100%**
Issuers	158	88	85	**302**
Average	0.65%	1.05%	1.18%	**0.33%**
Max	3.24%	4.15%	9.30%	**2.20%**
Securities	248	96	96	**440**
Average	0.24%	0.21%	0.21%	**0.23%**
Max	1.38%	0.83%	1.72%	**1.72%**
Metrics	**US**	**EUR**	**EM**	**Total**
Coupon Rate	6.20%	4.60%	6.57%	**5.96%**
Yield to Worst	5.38%	6.15%	5.97%	**5.67%**
Spread to Worst	3.80%	4.39%	4.39%	**4.05%**
Duration (Years)	4.30	3.97	3.88	**4.14%**
Maturity (Years)	6.72	6.52	5.69	**6.45**

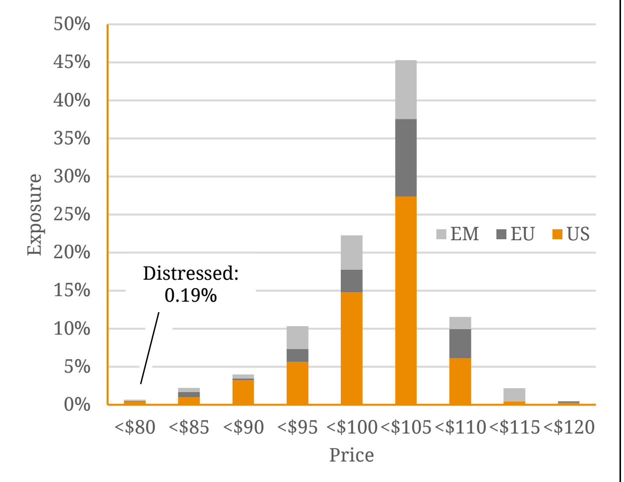
Target Portfolio Credit Quality



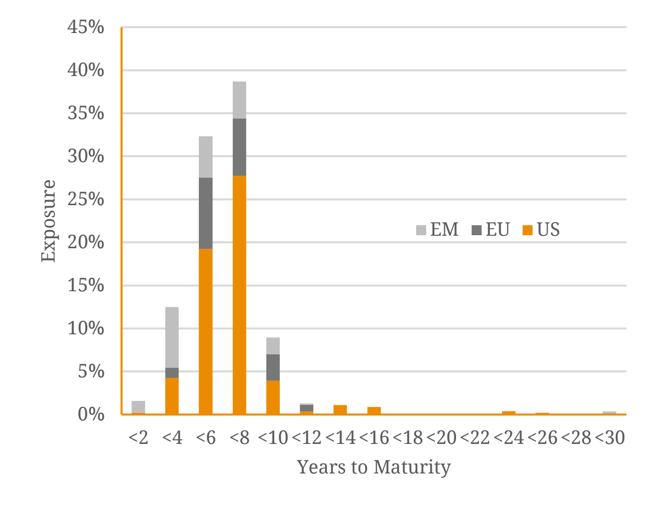
Industry Diversification (Top 10)



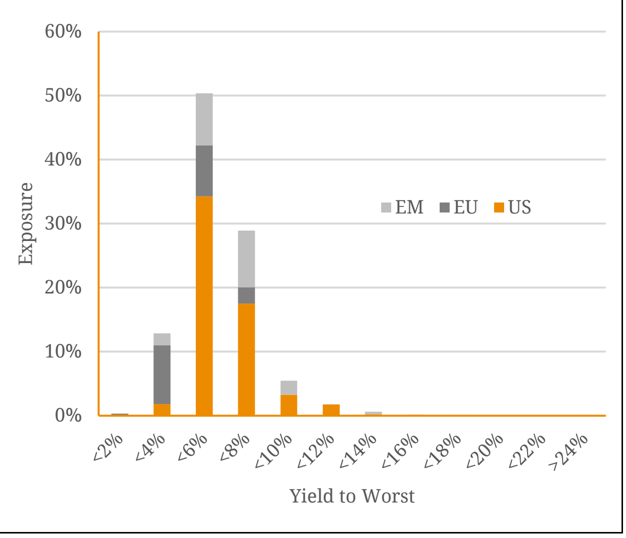
Issuer Bond Price Distribution



Maturity Profile



Yield Distribution



Source: BondAdviser, Neuberger Berman

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Appendix 2: About Neuberger Berman

Neuberger Berman is an independent global investment management firm with US$445 billion of assets under management (AUM) across fixed income, equities and alternative strategies. The firm's global network includes over 2,000 employees in over 20 countries, of which over 600 are investment professionals (as at 31 March 2019).

The firm was founded in 1939 by Roy Neuberger and first began managing institutional funds in 1977. Neuberger Berman became a public company in 1999 and was subsequently acquired by Lehman Brothers in 2003. In the wake of the global financial crisis, a management buyout of the business occurred in 2009 and it became 100% independent again in 2014 and has remained so ever since.

Consequently, the company is owned by approximately 500 of its own employees with ~US3 billion of employee capital invested alongside clients' funds - aligning firm and client interests. This has naturally led to a very high retention ratio for the group with over 99% of client assets being managed by lead portfolio managers who have been with Neuberger Berman for over 20 years.

The fixed income platform comprises Neuberger Berman's largest segment by AUM (~US$140 billion) and consists of six divisions including the Global Non-Investment Grade Unit. The group's experience in managing non-investment grade (or high yield) instruments began in 1997, managing solely US high-yield bonds. European high yield bonds followed in 2006 with a separate European High Yield strategy launched in 2014. The Emerging Markets Corporate Debt strategy was added in 2013 consisting of a team with over 15 years' experience in managing Emerging Markets high yield bonds. The evolution of Neuberger Berman's high yield capabilities stems from the underlying development of the global high yield universe, which has grown from US$261 billion in 1997 to US$2.7 trillion in 2019.

The Global High Yield strategy was launched in August 2016 leveraging off the existing Global Non-Investment Grade & Emerging Markets Debt Platform. As a result, the strategy's rich network of investment professionals is a combination of portfolio managers and analysts from the Global Non-Investment Grade Credit and Emerging Markets teams. The team consists of 55 professionals, including 4 portfolio managers.

Figure 7. Neuberger Berman Assets Under Management Breakdown

Investment Platform		
Equity	**Fixed Income**	Alternatives
US$90bn	**US$140bn**	US$83bn

Global Fixed Income Platform[1]					
Multi-Sector Solutions	Global Investment Grade	**Global Non-Investment Grade**	**Emerging Markets Debt**	Municipals	Alternative Credit
US$12bn	**US$58bn**	**US$38bn**	**US$20bn[1]**	**US$11bn**	**US$5bn**

Source: BondAdviser, Neuberger Berman (as at 31 December 2018)

1. *Emerging Markets Debt AUM includes US$3.5bn in Emerging Markets Corporate Debt*

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The guide below may help you understand our research opinions. For further information on our research approach, you can refer to our RG79 statement by **clicking here**.

Research Opinions key

- **Buy** - Over the next 12 months, the analyst expects the security to outperform the current yield due to credit spread tightening or favourable movements in the underlying yield curve.
- **Hold** - Over the next 12 months, the analyst expects the security to provide stable returns broadly in line with the current yield but with little credit spread tightening.
- **Sell** - Over the next 12 months, the analyst expects the security to underperform the current yield due to credit spread widening or adverse movements in the underlying yield curve.
- **Suspended** - The recommendation has been suspended temporarily due to the disclosure of new information or market events that may have a significant impact on our recommendation. This also includes situations where we have been given non-public information and we need to temporarily suspend our coverage in order to comply with applicable regulations and/or internal policies.
- **Not Rated** - A security that has not been assigned a formal recommendation.
- **Ceased Coverage** - The recommendation has ceased due to issuers failure to disclosure necessary information or coverage is subjectively removed in accordance with our Research Governance Statement.

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Offering a one-stop-shop for pre-trade analytics, compliance and post trade support in Australian fixed income securities, we provide independent research recommendations updated daily.

The company is not aligned to any financial services organisation and the executive team brings over 75 years' combined experience in the fixed income sector.

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