AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

NB Global Corporate Income Trust
(ASX Code: NBI)

May 2019

INDEPENDENT
INVESTMENT RESEARCH

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

DISCLAIMER

THIS IS A COMMISSIONED RESEARCH REPORT.

The research process includes the following protocols to ensure independence is maintained at all times:

1) The research process has complete editorial independence from the company and this is included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

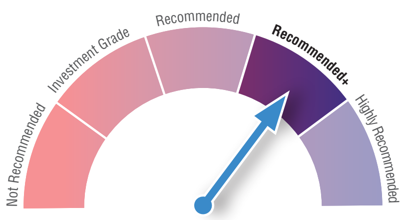
For more information regarding our services please refer to our website www.independentresearch.com.au.

NB Global Corporate Income Trust

(ASX Code: NBI)

Note: This report is based on information provided by the Manager as at May 2019.

Rating



Key Investment Information	
Name of LIT	NB Global Corporate Income Trust
Manager	Neuberger Berman Australia Pty Limited
Investment Type	LIT
ASX Code	NBI
ASX Listing Date	26 September 2018
NTA	\$2.03
Share Price	\$2.05
Units on Issue (M)	207.05
Market Capitalisation	\$425.5M
Target Distribution	5.25% p.a. (net) paid monthly
Benchmark	ICE BofAML Global High Yield. Constrained Index
FX Exposure	Fully hedged to AUD
Management Costs	0.85%
Performance Fee	None

Secondary Offer Timetable	
Record Date for Entitlement Offer	31 May 2019
Offer Opens	5 June 2019
Entitlement Offer Close	26 June 2019
Shortfall Offer Close	28 June 2019
Issue of Entitlement Offer Units	3 July 2019
Issue of Shortfall Offer Units	12 July 2019

Fees Commentary

Total Management Costs of 0.85%, inclusive of a management fee of 0.70%, is competitive relative to global and domestic high yield peers. We also acknowledge that the manager will incur all secondary raise costs.

Portfolio Characteristics (as at Mar 2019)	
Number of Issuers / Holdings	302 / 440
Yield to Worst	5.82%
Weighted Average Duration (yrs)	4.14
Average Credit Quality	BB-

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

NB Global Corporate Income Trust ('the Trust' or NBI) listed on the ASX on 26 September 2018, raising \$413m, far exceeding the minimum raise of \$150m and the target raise of A\$250m+. On May 14 2019, the Manager announced a secondary capital raise to increase market liquidity and satisfy latent investor demand, as well as to minimise the potential for NBI to trade at a sustained premium to NTA. The offer of new units will comprise both an entitlement offer for existing unitholders and a public shortfall offer. Importantly, new units will be issued at parity to NTA (net of accrued distributable income), removing dilution risk for existing unitholders that chose not to participate in the entitlement offer. The Trust is managed by Neuberger Berman (the 'Investment Manager') and its 55 person strong global non-investment grade credit team. The named manager of the Trust is Neuberger Berman's wholly owned Australian subsidiary, Neuberger Berman Australia Pty Limited (the 'Manager'). The Trust provides exposure to high yield bonds issued by companies located globally and is allocated approximately 60% to U.S. companies, 20% to European companies and 20% to Emerging Market companies (hard currency denominated bonds only). We note that these regional exposures may change over time reflecting changes in the global high-yield market itself as well as the Investment Manager's tactical allocation process. Neuberger Berman's investment team is highly experienced and its various investment portfolios constructed based on a long-standing, rigorous and repeatable fundamental investment approach, that ultimately seeks to understand the financial strength of a corporate bond issuer. The portfolio is diversified by individual issues, industries, geographies and credit quality tiers. From a credit quality perspective, the focus is on non-investment grade positions between B and BB, with opportunistic use of BBB and CCC credit tiers and avoidance of defaulted and workout issuers.

INVESTOR SUITABILITY

The Trust seeks to pay a stable and consistent monthly distribution equivalent to at least 5.25% p.a. and to generate a moderately accretive NAV over the long-term. Since its ASX listing, the Trust has successfully met its income objective, notwithstanding 4Q 2018 being a particularly volatile quarter. The Investment Manager seeks to do so with a strong emphasis on capital preservation and downside risk mitigation and, historically, has delivered on this performance objective. More broadly, the Trust has the ability to fill a gap in many domestic retail investor portfolios. For many retail investors, the income component of the portfolio tends to be both domestically focused and often significantly equity biased, with a degree of hybrids to achieve an income stream. In our view, a fundamental benefit of the Trust's investment strategy is that many domestic investors may be able to benefit from at least a comparable returns profile but in doing so significantly diversify the income component of their portfolio by geography, industry and credit quality tier. Investors should note that the Trust's portfolio predominantly comprises non-investment grade bonds. By its very nature, non-investment grade bonds tends to have a higher probability of default and this risk tends to cluster around specific events / economic environments. The Trust may not suit all investors and that potential investors should understand the risks of high yield corporate debt.

RECOMMENDATION

IIR maintains its "**RECOMMENDED PLUS**" rating to the NB Global Corporate Income Trust. IIR has conviction in the Investment Manager's ability to at least achieve the stated investment objectives over the foreseeable future. This is based on a comprehensive, proven and repeatable investment process, a broad and highly qualified investment team, strong risk-management processes, and a long-term track-record of generating alpha (primarily by mitigating downside risks in less benign market environments). We believe the investment processes, with a strong emphasis on downside risk mitigation, accords well with the investment objective of stable and consistent income and a moderately accretive NAV.

SWOT ANALYSIS

Strengths

- The global non-investment grade credit team comprises 55 investment professionals physically located in the US, Europe and Asia, and representing one of the deepest teams in the industry. The team is significantly resourced (with each analyst covering significantly less companies than peer managers), highly qualified, stable, incentivised and backed by a strong track-record.
- The investment process is comprehensive, long-standing and proven by a long-term track-record of alpha generation. These attributes provide IIR with conviction in the ability of the Investment Manager in continuing to achieve the performance objectives of the Trust.
- The Investment Manager places a strong emphasis on capital preservation and downside risk mitigation through its fundamental investment processes, being very proactive in identifying companies with deteriorating credit fundamentals and avoiding ownership of related debt instruments. It is here where the Investment Manager seeks to drive alpha and indeed, historically, it has been during less benign market environments where the Investment Manager has recorded lower drawdowns, lower volatility and lower defaults than the market in general.
- The proposed secondary capital raise will serve to satisfy latent market demand (thereby mitigating a risk of a sustained premium to NTA) and the Manager has confirmed that new units will be issued at parity to the then NTA, removing dilution risk for existing investors who choose not to participate in the proposed entitlement offer.

Weakness

- While recognising the Investment Manager's 20+ year track record managing U.S. high yield corporate bonds and that U.S. high yield corporate bonds will constitute approximately 60% of the Trust's portfolio, we note that the Investment Manager's track record managing the Emerging Market and European constituents of the Trust's portfolio, as well as the fully integrated Global High Yield strategy itself, are not as long and are yet to be tested in a difficult credit market. Having said this, we do note that the US high yield strategy has performed well over the full market cycle and that the investment team employs the same fundamental investment process and is subject to the same risk controls across all its high yield corporate bond strategies.

Opportunities

- The income component of many domestic investors' portfolios is often heavily domestic focused and with a significant equity (hybrid) component. The Trust's investment strategy provides the means to earn potentially similiar returns but diversify by geography, credit market conditions, investment names and sector. In many respects, this is the key benefit of the Trust from an overall portfolio perspective, in addition to the merits of the product itself (team, process, risk management, track-record, etc).
- Access to a proven investment manager with one of the largest investment teams globally in the high-yield segment and which implements investment decisions based on a thorough and proven investment process.
- Recent surveys of Australian investors have highlighted uncertainty in taxation and superannuation policy as a current concern around investments in equities and property. Fixed income and credit investments do not receive the tax benefits that some other investments receive, such as dividend imputation for shares or negative gearing for investment properties. There is currently lower political risk associated with fixed income and credit investments, presenting sector rotation opportunities.

Threats

- The Trust's portfolio predominantly comprises non-investment grade bonds. Non-investment grade bonds tend to have a higher probability of default and this risk tends to cluster around specific events and/or economic environments. We do acknowledge, however, that high-yield investors have historically been compensated by this higher risk (relative to the investment grade market) by way of meaningfully higher historical yields.
- A significant deterioration in corporate balance sheets and in the global economic environment. This may result in significant mark-to-market losses in the portfolio and NAV depreciation risk. We note that this may not actually result in any realised losses.
- Share price to NAV risk is inherent in all LICs / LITs. That said, we have been encouraged by the recent performance of the Trust and other debt strategies that have remained at a slight premium to NAV, even during the volatile 4Q 2018 quarter.

PRODUCT OVERVIEW

The Trust's global corporate bonds portfolio comprises predominantly high-yield (non-investment grade) bonds, with the focus on B and BB rated bonds. From a regional perspective, the Investment Manager uses the global high-yield market (as reflected in the benchmark index, the ICE BofAML Global High Yield Constrained Index) as a guidepost to regional allocations. At this point in time, the regional allocation is approximately 60/20/20 to the U.S., European, and Emerging Markets. These allocations are likely to change over time as the global high-yield market itself naturally changes. Additionally, the Trust's regional allocations may also vary based on the Investment Manager's tactical asset allocation investment process.

The Investment Manager has an established track-record in managing high-yield strategies in all three regions, the longest being in the U.S. market where it has a track-record dating back to 1997. As the size of the European and Emerging Market high-yield markets grew (the U.S. used to constitute 90% of the global market) so too did the Investment Manager's global team and regional specialisation. We note that while the Investment Manager has shorter track-records in its European and Emerging Market strategies, all three regional strategies are run by the one global team and based on the same investment processes.

The portfolio is diversified by issuer (average 250-350 issuers, average issuer size within the portfolios of 0.25% - 0.50%, maximum issuer allocation of 3%), industry and geography (20-30 industries represented and industry maximum generally 3x market weight), and bonds issued by large and liquid corporates (to facilitate moving in and out based on relative value and/or a deterioration in credit quality). While the focus is B and BB, there will be an opportunistic use of BBB and CCC credit tiers. Currency exposure will be fully hedged back to the Australian dollar.

The Investment Manager has the flexibility to invest up and down the capital structure / credit quality spectrum and to vary the allocations across the U.S., Europe and Emerging Markets, although we expect potential variations of the latter to be at the margin. The Investment Manager will seek to generate alpha through industry and quality rotation, country selection and relative value analysis. The Investment Manager seeks to particularly drive alpha during less benign market environments through the avoidance of credit deterioration and defaults. In this regard, the Investment Manager's longer term track-record is strong.

As noted overleaf, the NB Global Corporate Income Trust will be managed by portfolio managers from across Neuberger Berman's Global Non-Investment Grade Credit and Emerging Market Debt teams. This team focuses on companies issuing non-investment grade bonds from both the developed markets and emerging markets. The investment team is significantly resourced by analysts, portfolio managers and directly supporting personnel, specifically economists and traders. It is a highly qualified, globally based team, marked by a high degree of team stability and solid long-term track-record.

The team commenced managing US high yield bonds in 1997 and added further regional capabilities in line with the growth and evolution of the high yield market. The Investment Manager began managing European high yield corporate bonds in 2006 and launched its dedicated European High Yield strategy in 2014, coinciding with the maturation and increased depth of European high yield markets. The Emerging Markets Debt team's experience in managing emerging market high yield bonds dates back to 2003. In 2016, the firm launched a dedicated Global High Yield strategy which brings together the respective regional high yield capabilities. As at 31 March 2019, the Non-Investment Grade Credit and EMD Corporate Credit teams managed US$40.0 billion in developed market high yield bonds and US$3.9 billion in emerging market corporate bonds.

The Investment Manager has a target net income return of 5.25% per annum over the foreseeable future. We expect returns to be largely in the form of income and it is the Manager's intention that income will be paid on a monthly basis. As an LIT, all income earned in the form of coupons paid on the underlying debt instruments and capital gains / losses on the disposal of debt investments will be passed through to investors. NAV changes will be a function of changes in the market value of the bonds held in the portfolio.

In terms of fees, the Trust incurs Management Costs of 0.85% p.a. This amount is inclusive of a management fee of 0.70% p.a. and other costs and expenses including those payable to the Responsible Entity, Administrator and Custodian (other than transaction related), auditor and lawyers. There are no performance fees. The management fee is competitive relative to global and domestic high-yield peers.

The Manager has the option to implement a unit buyback program should it be deemed necessary in the situation of a material and sustained discount to NTA. Investors can gain comfort from the fact that the Investment Manager has implemented such a program for a U.K. listed entity when deemed in the best interests of investors.

SECONDARY OFFER DETAILS

On May 14 2019, the Manager announced a secondary capital raise to increase market liquidity and satisfy latent investor demand, as well as to minimise the potential for NBI to trade at a sustained premium to NTA.

Based on discussions with its eight strong broker panel for the secondary offer and the Manager's sense of latent built up demand for the Trust, the Manager opted to proceed on the basis of a one-for-one non-renounceable entitlement offer and a shortfall offer to the general public (comprising the shortfall in take up under the Entitlement Offer and the Trust's available placement capacity under Listing Rule 7.1). The fact that the Manager has decided to proceed on the basis of a one-for-one offer, after considering issuing a lesser amount, speaks to the significant degree of latent demand for the Trust and reflects well upon the regard the Investment Manager is now generally held in, and which is particularly impressive given the short six month track record of the Trust. The same can be said of the Manager's ability to establish an eight strong broker panel, which includes the six brokers that participated in the Trust's IPO in September 2018.

Assuming the offer is fully subscribed, 238.1 million new units will be issued, raising approximately $483.4 million in new capital based on an NTA of $2.03 per unit.

We believe the secondary offer is well structured. The offer price will be equal to the NTA (as at 13 May) excluding any accrued distributable income. As such, any existing unitholder that opts not to participate in the offer will not be diluted. The new units will be issued immediately after the 30 June 2019 financial year, allowing any income over and above the annualised target 5.25% amount to be distributed to existing unitholders to prevent any potential dilution of accrued income. Finally, the rationale for the secondary offer is sound. It is not an 'asset gathering' exercise. Rather, it is designed to satisfy what the Manager has identified as the substantial latent demand that exists for the product, and minimise the degree to which the Trust may trade at a premium to NTA (which is a negative for new unitholders).

Key Secondary Offer Details	
Offer structure	(1) Non-renounceable Entitlement Offer, and (2) Shortfall Offer (including available placement capacity under Listing Rule 7.1)
Entitlement ratio	1 New Unit for every 1 Unit held as at the Record Date
Offer price	$NTA per Unit (ex distributable income) as at 13 May 2019
Offer costs	Paid in full by Neuberger Berman (no charge back mechanism)
Portfolio invested	Within 3 days

Secondary Offer Timetable (subject to ASX confirmation)	
Announcement of Offer and lodgement of PDS with ASIC	14 May 2019
Record Date for Entitlement Offer	31 May 2019
Offer opens	5 June 2019
Entitlement Offer closes	26 June 2019
New Units under Entitlement Offer quoted on a deferred settlement basis	27 June 2019
Shortfall Offer closes	28 June 2019
Issue of New Units under Entitlement Offer	3 July 2019
Normal trading of New Units issued under Entitlement Offer expected to commence trading on ASX	4 July 2019
Issue of New Units under Shortfall Offer	12 July 2019
Normal trading of New Units issued under Shortfall Offer expected to commence trading on ASX	15 July 2019

The high degree of latent demand in itself reflects well upon the Trust and high regard the Investment Manager has established amongst the Australian retail market over a short period of time. This has also been evident in the consistency to which the Trust has traded at a slight premium to NTA, particularly over the 4Q 2018 period, a quarter in which fixed income markets recorded the most significant drawdown since the GFC.

Potentially cash dilution risk in relation to the expected doubling in FUM is expected to be negligible given the Investment Manager fully invested the IPO proceeds in just three days, reflecting the substantial liquidity in the global high yield market.

MANAGEMENT GROUP PROFILE

Neuberger Berman Australia Pty Limited is a proprietary limited company incorporated in Australia and operates under an Australian financial services licence (AFSL no.391401). The Manager's primary role is to make available Neuberger Berman's investment strategies to wholesale investors in the Australian market and to provide certain financial services relating to such strategies. As at 31 March 2019, the Manager had oversight over A$7.4 billion in funds under management/advice for Australia based clients across equities, fixed income and alternative strategies.

Neuberger Berman is an independent, 100% employee-owned investment management firm headquartered in New York and with 35 offices in 23 countries. The employee ownership is very broad, with in excess of 500 owners. In terms of major historical milestones, the firm was founded in 1939; publicly listed on the NYSE in 1999; privatized (by Lehman Brothers) in October 2003; and became independent again in May 2009 via a management buy out.

Since its reemergence as an independent firm, Neuberger Berman has recorded a period of stable and sustained growth. As of 31 March 2109, Neuberger Berman has approximately US$322 billion in assets under management across fixed income, equities and alternative strategies, partnering with institutions, advisors and individuals globally to address needs for income, growth and capital preservation. Neuberger Berman has approximately 2,100 employees, of which 601 are investment professionals, and runs over 100 investment strategies. The breadth of its investment platform by major asset class is summarised below.

Neuberger Berman Investment Platform by Asset Class

	Fixed Income	Equity	Alternatives
Total AUM US$322bn	US$146bn	US$99bn	US$77bn
Investment Professionals	174	224	160
Fundamental Strategies	Global Investment Grade Global Non-investment Grade Emerging Markets Opportunistic / unconstrained Municipals Specialty Strategies	Global / EAFE US Value / Core / Growth Emerging Markets Regional EM, China Socially Responsible Income Strategies	Private Equity: multiple Alternative Credit: multiple Hedge Funds: multiple
Quantitative		Global US Emerging Markets Custom Beta	Risk Premia Options Global Macro Commodities

The roots of Neuberger Berman's fixed income investment organization extend back to 1981 when a three-person team of fixed income professionals joined Lincoln Capital Management Company. In 2003, Lehman Brothers acquired the fixed income capabilities of Lincoln Capital to become its institutional fixed income investment management group, and established Lincoln Capital Fixed Income Management Company, LLC. Following Neuberger Berman's management buyout in 2009, the fixed income investment organisation became an integral part of Neuberger Berman.

Neuberger Berman's investment management strengths are manifold, including: an alignment of interest, with portfolio managers investing alongside clients; a breadth of investment expertise, with in excess of 600 investment professionals connected across public and private markets, credit and equity; experienced and stable teams with approximately a 25+ year average industry experience for lead PMs, and 96% annualised retention rate of senior investment professionals since becoming an independent firm in 2009; extensive fundamental research, with access to management, innovative ESG research, and sophisticated risk management.

Additionally, Neuberger Berman notes its track-record of long-term outperformance, with 88% of institutional-oriented equities AUM outperforming respective benchmarks since inception (ended Dec 31, 2018), 94% of institutional-oriented fixed income outperforming respective benchmarks similarly since inception, and 75% of NB Private Equity funds raised between 2002 - 2014 (since inception performance) outperforming benchmark Net IRR.

INVESTMENT TEAM

The NB Global Corporate Income Trust is managed by portfolio managers from across the Investment Manager's Global Non-Investment Grade Credit and Emerging Market Debt teams who focus on high yield issuers from both the developed markets and emerging markets. Namely, the lead portfolio managers responsible for the Trust are Tom O'Reilly, Vivek Bommi, Nish Popat, Jennifer Gorgoll and Russ Covode. Collectively, the aforementioned portfolio managers have an average of 25 years of investment experience, are supported by 36 research analysts, four economists/strategists, seven dedicated traders, and three client portfolio managers.

The strategy is managed with a disciplined team-based approach, in which a collaborative decision-making process is balanced by individual accountability for portfolio recommendations. While the strategy's portfolio managers are ultimately responsible for making buy and sell decisions, the team's individual analysts have primary responsibility for identifying investment ideas and carrying out all aspects of the research process. As such, the team has an organisational structure through which it seeks to maximize the potential contributions of its research personnel while incorporating the perspectives of the portfolio managers and traders.

The team's research teams are structured along sector lines (Consumer, Cyclical, Telecom/ Media/Technology and Energy/Utilities), with each research team consisting of analysts who focus on specific industries. Each analyst has significant industry and company-specific knowledge and is responsible for understanding an issuer's capital structure, from the most senior to the most junior of securities. To leverage its credit resources, the team also works closely with its team of global investment grade analysts. With regard to the Emerging Markets analysts, responsibilities are further split between the emerging markets regions: Asia, Latin American (LATAM) and Central Eastern Europe Middle East & Africa (CEEMEA).

Globally, the team represents one of the largest in the global non-investment grade segment. Each analyst generally covers between 25-35 corporate entities, compared to an industry average in the vicinity of 60 to 70 corporate entities. The intention is to enable more in-depth research into each credit. There is a relative active company visitation program as part of the research process, with every analyst expected to visit each management team on-site generally twice a year. The team is spread globally to facilitate a closer degree of contact with the covered corporate entities and credit conditions that generally prevail in the relevant geographies and sectors.

While the analysts work in teams and each issue selection decision is subject to committee review, the analyst is at the heart of the selection recommendation process and there is a high degree of visibility and accountability. Analysts witness their ideas at work in client portfolios and, from a practical point of view, analysts' compensation is tied directly to the performance of their recommendations.

The key members of the investment team are detailed below.

- **Thomas P. O'Reilly, CFA, Managing Director**, joined the firm in 1997. Tom is the Head of Global Non-Investment Grade Fixed Income and is also a Senior Portfolio Manager for High Yield and Blended Credit portfolios. Tom serves on the firm's Partnership Committee and is a member of the investment team setting overall portfolio strategy. Tom announced his decision to retire in early 2020, but is committed to remaining on the team to lend support for as long as is needed. Tom had previously been a high yield analyst at Stein Roe and Bank of America for eight years. Tom earned a BS in Finance from Indiana University, an MBA from Loyola University, and has been awarded the Chartered Financial Analyst designation.
- **Vivek Bommi, CFA, Managing Director**, joined the firm in 2007. Vivek is a Senior Portfolio Manager. In addition, he sits on the Credit Committee for high yield bonds and senior floating rate loans. Prior to joining the firm, Vivek worked in the leverage finance groups at The Carlyle Group and Banc of America Securities. He started his career as an investment analyst at Intel Capital. Vivek earned a BS from the University of Illinois, an MBA from Columbia Business School, has been awarded the Chartered Financial Analyst designation and is a Certified Public Accountant.
- **Nish Popat, Managing Director**, joined the firm in 2013. Nish is a Co-Lead Senior Portfolio Manager on the Emerging Markets Corporate Debt team. Nish joined the firm after working at ING Investment Management, where he was most recently a senior portfolio manager on the Emerging Markets Corporate Debt team. Prior to that role, he was head of fixed income for the Middle East and North Africa. Prior to joining ING, Nish

was the head of the fixed income trading desk at NBD Investment Bank running relative value/market-making books in Middle East debt, and before that worked in Saudi Arabia for the Saudi Holland Bank as head of fixed income and derivatives. Nish started his career in London where he held several fixed income positions.

- **Jennifer Gorgoll, CFA, Managing Director**, joined the firm in 2013. Jennifer is a Co-Lead and Senior Portfolio Manager on the Emerging Markets Corporate Debt team responsible for global portfolios investing in high grade and high yield emerging market corporate debt across the regions. Jennifer joined the firm after working at ING Investment Management, where she was most recently the head and a senior portfolio manager of the Emerging Markets Corporate Debt team. Before that Jennifer worked in ING's Private Placement group where she focused on private fixed income investments in emerging market corporates and structured credit. She also spent several years in the Special Asset Group where she was responsible for restructuring distressed assets globally. Prior to joining ING Investment Management, Jennifer worked at Prudential Capital Group specializing in private placements for US-domiciled companies based in the Southeast and before that worked in the Financial Institutions Group at Salomon Brothers Inc. and at Patricof & Co. Capital Corp., a boutique investment bank. Jennifer received an MBA with Honors from Columbia Business School with a concentration in Finance and a BS in Finance and Insurance from The Honors College at the University of South Carolina. Jennifer has been awarded the Chartered Financial Analyst designation.
- **Russ Covode, MBA, Managing Director**, joined the firm in 2004. Russ serves as a Senior Portfolio Manager for high yield and blended credit portfolios. In addition, he sits on the Credit Committee for high yield bonds and senior floating rate loans. Prior to joining the firm, Russ spent five years at Banc One Capital Markets, where he was most recently a principal in the bank's mezzanine fund. Before that, he spent seven years with the high yield group at Banc of America Securities in various positions including leading the bank's high yield capital markets desk. Russ began his career with S.G. Warburg & Co. in New York. Russ earned a BA from Colorado College and an MBA from the University of Chicago.

Key Investment Personnel

Name, Position	Focus	Experience (yrs)	Most Advanced Degree
Thomas O'Reilly, CFA	High Yield	30 years, 22 years with NB	MBA, Loyola University
Vivek Bommi, CFA	European High Yield	21 years, 12 years with NB	MBA, Columbia University
Nish Popat, CFA	EMD / Corporate	26 years, 6 years with NB	-
Jennifer Gorgoll, CFA	EMD / Corporate	21 years, 6 years with NB	MBA, Columbia Business School
Russ Covode, MBA	High Yield	27 years, 15 years with NB	MBA, University of Chicago

INVESTMENT PROCESS

Investment Philosophy

The Investment Manager's underlying premise is that corporate debt has historically been, and in the Investment Manager's view continues to be, a good segment of the market to achieve recurring income through a coupon stream. The Investment Manager emphasises that the primary risk it focuses upon in corporate bonds is the deterioration of a business, and the consequent possibility of a default. The premise of the Investment Manager's investment style is a strong focus through research in avoiding potential credit deteriorations and / or defaults by pro actively identifying such trends and divesting bonds that are subject to such risks.

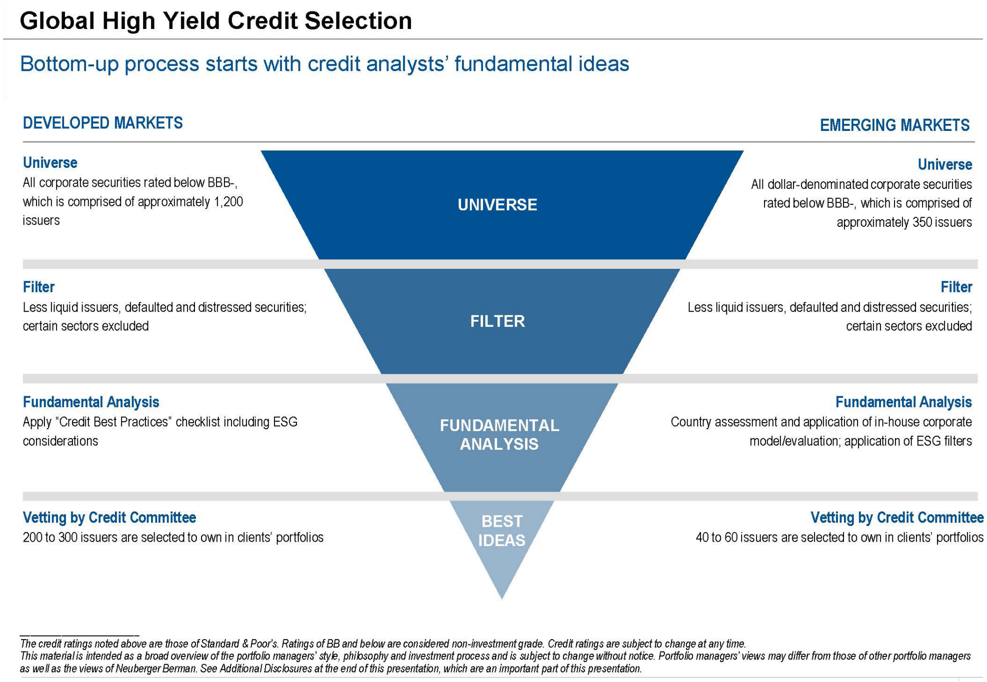
To execute upon this, the Investment Manager has built a global non-investment grade team of 56 investment professionals located globally in the belief that a bottom-up, in-depth understanding of businesses is the most effective way in which to proactively avoid credit deterioration. The Investment Manager holds that the most effective way to generate returns is to protect client assets on the downside while endeavouring to participate on the upside.

The team expects to generate alpha through avoiding credit deterioration, timely sector rotation, regional allocation, emerging market country selection and rigorous relative value analysis. In practice, the Investment Manager will tend to move up and down the credit spectrum in response to how the market is generally pricing risk; at this point in the cycle where credit spreads are relatively tight the Investment Manager has generally rotated into a higher level of credit quality while, conversely, where risk has been re-priced the Investment

Manager will rotate the portfolio into bonds regarded as 'cheap' to capture the potential upside. The Investment Manager is active in sector, regional, and emerging market country rotation in the sense that if a bond hits its valuation it will typically divest the holding and rotate into other bonds.

Investment Process

The team's investment process is diagrammatically presented and described below.



Investment Universe

The investment process begins with the screening of the respective developed and emerging market high yield markets to identify eligible securities. The goal is to reduce the broad global high yield universe to a manageable size of potential investments that will then be subject to detailed fundamental analysis. For the developed market component of the portfolio, the universe is comprised of all corporate securities rated below BBB- (approximately 1,200 issuers). For the emerging market component, the universe is comprised of all dollar-denominated corporate securities rated below BBB- (approximately 350 issuers).

From the high yield rated universe (roughly 1,550 issuers), the team screens out: 1) for the US: issuers with less than US$500 million in publicly-traded debt outstanding, defaulted securities, and issuers with less than US$100 million in EBITDA; 2) for Europe: issuers with less than US$200 million in publicly-traded debt outstanding and defaulted securities; 3) for EM: issuers with less than US$300 million in publicly-traded debt outstanding and defaulted securities; 4) issuers in sectors deemed high risk with respect to structural issues, such as certain auto suppliers, fashion-oriented retailers and finance companies; 5) outliers including severely distressed and one-time issuers.

Credit Analysis

Issuers that are screened in based on the above filter are subject to an in-depth fundamental analysis which focuses on understanding a company's financial strength. For each company, the analyst models the financials across three scenarios: base case, upside case and downside case. Analysts monitor each company relative to the scenarios to identify situations that could cause a change in each company's ability to service its debt.

The process is driven by the long-standing "Credit Best Practices" checklist to ensure that analysts cover all important aspects of credit research. This due diligence process is applied to all issuers and is designed to be repeatable, comprehensive, and proactive and results in a circa 15-page document.

The checklist covers the material credit aspects of the investment decision, including:

1. Financial review with specific attention to revenue and cost drivers, predictability of cash flows, internal cash flow generation and the implications for interest and principal payments and capital expenditures.

2. Deal structure and covenants.
3. Assessment of management, partly through a strong company visitation program
4. Sources of liquidity such as bank lines, cash on hand, access to capital markets, and asset sales.
5. ESG assessment.
6. In-depth inspection of applicable filings with an eye toward any outstanding litigation and other commentary germane to the investment decision.
7. Thorough review of any other indentures.
8. Assessment of relative valuation based on its internally generated credit quality rating and prevailing spreads for the industries and quality tiers.

For the emerging market segment of the portfolio, country selection is an important source of potential added value, as the performance of high yield bonds issued by emerging market corporates tends to be significantly impacted by changes in the credit quality of the respective emerging market sovereign.

Valuation

The goal is to select bonds that analysts believe offer not only strong credit fundamentals, but also the potential for capital appreciation. A key source of added value is the team's relative value analysis. The team seeks opportunities that it believes offer appropriate compensation for risk and seeks to avoid opportunities that it believes do not. The relative value analysis begins with assigning each security an internal credit rating, which emerges from the team's credit research. This internal rating is used for spread comparisons across industry sectors and ratings categories.

Another source of added value in the team's investment process is industry and quality rotation. The team seeks attractive investment results in both bullish and bearish markets. This means it proactively positions the portfolio in more defensive industry sectors and quality categories during times of economic weakness while proactively increasing the portfolio's exposure to more cyclical sectors and lower quality tiers during stronger economic times.

Vetting by Global High Yield Credit Committee

Analysts' recommendations are first vetted within their respective sector teams. After an investment idea has been evaluated by the sector team, it is then reviewed by the senior professionals who constitute the Global High Yield Credit Committee. The committee consists of all 11 portfolio managers in the non-investment grade division.

Every eligible credit is reviewed by all 11 committee members, reflecting the Investment Manager's view that the more 'eyes' on each possible investment the better. It also ensures that all members feel responsible for all investments in the portfolio. Investment decisions have generally tended to be unanimous. The breadth of the credit committee removes key person and key decision maker risk. This further builds on the repeatable character of the fundamental analysis process.

Portfolio Construction Process

The portfolio construction process includes emerging and developed market perspectives in which top-down sleeves of the portfolio are populated by the portfolio management team. For the emerging market allocation of the portfolio, country selection is an important source of added value. The team produces credit scores for approximately 80 countries based on a broad range of macro factors (relating to the domestic economy and the external sector) and ESG factors. These emerging market country credit scores are a key factor in determining the country allocation for the emerging market allocation of the portfolio.

Regional asset allocation is an additional source of alpha for the strategy, and is based on a top-down allocation process focused on global macro outlook, regional fundamentals, technicals, and valuations in order to determine relative value opportunities. The Global High Yield Asset Allocation Committee is responsible for the overall asset allocation process for the strategy. It is comprised of the five portfolio managers and Brad Tank, Chief Investment Officer and Global Head of Fixed Income. Their top-down insight drives allocation among the strategy's investment geographies.

The Investment Manager has the flexibility to alter the allocations between the U.S., Europe and Emerging Markets. Additionally, the allocations may also change over time as the global high yield market itself continues to change. However, this flexibility is not intended to be a material driver of alpha generation (partly as the correlation between the three markets is high at an approximate 95%). It is the Investment Manager's intention not to disrupt what, historically, has worked well at an individual bond and asset allocation level.

The portfolio construction process at the level of individual bonds is subject to formal limits and guidelines to ensure adequate diversification across individual issues, industries, geographies and bond quality tiers. The average holding is 0.25% - 0.5% with a 3% issuer maximum as a typical constraint (a limit very rarely approached). Global High Yield portfolios typically contain between 250 and 350 issuers. The maximum industry weight is generally three times the industry weight as it is represented in the high yield market and unlikely to exceed 20% in a particular industry. The portfolio will generally hold positions in at least 20 industry classifications with holdings across U.S., European and emerging market geographies. From a credit quality perspective, as noted the focus is on positions between B and BB, with opportunistic use of BBB and CCC credit tiers and avoidance of defaulted and workout issuers.

Additionally, any time a credit moves down 5% relative to market, the credit committee and analyst is immediately reconvened to ensure there is an understanding of the market dynamics particular to the credit. The process is partly designed to ensure that simply a 'buy-and-hold' mentality does not apply in situations that may present investment opportunities.

The Investment Manager is precluded from investing in sovereign and / or local currency emerging market debt, structured products / credit derivatives, and hybrid / convertible equity instruments. The portfolio will comprise predominantly corporate bonds, with a de minimis exposure to derivatives for hedging against the AUD and, potentially, interest rate sensitivity, and cash.

Portfolio

The tables and charts overleaf detail the Trust's portfolio as at 31 March 2019. Based on this composition, the current yield (hedged) is 5.82% p.a.

The weighted average duration is approximately 4.14 years. Consequently, the portfolio does not have large interest rate sensitivity. The number of issuers is 302. In terms of credit quality tier, the majority is BB- through to BB+ rated. At 6% of the total portfolio, there is a relatively small degree of opportunistic use of CCC+ and below. The portfolio is diversified by industry. The largest exposure is to the communications sector (media and telecomms combined), largely encapsulating the less cyclical cable and wireless companies where the Investment Manager sees value currently.

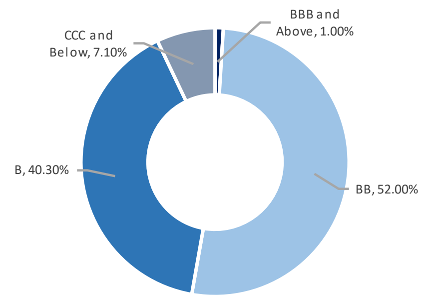
Sell Discipline

To ensure gains are retained the Investment Manager applies a sell discipline. If a bond is assessed to have reached full value the Investment Manager will divest the holding and rotate into another investment. Additionally, if the Investment Manager is anticipating a deterioration in core results or an industry downturn it will typically divest relevant names. Unexpected management changes, and the like, are also typically viewed as a red-flag and cause to potentially divest.

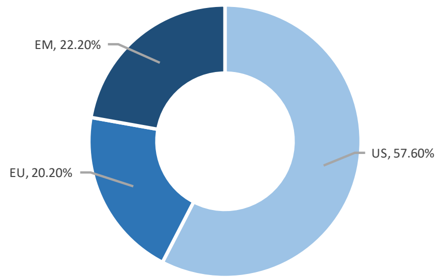
Portfolio Summary	
Number of Holdings	440
Number of Issuers	302
Yield to Worst (%)	5.82
Weighted Avg Duration (yrs)	4.14
Average Credit Quality	BB-

Sector Allocation % (MV)	
Basic Industry	12.8%
Energy	12.3%
Media	12.2%
Healthcare	8.4%
Telecommunications	8.2%
Services	6.6%
Utility	6.1%
Financial Services	5.4%
Capital Goods	5.1%
Leisure	4.8%
Banking	4.2%
Real Estate	4.1%
Technology & Electronics	3.2%
Consumer Goods	3.1%
Retail	2.1%
Automotive	1.4%
Transportation	0.5%
Insurance	0.1%

Portfolio by Credit Quality (Market Value)



Portfolio by Regional Allocation (Market Value)



Top 10 Issuers		
Petrobras	Energy	2.21
Cablevision Systems Corp	Media	1.87
Navient Corp	Financial Services	1.71
Numericable Group	Media	1.54
Bausch Health Companies	Healthcare	1.52
Virgin Media Inc	Media	1.37
Sprint Corp	Telecommunications	1.33
Charter Communications	Media	1.27
Iron Mountain Inc	Services	1.20
Medical Properties Trust Inc	Real Estate	1.16

Risk Management

The key risk with respect to high yield investing is credit risk and the potential for price erosion that can result from deterioration in the credit standing of a high yield issuer. The team carries out in-depth upfront credit analysis, but once a credit is purchased it monitors the credit on an ongoing basis. Accordingly, the team seeks to obtain an early warning on developments that could act as catalysts for credit deterioration by monitoring relevant data (key financial drivers, commodity prices, stock prices, regulatory developments, filings, financial results relative to their models, press releases, and management's commentary). The team also tracks bond and loan secondary prices and these are reviewed on a daily basis for significant price movements.

Quantitative systems and tools are important to managing the team's high yield bond portfolios. A proprietary quantitative risk control tool is used to compare portfolio risk characteristics with those of the market benchmark. The team utilizes its risk measurement software to monitor relevant characteristics including spread exposures, industry diversification, duration, maturity, coupon profile, and credit quality. The output from the risk management process is integral to portfolio construction, with the team seeking to ensure portfolios are structured with the desired levels of absolute risk as well as risk relative to the benchmark index.

The Investment Manager's Portfolio Analysis and Risk group assists the high yield team in quantifying and analyzing market risk. This internal group performs tracking error ("TE")/ value at risk ("VaR") analysis along with stress testing and scenario analysis and uses risk measurement analytical platforms to quantify and analyze market risk by examining factors such as credit spread, default, volatility, interest rates, currencies, etc.

These analyses are performed to seek to identify/avoid unintended risk and efficiently use risk on return-generating tilts, thereby improving risk-adjusted return. The analysis findings are conveyed and discussed with portfolio managers on a regular and ad hoc basis.

PERFORMANCE ANALYTICS

The Trust has a short track record to date, specifically six months to 31 March 2019. Notwithstanding the December 2018 quarter being highly volatile, the Trust has met its return objectives, delivering consistent monthly income equating to the 5.25% annual target as well as recording a small degree of capital appreciation, both return components being tabled below. We also note that since inception, NBI has experienced no defaults in its portfolio, which is very much in line with the Investment Manager's longer term track record.

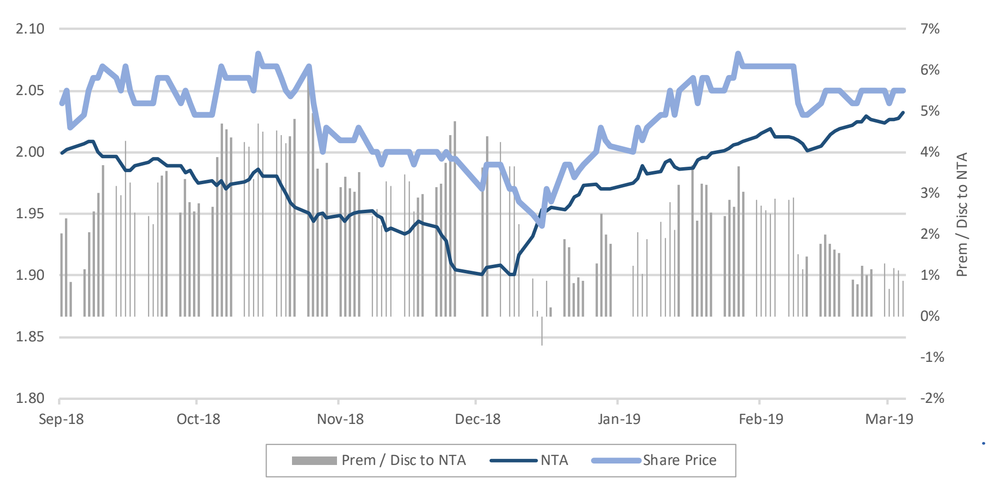
31 March 2019	1 month	3 month	6 month	1 year	Since Incept
Total Return (%)	1.09	7.91	3.76	-	3.91
Distribution (%)	0.44	1.32	2.2	-	2.20
Benchmark *- Local	1.01	6.75	3.00	-	3.12
Benchmark - AUD Hedged	1.00	6.61	2.86	-	2.98
Alpha	0.09	1.3	0.9	-	0.93

* ICE BofAML Global High Yield Constrained Index

What has been particularly reassuring given the market volatility and sell-down in the December 2018 quarter, has been the fact that NBI continued to trade at a small premium to NTA over this period. A concern we held when initiating coverage on the Trust in September 2018 was that in the event of a major sell off in the global bond market the Trust may possibly trade at a material discount to NTA.

This concern was in no small part due to Australian retail investors generally having a lesser understanding of the market relative to equities, and notwithstanding that in such environments equities will often experience greater drawdowns. These concerns have been allayed by the persistence of the slight premium to NTA sustained by the Trust over this period. This should serve to reassure participants in the secondary capital raise with respect to this risk. It has also likely been a contributing factor for the Manager ultimately opting to undertake a one-for-one entitlement offer, as opposed to a lesser amount, as we believe this solid share price performance relative to NTA, and particularly during the 4Q 2018 period, has served to increase the degree of latent demand to invest in the Trust.

NBI NTA and Unit Price Performance



Given the limited track record of the Trust, we have also detailed the historic five-year performance of the constituent benchmark indices to 31 December 2018 as well as the historic performance of the three regional high yield strategies plus the global high yield strategy managed by Neuberger Berman since their respective inception dates.

The table below details the historic five-year performance of the constituent benchmark indices to 31 March 2019. On a weighted basis, it equates to a coupon payment of 6.0% p.a. It is on this basis, supported by its track-record of alpha generation, that the Manager remains comfortable in continuing to achieve a 5.25% p.a. net distribution target for the Trust.

It should be noted that the below details historic performance in the domestic currencies. This does not account for buying these asset classes and hedging into Australian dollar. In doing so, the Investment Manager would generally pick-up additional 'carry' by swapping the exposure into Australian dollar. In some cases, the 'carry' pick-up would, historically and currently, be very material. As such, in today's environment, the below understates the end-hedged yield amount.

Asset Class	Yield to Maturity (%)	Par Weighted Coupon (%)
Global High Yield	**5.62**	**6.03**
U.S. High Yield	6.74	6.36
EM Corporate Credit	7.21	6.44
European High Yield	4.29	4.44

The table below summarises the historic performance of the three regional high yield strategies plus the global high yield strategy since their respective inception dates. While the track-record of the global high yield, European, and Emerging Market strategies are materially less than the US high yield strategy, we would note that going back 10 years, or so ago, the US HY market constituted approximately 90% of the global HY market. As such, the longer term track-record of the US HY strategy is in some part indicative of the Investment Manager's ability in a purely Global HY Credit strategy. The return figures represent gross performance to provide an indicator of manager skill (relative to benchmark).

Over the longer-term, the Investment Manager has recorded alpha, as evident by the longer-term performance of the US High Yield strategy. The notable aspect of longer-term performance is the bulk of the alpha was driven during less benign market environments. Additionally, in such market environments both the Investment Manager's volatility and drawdowns metrics were superior to the general market. The outperformance has predominantly been driven by downside risk mitigation, which is consistent with the Investment Manager's key message regarding its investment style.

While over the shorter to medium term the Investment Manager has marginally under-performed the index, the Investment Manager has nevertheless participated in the gains during the market upside. This is also somewhat reflected in the historic pattern of tracking error and volatility measures generally becoming very closely aligned to the broader market in positive market environments, while deviating in less positive / negative market environments.

Neuberger Berman Performance Across Corporate Credit Capabilities Globally (as at 31 March 2019)					
Composite	**Inception**	**SI Returns (% p.a.)**	**Alpha (% pa)**	**Volatility (% pa)**	**Return/Risk**
Global High Yield	**2016**	**5.29%**	**-0.55%**	**3.71**	**1.07**
U.S. High Yield	1997	8.00%	1.39%	8.03	0.75
EM Corporate Credit	2013	5.99%	0.49%	4.85	1.11
European High Yield	2014	4.22%	0.25%	3.93	0.88

* Quoted in respective strategy composite base currency pre portfolio related fees, costs and taxes (gross performance).

MARKET OUTLOOK & KEY THEMES FOR 2019

The purpose of IIR reports is not to provide a view on the outlook of any particular asset class, rather a manager's ability to achieve its performance objective over the intended investment time frame. However, we have provided a summary of the Investment Manager's market outlook over the foreseeable future (and as at the date of this report) for the benefit of readers. We stress that this is the Manager's view and we neither endorse or contradict this view. Investors should undertake their own research into the fixed income/debt markets and form their own views of the market outlook.

This has been partly provided as many Australian retail investors have less familiarity with the asset class than, for example equities, and partly to provide a more informed view or a counterbalance to a range of media articles over the last six months, or so, that could be possibly be perceived as somewhat alarmist regarding the global corporate debt market.

Many such articles point to the record level of corporate debt now on issue which, in the context of slowing economy growth, has been presented as creating risks to the bond market but broader systemic risks to the global economy.

Central Thesis: Soft Landing for the U.S. and the Wider World

The economic outlook is pertinent to a corporate debt investor to the extent it impairs the issuing company's ability to service interest payments / repay the debt instrument at maturity and consequent dynamics with respect to credit spreads (the determination of which is central to the Investment Manager's investment process). In contrast, equities investors are exposed to substantially greater risk with respect to changes in the economic growth outlook, both on the upside and downside.

The Investment Manager's key market thesis, which it formed in the latter part of the December 2018 quarter, has to date proved rather prescient, with the evolving market consensus over the 1Q 2019 period more closely aligning with the Investment Manager's view. Specifically,

The Investment Manager's key market thesis for 2019 is an anticipated slowdown in U.S. GDP growth from 3.5% to around 2.0 – 2.5% in 2019, and some of the tail risks associated with the U.S. – China trade dispute will dissipate. Europe is expected to similarly decelerate, with economic growth forecast by the Investment Manager to slow from 1.5% to 0.5%. The Investment Manager believes that U.S. wages will continue to rise, squeezing corporate earnings, but the inflationary effect will be partly offset by lower commodity prices. With respect to official interest rates, it is the Investment Manager's view that the Fed is likely on hold for at least the first half of the year, in contrast to what was the consensus view in the latter part of 2018 that the Fed would maintain a tightening bias.

However, over the course of 1Q 2019 those consensus views began to shift markedly. By the latter part of March the yield on 10-year US treasuries fell to its lowest since late 2017, as investors bet the Federal Reserve will be forced to cut rates to underpin the US economy. On March 22 market unease mounted as the gap between yields on 10-year Treasury bonds and three-month Treasury bills turned negative for the first time since 2007 (yield curve inversion). The inversion is not necessarily an indicator of an impending recession rather a reflection of a realisation amongst investors that the Fed has now finished raising interest rates and the next move could be down. Indeed, the move to a much more dovish policy stance should in itself help the US to remain a relative bright spot at a time when global growth has lost its lustre.

In the Investment Manager's recently issued "Fixed Income Investment Outlook 2Q19", the Investment Manager not only stated that its core thesis is intact but in fact had strengthened based on underlying growth dynamics and transitions in central bank policy. That said, it also noted that it further suspected that the benign environment for central bank policy-making won't last throughout 2019, and that it expects markets will continue to see pockets of volatility.

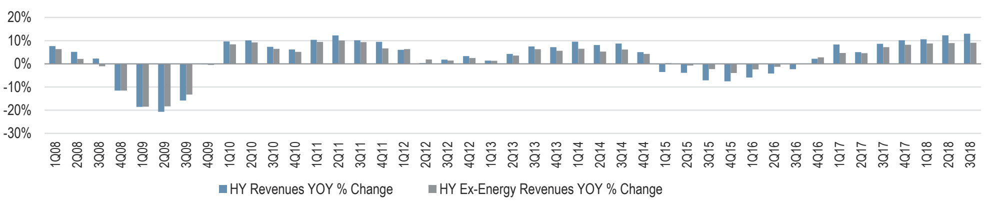
The Investment Manager's central view of a soft landing is important to how it considers allocation in different parts of the bond market. The Investment Manager forecasts a decelerating growth trend, but one in which the global economy reverts to post-GFC trend growth. As the Investment Manager notes, for large global companies, this is a growth environment in which they can not only preserve, but continue to do well as businesses. During this post-GFC subdued growth period, versus the pre-GFC high growth environment, high yield corporate bonds as an asset class performed very well.

This is supported by the evidence the Investment Manager presents that the majority of companies have not overly geared to a stronger growth environment, with most having managed balance sheets prudently. The fundamental basis of this view in the high yield sector is illustrated in the three charts below, which collectively illustrate improving credit quality.

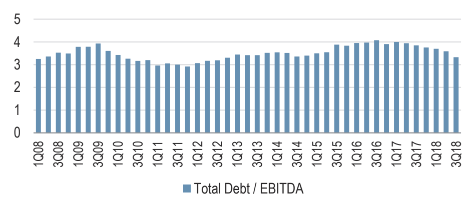
The first chart illustrates growing revenues in the high yield sector. The second illustrates that leverage has not only plateaued but declining. The third that interest cover remains strong and is improving and is stronger than any period over the last ten years covered by the analysis. In short, while it is the Investment Manager's view is decelerating, it is firmly of the view that it will stablise at durable levels from a high yield debt servicability perspective.

Within the context of this broader market view, the Investment Manager will continue to be as selective and discriminating as ever in picking the high yield segments it believes offers the most compelling risk-return outcome. It is gradually rotating the portfolio for income in more stable / defensive companies backed by sound fundamentals, while opportunistically looking for oversold or company downgrade opportunities.

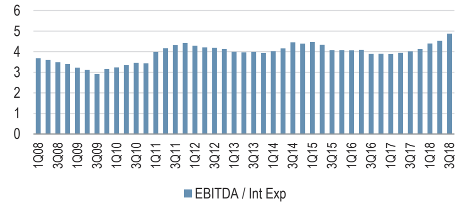
Revenue Continues to Grow[1]



Leverage Appears to Have Plateaued[2]



Interest Coverage Remains Strong[2]

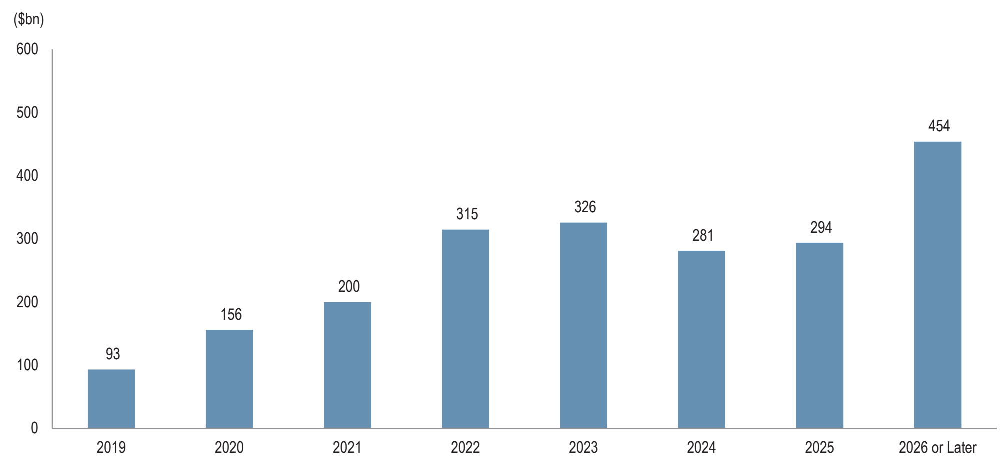


[1] Source: Bank of America Merrill Lynch. Data as of September 30, 2018. [2] Source: Bank of America Merrill Lynch. Data as of September 30, 2018.

While the economic outlook clearly impacts credit quality, the critical aspect for investors in fixed income is defaults, being the critical driver of losses and NAV impairment. On this topic, the Investment Manager continues to view the level of market risks as relatively benign / manageable. The Investment Manager points to the low level of debt coming due over the next couple of years (a key driver of debt default), the purposing of debt largely for refinancing (rather than more inherently risky leveraged buy-outs and mergers and acquisitions, for example), the generally strong state of corporate balance sheets, and the general 'upgrading' of credit quality in the high yield segment, with proportionally higher amounts of BB+ rated vicinity and conversely less in the CCC vicinity.

As long as company fundamentals remain sound, then upcoming maturities should not lead to a material increase in default rates. The slide below illustrates the maturity profile in the circa US$2 trillion corporate high yield segment. Continued refinancing in recent years has reduced near-term maturies and the 'maturity wall' could described as modest. In the context of the sound fundamentals illustrated and discussed above combined with a modest maturity wall, the Investment Manager expects the level of defaults to remain relatively low for at least the next couple of years.

Modest Maturity Wall

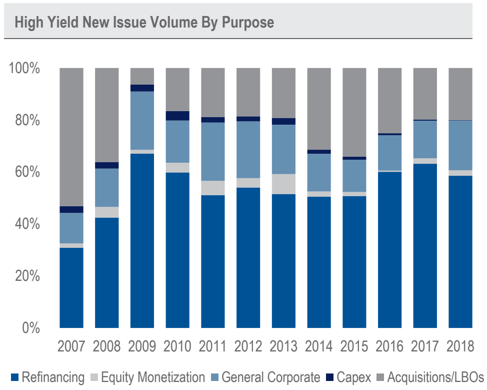


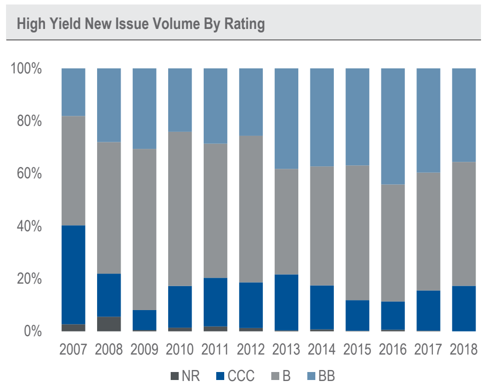
Source: Neuberger Berman

Default rates are a backward looking indicator. A critical factor the Investment Manager considers in assessing potential default rates moving forward is the purpose of the debt funding to companies and the quality of underwriting. The two slides below illustrate that in recent years, in the high yield segment, the bulk of corporate debt has been utilised for growth and refinancing purposes and substantially less for acquisitions / LBOs, the latter being a riskier use of funding (and which represented approximately half of new issuance in the 2007 and 2008 periods).

Furthermore, there has been a general 'upgrading' of credit quality in the high yield segment over the last six years, with proportionally higher amounts of BB+ rated vicinity and conversely less in the CCC vicinity. In contrast, in 2007, almost half the issuance in the high yield segment represented CCC rated debt, which subsequently led to an increase in default rates over time. Over the last few years, the issuance of CCC rated debt has trended in the mid-teen levels, with more aggressive issuance channelled via the bank loan market.

Issuance Trends



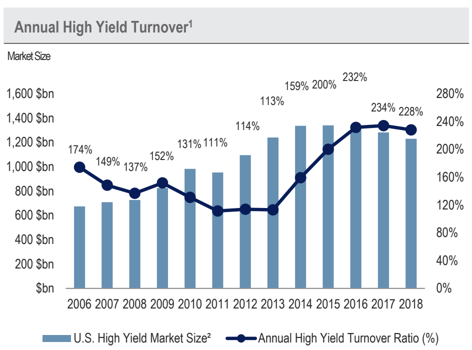


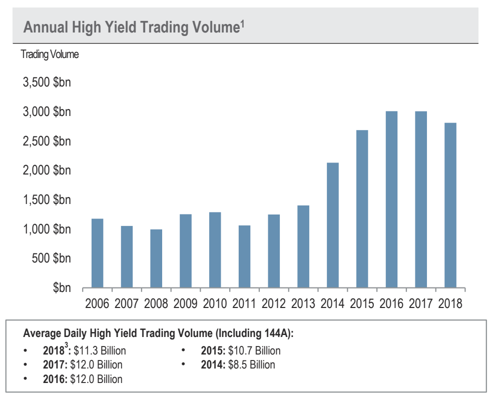
Source: Neuberger Berman

In the context of the significant growth in corporate debt issuance since the GFC, there has been much written about liquidity in the fixed income markets, with the view being put that should it all end in tears there may be many sellers and limited buyers, risking a marked downturn in realised prices. The Investment Manager notes that these concerns are somewhat substantiated in the US corporate investment grade market, and partly because only approximately 3% of the universe is held by daily flow funds, with the rest of the market largely being buy-and-hold investors. In such a situation, if there is a generally recognised problem with a debt instrument and there is a sufficient number of investors that chose to exit that position, buy-and-hold investors will generally chose not to buy.

In contrast, in the high yield segment, approximately 35% of the market is held by daily flow funds, such as the inherent potential buying interest is greater. Additionally, the duration of debt instruments in the high yield segment averages only four years which, when combined with the relatively high coupons, means investment managers are always looking to reinvest funds back into the market. The two charts below illustrate that while the level of corporate high yield debt has increased significantly since the GFC, the level of annual turnover in the segment has increased by a proportionately higher degree and sat at 228% in the 2018 period, averaging US$11.3 billion a day and close to US$3 trillion over the course of the year.

Liquidity Trends





[1] Source: TRACE, ICE Data Sources. Data as of December 31, 2018.

Over the past 20 years, the average rating in the credit markets has fallen from A to BBB as more companies have capitalized on cheap debt, while investors' search for yield has fed exceptional growth in BBB rated bonds as well as high yield loans, European corporate debt and emerging markets debt.

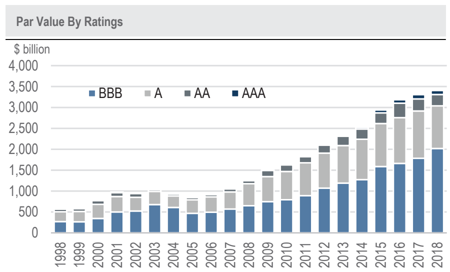
The Investment Manager believes the credit cycle will turn at some point over the next two to three years, at which point a substantial proportion of the BBB market could be downgraded from investment grade to high yield. As many institutional investors are only able to hold a limited amount of non-investment grade debt (whether because of investment policy or regulation), that could create a wave of forced selling exacerbated by a lack of market makers that traditionally warehoused such securities on their balance sheets.

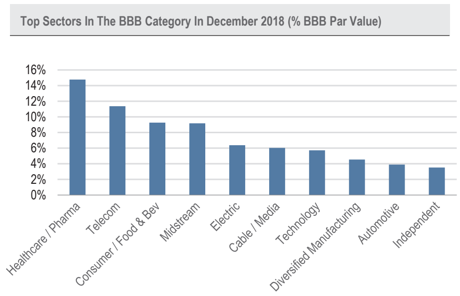
While it is the Investment Manager's view that this is more a 2021-22 story, the dynamic may well have commenced. We note that the first quarter of 2019 ushered in the most credit downgrades for US companies relative to upgrades since the beginning of 2016, according to S&P Global Ratings data compiled by Bloomberg.

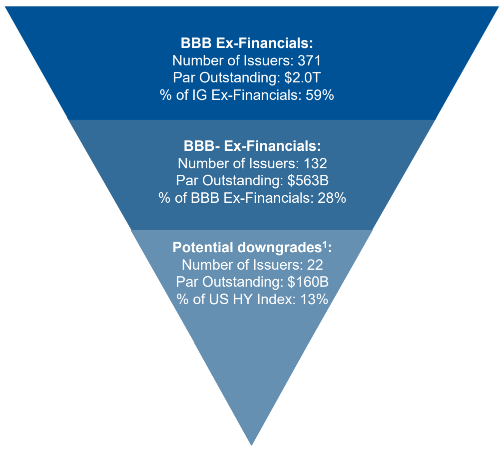
In anticipation of this, the Investment Manager has undertaken an assessment of the degree of investment grade downgrade risk (to sub-investment grade). The BBB market represents a US$2 trillion market. Of that, the lower tier of BBB market, specifically BBB-, reduces the most susceptible downgrade segment of the investment grade market to approximately US$560 billion. Of this, the Investment Manager has, based on its fundamental investment process, assessed what percentage of the BBB- segment is susceptible to downgrade over the next 24 month period. On the basis of this assessment, it has identified a total number of 22 issuers with total debt outstanding of US$160 billion at risk.

This constitutes a relatively small percentage of the 371 issues in the BBB segment (Ex-Financials) and the US$2.0 trillion in debt outstanding. The Investment Manager's explanation is that this is due, in no small part, to many issuers being in non-cyclical sectors, such as health care, telecommunications, and consumer staples. It is the Investment Manager's view that idiosyncratic factors at a company specific level will cause potential downgrades, rather than a broader swathe of potential downgrades driven by a slowing global economic outlook. Furthermore, it is not only the number of issuers susceptible to downgrade risk that matters, it is also the time period in which such downgrades potentially occur that may impact any potential market dislocation. It is the Investment Manager's view that the likelihood of all 22 issuers being downgraded over the course of one year is close to zero. In short, the Investment Manager believes the headlines are significantly overstating the tail risk relative to the assessed likelihood.

Whatever the outcome, the Investment Manager notes that investment grade downgrades, while problematic for forced investment grade funds, can present excellent buying opportunities for discerning high yield investment managers. Many such debt instruments can be acquired at discounted prices, have substantial businesses, and strong capital structures from a high yield perspective. As a result, the Investment Manager anticipates a major opening for high yield investors in the more stressed parts of the market, beginning as the credit cycle turns in two to three years and lasting for perhaps a year or two thereafter.







[1] Source: Neuberger Berman

COMPARATIVE ANALYSIS

Based on available data, IIR has undertaken a comparative fee analysis on the Trust to determine competitiveness in this regard. The analysis encompasses European domiciled UCITS funds for both the high yield and corporate investment grade strategies. Additionally, we have considered what we deem to be the most directly comparable Australian based funds in the market, specifically the Bentham High Yield Fund and the AB Global High Income Fund. All data relates to management fees only as opposed to total costs, as generally referred to as a total expense ratio.

The UCITS fee data is presented in the tables below. We note the Bentham High Yield Fund and the AB Global High Income Fund charge a management fee of 0.72% p.a. and 0.95% p.a., respectively.

Comparative Management Fee Analysis		
	USD High Yield	USD Corp Investment Grade
Average Inst. Fee	0.61	0.45
Average Retail Fee	1.15	0.91
Median Inst. Fee	0.60	0.45
Median Retail Fee	1.10	0.80

The key point to note is that by charging a management fee of 70 basis points, the Trust compares favourably to both its domestic peers as well as the international peer group (for retail investors), including the investment grade segment. We also note that the latter is, on average, approximately 20 basis points below the high yield peer group, which we believe partly reflects the larger investment teams generally required for non-investment grade credit analysis.

The table below details the fee structure of ASX LITs that have debt related investment strategies. We note the Trust is at the lower end of the peer group.

Comparative Fee Analysis - ASX Listed Debt Segment LITs				
	ASX Code	MER	Perf. Fee	Credit Segment
Gryphon Capital Income Trust	GCI	0.88-0.96	n/a	ABS, RMBS
MCP Master Income Trust	MXT	0.60*	Possibly **	Corporate loans
NB Corporate Income Trust	NBI	0.85	n/a	Global high yield
Qualitas Real Estate Income Fund	QRI	2.375	20.5%***	RMBS
Perpetual Credit Income Trust	PCI	0.88	n/a	Diversified credit

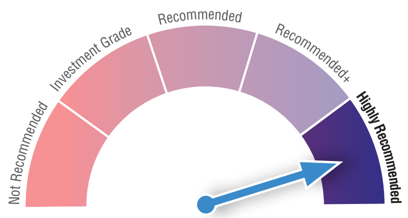
* Inclusive of a 0.22% Investor Equalisation Expense (IEE). ** Underlying wholesale fund investments may charge a performance fee. *** 20.5% (including GST) of the outperformance of the cumulative net return of 8.0%p.a over rolling three year periods from 1 July 2019.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

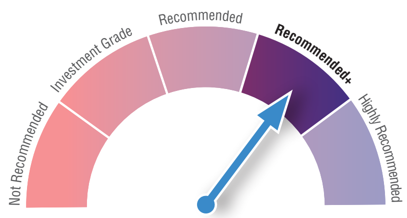
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above



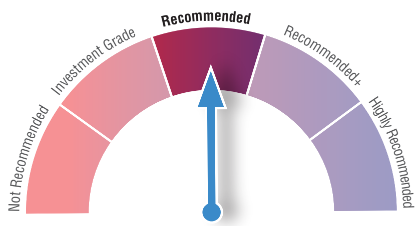
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	79–83



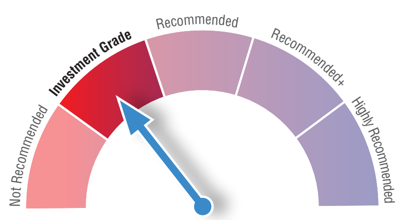
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	70–79



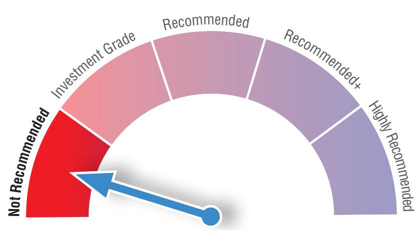
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	60-70



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	<60

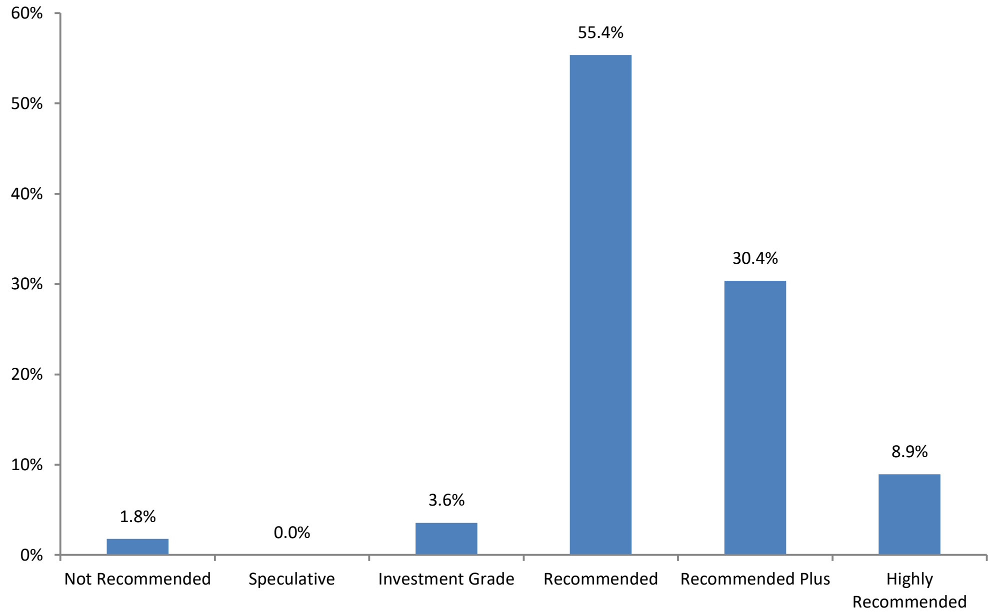


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



DISCLAIMER

(a) Disclaimer

The information, reports, financial models, forecasts, strategies, audio broadcasts and other media (referred to as "Content" throughout this Legal Notice), provided on this web site has been prepared and issued by Altavista Research Pty Ltd trading as Independent Investment Research "IIR", Independent Investment Research Holdings Pty Ltd (ACN 155 226 074), as authorised to publish research under an Australian Financial Securities Licence (AFSL No 420170) which allows Independent Investment Research to offer financial service advice to retail and wholesale clients. Users of this web site should not act on any Content without first seeking professional advice. Whilst the Content contained on this web site has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by Independent Investment Research, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. Content on this web site is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. We are not aware that any user intends to rely on the Content provided or of the manner in which a user intends to use it. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Access by any user to this website does not create a client relationship between Independent Investment Research and the user. Users seeking to invest must obtain individual financial advice to determine whether recommendations are appropriate to their investment objectives, personal financial situation or particular needs, before acting on any recommendations. Any Content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of Independent Investment Research.

(b) Disclosure of Interest

General

Independent Investment Research, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly: any commission; fee; benefit; or advantage, whether pecuniary or otherwise, in connection with making any recommendation contained on this web site. Independent Investment Research, discloses that from time to time, it or its officers, employees and its related bodies corporate: may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in the Content; may effect transactions which may not be consistent with the recommendations in the Content; may have directorships in the companies mentioned in the Content; and/or perform paid services for the companies that are the subject of such recommendations.

However, under no circumstances, has Independent Investment Research been influenced, either directly or indirectly, in making any recommendations contained on this web site.

Corporate Research

Independent Investment Research has or may have, received a fee either directly by a company itself or by a third party, to provide coverage and/or corporate research (the "Fee"). Where a Fee has been received, Independent Investment Research does not publish:

Buy / Hold / Sell recommendations for the security or managed investment schemes.

(c) Copyright Protection

(d) Trade Marks

The trade marks and logos displayed on this web site belong to Independent Investment Research or other parties. Such trade marks include registered trade marks and trade marks pending registration. Users are prohibited from using any of these trade marks, without seeking the prior written consent of IIR or such third party, which may own the trade mark content on this web site.

(e) Limitation of Liability

To the fullest extent permitted by the law, Independent Investment Research and any of its officers, employees, agents, consultants or related bodies corporate disclaim any liability, whether based in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential or special damages arising out of or in any way connected with the use of any Content made available on this web site by any person or entity.

(f) No Warranties

Independent Investment Research does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content made available on this web site. All information on this web site is provided to you on an as is basis, without warranty of any kind either express or implied. To the extent that research can be provided by third parties, Independent Investment Research makes no warranty or representation as to the accuracy or completeness of such information displayed on this site, and accepts no liability for errors or omissions arising from such third party information. To the fullest extent permitted by law, under no circumstances will Independent Investment Research be liable for any loss or damage caused by users reliance upon information obtained through this web site. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other content made available through this web site. Furthermore, Independent Investment Research does not warrant or represent that this web site is error free or free from viruses or defects. A user must do all that is necessary (including using virus checking software) to satisfy itself that accessing this website will not adversely affect its system.

For further information, please contact IIR at: client.services@ independentresearch.com.au

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE
1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE
200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215