



Product Review

Neuberger Berman Strategic Income Fund – W Class

ISSUE DATE 20-12-2019

About this Review

| | |
|----------------------|-------------------------|
| ASSET CLASS REVIEWED | FIXED INTEREST |
| SECTOR REVIEWED | ALTERNATIVE INCOME HIGH |
| TOTAL FUNDS RATED | 17 |

About this Fund

| | |
|------------------------|---|
| ASIC RG240 CLASSIFIED | NO |
| FUND REVIEWED | NEUBERGER BERMAN STRATEGIC INCOME FUND – W CLASS |
| APIR CODE | ETL1411AU |
| PDS OBJECTIVE | MAXIMISE TOTAL RETURN FROM HIGH CURRENT INCOME AND LONG-TERM CAPITAL APPRECIATION |
| INTERNAL OBJECTIVE | 4-7% P.A. (GROSS FEES) |
| STATED RISK OBJECTIVE | STANDARD DEVIATION: 3-5% P.A. |
| DISTRIBUTION FREQUENCY | MONTHLY |
| FUND SIZE | A\$0.05MN |
| FUND INCEPTION | 01-07-2019 |
| MANAGEMENT COSTS | 0.75% P.A. |
| RESPONSIBLE ENTITY | EQUITY TRUSTEES LIMITED |

About the Fund Manager

| | |
|---------------------------------|--|
| FUND MANAGER | NEUBERGER BERMAN AUSTRALIA PTY LTD |
| OWNERSHIP | NEUBER BERMAN GROUP LLC (EMPLOYEE OWNED) |
| ASSETS MANAGED IN THIS SECTOR | US\$12.7BN |
| YEARS MANAGING THIS ASSET CLASS | 16 |

Investment Team

| | |
|--------------------------|--|
| PORTFOLIO MANAGER | ASHOK BHATIA (LEAD), BRAD TANK & JON JONSSON |
| INVESTMENT TEAM SIZE | 171 |
| INVESTMENT TEAM TURNOVER | LOW/MOD |
| STRUCTURE / LOCATION | FUNCTIONAL / MULTIPLE GLOBAL OFFICES |

Investment process

| | |
|------------------------------------|--|
| BENCHMARK | BLOOMBERG BARCLAYS US AGGREGATE INDEX (AUD HEDGED) |
| DURATION RISK LIMIT | 2 – 8 YEARS (SOFT) |
| MAXIMUM SUB-INVESTMENT GRADE | 75% (SOFT, LOOK-THROUGH BASIS) |
| MINIMUM CREDIT QUALITY AT PURCHASE | SUB-INVESTMENT GRADE / UNRATED |
| GEARING / ECONOMIC LEVERAGE | PERMITTED VIA DERIVATIVES |
| CURRENCY EXPOSURE | FULLY HEDGED (WITHIN UNDERLYING VEHICLE) |

Fund rating history

| | |
|---------------|------------------|
| DECEMBER 2019 | INVESTMENT GRADE |
|---------------|------------------|

What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Strengths

- Highly experienced senior portfolio management team;
- Significant firm-wide resources dedicated to fixed income investing;
- Explicit consideration of 'tail risk' events.

Weaknesses

- Notable turnover in the leadership of the credit portfolio management teams;
- Highly unconstrained mandate with largely indifferent performance outcomes (based on UCITS);
- The Fund's underlying UCITS structure could be better disclosed in the offer document given the potential to further complicate end-investor tax consequences;

Fund Risk Characteristics

| | LOW | MODERATE | HIGH |
|------------------------------|-----|----------|------|
| BUSINESS SUSTAINABILITY RISK | | ● | |
| CAPITAL VOLATILITY | | ● | |
| CREDIT RISK | | | ● |
| INTEREST RATE RISK | | ● | |
| FOREIGN CURRENCY EXPOSURE | | ● | |
| LEVERAGE RISK | ● | | |
| SECURITY LIQUIDITY RISK | | ● | |
| SECURITY CONCENTRATION RISK | ● | | |
| REDEMPTION RISK | | ● | |

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------------------|---|---|---|---|---|---|---|
| STD RISK MEASURE | | | | | | ● | |

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

| | LOW | MODERATE | HIGH |
|----------------|-----|----------|------|
| RISK TO INCOME | | | ● |

ANALYST: RUI FERNANDES | APPROVED BY: PRASANKA RAJAPAKSHA

Neuberger Berman Strategic Income Fund – W Class

Features and benefits

| | LOW | MODERATE | HIGH |
|---------------|-----|----------|------|
| COMPLEXITY | | | ● |
| ESG AWARENESS | | ● | |

Fee profile

| | LOW | MODERATE | HIGH |
|----------------------|-----|----------|------|
| FEES VS. UNIVERSE | | | ● |
| FEES VS. ASSET CLASS | | | ● |
| FEES VS. SUB-SECTOR | | | ● |

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The Neuberger Berman Strategic Income Fund – W Class (the Fund) is an actively managed, multi-sector fixed income product. The Fund is permitted to invest across a wide range of fixed income sectors and is expected to maintain a pronounced bias to US debt markets while also seeking non-US investments. This is a total return strategy with an internal objective of 4-7% p.a. and expected standard deviation of 3-5% p.a. The Fund seeks to pay monthly distributions.
- The investment constraints are significantly broad to maximise flexibility. Duration is expected to range between 2 – 8 years (guideline only) with sub-investment grade limited to 75% (up to 40% in normal circumstances). Exposures are expected to be mainly through cash-instruments, the use derivatives is permitted for both alpha generation and risk-management.
- The Fund is managed with a ‘value’ philosophy and investors should expect the Fund to exhibit counter-cyclical positioning as a result of the investment process (i.e. increasing defensiveness into market stability and incremental risk addition into market volatility).
- The investment process is based on discretionary fundamental research and driven by bottom-up views on securities. This incorporates the generation of internal credit ratings and ESG insights. Portfolio construction is dual layered with multi-sector allocation specialists and sector investors involved. The multi-sector portfolio management team has responsibility for the Fund, including setting the aggregate positioning of the strategy. The security selection and portfolio construction for the individual sectors themselves has been delegated to internal portfolio management specialists. Sector allocation and security selection are each both expected to contribute 40% to the returns.
- The Fund gains its exposure through investing in a zero-fee AUD share class of a UCITS vehicle managed by a group entity. The underlying exposure is fully currency hedged with the overlays undertaken within the UCITS structure.
- As per the Fund’s PDS dated 4 September 2019, the fee structure/disclosure for the Fund is as follows: management costs, incorporating the investment management fee and operating expenses, of 0.75% p.a. Total transaction costs have been estimated at 0.32% for the first financial year. The buy / sell spread is currently 0.20% (round-trip). Note both the indirect costs and transaction costs are reflected in the unit

price of the Fund and are borne by investors, but they are not paid to the Responsible Entity or the Manager. Please refer to the Fund’s PDS for further details.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Products in the ‘Alternative Income High’ sector are expected to exhibit and maintain exposures to securities that are either specialised (e.g. emerging market debt) and/or have a higher degree of credit risk. Lonsec suggests that the Fund should only be considered for those clients that are (a) seeking yields greater than those available from cash or cash-like instruments (e.g. bank bills) and, more importantly, (b) those prepared to accept moderate to high volatility in the unit price.
- The Fund is designed for investors with higher risk tolerances and who want to earn consistent income returns over the long term by investing in global fixed income securities.
- This is considered to be a ‘total return’ offering with deliberately broad investment guidelines which include a maximum of up to 75% to sub-investment grade credit (inc. EMD). MBS (up to 100%) and ABS (up to 50%) are typically liquid although this has been challenged in periods of stress, particularly during the financial crisis of 2008.
- The Fund predominantly invests in assets that are denominated in non-A\$ currencies. A rise in the relative value of the A\$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor perspective. The Fund is managed on a fully currency hedged basis.

Suggested Lonsec risk profile suitability

| SECURE | DEFENSIVE | CONSERVATIVE | BALANCED | GROWTH | HIGH GROWTH |
|--------|-----------|--------------|----------|--------|-------------|
| | | | ● | ● | |

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- This represents Lonsec’s initial review of the Fund.

Lonsec Opinion of this Fund

People and resources

- Neuberger Berman (NB) is a substantial organisation with a significant depth of resources. Notably, the firm has been present in Australia since 2007 albeit having been institutionally focused until the launch of a listed debt trust in 2018 (ASX: NBI). The fixed income capability is considered by Lonsec to be well resourced with over 170 investment professionals contributing to the management of a broad set of fixed income strategies. Additionally, the sector and functional organisation of the team are viewed positively.
- Brad Tank leads the fixed income franchise as CIO and boasts a significant degree of experience in fixed income markets and tenure with the firm. While his

responsibilities include a notable degree of business management, there is also contribution to the core investment function. Tank is listed as a portfolio manager for the Fund and although Lonsec sees this as more of a support role, his contribution is nevertheless beneficial. Lonsec has met with Tank as part of the review process and considers him to be a capable investor.

- Ashok Bhatia, Deputy CIO (Fixed Income), who joined the firm in 2017 is likewise deeply experienced and has day-to-day responsibility for the Fund as its lead manager. Bhatia has gained experience in traditional asset management and with hedge funds. Lonsec also met with Bhatia as part of the review process and considers him to be a capable investor.
- Tank and Bhatia, based in Chicago, are joined by Jon Jonsson as the key decision makers for the Fund. Jonsson has a speciality in multi-sector fixed income, separately contributing to credit portfolio management, and joined the firm in 2013 from JP Morgan where he had served as Head of Global Aggregate. While Lonsec will seek to meet with London-based Jonsson in future reviews, it is notable that he has over 21 years' experience. The deep and complementary experience of the three key portfolio managers is viewed as a strength of the strategy.
- The Fund's portfolio management team includes a further three members with primary credit management responsibilities. These are: Thanos Bardas and Dave Brown (the co-Heads of Investment Grade Credit portfolio management) and Adam Grotzinger (multi-sector portfolio manager). These individuals provide additional specialist support and insight into a sector in which the Fund is always expected to maintain a material exposure. Lonsec has met with Grotzinger who has main client facing duties for the Fund in the Australian market.
- The investment team is organised into asset class specialities with professionals having dedicated functions (i.e. portfolio management, research and trading). Moreover, research and portfolio management have their own leadership structures. The umbrella asset class segments are logical (i.e. multi-sector, investment grade credit, non-investment grade credit, emerging markets debt, municipals and alternatives). In contrast to peers, however, developed sovereign and rates capabilities are housed within investment grade credit. Lonsec appreciates that while there may be individuals with these responsibilities, this important category could be better supported through its own distinct delineation much like with emerging markets.
- The leadership of both credit portfolio management streams (investment grade and non-investment grade) has experienced notable change in recent years. Lonsec considers that NB has the depth of experienced resources to navigate these changes although periods of generational change can be testing times for investment teams and this is an area where Lonsec will continue to focus.
- Key person risk is viewed as moderate by Lonsec. This risk is mitigated somewhat by the deep bench of resources available within NB as noted above, in addition to the remuneration structure discussed below.

- Lonsec considers the investment team's alignment of interest with end investors to be moderate-to-high. The variable remuneration is based on a number of factors, including the aggregate investment performance of all strategies managed by the individual, and overall contribution to the success of NB. Additionally, senior investment individuals have access to an equity acquisition program and may have a percentage of their total compensation deferred and invested in the strategies specific to them. The Manager also encourages the investment team to co-invest in their strategies, which Lonsec considers increase alignment with end investors.

Research and portfolio construction

- Lonsec considers the Fund to be managed with a structured and disciplined investment process that is based on a relatable 'value' philosophy guiding security selection and overall positioning. The Fund is total return in nature and is reasonably unconstrained although anchors to a US-centric index when it comes to overall portfolio characteristics such as volatility, average quality and liquidity. Sector positioning represents a mix of top-down and bottom-up views and is the responsibility of the multi-sector portfolio managers. Security selection is delegated to the sector specialists.
- Forward-looking, bottom-up generated views from asset class specialists are systematically captured in a quantitative asset allocation model and used as a reference point for overall positioning discussions. Importantly, these views encompass a range of scenarios with attached probably expectations. NB's asset allocation model is founded on the well-known Black-Litterman methodology which blends forward-looking views (e.g. expected returns) and historical experience (e.g. volatility). There is also explicit consideration of potential tail risks which Lonsec views positively, including 'value at risk' perspective of risk management.
- This approach is seen as a powerful way to efficiently model and test a range of scenarios and supplements the weekly multi-sector meetings at the firm. Decision-making around aggregate positioning and the best way to express a thematic view is discretionary, resting with the multi-sector portfolio management team.
- Security selection is the responsibility of the respective sector specialists albeit at the oversight and direction of the multi-sector portfolio management team. Exposures to the various sectors will cover a spectrum of bespoke thematic views implemented by the specialists or general asset class exposures. The relative mix is influenced by markets and views on alpha potential.
- Typically, greater emphasis on the composition of a sector construction itself by multi-sector portfolio managers occurs when return expectations may be lower than usual (e.g. following widespread compression of credit spreads). Lonsec believes this interactive approach to be a positive feature of the strategy fostering greater ownership and control of the portfolio by the multi-sector portfolio managers, engaging the sector specialists and leading to tailored positioning.

- Credit research is an important aspect of the investment process which Lonsec considers to be comparable to large peers. Analysts undertake traditional fundamental bottom-up analysis involving the review of financial information and meeting with corporate management. Top-down insights are also used to narrow the breadth of the opportunities. There is a structured approach to the research which is viewed positively for consistency and committee-based name reviews and 'buy list' approvals.
- Portfolio construction at the multi-sector level is collegiate with Tank (multi-asset views), Bhatia (asset allocation and macro) and Jonsson (ex-US views) setting the Fund's risk appetite and asset allocation. Lonsec sees this as being consistent with NB's investment culture which has a pronounced team emphasis. Bhatia, as lead portfolio manager, has final say. The typical horizon is understood to be between six and 12 months.
- The Fund is expected to maintain a persistently significant investment in USD assets (at least c. 66%) with the US seen as the largest and deepest debt market. Lonsec considers this to be reasonable and pragmatic. Duration is anticipated to be range bound between two and eight years (with the comparable strategy having been as low as 2.88 years in late-2013 and high as 5.63 years in mid-2017, with a trending pattern being evident). The current position is shorter than the benchmark at 3.46 years vs. 5.55 years.

Risk management

- Lonsec considers NB's risk management systems and processes to be solid and commensurate with its size and its investing heritage across different asset classes. The investment team utilises the BlackRock Aladdin offering portfolio modelling capabilities and portfolio management tools. The investment team is supported by the separate Portfolio Analysis & Risk and Asset Management Guideline Oversight ('AMGO') teams in overall portfolio risk monitoring (e.g. tracking error, value at risk analysis, compliance with investment guidelines).
- The Fund is highly unconstrained with few sector or regional limits. This is in line with the nature of the strategy and provides a significant degree of flexibility to the investment team. Lonsec nonetheless considers that meaningful defined risk parameters are particularly useful in helping shape investor expectations for a strategy.

Performance

- The Fund has a short operational track record however it is gaining investment exposure through an UCITS vehicle incepted in 2013 and is based on a US mutual fund which has been in operation since 2003.
- The UCITS vehicle (USD) returned, after fees, 3.62% p.a. and 3.28% p.a. respectively for the three and five years to October 2019. This compared to the benchmark's 3.29% p.a. and 3.24% p.a. The volatility has been similar to the benchmark.

Overall

- Lonsec has initiated coverage of the Fund with an 'Investment Grade' rating. Lonsec has a broad positive view of the underlying strategy's flexibility which is backed by a disciplined investment process and experienced team. The explicit referencing of 'tail risk' scenarios as a risk tempering mechanism is seen as a strength. The strategy is tilted to US markets which are the most deep and liquid globally but diminishes economic diversification. The underlying strategy has also delivered indifferent performance outcomes that belie the opportunity represented by the highly unconstrained mandate.

People and Resources

Corporate overview

Neuberger Berman Group LLC ('NB') is a privately-held and employee-controlled investment management firm. NB offers capabilities across a range of asset classes including fixed income, equities and alternatives being responsible for AUM of US\$333bn as at June 2019.

NB was founded in 1939 as an investment management business. The firm listed on the NYSE in 1999 and was acquired by Lehman Brothers in 2003 as a standalone unit within its asset management division. Following the Lehman Brothers financial crisis-induced bankruptcy of 2008, NB senior management conducted a successful MBO which closed in 2009 where management shared ownership with the bank's creditors. The MBO included other Lehman investment management businesses to operate under the NB umbrella. NB has been fully employee owned since the end of 2014.

Equity Trustees Limited has been appointed as the Fund's Responsible Entity. Neuberger Berman Australia Ltd is listed as the investment manager. The Fund wholly gains its exposure, outside of transaction cash balances, through an Irish-domiciled UCITS vehicle that is managed by a Group entity.

Size and experience

| NAME | POSITION | EXPERIENCE INDUSTRY / FIRM |
|-----------------|--|----------------------------------|
| BRAD TANK | CIO, MULTI-SECTOR PM | 38 / 17 |
| ASHOK BHATIA | DEPUTY CIO, MULTI-SECTOR PM | 26 / 2 |
| JON JONSSON | SENIOR PM, MULTI-SECTOR | 24 / 6 |
| THANOS BARDAS | CO-HEAD IG CREDIT PORTFOLIO MANAGEMENT | 21 / 21 |
| DAVE BROWN | CO-HEAD IG CREDIT PORTFOLIO MANAGEMENT | 28 / 28 |
| ADAM GROTZINGER | SENIOR PM, MULTI-SECTOR | 16 / 4 |

NB's fixed income franchise is led by Brad Tank, CIO & Global Head of Fixed Income, and numbers some 170 investment professionals. The investment team is structured into sub-asset classes encompassing a range of mostly dedicated portfolio management, research and trading functions. Tank has been with the firm since 2002 and has over 38 years' industry experience. He contributes his experience to the Fund but has other competing priorities.

The Multi-Sector division has responsibility for the Fund. Brad Tank, Ashok Bhatia and Jon Jonsson are the three key drivers of the Fund. Bhatia joined the firm in 2017 and is the Deputy CIO for Fixed Income with day-to-day responsibility for the Fund. Bhatia has over 26 years of industry experience. Jonsson joined in 2013 from JP Morgan where he was Head of Global Aggregate. With this 21 years' experience, Jonsson has portfolio management responsibilities for global credit and multi-sector strategies.

They are supported by a further three professionals who primary responsibilities in specialist asset classes. This includes Thanos Bardas and Dave Brown, the co-Heads of Investment Grade Credit, and Adam Grotzinger a Portfolio Manager for multi-sector strategies.

There has been a transition of leadership in the credit portfolio management streams in recent years. The transition in investment grade credit has been more orderly with Bardas and Brown assuming this leadership following Andrew Johnson's well telegraphed retirement at the end of 2018. The situation in non-investment grade credit has been more difficult. Longstanding head Tom O'Reilly, in 2018, announced his planned retirement at the end of 2019. The situation was complicated with the unexpected passing of Patrick Flynn his nominated successor in April 2019. Joseph Lynch currently shares leadership responsibilities with O'Reilly.

Remuneration

The investment team receive a fixed salary and are eligible for an annual bonus. The annual bonus for an individual is determined by a ranger of factors, including the total bonus pool, the aggregate investment performance of all strategies managed by the individual, utilisation of central resources, effective team/people management, and overall contribution to the success of NB. Research analysts participate in a similar compensation structure, at the discretion of their group heads.

Additionally, NB has an equity ownership structure, with an equity acquisition program open to senior investment individuals. Equity participation is separate from the general compensation process. A percentage of a participant's total compensation is deferred and invested in strategies specific to the individual.

Research Approach

Overview

NB implements a bottom-up focused credit research approach that is led by the specialist credit research analysts. This is supplemented by top-down analysis (e.g. economy and industry levels) designed to help guide the bottom-up research efforts.

Analysts model the financial strength of each issuer for at least three scenarios: base case, upside case, and

downside case. Management visits occur at least twice a year. Formally, the research focuses on: business fundamentals; the quality of cash flow; scenario analysis; the capital structure; liquidity, and an ESG scorecard. A 'credit best practices checklist' is utilised and covers material credit aspects of the investment decision, including:

- Financial review with specific attention to revenue and cost drivers, the predictability of cash flows; internal cash flow generation and the implications for interest and principal payments and capital expenditures.
- Deal structure and covenants.
- Assessment of management.
- Sources of liquidity such as bank lines, cash on hand, access to capital markets, and asset sales.
- In-depth inspection of applicable filings with an eye toward any outstanding litigation and any other commentary germane to the investment decision.
- Thorough review of any other indentures.
- Assessment of relative valuation based on its internally generated credit quality rating and prevailing spreads for the industries and quality tiers.

The investment team incorporates environmental, social and governance ('ESG') factors into their issuer analysis, relying on data sourced from Sustainalytics.

For EM corporate bonds, country selection is viewed as an important source of potential added value. The investment team has access to the broader NB resources, including the internal EM sovereign/local currency analysts. For example, the investment team employs the currency stability scorecard, a metric developed internally to identify leading indicators for currency crises. The analysts also include ESG analysis on a country basis.

As above, each security is assigned an internal credit rating used for relative value analysis. Analysts' ratings are first vetted within their respective sector teams, and thereafter by dedicated committees. Within the EM Committee, each Portfolio Manager has full discretion. Securities require formal approval before they can be added to "buy list".

The process for structured credit is more focused on cash flow modelling and understanding the deal terms, including the support structure(s) in place,

All research is housed within the Black Mountain Everest system.

Portfolio Construction

Overview

| | |
|-----------------------------|--|
| FUND BENCHMARK | BLOOMBERG BARCLAYS US AGGREGATE INDEX (AUD HEDGED) |
| RETURN OBJECTIVE (INTERNAL) | 4-7% P.A. (GROSS FEES) [ABSOLUTE] |
| RISK OBJECTIVE (INTERNAL) | STANDARD DEVIATION: 3-5% P.A. |
| INVESTMENT STYLE | TOTAL RETURN |
| TYPICAL NUMBER OF HOLDINGS | >1,300 |

NB is guided by a relative value investment philosophy where security selection and sector exposures are based on the price paid and the value this offers. It is expected that exposures will exhibit counter cyclical to the prevailing market. Simplistically, defensive in times of market strength and judicious risk in times of relative stress.

There are weekly multi-asset team meetings to consider positioning and review ideas. The Fund is positioned as being structured to harvest the best ideas from the broader fixed income platform. This is assisted with a proprietary quantitative model that aggregates internal views and market information suggesting positioning. The model is based on a statistical Black-Litterman framework and incorporates 12-month forward-looking views from the asset class specialists. The senior portfolio managers across the asset classes are required to provide their forecasts.

Portfolio construction is two pronged having asset class specialists responsible for security selection and investment. In practice this means that the multi-sector team ostensibly delegate the day-to-day management of the assets to the respective specialist desks. The multi-sector team, however, retains responsibility for both the tactical and asset allocation. There are also various levels collaboration between the multi-sector team and the desks, depending on opportunities and views on the markets, to customise the characteristics of the underlying exposures.

The Fund is constructed in a benchmark unaware manner. Benchmark comparisons are limited to aggregate characteristics such as volatility, average quality and liquidity.

Risk Management

Risk limits

| | |
|-------------------------------------|---|
| MAXIMUM GOVERNMENT BONDS | 100% (MIN -35%, I.E. SOVEREIGN DURATION) |
| MAXIMUM INVESTMENT GRADE CREDIT | 60% |
| MAXIMUM NON-INVESTMENT GRADE CREDIT | 75% (INC. EMD) |
| MAXIMUM MBS | 100% |
| MAXIMUM ABS | 50% |
| MAXIMUM TIPS | 25% |
| MAXIMUM CASH | 20% |
| TARGET DURATION RANGE | 2-8 YEARS (TYPICAL BUT NO FORMAL MIN/MAX) |
| MINIMUM HEDGED TO AUD | FULLY HEDGED (99.95% - 100.05%) |
| TARGET VOLATILITY | STANDARD DEVIATION: 3-5% P.A. |

Risk monitoring

The investment team utilises the BlackRock Aladdin order management system which offers portfolio modelling capabilities and portfolio management tools. Pre and post trade monitoring are inbuilt into Aladdin and monitored by a separate team, outlined below.

The Portfolio Analysis & Risk ('PAR') team is responsible for the identification and measurement of risk exposures to assist the investment team in identifying and avoiding unintentional assumptions of risk. The PAR team provides risk oversight of the investment processes and monitors portfolio risk metrics such as tracking error, value at risk, stress testing, scenario analysis, and market risks (e.g. credit spread,

default, volatility, interest rates). Separately, the Asset Management Guideline Oversight ('AMGO') team monitors the portfolios to ensure they are managed in accordance with investment guidelines. The AMGO team monitors pre and post trade compliance. Both the PAR and AMGO teams report to the Chief Risk Officer, who has a direct reporting line to the CEO.

Additionally, the Operational Risk Management ('ORM') team facilitates the identification, assessment and monitoring of uncompensated risks which expose NB to the possibility of unexpected loss resulting from inadequate or failed internal processes, people, system, or from external events. Additionally, the ORM team evaluates both operational risks pertaining to new/existing investment strategies, as well as counterparties' credit risk. The ORM team reports to the Chief Risk Officer.

Risks

An investment in the Trust carries a number of standard investment risks associated with investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

General economic and market conditions

A change in the general economic and market conditions globally, such as a tightening of available credit, interest rate rises or recessions, may have an adverse effect on the liquidity and value of the Fund's investments.

Emerging market risk

Investing in emerging markets may involve heightened risks (some of which could be significant) and special considerations not typically associated with investing in other more established economies or securities markets.

Credit risk

In relation to fixed income investments, the risk that the borrower does not repay the principal, make interest payments or fulfil other financial obligations in full and/or on time, the Fund may suffer loss which may impact on the financial performance of the Fund. Sub-Investment grade (on a look-through basis) is not expected to exceed 75% (soft).

Interest rate risk

The risk that the value or future returns of corporate bonds or other fixed income investments may be adversely impacted by changes in interest rates. For example, the value of a bond may fall when interest rates rise, and vice versa. Duration is expected to range between 2 and 8 years with little reference to the benchmark index.

Currency risk

The Fund's investments will largely be denominated in USD, EUR and GBP. Although the Manager intends to hedge fully against foreign exchange movement risk, it may from time to time not be able to do so and adverse movements in the exchange rate between the AUD and foreign currencies may reduce the AUD value of the Fund. For example, where a derivative hedge is not cost effective or not available. Currency hedging will be effected in the underlying UCITS structure.

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Quantitative Performance Analysis

The Product commenced on July 2019. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.

ANALYST: RUI FERNANDES | APPROVED BY: PRASANKA RAJAPAKSHA

Glossary

Total return ‘Top line’ actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss (‘peak to trough’) experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

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