Summary

The Neuberger Berman Global Corporate Income Trust (NB GCIT) is a listed income trust (LIT) designed to provide investors with access or exposure to the global high-yield bond market (ASX Code: NBI). This $3.0 trillion asset class is a major pillar of the global fixed income universe and highly diversified by geography, sector and credit quality. Specialist expertise is required to operate in this market and the global NB high yield investment team comprises highly skilled debt specialists with significant experience managing high yield bonds. The team consists of 56 investment professionals and is supported by NB's global network of over 2000 employees, operating in 23 countries and managing $507 billion globally.

The investment objective of the trust is to provide stable income with a target distribution of 5.25% p.a. after fees, payable monthly. The trust aims to provide incremental capital appreciation throughout the cycle and more importantly, avoid capital downside. In line with NB's Global High Yield strategy, the GCIT is not leveraged and all foreign currency risk is hedged into AUD. All management and other costs associated with the LIT are 0.85% p.a. of invested capital.

To date, through an initial public offering in September 2018 and subsequent Entitlement Offer in May 2019, the Trust has raised ~$917 million in assets.

On 21 January 2020, an non-renounceable Entitlement Offer was announced with an offer ratio of 3 new units for every 4 existing units held. A Shortfall Offer is also available which includes a $63.7 million placement capacity under ASX Listing Rule 7.1. Assuming each Offer is taken up in full, an additional $748.6 million will be raised for NB GCIT, which should be invested within 3 days given the liquidity of the market.

Figure 1: 20YR Risk and Return

Figure 2: Neuberger Berman Global High Yield Performance
Security Recommendation - Subscribe as at 21 January 2020

A Listed Investment Trust (LIT) structure derives unitholder returns from two sources: distributions and capital returns from the underlying portfolio and share price movements that drive the prevailing premium/discount to Net Tangible Assets (NTA). The latter is a function of market and manager sentiment but also reflects liquidity and structural features of the trust. The manager has established multiple mechanisms to bolster NTA stability which should minimise trading price variability. Price movements away from NTA would, in our opinion, be more speculative and not a function of asset fundamentals or financial risk management. The former is, of course, subject to risks, however, the investment manager's successful implementation of its portfolio strategy and risk framework have been in existence and developed for over 20 years.

Following its successful launch in September 2018 and subsequent Entitlement Offer in May 2019, the NB GCIT has been met with robust demand in the secondary market and has traded at a premium to NTA on a consistent basis - highlighting the quality of the underlying portfolio and favourable market sentiment towards the trust. The trust did experience a period of NTA decline which coincided with a global market sell-off in late 2018. The NB GCIT has paid out a consistent level of monthly distributions thus far, meeting its distribution target of 5.25% p.a. net of fees. A special distribution was paid in June to prevent dilution of existing unitholders following the $413 million Entitlement Offer and ensure the Trust’s target distribution was made. The Trust’s ability to quickly deploy capital remains as one of its key differentiators from other Fixed Income trusts and is made possible due to the size and depth of the global high yield market, which accordingly offers a superior level of liquidity relative to leveraged loans or private debt.

Whilst NBI has exhibited strong performance to date and has delivered on its key objectives, we note that since May 2019 there has been a slight deterioration in the credit quality of the underlying portfolio from BB- to B+. Furthermore, we note that should prevailing market conditions continue, that the Manager may lower the target distribution to favour capital preservation over taking on excess risk that would deviate from the objectives of the portfolio.

Overall, the NB GCIT is on track to meet its targets for investors and is performing in-line with our current ‘Subscribe’ recommendation. The basis for the recommendation of the trust is a blend of both subjective and objective analysis of the underlying portfolio and the manager's background, experience, analytical capability, and proven track record. Based on our research, we believe this product offers investors a stable source of income with the yield being offered considered fair and commensurate with its risk and the performance of NBI over the past six months has confirmed all of our assumptions to date.

Positive / Negative Risk Factors

What factors would change the Recommendation UP

- Neuberger Berman is a global asset management firm with a network comprising over 600 investment professionals in 23 countries. The firm offers services in equities, fixed income and alternative assets, all adding to overall depth of market knowledge and expertise. This is further supported by 99% of lead portfolio managers having more than 20 years industry experience.

- The firm has been managing high yield bonds since 1997 and the Global Non-Investment Grade Credit platform has evolved with the broader market. As a result, NB has been a major market participant for over 20 years and experienced a wide range of market conditions, including two recessionary periods. Despite the global high yield market experiencing over 1,500 defaults since 1998, Neuberger Berman’s Global Non-Investment Grade Credit platform has experienced just one default over the same period.

- The target portfolio is well diversified across geographies, credit quality and industries across 250-350 issuers with a strong focus on liquidity. The Global High Yield strategy has strong risk management systems in place at an investment team level and firm-wide level (Neuberger Berman has a dedicated risk management division) to ensure unintended risk exposures are identified early and managed efficiently.

- NB has a successful history of issuing and managing listed vehicles in developed markets such as the US and Europe. This gives investors a level of confidence in the operational and structural risk management of the product. This is further supported by NB’s strong governance framework.

What factors would change the Recommendation DOWN

- Given the unit price of the LIT is determined in a public market (ASX), the value of the product will be more sensitive to news flow and other announcements relative to NB’s wholesale offerings.

- Credit quality deterioration (or in a worst-case scenario, issuer defaults) in the NB GCIT portfolio could result in a material decline in the NAV. However, this is partially mitigated by NB’s strong track record, successful active strategies in managing global high yield bonds and approach to constructing portfolios which builds in significant diversification by country, industry and credit quality.

- While we are content with the internal controls of within the Global High Yield strategy and broader NB investment platform, operational risk is always a threat to portfolio performance. This includes the failure of internal procedures and human error or misjudgment.

- A lower interest rate environment would dampen high yield bond yields and there may be a risk that the target net distribution of 5.25% p.a. will not be met. We note this is a remote possibility currently and supported by the fact that high yield bonds have rarely exhibited yields lower than the target yield of the NB GCIT. We note that the Manager has the ability to lower the target distribution, of which it conducts a review annually. Should current market conditions continue to persist, management has indicated its preference to take this route rather than expose investors to a heightened level of risk.
Issuer Outlook - Stable as at 21 January 2020

Investment Objectives, Strategy & Performance

The NB GCIT is a listed investment trust (LIT) designed to give investors diversified exposure to the $3.0 trillion global high yield bond market. The investment objective is to provide investors with a stable distribution of 5.25% p.a. (net of fees) throughout the cycle (payable on a monthly basis) while offering scope for capital appreciation and avoiding capital downside through active portfolio management.

This market has been a longstanding pillar of the broader fixed income landscape and if we consider the rich history of the asset class (best captured by the ICE BofAML high yield index series), the weighted-average yield of the market has only fallen below the target distribution level in Europe (20% target allocation), whilst yields in US and Emerging Markets (80% target allocation) have typically traded well in excess of the target yield. This is further supported with current global interest rate settings being at, or close to historical lows. Consequently, we are comfortable with the target yield of the LIT. This is dependent on the underlying portfolio operating at or near full investment and given the closed-end nature of the LIT and robust liquidity of the market, we expect any cash drag to be negligible.

While the NB GCIT is a relatively new product, its underlying portfolio and strategy have been in existence for over 20 years with a strong historical performance. Throughout this period, this strategy has returned 8.05% p.a. on average and experienced just one default, highlighting the long-term success of NB as a high yield asset manager. The reference benchmark for the Global High Yield strategy is the ICE BofAML Global High Yield Constrained Index (USD Hedged Total Return) which the portfolio has outperformed by 1.37% p.a. on average over 20 years. Importantly, this outperformance is most prominent in poor credit environments (+3.74% p.a. on average in years where the benchmark records a negative return) – a demonstration of NB’s defensive investment approach that focuses on downside mitigation, rigorous risk management, as well as technical positioning.

The strategy primarily focuses on larger, higher credit quality names in the global high yield market (BB, B). In effect, this ensures that the investment team does not chase portfolio return at the expense of credit quality and demonstrates the long-term approach of the firm. Specifically, in a strong economic environment (or near cycle peak), lower credit quality and/or distressed credits will typically outperform, which is not a core focus of the Global High Yield strategy. However, in a distressed environment, these instruments will fare worse than higher quality credits. Due to a strict approach to security selection and sector rotation that avoids credit deterioration, the portfolio has exhibited strong outperformance in economic downturns while showing modest outperformance in buoyant conditions. However, due to the skewed returns associated with credit (i.e. downside is far larger than the upside), the long-term performance of the strategy is robust, largely attributable to this defensive approach to credit risk. Overall, securities rated either above BB (investment-grade) or below CCC (~10% of the proposed portfolio) are used opportunistically as an adjustment tool to the risk profile of the portfolio rather than strategic holdings.

Portfolio Construction & Investment Process

The portfolio of the GCIT is based on the underlying principles of NB’s Global High Yield strategy with a few minor and conservative adjustments. The exclusion of loan assets, a stricter cash balance (1-2%) at any given time and all exposure completely hedged into AUD are all examples of these principles. As a result, the proceeds are expected to construct a straightforward bond portfolio across the high yield credit spectrum with no leverage, equities, credit derivatives or structured products. However, we note interest rate and currency derivatives will be employed to manage interest rate risk in line with the market and hedge all currency risk.

A key attribute of the target portfolio is its inherent diversification benefits. This begins at a top-down level where industry exposure cannot be more than 3x the industry exposure of the benchmark and geographic exposure cannot deviate by more than 20% from the benchmark. This flexibility allows NB to toggle these weights to actively manage the portfolio at a macroeconomic level in line with current or future investment themes (regional / industry asset allocation). At a bottom-up level, any issuer cannot exceed 5% of the total portfolio and on average, position sizes (by issuer) are expected to range from 0.25 – 0.50%. As a result, NB can pinpoint, control and act on idiosyncratic risk without any individual position materially driving portfolio performance. To ensure the portfolio remains nimble in these scenarios and NB can actively manage the GCIT smoothly, NB primarily focuses on large issuers in the deepest (and highest) credit quality segments of the high yield spectrum (BB- and B-rated issuers, ~93% of target portfolio).

The investment process is administered by NB’s Global Non-Investment Grade Credit and Emerging Market Debt Corporate platform where the Global High Yield strategy is one of seven strategies. All strategies have a central portfolio management team with significant expertise in their respective areas. The Global High Yield strategy is a blend of more geography-specific strategies across the platform and consequently, the portfolio management team comprises four investment professionals who are also portfolio managers of the US and European High Yield strategies as well as the Emerging Markets Corporate Debt strategy. To support the decisions of the portfolio managers, the broader Global High Yield investment team comprises an additional 51 individuals across research, trading and investment specialist functions.

Under this structure, the portfolio management function has final discretion regarding buy and sell decisions, but the investment decision is generated through a collaborative process across the Global High Yield network. This begins at idea generation where research analysts organized by four distinct industry sectors will identify opportunities to present to the respective sector team. If the proposal is progressed, it is taken to the Global High Yield Credit Committee comprising all portfolio managers of all high yield strategies across the platform. This populates the portfolio with attractive positions in the high yield markets across the U.S., Europe and Emerging Markets (known as ‘sleeves’). Aggregate, top-down geographic exposure is then managed / adjusted by the Global High Yield Asset Allocation Committee which consists of the Chief Investment Officer, Global Head of Fixed Income and the portfolio managers of the Global High Yield strategy (see Investment Process section for additional information).

At 31 December 2019, the NB GCIT has 448 holdings from 308 issuers with a Yield to Worst of 4.95%, a weighted average
interest rate duration of 3.51 years and an average credit quality of B+ (S&P). The portfolio is additionally well diversified by industry sector with no single category (of 18) representing more than 9.7%.

**Liquidity, Operational & Financial Risk Management**

A strong focus on risk is a firm-wide effort with robust controls throughout the investment process and further oversight at a firm level (see Governance, Asset Stewardship & Internal Controls). The approach to risk management begins with the Global High Yield strategy where respective sector analysts continually monitor the credit fundamentals of issuers under their research coverage. We note that relative peers, each NB credit research analyst is responsible for only 25-30 issuers to enable deeper issuer engagement and research coverage. To ensure a level of consistency, teams utilise NB’s proprietary “Credit Best Practices Checklist” which covers fundamental and technical factors at an economic, industry, issuer and security level. This allows analysts to perform scenario analysis, assign internal ratings and apply relative value techniques to identify potential opportunities and proactively avoid / remove threats. Importantly, any adverse 5% move by an individual position relative to the benchmark index automatically triggers a Global High Yield Committee Review to ensure unforeseen idiosyncratic risks are addressed and managed early.

While the research team monitors the pool of existing and potential positions, the portfolio management team is ultimately responsible for any inclusions or exclusions to the portfolio. At this level, there is a primary focus on diversification within the regional sleeves, balanced against rotational strategies to add alpha. As a result, the portfolio managers are responsible for managing credit risk at a sector level and across the credit risk spectrum. Expertise is required to objectively and consistently manage these risk exposures, which is evidenced by 99% of NB’s lead portfolio managers each have more than 20 years of industry experience. Broader geographical investment risk is controlled by the Global High Yield Asset Allocation Committee which is responsible for adjusting over/underweight positions in the U.S., European and Emerging Markets sleeves of the Global High Yield strategy. This additional oversight incorporates the views of the Chief Investment Officer & Global Head of Fixed Income, adding further expertise to the risk management framework. The geographic, sector and individual issuer strategies to manage risk and generate excess returns reflects the active management of the NB GCIT.

The Liquidity Risk of the GCIT is limited as a result of its closed-end nature and it is expected it will only hold a cash balance equal to 1-2% of total portfolio value. Instead, liquidity risk largely relates to the ability of the portfolio managers to enter and exit positions to capitalise on investment opportunities efficiently and divest deteriorating credits promptly. To avoid illiquid positions, the investment team screens out defaulted securities while placing minimums on total publicly-traded debt and total EBITDA for potential issuers to be incorporated into the portfolio. This also allows NB to be an active manager, reflective of estimated annual turnover being 50-75% of the portfolio (albeit ~50% of this relates to reinvestment of maturities). Portfolio implementation is the responsibility of the Portfolio Construction Team which consists of the portfolio managers and an experienced high yield trader where levels are set by the portfolio managers for execution by traders.

Operating Risk is defined by the Basel Committee on Banking Supervision (BCBS) as “the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events”. As such, operational risk captures business continuity plans, environmental risk, crisis management, process systems and operations risk, people related risks, health and safety, and information technology risks. This includes errors in internal controls, hedging policies and other operational aspects of the NB GCIT and/or underlying portfolio. The internal controls are overseen by governance mechanisms (see next section), while the hedging and interest rate derivatives functions could pose a risk to portfolio returns. However, NB has a designated hedging team which administers all the firm’s undesired foreign currency exposures. This is further supported by the fact that the only foreign exchange exposure in the NB GCIT relates to the British Pound, Euro and US Dollar. As only USD-denominated Emerging Market high-yield bonds are included in the Global High Yield strategy, there is no exposure to volatile Emerging Market currencies which can present hedging issues. As a result, we are comfortable with the hedging policies and procedures of the NB GCIT. All foreign currency exposures of the NB GCIT will be fully hedged to Australian dollars.

**Governance, Asset Stewardship & Internal Controls**

NB is a large, global asset manager operating across various asset classes. As such, firm-wide governance is crucial to ensure internal controls are established and maintained. Importantly, these functions are independent of the portfolio construction process and comprise dedicated committees providing continual oversight.

The Investment Risk Committee (IRC) reviews investment risks associated with new and existing products. The IRC is supported by NB’s Portfolio Analysis & Risk group which pinpoints risk exposures across the firm’s portfolios and generates reports for the IRC, including risk metrics, scenario analysis, stress testing and liquidity coverage ratios. The Portfolio Analysis & Risk group comprises around 20 risk professionals in New York and London.

The Operating Risk Committee (ORC) reviews operating risks associated with new and existing products while also continually improving the operating framework of NB. The objective of the ORC is to minimise losses from inadequate or failed internal processes, people, systems, or from external events. Similar to the IRC, the ORC is supported by the Operational Risk Management group which provides periodic reports to the ORC. The Operational Risk Management group comprises around ten risk professionals in New York and London.

The Asset Management Guideline Oversight (AMGO) function acts as an independent overseer to client investment guidelines. The AMGO team monitors all pre- and post-trade compliance to ensure all client and regulatory requirements are met.
globally. The AMGO unit has the ability to alert portfolio managers to new and existing instances of non-compliance through
the firm’s order management systems. Any breaches are reviewed, resolved and communicated in line with the terms of the
relevant Investment Management Agreement (IMA). The AMGO team comprises nine members in New York, Chicago and
London.

Importantly, the Chief Risk Officer is independent of investment teams and oversees each the Portfolio Analysis & Risk,
Operational Risk Management and Asset Management Guideline Oversight teams. In turn, the Chief Risk Officer reports
directly to the Chief Executive Officer and is overseen by the Board of Directors, as well as Trustees.

At a product level, the NB GCIT is a closed-ended listed investment trust (LIT) domiciled in Australia (issued by Neuberger
Berman Australia Ltd) with a single class of units on issue. The LIT is registered with ASIC as a Managed Investment Scheme,
and Equity Trustees Limited is the Responsibility Entity (RE) acting in the best interest of holders. Neuberger Berman
Australia Limited is as the Manager of the trust while Neuberger Berman Europe Limited and Neuberger Berman
Investment Advisers LLC are the Investment Managers. The Product Disclosure Statement, Trust Deed and Investment
Management Agreement (IMA) are the key documents governing the NB GCIT.
NB Global Corporate Income Trust Performance Update

Since listing in September 2018, the NB Global Corporate Income Trust (GCIT) has performed in line with set target objectives, whilst outperforming key credit benchmarks both domestically and abroad as can be seen below in figure 4. The Trust has on average, traded at a premium to its Net Asset Value (NAV) with the exception of short and infrequent intervals including a $476 Entitlement Offer at the initial offer price ($2.00). GCIT has provided a steady monthly distribution of 0.899c, equivalent to an annualised rate of 5.31%, exceeding its target of 5.25% p.a. net of fees. The Trust has delivered a total return of 15.05% on a rolling 12-month basis and 8.43% since inception (as at 31 December 2019).

Figure 3. NBI % Premium to NAV

Source: BondAdviser, Bloomberg

Figure 4. Relative Fixed Income Performance

Source: BondAdviser, Bloomberg

Table 1. Total Price Return Composition¹

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<thead>
<tr>
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<tbody>
<tr>
<td>Market Price</td>
<td>$ 2.08</td>
<td>$ 2.06</td>
<td>$ 2.08</td>
<td>$ 2.07</td>
<td>$ 2.06</td>
<td>$ 2.07</td>
<td>$ 2.03</td>
<td>$ 2.03</td>
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<td>NAV</td>
<td>$ 2.07</td>
<td>$ 2.04</td>
<td>$ 2.03</td>
<td>$ 2.03</td>
<td>$ 2.01</td>
<td>$ 2.03</td>
<td>$ 2.05</td>
<td>$ 2.01</td>
</tr>
<tr>
<td>Distribution</td>
<td>0.899c</td>
<td>0.899c</td>
<td>0.899c</td>
<td>0.899c</td>
<td>0.899c</td>
<td>0.899c</td>
<td>2.469c</td>
<td>0.875c</td>
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<tr>
<td>Premium/Discount</td>
<td>0.48%</td>
<td>0.98%</td>
<td>2.55%</td>
<td>1.76%</td>
<td>2.48%</td>
<td>1.90%</td>
<td>-0.82%</td>
<td>1.04%</td>
</tr>
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</table>

¹ Returns calculated using market prices, not true NAV.
Source: BondAdviser, Neuberger Berman

Given the depth of the global high yield market, Neuberger Berman was able to rapidly deploy capital from May’s Entitlement Offer, successfully doubling the trust’s assets under management. The capital raising did not meaningfully impact GCIT’s distributions, nor has it impacted performance, with a special distribution being paid in June to prevent dilution of existing unitholders following the Offer in which the AUM of the Trust effectively doubled.

Less than 1% of the GCIT’s current holdings are classed as investment grade, with the trust having increased CCC exposure ~5.6% over the past 6 months as the portfolio has inch ed up the risk curve to generate meaningful returns. The majority of the trust’s holdings (>85%) maintain a rating just below investment grade (BB and B). Despite having moved up the risk curve, the average weighted duration remains moderate at ~3.5 years, slightly lower than in May 2019. Conversely, GCIT incurs duration risk in line with key benchmarks (see figure 6), despite marginally outperforming in terms of annualized returns.

Figure 5. NB GCIT Rating Distribution

Source: BondAdviser, Neuberger Berman – As at 31/12/2019

Figure 6. Weighted Average Duration (years)

Source: BondAdviser, Neuberger Berman, Bloomberg – As at 31/12/2019
Quantitative Analysis

The risk-return profile of the global high-yield asset class is unique in that it provides equity-like income but at a much lower capital volatility. But as to be expected, there is some increased risks relative to other traditional debt instruments. Active strategies can be successfully applied to partially mitigate these risks and this is one of the key advantages of the GCIT. Neuberger Berman has experienced just 1 default in its 20-year history managing high yield bonds (vs over 1,500 high yield defaults globally in this time) while generating an average outperformance of 4.1% over the bottom quartile of annual market returns over the same period. This consistent focus on downside risk has resulted in a strong track record which includes successful navigation through 2 US recessions, namely the dot-com bubble (2002/03) and the global financial crisis (2008/09).

We concede that the firm's high yield performance has been modest during periods of strong market conditions (figure 5), but this is a material feature of the manager's defensive investment approach that deliberately attempts to avoid credit deterioration. Specifically, the Global High Yield strategy (which is a composite of regional strategies) focuses on the liquid, higher-quality segment of the high yield universe (BB- or B-rated securities). As a result, distressed credits (CCC- or below rated securities) are not a core holding of the portfolio which is the main contributor to market outperformance when the economic landscape is improving (higher capital appreciation) or benign (higher income). While these higher-risk instruments will exhibit outperformance in these conditions, the opposing downside as economic conditions deteriorate is far larger, demonstrating the skew of credit returns. For Neuberger Berman’s Global High Yield strategy, the end result is strong outperformance in market downturns with modest outperformance in an improving or benign global economy. An examination of Neuberger Berman’s US High Yield strategy, a representation of the firm’s longest track record in high yield (since 1997) shows an overall outperformance of 1.37% p.a. over 20 years (Figures 4 and 5 below).

There are many factors that determine the risk-return profile of the GCIT but none is greater than credit risk, where credit improvement or deterioration will be the major determinant of outperformance or underperformance, respectively. Over the past 20 years, the successful active management of Global High Yield strategies demonstrates the obvious benefits of strategic positioning against credit expectations, but we note the composition of the global high yield universe has changed significantly over this period. This shift has been predominantly led by growth in the European and Emerging Markets, which Neuberger Berman has captured through the launch of its Global High Yield strategy in 2016.

In quantitatively evaluating the future performance of this strategy, we have adopted the CreditMetrics framework, a proven methodology created by JPMorgan in 1997 which was later purchased by MSCI in 1999. We note that the portfolio is subject to two broad overarching risks, namely credit and liquidity, but the latter is challenging to model with conviction, especially in a market where publicly available transactional data is limited. For this reason, our focus will be solely on credit risk for analytical purposes.

The CreditMetrics model attempts to model credit migrations (i.e. improvements or deteriorations in the credit quality of an asset), which will directly impact the valuation of GCIT (through Net Asset Value). Based on estimated fair value yield curves, we can revalue each individual holding for each derived credit rating. Although Neuberger Berman has a robust track record in avoiding defaults, our analysis places no limit on adverse credit migration to model a possible worse-case scenario for investors. We note that this approach is therefore more
applicable to the broader global high yield asset class and takes no implicit assumption of NB’s capability and longstanding track record in avoiding defaults

Table 2. Moody’s Global Corporate 1-Yr Credit Rating Transition Rates and Average Recovery Rates

<table>
<thead>
<tr>
<th>Current Rating</th>
<th>1-Yr Forward Transition</th>
<th>Instrument</th>
<th>Recovery Rate</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>AAA</td>
<td>Revolver Loan</td>
<td>86%</td>
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<td></td>
<td>AA</td>
<td>Term Loan</td>
<td>75%</td>
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<tr>
<td></td>
<td>A</td>
<td>Senior Secured Bonds</td>
<td>62%</td>
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<tr>
<td></td>
<td>BBB</td>
<td>Senior Unsecured Bonds</td>
<td>48%</td>
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<tr>
<td></td>
<td>BB</td>
<td>Senior Subordinated Bonds</td>
<td>29%</td>
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<tr>
<td></td>
<td>B</td>
<td>Subordinated Bonds</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>CCC</td>
<td>Junior Subordinated Bonds</td>
<td>21%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Rating</th>
<th>1-Yr Forward Transition</th>
<th>Instrument</th>
<th>Recovery Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AAA</td>
<td>Term Loan</td>
<td>75%</td>
</tr>
<tr>
<td></td>
<td>AA</td>
<td>Senior Secured Bonds</td>
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<tr>
<td></td>
<td>A</td>
<td>Senior Unsecured Bonds</td>
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</tr>
<tr>
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<td>BBB</td>
<td>Senior Subordinated Bonds</td>
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<td></td>
<td>BB</td>
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<td></td>
<td>CCC</td>
<td>Firm-Wide Recovery</td>
<td>55%</td>
</tr>
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</table>

2Average recovery rates from 1920-2018 and average transition rates from 1982-2018

Source: BondAdviser, Moody’s

As mentioned, the NB GCIT consists of 3 different “sleeves” across the US, EU and Emerging Markets (EM). Given the unique nature of each of the sleeves, our methodology was applied individually across the three sets of portfolio assets, before aggregating the weighted contributions to determine NB GCIT performance (Figure 7). We assume there is no FX impact, noting this is mostly mitigated by NB themselves through hedging on a 3-month forward basis.

As illustrated, portfolio exposure remains largely grounded at current levels with a skew to the downside reflecting the natural characteristics of credit investing. Given the portfolio is entirely comprised of non-investment-grade assets, our estimated credit loss is very manageable with a mean loss of ~3.20% and with portfolio value-at-risk (at a 1% VAR probability) of a ~5.55% loss. When incorporating expected income generated from security coupons, the portfolio has an estimated mean return of 2.52% (including losses) and a portfolio VaR of a 0.05% return at a 1% VaR probability. We do note that these outcomes have been adversely affected due to the change in portfolio composition over the previous six months, as NB moved up the risk curve by increasing the portfolios exposure to B and CCC assets, whilst simultaneously increasing duration from 4.14 to 5.23 years. This largely reflects substantial diversification benefits in the underlying portfolio, despite the lower historical recovery rates of the senior unsecured bond asset class (~48% in default), supporting our ultimate assessment of the NB GCIT’s approach.

We also note the tighter cluster boasted by the US component of the portfolio in Figure 7, owing to much more favourable credit migration probabilities than the combined portfolio in addition to the EU (Figure 8) and EM (Figure 9) sleeves. We view this favourably given NB GCIT’s heavy weighting to the US sleeve (60%) relative to the other geographies (20% each).

The quantitative framework defines the forward-looking risk score for our overall product assessment of the NB GCIT. This is consistent with the BondAdviser Fund Research Methodology and overlays an objective evaluation to our recommendation. On the basis of our analysis, we assign the NB GCIT a risk score of ‘B’ which also equates to a weighted-average credit rating of the portfolio at the end of a one-year period (being November 2019).

Figure 7. NB GCIT Credit Migration Impact – Combined Portfolio (US 60%, EU 20%, EM 20%) with Income
Investment Process

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

NB’s team network consists of 56 investment professionals, helmed by 5 portfolio managers. The team dynamic contributes to the portfolio construction process through several functions beginning with the idea generation process and ending with the regional asset allocation overlay function.

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

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

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

Portfolio Management

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

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

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

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

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

Figure 11. Investment Process

<table>
<thead>
<tr>
<th>Universe</th>
<th>Filters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Market: 1,200 Issuers</td>
<td>US: &gt;US$500m of publicly traded debt and &gt;US$100 of EBITDA</td>
</tr>
<tr>
<td>Emerging Market: 350 Issuers</td>
<td>Europe: &gt;US$200m of publicly traded debt</td>
</tr>
<tr>
<td></td>
<td>Emerging Markets: &gt;US$300m of publicly traded debt</td>
</tr>
<tr>
<td></td>
<td>No defaulted or severely distressed securities, one-time issuers or other outliers</td>
</tr>
<tr>
<td></td>
<td>= 1,100 Issuers (93% of $Index Value)</td>
</tr>
</tbody>
</table>

Fundamental Credit Analysis

- Proprietary “Credit Best Practices Checklist” across economic, industry and issuer factors
- Includes forward-looking scenario analysis of financial position and internally generate credit rating of each issuer
- Analysts cover 25-30 issuers each and visit management bi-annually
- Relative Value analysis in regard to security valuations, technical factors and fundamentals.

Evaluation

- 1st level evaluation undertaken by respective sector team
- 2nd level and final evaluation undertaken by Global High Yield Credit Committee
- This committee is split into sub-committees regarding Developed Markets and Emerging Markets high yield investment decisions

End Result

- 200 – 300 Issuers in Developed Markets & 40– 60 Issuers in Emerging Markets

Risk Management

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

Asset Allocation Overlay

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

Regional Sleeve Construction

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

Source: BondAdviser, Neuberger Berman
## Appendix 1: Target Portfolio Overview (as at 31 October 2019)

### NB GCIT Breakdown

<table>
<thead>
<tr>
<th>Composition</th>
<th>US</th>
<th>EUR</th>
<th>EM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Allocation</td>
<td>60%</td>
<td>20%</td>
<td>20%</td>
<td>100%</td>
</tr>
<tr>
<td>Issuers</td>
<td>131</td>
<td>86</td>
<td>107</td>
<td>303</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>0.49%</td>
<td>0.98%</td>
<td>0.75%</td>
<td>0.33%</td>
</tr>
<tr>
<td><strong>Max</strong></td>
<td>3.24%</td>
<td>4.15%</td>
<td>9.30%</td>
<td>2.20%</td>
</tr>
<tr>
<td>Securities</td>
<td>204</td>
<td>102</td>
<td>134</td>
<td>440</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>0.24%</td>
<td>0.21%</td>
<td>0.21%</td>
<td>0.23%</td>
</tr>
<tr>
<td><strong>Max</strong></td>
<td>1.38%</td>
<td>0.83%</td>
<td>1.72%</td>
<td>1.72%</td>
</tr>
<tr>
<td>Metrics</td>
<td>US</td>
<td>EUR</td>
<td>EM</td>
<td>Total</td>
</tr>
<tr>
<td>Coupon Rate</td>
<td>6.35%</td>
<td>4.85%</td>
<td>6.43%</td>
<td>6.09%</td>
</tr>
<tr>
<td>Yield to Worst</td>
<td>5.05%</td>
<td>5.39%</td>
<td>5.65%</td>
<td>5.08%</td>
</tr>
<tr>
<td>Spread to Worst</td>
<td>416</td>
<td>454</td>
<td>476</td>
<td>436</td>
</tr>
<tr>
<td>Duration (Years)</td>
<td>5.48</td>
<td>5.20</td>
<td>4.34</td>
<td>5.23</td>
</tr>
<tr>
<td>Maturity (Years)</td>
<td>7.53</td>
<td>7.38</td>
<td>5.97</td>
<td>5.23</td>
</tr>
</tbody>
</table>

### Target Portfolio Credit Quality

- **Coupon Rate**
  - US: 6.35%
  - EUR: 4.85%
  - EM: 6.43%
  - Total: 6.09%
- **Yield to Worst**
  - US: 5.05%
  - EUR: 5.39%
  - EM: 5.65%
  - Total: 5.08%
- **spread to Worst**
  - US: 416
  - EUR: 454
  - EM: 476
  - Total: 436
- **Duration (Years)**
  - US: 5.48
  - EUR: 5.20
  - EM: 4.34
  - Total: 5.23
- **Maturity (Years)**
  - US: 7.53
  - EUR: 7.38
  - EM: 5.97
  - Total: 5.23

### Industry Diversification (Top 10)

- Diversified Financial Services
- Technology & Electronics
- Media - Cable
- Real Estate & Homebuilders
- Utilities
- Media - Broadcast
- Energy
- Healthcare
- Support-Services
- Telecommunications

### Issuer Bond Price Distribution

- **Distressed: 5.35%**

### Maturity Profile

- **Exposure**
  - <2: 5%
  - <4: 10%
  - <6: 15%
  - <8: 20%
  - <10: 25%
  - <12: 30%
  - <14: 35%
  - <16: 40%
  - <18: 45%
  - <20: 50%
  - <22: 55%
  - <24: 60%
  - <26: 65%
  - <28: 70%
  - <30: 75%

### Yield Distribution

- **Exposure**
  - <2%: 5%
  - <4%: 10%
  - <6%: 15%
  - <8%: 20%
  - <10%: 25%
  - <12%: 30%
  - <14%: 35%
  - <16%: 40%
  - <18%: 45%
  - <20%: 50%
  - <22%: 55%
  - <24%: 60%
  - >24%: 65%
Appendix 2: About Neuberger Berman

Neuberger Berman is an independent global investment management firm with US$355 billion of assets under management (AUM) across fixed income, equities and alternative strategies. The firm's global network includes over 2,000 employees in over 20 countries, of which over 600 are investment professionals (as at 31 December 2019).

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

Consequently, the company is owned by approximately 500 of its own employees with ~US$3 billion of employee capital invested alongside clients' funds - aligning firm and client interests. This has naturally led to a very high retention ratio for the group with over 99% of client assets being managed by lead portfolio managers who have been with Neuberger Berman for over 20 years.

The fixed income platform comprises Neuberger Berman's largest segment by AUM (~US$140 billion) and consists of six divisions including the Global Non-Investment Grade Unit. The group's experience in managing non-investment grade (or high yield) instruments began in 1997, managing solely US high-yield bonds. European high yield bonds followed in 2006 with a separate European High Yield strategy launched in 2014. The Emerging Markets Corporate Debt strategy was added in 2013 consisting of a team with over 15 years' experience in managing Emerging Markets high yield bonds. The evolution of Neuberger Berman's high yield capabilities stems from the underlying development of the global high yield universe, which has grown from US$261 billion in 1997 to US$3 trillion in 2020.

The Global High Yield strategy was launched in August 2016 leveraging off the existing Global Non-Investment Grade & Emerging Markets Debt Platform. As a result, the strategy's rich network of investment professionals is a combination of portfolio managers and analysts from the Global Non-Investment Grade Credit and Emerging Markets teams. The team consists of 56 professionals, including 5 portfolio managers.

Figure 12. Neuberger Berman Assets Under Management Breakdown

<table>
<thead>
<tr>
<th>Investment Platform</th>
<th>Equity</th>
<th>Fixed Income</th>
<th>Alternatives</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Global Fixed Income Platform*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-Sector Solutions</td>
</tr>
</tbody>
</table>

Source: BondAdviser, Neuberger Berman (as at 30 September 2019)

1. Emerging Markets Debt AUM includes US$4.7bn in Emerging Markets Corporate Debt
Appendix 3: Further Quantitative Analysis

In addition to the credit migration impact using long term average transition probabilities (as displayed in Figure 3 and again here, Figure 13 for reference), we have also modelled the estimated credit migration impact based on different economic conditions. The process is identical, however single-year (as compared to multiple year averages) transition probabilities have been utilised (Tables 3 to 5). This allows for testing across benign and stressed economic conditions. We have kept recovery rates uniform throughout our modelling; this is to account for the large variation of single-year recovery rates. Additionally, single-year recovery rates can be spurious if they are unreflective of broader economic conditions (i.e. a recovery of zero in a single year has more drag compared against its impact over the long-term).

Figure 13. Long Term Transition Rates Credit Migration Impact – Combined Portfolio

Figure 14. 2009 (GFC) Transition Rates Credit Migration Impact – Combined Portfolio

Figure 15. 2018 Transition Rates Credit Migration Impact – Combined Portfolio
We incorporate the use of transition rates from 2009 as a proxy for a ‘worst-case scenario’ or otherwise extreme events in which liquidity in global markets dry up and behave inefficiently in a similar fashion to the GFC. In this scenario, downgrades and jump-to-defaults are more likely relative to the long-term average. We acknowledge the significant assumptions and limitations in doing such. When implementing transition rates experienced during the GFC, total portfolio value-at-risk (at a 1% VaR probability) of 11.0%, mean loss is 7.83%, median loss is 7.79% and is slightly negatively skewed ($\gamma_s = -0.25\%$), all of which reflect the adverse migration probabilities that existed during this period of time.

When using 2018 single-year transition rates where markets were benign, downgrades and jump-to-default probabilities were less frequent than the long-term average. Gentler migration probabilities saw total portfolio value-at-risk (at a 1% VaR probability) is $-4.50\%$, mean loss is $-2.32\%$, median loss is $-2.28\%$ and is slightly negatively skewed ($\gamma_s = -0.26\%$).

In contrast to this, utilising the average from 1981-2018, the portfolio has a total portfolio value-at-risk (at a 1% VaR probability) of ~$5.55\%$ loss, mean loss is $-3.20\%$, median loss is $3.15\%$ and exhibits negative skewness of ($\gamma_s = -0.30\%$).

Again, the above analysis in this appendix was conducted under the assumption that no expected income was received and explicitly assumes all assets are held to default. Given NB’s strong track record we would expect assets to be managed before a worst-case outcome (as modelled in the 2009 scenario above) occurs.

**Table 3. Long-Term Average Transition Rates**

<table>
<thead>
<tr>
<th>FROM/TO:</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>91.11%</td>
<td>8.18%</td>
<td>0.61%</td>
<td>0.07%</td>
<td>0.02%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>AA</td>
<td>0.84%</td>
<td>89.62%</td>
<td>8.55%</td>
<td>0.44%</td>
<td>0.06%</td>
<td>0.04%</td>
<td>0.02%</td>
<td>0.02%</td>
</tr>
<tr>
<td>A</td>
<td>0.05%</td>
<td>2.59%</td>
<td>91.14%</td>
<td>5.51%</td>
<td>0.50%</td>
<td>0.11%</td>
<td>0.04%</td>
<td>0.06%</td>
</tr>
<tr>
<td>BBB</td>
<td>0.03%</td>
<td>0.15%</td>
<td>4.29%</td>
<td>90.58%</td>
<td>3.90%</td>
<td>0.71%</td>
<td>0.16%</td>
<td>0.19%</td>
</tr>
<tr>
<td>BB</td>
<td>0.01%</td>
<td>0.04%</td>
<td>0.45%</td>
<td>6.74%</td>
<td>83.28%</td>
<td>7.67%</td>
<td>0.77%</td>
<td>1.05%</td>
</tr>
<tr>
<td>B</td>
<td>0.01%</td>
<td>0.03%</td>
<td>0.15%</td>
<td>0.49%</td>
<td>5.37%</td>
<td>82.53%</td>
<td>7.32%</td>
<td>4.10%</td>
</tr>
<tr>
<td>CCC</td>
<td>0.00%</td>
<td>0.02%</td>
<td>0.02%</td>
<td>0.09%</td>
<td>0.39%</td>
<td>7.63%</td>
<td>79.82%</td>
<td>12.03%</td>
</tr>
</tbody>
</table>

*Moody’s average transition rates from 1981-2018

**Table 4. Single Year (2009) Transition Rates**

<table>
<thead>
<tr>
<th>FROM/TO:</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>62.42%</td>
<td>37.58%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>AA</td>
<td>0.00%</td>
<td>70.98%</td>
<td>27.57%</td>
<td>1.27%</td>
<td>0.18%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>A</td>
<td>0.00%</td>
<td>0.26%</td>
<td>80.20%</td>
<td>17.91%</td>
<td>0.62%</td>
<td>0.75%</td>
<td>0.00%</td>
<td>0.26%</td>
</tr>
<tr>
<td>BBB</td>
<td>0.00%</td>
<td>0.17%</td>
<td>1.74%</td>
<td>85.38%</td>
<td>9.58%</td>
<td>1.57%</td>
<td>0.17%</td>
<td>1.38%</td>
</tr>
<tr>
<td>BB</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>5.27%</td>
<td>71.54%</td>
<td>18.18%</td>
<td>1.45%</td>
<td>3.56%</td>
</tr>
<tr>
<td>B</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.03%</td>
<td>3.84%</td>
<td>68.35%</td>
<td>18.21%</td>
<td>9.58%</td>
</tr>
<tr>
<td>CCC</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>9.32%</td>
<td>52.06%</td>
<td>36.62%</td>
</tr>
</tbody>
</table>


**Table 5. Single Year (2018) Transition Rates**

<table>
<thead>
<tr>
<th>FROM/TO:</th>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
<th>CCC</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>92.45%</td>
<td>7.54%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>AA</td>
<td>0.00%</td>
<td>93.80%</td>
<td>6.20%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>A</td>
<td>0.00%</td>
<td>4.99%</td>
<td>99.43%</td>
<td>0.54%</td>
<td>0.12%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>BBB</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>90.90%</td>
<td>5.46%</td>
<td>1.25%</td>
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<td>0.11%</td>
</tr>
<tr>
<td>BB</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>11.47%</td>
<td>79.04%</td>
<td>8.89%</td>
<td>0.59%</td>
<td>0.00%</td>
</tr>
<tr>
<td>B</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>11.59%</td>
<td>77.71%</td>
<td>9.48%</td>
<td>1.23%</td>
</tr>
<tr>
<td>CCC</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.43%</td>
<td>9.43%</td>
<td>75.08%</td>
<td>10.53%</td>
</tr>
</tbody>
</table>

*Moody’s single-year transition rates for 2018.*
Research Methodology

Every research report prepared by BondAdviser includes a clear recommendation on the security. This recommendation framework is designed to help investors navigate different investment opportunities by identifying the market price, yield, term to maturity, liquidity, volatility and risk.

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

Research Opinions key

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

About BondAdviser

BondAdviser is Australia’s only specialist independent fixed income research platform providing valuable information and clear investment recommendations for all ASX-listed interest rate securities and a broad range of over-the-counter corporate bonds.

We are the first choice for financial advisers, stockbrokers, private banks; and wealth management firms that need access to the highest quality, most timely and independent fixed income insights and useful analytical tools.

Clients use BondAdviser to meet their risk, governance and compliance requirements. Partnering with us gives them confidence they have a transparent audit trail when making recommendations about fixed income securities. This ensures they can demonstrate they have always acted in their clients’ best interests.

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