Fund Research

Neuberger Berman
Global Corporate Income Trust (ASX: NBI)

BondAdviser

Overview

The NB Global Corporate Income Trust (ASX: NBI, 'the Fund') is an ASX-listed investment trust (LIT) designed to provide investors with exposure to the global high-yield bond market. 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 Neuberger Berman (NB) Global High Yield investment team comprises highly skilled debt specialists with extensive experience managing high-yield bonds. The 50+ team of investment professionals is supported by NB's global network of over 2,300 employees, operating in 25 countries and managing US$433 billion globally (30 June 2021). NBI holds a diversified portfolio of high-yield bonds issued by large, liquid, global companies.

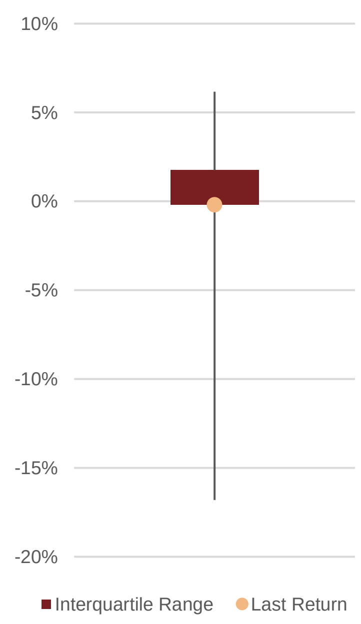
The investment objective of the Fund is to provide stable income with a target net distribution of 4.75% p.a. after fees and expenses payable monthly. The Fund aims to provide incremental capital appreciation throughout the cycle and more importantly, avoid capital downside. In line with NB's Global High Yield strategy, the Fund 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.

Figure 2. Monthly Net Returns (%)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-0.15	0.43	0.29	0.88	0.49	0.96	-0.20						**2.70**
2020	-0.15	-2.05	-16.8	5.58	6.17	1.80	4.27	1.61	-0.96	0.52	4.80	1.55	**6.33**
2019	4.71	1.94	1.09	1.48	-1.20	3.07	-0.70	0.04	0.85	0.33	0.69	1.94	**14.24**
2018										-1.14	-0.87	-1.74	**-3.75**

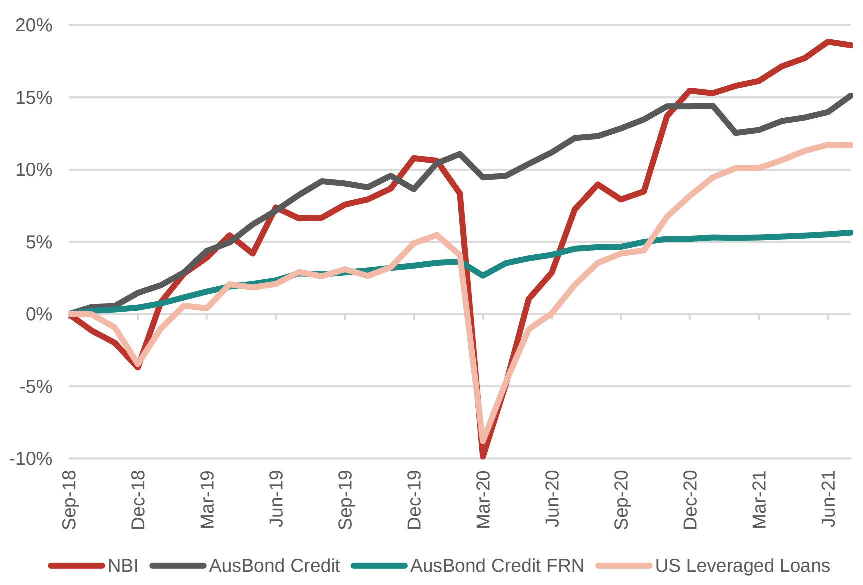
Source: BondAdviser, Neuberger Berman. As at 31 July 2021.
*** Return is monthly net return since inception based on pre-distribution month end NTA and assumes all distributions are reinvested.*

Figure 1. Monthly Returns* Box Plot



*Source: BondAdviser, Neuberger Berman. As at 31 July 2021. * Monthly returns, after fees and expenses since inception, based on pre-distribution month end NTA and assumes all distributions are reinvested.*

Figure 3. Relative Cumulative Performance (NTA)



Source: BondAdviser, Neuberger Berman, Bloomberg. As at 31 July 2021.
NBI performance is based on pre-distribution month end NTA and assumes all distributions are reinvested.

Product Assessment

Recommended

The NB Global Corporate Income Trust (ASX: NBI) provides investors with exposure to largely sub-investment grade, high yield global credit opportunities. Accordingly, there is a higher amount of risk than traditional investment grade products. The target allocations by region are 60% US, 20% Emerging Economies, and 20% Europe.

NBI has one of the strongest track records of investing in the sub-Investment Grade sphere with only ***one payment default in 23 years****.*

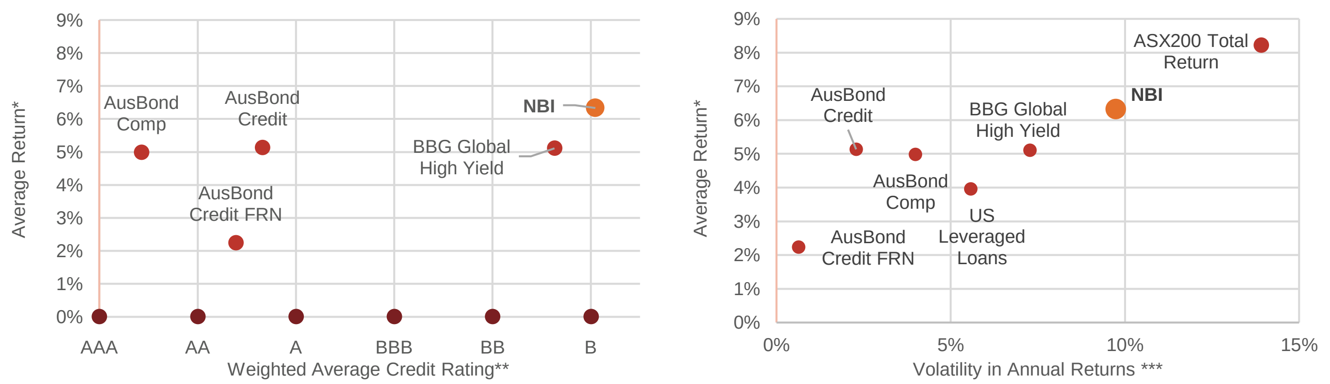
While NBI was listed in September 2018, the underlying portfolio and strategy has been in existence for 23 years. Credit risk is of particular importance when investing in high yield and NBI has one of the strongest track records in this respect, with only one payment default since the underlying portfolio commenced. This is significant considering the average default rate over 12 months from 1994 - 2020 for B-rated bonds is 2.36%. Considering 75% of the NBI portfolio was allocated to credit rated B-band or below as at 31 July 2021, the exceptional credit outcome demonstrates the strength of NB's investment management capabilities.

This product is best suited for investors seeking an **attractive and relatively steady income returns** from a **diversified portfolio of high yield bonds**. The product will exhibit a low long-term correlation to traditional asset classes, making it a suitable diversifier to retail investor income portfolios, which are typically biased towards domestically sourced, equity-based and/or hybrid income streams. It is worth noting that in line with other LITs, the NBI unit price fell considerably at the height of COVID in March 2020. The price is yet to recover its discount to net asset value (NAV) and there is no guarantee this will remedy. Whilst this is an attractive opportunity alone, the basis for recommendation is not opportunistic capital gains but rather through stable income generation. Our recommendation reflects a blend of subjective and objective analysis of the underlying portfolio, encompassing the manager's background, experience, analytical capability and proven track record in managing various global credit strategies.

We see the NAV discount as inefficient and note that despite some expected volatility, NBI has exceeded its annual distribution targets each financial year since listing.

BondAdviser has covered NBI for several years, across which, it has proven its structure, strategy and highlighted the best-in-class systems and processes. We see the NAV discount as inefficient and note that despite some expected volatility, NBI has exceeded its annual distribution targets each financial year since listing. Collectively, this has warranted an upgrade to our product assessment, which improves to the infrequently issued status of **Recommended**.

Figure 4. Estimated Risk-Adjusted Comparison



*All returns for indices calculated using annualised monthly returns from September 2018 to 31 July 2021.
** Calculated as at 31 July 2021. *** Calculated based on annualised monthly returns data from September 2018 to 31 July 2021.

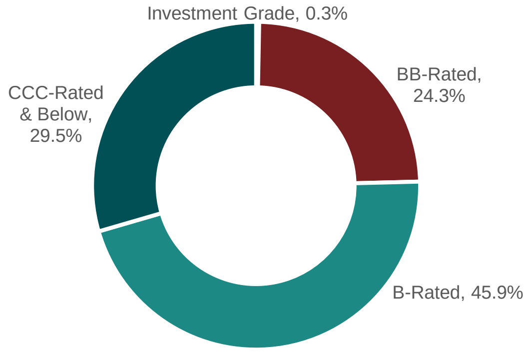
Construction and Investment Process

There have been **no material changes** to NBI's portfolio construction and investment process. However, there was a change in one of the Fund's five Senior Portfolio Managers with Vivek Bommi replaced by Simon Matthews.

The investment strategy is managed by five Portfolio Managers from the NB Non-Investment Grade and Emerging Market Corporate Debt teams. Given the depth of the investment team, combined with the broader resources of the NB fixed interest platform, key personnel risk is manageable. The NBI portfolio is based on the underlying principles of NB's Global High Yield strategy with a few minor and conservative adjustments.

Each financial year NBI has paid the same monthly distribution based on the annual target, with June including an additional amount representing excess earnings for the year. This minimises intra-year distribution volatility and provides some certainty around income.

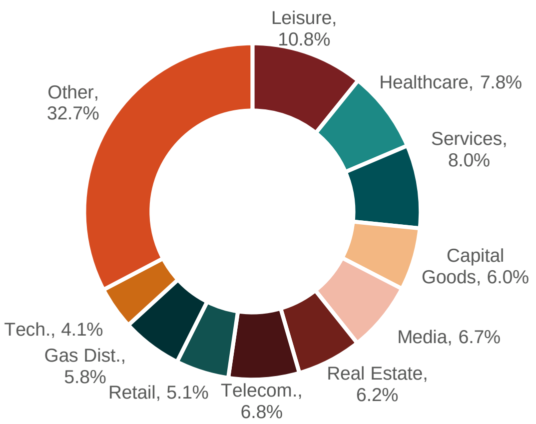
Figure 5. Portfolio Credit Rating Mix

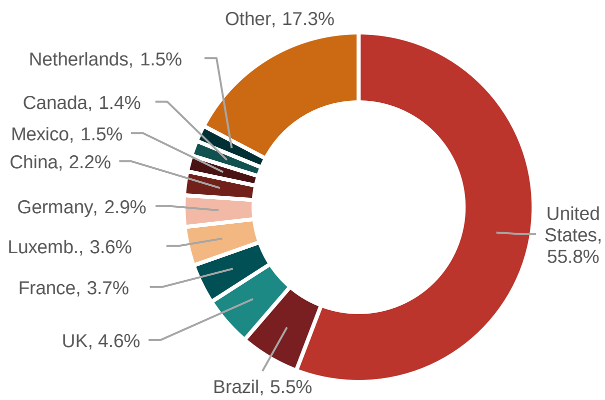


Source: BondAdviser, Neuberger Berman. As at 31 July 2021. Excludes cash and derivatives.

A key attribute of the 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 adjust weights to actively manage the portfolio at a macroeconomic level in line with its views on investment themes (regional / industry asset allocation). At a bottom-up level, a single issuer cannot exceed 3% of the total portfolio. As a result, NB manage idiosyncratic risk without any individual position materially driving portfolio performance.

Figure 6. Portfolio Sector and Country Mix





Source: BondAdviser, Neuberger Berman. As at 31 July 2021.

Portfolio Risk Management

There have been **no material changes** to NBI's portfolio risk management.

NB retains a strong focus on risk with robust controls throughout the investment process and further oversight at a firm level.

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.

Ultimately, the portfolio management team is responsible for the portfolio composition. At this level, there is a key 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.

A dedicated risk management team that is separate to the investment team conducts regular analysis on the constructed portfolio as an additional check.

Liquidity risk is limited as a result of NBI's closed-end structure. Instead, this 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.

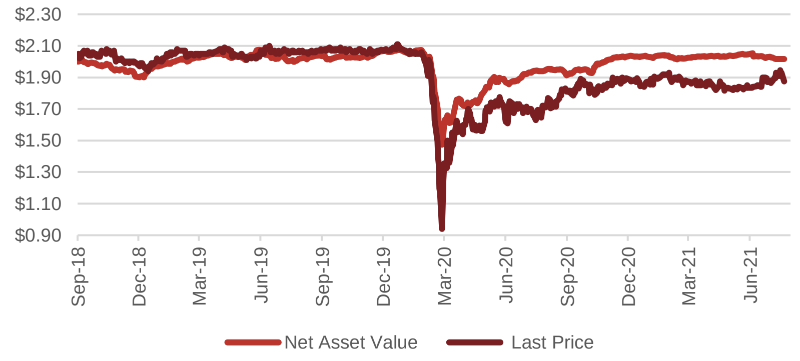
Operational risk includes errors in internal controls, hedging policies and other operational aspects of NBI and/or underlying portfolio. The internal controls are overseen by governance mechanisms (see next section). While the hedging and interest rate derivatives functions could pose a risk to portfolio returns, NB has a designated hedging team that manages all the firm's undesired foreign currency exposures. All NBI's foreign currency exposures are fully hedged to AUD. Hedging counterparty risk is mitigated as NB uses four large financial institutions to place hedge contracts with. Importantly, no collateral (Fund assets) is pledged against hedges. In our opinion, this represents best practice of the hedge book.

Fund Governance

There have been **no material changes** to NBI's fund governance.

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.

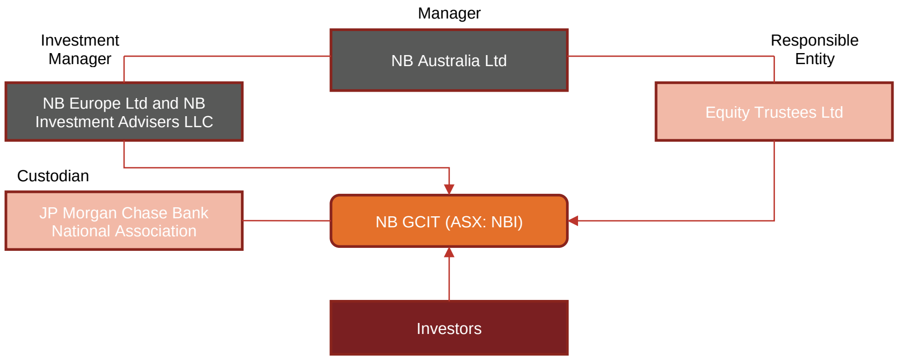
Figure 7. Net Asset Value Against Unit Price



Source: BondAdviser, Neuberger Berman. As at 27 August 2021.

The Chief Risk Officer is independent of investment teams and oversees the Investment Risk, Operational Risk 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.

Figure 8. Legal Structure



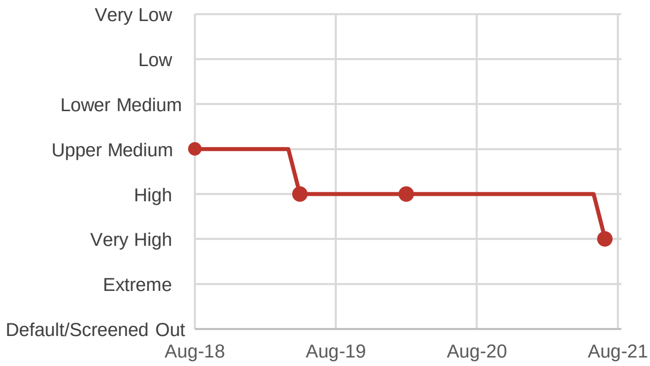
Source: BondAdviser, Neuberger Berman.

At a product level, NBI is a closed-ended listed investment trust (LIT) domiciled in Australia 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). Neuberger Berman Australia Limited is the Manager of the Fund while Neuberger Berman Europe Limited and Neuberger Berman Investment Advisers LLC are the Investment Managers. The Product Disclosure Statement, Constitution and Investment Management Agreement (IMA) are the key documents governing NBI.

Neuberger Berman provide daily updates on the NAV and monthly reports on the portfolio performance with insights into portfolio composition. The structure of the Trust is detailed in the diagram above (Figure 8).

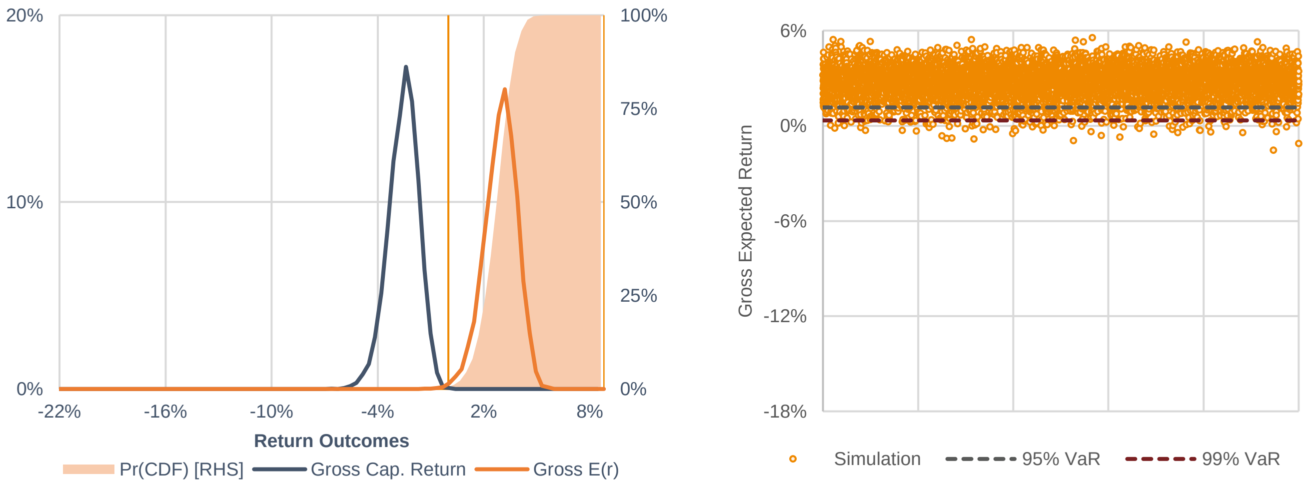
Quantitative Analysis

Figure 9. Risk Assessment



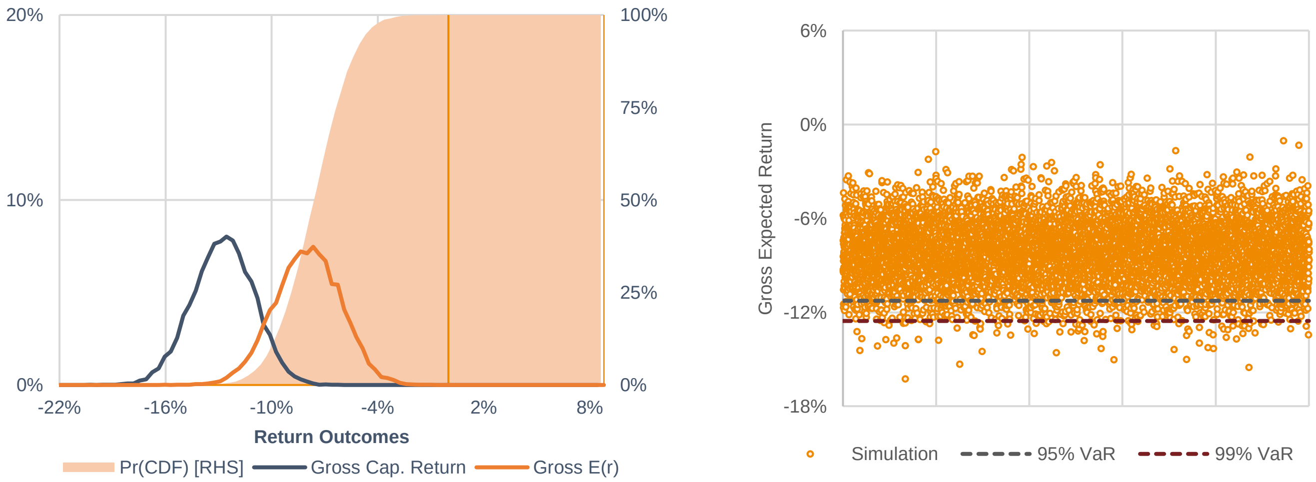
Our Risk Assessment methodology has changed since we last assessed NBI, which is now downgraded to **Very High** risk. *If this change was applied retroactively, no downgrade would have occurred*. We note our risk rating now reflects the underlying weighted average credit rating of the portfolio (B). Reflective of the low yield environment, the weighting to CCC rated bonds has increased from 5.7% in 2018 to now 29.5%. As expected, this has adversely impacted our modelling. Nonetheless, the portfolio performs as expected, given it is a high yield fund, which results in some correlation to equity markets during stressed scenarios.

Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates. Excludes impact of fees.

Scenario 2. Stressed Asset Assessment (GFC)



Source: BondAdviser Estimates. Excludes impact of fees.

Reporting History

NBI Report – 21 January 2020

NBI Rights Issue Report – 14 May 2019

NBI Report – 8 August 2018

Important Information

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Report created on 30 August 2021.