AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

NB Global Corporate Income Trust

(ASX Code: NBI)

January 2020

INDEPENDENT
INVESTMENT RESEARCH

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

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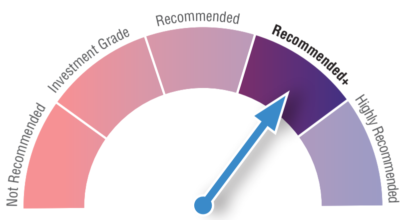
NB Global Corporate Income Trust

(ASX Code: NBI)

Note: This report is based on information provided by the Manager as at January 2020.

Rating



Key Investment Information	
Name of LIT	NB Global Corporate Income Trust
Manager	Neuberger Berman Australia Limited
Investment Type	LIT
ASX Code	NBI
ASX Listing Date	26 September 2018
NTA	$2.07
Share Price	$2.08
Units on Issue (M)	444.83
Market Capitalisation	$925.25M
Target Distribution	5.25% p.a. (net) paid monthly
Benchmark	ICE BofAML Global High Yield. Constrained Index
FX Exposure	Fully hedged to AUD
Management Costs	0.85%
Performance Fee	None

Tertiary Offer Timetable	
Record Date for Entitlement Offer	24 Jan 2020
Offer Opens	29 Jan 2020
Entitlement / Shortfall Offer Close	21 Feb 2020
Issue of Entitlement Offer Units	2 Mar 2020
Entitlement Units ASX trading	3 Mar 2020
Shortfall Units ASX trading	10 Mar 2020

Fees Commentary

Total Management Costs of 0.85%, inclusive of a management fee of 0.70%, is competitive relative to global and domestic high yield peers. The manager will incur all tertiary raise costs.

Portfolio Characteristics (as at Dec 2019)	
Number of Issuers / Holdings	308 / 448
Yield to Maturity	5.49%
Yield to Worst	4.95%
Weighted Average Duration (yrs)	3.51
Average Credit Quality	B+

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

OVERVIEW

NB Global Corporate Income Trust ('the Trust' or NBI) listed on the ASX on 26 September 2018, raising $413m. This was followed on May 14 2019 when the Manager announced a secondary capital, raising the maximum $476m. To further increase market liquidity and satisfy latent investor demand, as well as to minimise the potential for NBI to trade at a sustained premium to NTA, the Manager announced in January 2020 a third capital raise, with the Manager seeking to raise between $684.9m (with additional capacity of $63.8m) through the issue of 334.1m units (with additional capacity of 31.1m units) at an issue price of $2.05. The offer of new units will comprise both an entitlement offer for existing unitholders and a public shortfall offer. Importantly, new units will be issued at parity to NAV (net of accrued distributable income), removing dilution risk for existing unitholders that chose not to participate in the entitlement offer. The Trust provides exposure to high yield bonds issued by companies located globally and is allocated approximately 60% to U.S. companies, 20% to European companies and 20% to Emerging Market companies (hard currency denominated bonds only). We note that these regional exposures may change over time reflecting changes in the global high-yield market itself as well as the Investment Manager's tactical allocation process. Neuberger Berman's investment team is highly experienced and its various investment portfolios constructed based on a long-standing, rigorous and repeatable fundamental investment approach, that ultimately seeks to understand the financial strength of a corporate bond issuer. The portfolio is diversified by individual issues, industries, geographies and credit quality tiers. From a credit quality perspective, the focus is on non-investment grade positions between B and BB, with opportunistic use of BBB and CCC credit tiers and avoidance of defaulted and workout issuers.

INVESTOR SUITABILITY

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

RECOMMENDATION

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

SWOT ANALYSIS

Strengths

- The global non-investment grade credit team comprises 55 investment professionals physically located in the US, Europe and Asia, and representing one of the deepest teams in the industry. The team is significantly resourced (with each analyst covering significantly less companies than peer managers), highly qualified, stable, incentivised and backed by a strong track-record.
- The Trust has a 15-month track record to date. Over this period, the Trust has exceeded its target distribution return, delivered solid to very solid capital appreciation, and outperformed the benchmark. Bonds had a year of stellar returns in 2019, spurred by global monetary easing led by the U.S. Federal Reserve's dovish pivot in early 2019 and a compression in spreads. However, IIR notes that after last year's aggressive easing, a commensurate move away from flat-to-negative yield curves, the narrowing of credit spreads, and an outlook for mundane global economic conditions in 2020, it is highly unlikely that total returns in fixed income will approach that of 2019.
- The Investment Manager places a strong emphasis on capital preservation and downside risk mitigation through its fundamental investment processes, being very proactive in identifying companies with deteriorating credit fundamentals and avoiding ownership of related debt instruments. It is here where the Investment Manager seeks to drive alpha and indeed, historically, it has been during less benign market environments where the it has recorded relatively lower drawdowns, volatility and defaults than the market.

Weakness

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

Opportunities

- The income component of many domestic investors' portfolios is often heavily domestic focused and with a significant equity (hybrid) component. The Trust's investment strategy provides the means to earn potentially similar returns but diversify by geography, credit market conditions, investment names and sector.
- The Manager has a generally stable outlook for 2020 but believe the risks are to the upside. It states that a backdrop of reasonable growth, range-bound interest rates and easy monetary policy should create a solid environment for credit markets. As a result, it believes there is the potential for credit spreads to continue tightening in 2020 but that bifurcation within markets will remain a dominant theme, favouring an emphasis on quality in high yield.

Threats

- Caution should be exercised in relation to valuations. With credit spreads moving close to the tightest levels of the cycle in high yield and risk-free rates at such low levels, there is little to cushion investors should markets be hit by a shock and a consequent widening in credit spreads. And with politics being the source of recent shocks, a U.S. presidential election year is a hurdle. Given valuations concerns and the potential for a worse than expected macro outcome or in the event of an overall rise in market volatility (in which investors demand a higher risk premium for investing in corporate credit), IIR believes those HY managers overly reliant on generic corporate credit may be most at risk.
- As the Manager has foreshadowed, there may be downside risks to the targeted distribution rate. This reflects global dynamics, specifically the impact over time of companies refinancing on the basis of the impact of accommodative monetary policy in 2019 plus a compression in yields. If there is no marked change to the current market environment then over time it is reasonable to expect the yield to maturity of the portfolio to inch lower, assuming the Manager does not move up the risk spectrum.
- It remains to be seen whether the sizeable tertiary raise will adversely impact latent secondary demand and consequently how the Trust trades relative to NTA.

PRODUCT OVERVIEW

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

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

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

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

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

The team commenced managing US high yield bonds in 1997 and added further regional capabilities in line with the growth and evolution of the high yield market. The Investment Manager began managing European high yield corporate bonds in 2006 and launched its dedicated European High Yield strategy in 2014, coinciding with the maturation and increased depth of European high yield markets. The Emerging Markets Debt team's experience in managing emerging market high yield bonds dates back to 2003. In 2016, the firm launched a dedicated Global High Yield strategy which brings together the respective regional high yield capabilities. As at 31 December 2019, the Non-Investment Grade Credit and EMD Corporate Credit teams managed US$40.3 billion in developed market high yield bonds and US$4.98 billion in emerging market corporate bonds.

The Investment Manager has a target net income return of 5.25% per annum. However, the Manager has noted that it anticipates the Trust having to revise this target distribution level for the FY 2021 period (30 June 2021 end) marginally down given the recent decline in yields across global fixed income markets.

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

TERTIARY OFFER DETAILS

On 21 January 2020, the Manager announced a tertiary capital raise to increase market liquidity and satisfy latent investor demand, as well as to minimise the potential for NBI to trade at a sustained premium to NTA.

The Manager seeking to raise between $684.9m (with additional capacity of $63.8m) through the issue of 334.1m units (with additional capacity of 31.1m units) at an issue price of $2.05. The offer of new units will comprise both an entitlement offer for existing unitholders and a public shortfall offer.

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

This is a sizeable raise, representing up to a near doubling of existing FUM. However, the Manager states the tertiary raise is not about the size per se. It is partly a reflection of the demand it received in relation to its secondary raise in 2019, where the Manager had to scale back total demand by around $80m. Additionally, PM engagement with Australian IFAs, brokers, and direct investors in late 2019 combined with the Trust continuing to trade at a small premium (even after the November 22 2019 prospective announcement regarding the tertiary raise) indicated that latent demand has remained strong. Finally, since the secondary factors there have been a number of factors at play specifically, a longer positive track record and three RBA Cash Rate cuts. Both have clearly been supportive of secondary market demand.

We believe the tertiary offer is well structured. The offer price will be equal to the NTA (as at 17 January 2020) excluding accrued distributable income for the month of January. As such, any existing unitholder that opts not to participate in the offer will not be diluted.

Similar to the secondary raise, the Manager notes that the rationale for the new raise is not an ‘asset gathering’ exercise. Rather, it is designed to satisfy what the Manager has identified as the continuing substantial latent demand that exists for the product, and minimise the degree to which the Trust may trade at a premium to NTA (which is a negative for new unitholders). However, given the scale of the raise it remains to be seen if this will adversely impact latent secondary demand following the raise and, consequently, share price to NTA performance.

Key Tertiary Offer Details	
Offer structure	(1) non-renounceable Entitlement Offer, and (2) Shortfall Offer (including available placement capacity under Listing Rule 7.1)
Entitlement ratio	3 new units for every 4 units held as at the Record Date
Offer price	$NTA per unit (ex distributable income) as at $2.05 January 2020
Offer costs	Paid in full by Neuberger Berman (no charge back mechanism)
Portfolio invested	Within 3 days

Tertiary Offer Timetable (subject to ASX confirmation)	
Announcement of Offer and lodgement of PDS with ASIC	21 January 2020
Units trade on an Ex-entitlement basis	23 January 2020
Record Date for Entitlement Offer	24 January 2020
Offer opens	29 January 2020
Entitlement Offer closes	21 February 2020
Shortfall Offer closes	21 February 2020
New Units under Entitlement Offer quoted on a deferred settlement basis	24 February 2020
Results of Offer announced	26 February 2020
Issue of New Units under Entitlement Offer	2 March 2020
Normal trading of New Units and Additional New Units issued under Entitlement Offer expected to commence trading on ASX	3 March 2020
Issue of New Units under Shortfall Offer	9 March 2020
Normal trading of New Units issued under Shortfall Offer expected to commence trading on ASX	10 March 2020

MANAGEMENT GROUP PROFILE

Neuberger Berman Australia Limited is a proprietary limited company incorporated in Australia and operates under an Australian financial services licence (AFSL no.391401). The Manager's primary role is to make available Neuberger Berman's investment strategies to wholesale investors in the Australian market and to provide certain financial services relating to such strategies.

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

Since its reemergence as an independent firm, Neuberger Berman has recorded a period of stable and sustained growth. As of 31 December 2019, Neuberger Berman has approximately US$355 billion in assets under management across fixed income, equities and alternative strategies, partnering with institutions, advisors and individuals globally to address needs for income, growth and capital preservation. Neuberger Berman has approximately 2,100 employees, of which 601 are investment professionals, and runs over 100 investment strategies. The breadth of its investment platform by major asset class is summarised below.

Neuberger Berman Investment Platform by Asset Class

	Fixed Income	Equity	Alternatives
Total AUM US$355bn	US$160bn	US$106bn	US$89bn
Investment Professionals	174	224	160
Fundamental Strategies	Global Investment Grade Global Non-investment Grade Emerging Markets Opportunistic / unconstrained Municipals Specialty Strategies	Global / EAFE US Value / Core / Growth Emerging Markets Regional EM, China Socially Responsible Income Strategies	Private Equity: multiple Alternative Credit: multiple Hedge Funds: multiple
Quantitative		Global US Emerging Markets Custom Beta	Risk Premia Options Global Macro Commodities

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

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

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

INVESTMENT TEAM

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

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

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

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

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

The key members of the investment team are detailed below.

- **Vivek Bommi, CFA, Managing Director**, joined the firm in 2007. Vivek is a Senior Portfolio Manager. In addition, he sits on the Credit Committee for high yield bonds and senior floating rate loans. Prior to joining the firm, Vivek worked in the leverage finance groups at The Carlyle Group and Banc of America Securities. He started his career as an investment analyst at Intel Capital. Vivek earned a BS from the University of Illinois, an MBA from Columbia Business School, has been awarded the Chartered Financial Analyst designation and is a Certified Public Accountant.
- **Nish Popat, Managing Director**, joined the firm in 2013. Nish is a Co-Lead Senior Portfolio Manager on the Emerging Markets Corporate Debt team. Nish joined the firm after working at ING Investment Management, where he was most recently a senior portfolio manager on the Emerging Markets Corporate Debt team. Prior to that role, he was head of fixed income for the Middle East and North Africa. Prior to joining ING, Nish was the head of the fixed income trading desk at NBD Investment Bank running relative value/market-making books in Middle East debt, and before that worked in Saudi Arabia for the Saudi Holland Bank as head of fixed income and derivatives. Nish started his career in London where he held several fixed income positions.
- **Jennifer Gorgoll, CFA, Managing Director**, joined the firm in 2013. Jennifer is a Co-Lead and Senior Portfolio Manager on the Emerging Markets Corporate Debt team responsible for global portfolios investing in high grade and high yield emerging market corporate debt across the regions. Jennifer joined the firm after working at ING Investment Management, where she was most recently the head and a senior portfolio manager of the Emerging Markets Corporate Debt team. Before that Jennifer worked in ING's Private Placement group where she focused on private fixed income investments in emerging market corporates and structured credit. She also spent several years in the Special Asset Group where she was responsible for restructuring distressed assets globally. Prior to joining ING Investment Management, Jennifer worked at Prudential Capital Group specialising in private placements for US-domiciled companies based in

the Southeast and before that worked in the Financial Institutions Group at Salomon Brothers Inc. and at Patricof & Co. Capital Corp., a boutique investment bank. Jennifer received an MBA with Honors from Columbia Business School with a concentration in Finance and a BS in Finance and Insurance from The Honors College at the University of South Carolina. Jennifer has been awarded the Chartered Financial Analyst designation.

- **Russ Covode, MBA, Managing Director**, joined the firm in 2004. Russ serves as a Senior Portfolio Manager for high yield and blended credit portfolios. In addition, he sits on the Credit Committee for high yield bonds and senior floating rate loans. Prior to joining the firm, Russ spent five years at Banc One Capital Markets, where he was most recently a principal in the bank's mezzanine fund. Before that, he spent seven years with the high yield group at Banc of America Securities in various positions including leading the bank's high yield capital markets desk. Russ began his career with S.G. Warburg & Co. in New York. Russ earned a BA from Colorado College and an MBA from the University of Chicago.
- **Joseph Lind, CFA, Managing Director**, joined the firm in 2018. Joe is a Senior Portfolio Manager for Non-Investment Grade Credit with a focus on U.S. high yield portfolios. In addition, he sits on the Credit Committee for Non-Investment Grade Credit. Joe comes to the firm with more than 20 years of experience, including 12 years at DDJ Capital Management where he served as a portfolio manager in their U.S. High Yield and Opportunistic strategies. Before DDJ, Joe worked for Coast Asset Management, Sierra Capital and The Helios Group. Joe earned a BA from Harvard University and has also been awarded the Chartered Financial Analyst designation.

Key Investment Personnel

Name, Position	Focus	Experience (yrs)	Most Advanced Degree
Vivek Bommi, CFA	European High Yield	21 years, 12 years with NB	MBA, Columbia University
Nish Popat, CFA	EMD / Corporate	26 years, 6 years with NB	-
Jennifer Gorgoll, CFA	EMD / Corporate	21 years, 6 years with NB	MBA, Columbia Business School
Russ Covode, MBA	High Yield	27 years, 15 years with NB	MBA, University of Chicago
Joseph Lind, CFA	High Yield	21 years, 1 year with NB	BA, Harvard University + CFA

INVESTMENT PROCESS

Investment Philosophy

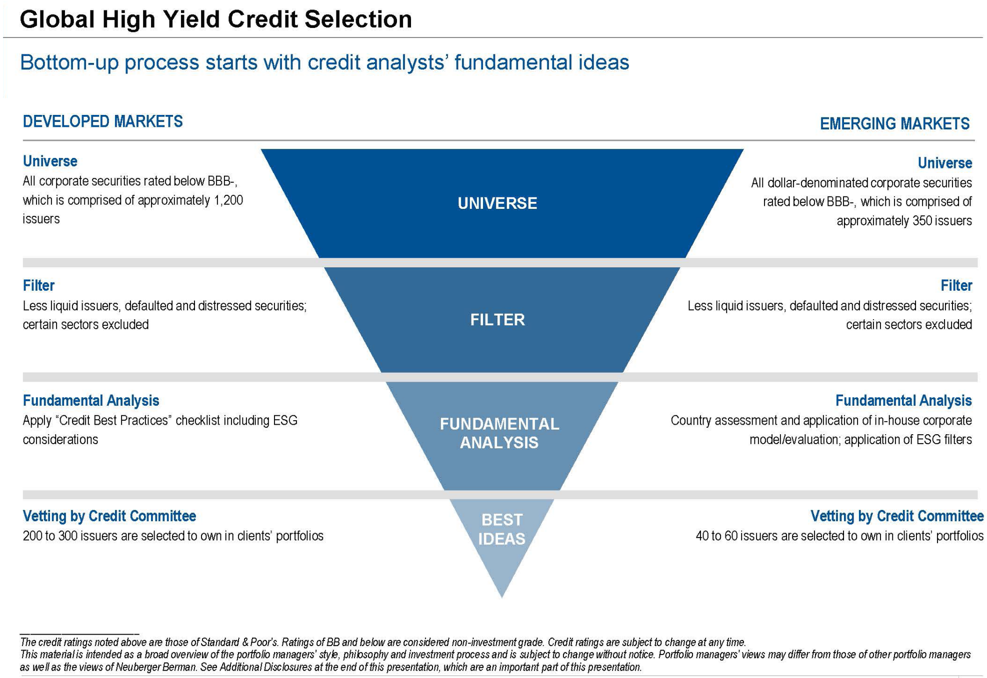
The Investment Manager's underlying premise is that corporate debt has historically been, and in the Investment Manager's view continues to be, a good segment of the market to achieve recurring income through a coupon stream. The Investment Manager emphasises that the primary risk it focuses upon in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

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

The team expects to generate alpha through avoiding credit deterioration, timely sector rotation, regional allocation, emerging market country selection and rigorous relative value analysis. In practice, the Investment Manager will tend to move up and down the credit spectrum in response to how the market is generally pricing risk; at this point in the cycle where credit spreads are relatively tight the Investment Manager has generally rotated into a higher level of credit quality while, conversely, where risk has been re-priced the Investment Manager will rotate the portfolio into bonds regarded as 'cheap' to capture the potential upside. The Investment Manager is active in sector, regional, and emerging market country rotation in the sense that if a bond hits its valuation it will typically divest the holding and rotate into other bonds.

Investment Process

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



Investment Universe

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

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

Credit Analysis

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

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

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

1. Financial review with specific attention to revenue and cost drivers, predictability of cash flows, internal cash flow generation and the implications for interest and principal payments and capital expenditures.
2. Deal structure and covenants.
3. Assessment of management, partly through a strong company visitation program

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

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

Valuation

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

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

Vetting by Global High Yield Credit Committee

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

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

Portfolio Construction Process

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

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

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

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

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

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

Portfolio

The tables and charts overleaf detail the Trust's portfolio as at 31 December 2019. Based on this composition, the current yield (hedged) is 5.49% p.a.

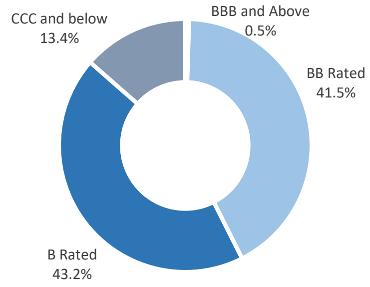
The weighted average duration is approximately 3.51 years. Consequently, the portfolio does not have large interest rate sensitivity. The number of issuers is 308. In terms of credit quality tier, the majority is BB- through to BB+ rated. At 13.4% of the total portfolio, there has been a growing degree of opportunistic use of CCC+ and below. The portfolio is diversified by industry. The largest exposure is to the communications sector (media and telecomms combined), largely encapsulating the less cyclical cable and wireless companies where the Investment Manager sees value currently.

Sell Discipline

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

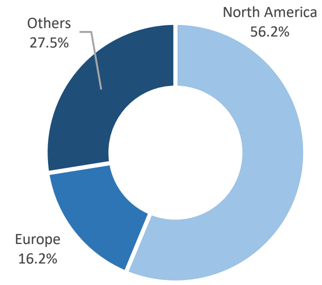
Portfolio Summary	
Number of Holdings	448
Number of Issuers	308
Yield to Maturity (%)	5.49
Yield to Worst (%)	4.95
Weighted Average Duration (years)	3.51
Average Credit Quality	B+

Portfolio by Credit Quality (Market Value)



Sector Allocation % (MV)	
Media	9.7%
Services	9.4%
Telecommunications	8.5%
Healthcare	6.8%
Leisure	6.2%
Capital Goods	5.4%
Utility	5.3%
Technology & Electronics	4.7%
Real Estate	4.4%
Consumer Goods	4.2%
Banking	3.8%
Energy - Exploration & Production	3.7%
Metals/Mining Excluding Steel	3.7%
Gas-Distribution	3.5%
Building Materials	2.8%
Retail	2.8%
Energy - Others	2.6%
Insurance	2.3%
Financial Services	2.1%
Others	7.0%

Portfolio by Regional Allocation (Market Value)



Top 10 Issuers		
Numericable Group	Telecommunications	1.89
Iron Mountain Inc	Services	1.67
TransDigm Inc	Capital Goods	1.43
Sirius XM Radio Inc	Media	1.37
Energizer Holdings Inc.	Consumer Goods	1.33
Netflix Inc.	Media	1.28
CSC Holdings LLC	Media	1.24
Petrobras	Energy - Others	1.21
Hub International Ltd	Insurance	1.09
Hertz Corp	Services	1.07

Risk Management

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

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

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

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

PERFORMANCE ANALYTICS

The Trust has a 15-month track record to date. Over this period, the Trust has exceeded its target distribution return and delivered solid to very solid capital appreciation, particularly over the last 12-month period. The since inception returns profile was adversely impacted by the correction in global bond markets during the Q4 2018 period, but nevertheless with the strong 2019 performance of the market, total returns are still strong. The Trust has outperformed the benchmark over the last 1-year and since inception time frames. We also note that since inception, NBI has experienced no defaults in its portfolio, which is very much in line with the Investment Manager's longer term track record.

31 December 2019	1 month	3 month	6 month	1 year	Since Incept
Total Return (%)	1.94	2.98	3.17	15.05	8.43
Distribution (%)	0.44	1.32	3.42	6.00	5.85
Benchmark *- Local	1.77	2.78	3.92	13.36	9.85
Benchmark - AUD Hedged	1.66	2.53	3.49	13.19	9.67
Alpha	0.28	0.45	-0.32	1.86	1.24

* ICE BofAML Global High Yield Constrained Index

Spurred by global monetary easing led by the U.S. Federal Reserve's dovish pivot in early 2019, bonds had a year of stellar returns. After last year's aggressive easing, a commensurate move away from flat-to-negative yield curves, the narrowing of credit spreads, and an outlook for mundane global economic conditions in 2020, it is highly unlikely that total returns in fixed income will approach that of 2019. This is especially true given the strong performance of virtually all fixed income sectors in December, which likely moved some 2020 performance into 2019. The Investment Manager has been very transparent in conveying this sentiment to IIR and, as such, investors should not view the performance of the Trust in 2019 as in any way indicative of a realistic outlook for 2020.

The baseline outlook for 2020 is broadly a slight uptick in the economic outlook, rates broadly on hold (the Fed is likely to take an asymmetric stance on interest rates, leaning toward cuts if the need arises, while ECB policy is expected to remain unchanged this year), and the potential for higher inflation expectations to be priced in further out the curve (favouring short to flat duration positioning). As the Manager notes, given the outlook returns are largely expected to be in the form of coupon payments rather than capital appreciation. There are of course risks to this outlook, although on the whole the negative and positive risks appear reasonably balanced.

On the negative side, where particular caution should be exercised is in relation to valuations. The decline in rates brought forward gains in 2019. With credit spreads moving close to the tightest levels of the cycle in both investment grade and high yield and risk-free rates at such low levels, there is little to cushion investors should markets be hit by a shock and a consequent widening in credit spreads. And with politics being the source of recent shocks, a U.S. presidential election year is a hurdle.

Given concerns over valuations and the potential for a worse than expected macro outcome or in the event of an overall rise in market volatility (in which investors demand a higher risk premium for investing in corporate credit), IIR believes those HY managers overly reliant on generic corporate credit may be most at risk in the event of a shock. In such a scenario, those managers adopting a constructive approach to positive carry versus benchmarks , and doing so through higher quality positions, may be more likely to outperform.

On the positive side, given current monetary support, the U.S. high yield sector may see more muted defaults this year than currently reflected in pricing. Additionally, there is likely to be technical support coming from the Fed's balance sheet expansion in 2020 as a result of policy changes enacted in 2019. In European HY markets, fundamentals remain solid, there is a muted M&A pipeline, and, similar to the US, there is technical support coming from the ECB's asset purchases.

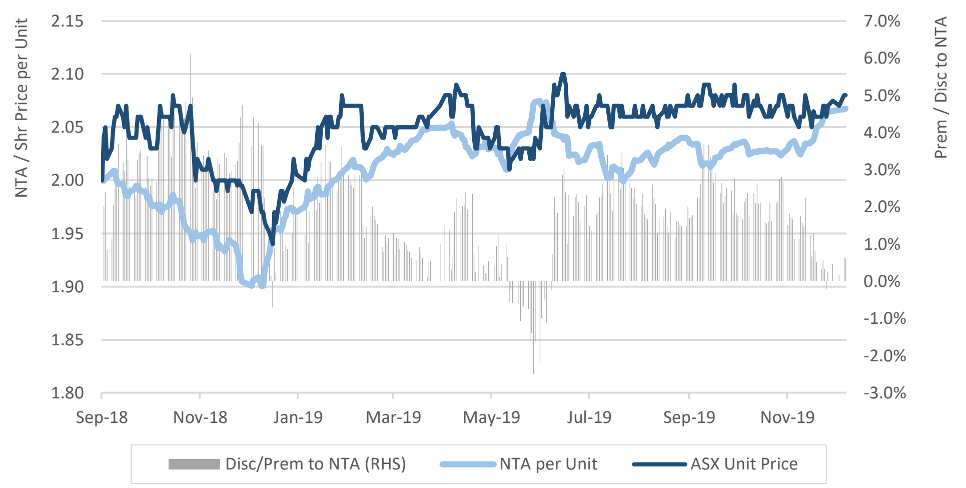
The Manager's overall view to the risks is that they err on the positive side, stating that a backdrop of reasonable growth, range-bound interest rates and easy monetary policy should create a solid environment for credit markets. As a result, it believes there is the potential for credit spreads to continue tightening in 2020. However, it states that bifurcation within markets will remain a dominant theme, favouring an emphasis on quality in high yield with idiosyncratic risk liable to rise across credit markets.

In relation to distributions, the Manager believes there are downside risks to the targeted 5.25%, believing it could potentially be lowered to the low 5% level. This reflects the impact over time of companies refinancing on the basis of the impact of accommodative monetary policy in 2019 plus a compression in yields. If there is no marked change to the current market environment then over time it is reasonable to expect the yield to maturity of the portfolio inch lower, assuming the Manager does not move up the risk spectrum in respect of average credit rating.

In relation to share price to NTA performance, the Trust has continued to trade at a small premium. Encouragingly, it continued to do so the market volatility and sell-down in the December 2018 quarter as well as following the November 22 2019 announcement of the tertiary capital raise. The fact that the Trust has performed strongly with respect to distributions and capital gains, tied with the three cuts in the RBA Cash Rate in 2019, clearly did not adversely impacted secondary market demand.

However, given the scale of the prospective raise, representing a potential near doubling in FUM scale, it remains to be seen if this will impact latent secondary demand following the raise. Additionally, as noted above, returns over 2020 are expected to be more muted, and largely derive from coupon payments. Again, this may lead to lower secondary market demand over the course of 2020.

NBI NTA and Unit Price Performance



Given the limited track record of the Trust, we have also detailed the historic five-year performance of the constituent benchmark indices to 31 December 2019 as well as the historic performance of the three regional high yield strategies plus the global high yield strategy managed by Neuberger Berman since their respective inception dates.

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

Asset Class	Yield to Maturity (%)	Par Weighted Coupon (%)
Global High Yield	**5.69**	**6.03**
U.S. High Yield	6.04	6.33
EM Corporate Credit	6.48	6.59
European High Yield	3.61	4.21

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

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

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

Neuberger Berman Performance Across Corporate Credit Capabilities Globally (as at 31 December 2019)

Composite	Inception	SI Returns (% p.a.)	Alpha (% pa)	Volatility (% pa)	Return/Risk
Global High Yield	**2016**	**6.55%**	**-0.14%**	**3.73**	**1.35**
U.S. High Yield	1997	8.05%	1.37%	7.92	0.77
EM Corporate Credit	2013	6.54%	0.47%	4.71	1.22
European High Yield	2014	4.96%	0.56%	3.86	1.04

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

MARKET OUTLOOK & KEY THEMES FOR 2020

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

Stable Growth Environment

The Manager anticipates no major changes—either to the upside or downside—in the global growth environment of 2020, but expect some modest shifts in relative performance.

In the U.S., its strong conviction is that growth will remain at 1.5% or above in 2020. Importantly, we expect re-accelerating growth in the U.S., particularly in the second half, as a combination of consumer spending, housing market gains, and external market improvements take hold.

In Europe, greater leverage to world trade and exposure to China and Brexit issues have further weighed on growth. Germany, with its dependence on exports, has in particular seen a sharp downturn in its industrial production, corresponding to lower global demand. That said, it appears that growth in Europe is currently bottoming, and we anticipate some cyclical improvement this year. All told, the Manager anticipates a steady euro zone economy in 2020, with growth that is higher than the consensus of 1.0 – 1.2%.

Finally, emerging markets should offer stronger growth relative to developed markets, as the lingering effects of tighter U.S. monetary policy and trade policies continue to fade. The Manager's expectation is for GDP of 3.2% ex-China this year versus around 2.8% in 2019. An important component to this outlook relates to emerging market central bank policy. In 2019, at least 15 major emerging market central banks eased policy, some quite significantly (e.g., Turkey's 1,000 bps in rate cuts). With its inevitable lag, the Manager expects the residual impact of this 2019 easing to support growth in 2020.

Transitioning Central Bank Policy

While the growth outlook for 2020 will, for the most part, look like a continuation of 2019 trends, the Manager expects this year to bring a transition for central banks. Globally, policy easing should generally pause after a year in which the Federal Reserve, ECB and PBOC all cut rates and restarted quantitative easing, and, as noted earlier, 15 major emerging markets countries eased rates. The Fed is likely to take an asymmetric stance on interest rates, leaning toward cuts if the need arises, while ECB policy should remain unchanged this year.

It's important to note that, even as central bank policy rate moves become less of a factor in 2020, changes to central bank balance sheets will continue to be impactful. For example, the Fed's balance sheet will continue to expand this year as a result of policy changes enacted in 2019. Rate moves might be less common, but monetary accommodation isn't going away.

Implications for Rates and Credit Markets

- Interest Rates: Options markets currently imply a low-volatility 2020, with U.S. interest rates in a 44 – 55 basis-point range and a range-bound environment for developed market rates generally. Risks to higher yields in the developed markets are liable to come from Europe, not the U.S. With central banks on hold, rates at the front end of the yield curve are likely to be "pinned"; the Manager expects yield curves to steepen as growth picks up and central banks effectively accommodate rising growth rates. The implication is flat to shorter duration in the portfolio.
- Credit Markets: A backdrop of reasonable growth, range-bound interest rates and easy monetary policy should create a strong environment for credit markets. As a result, the Manager is not underestimating the potential for credit spreads to continue tightening in 2020. However, it believes that bifurcation within markets will remain a dominant theme, favouring an emphasis on quality in investment grade and high yield. Idiosyncratic risk is liable to rise across credit markets. And return expectations should be more muted given the exceptional returns generated across fixed income in 2019.

Implications for Fixed Income Markets

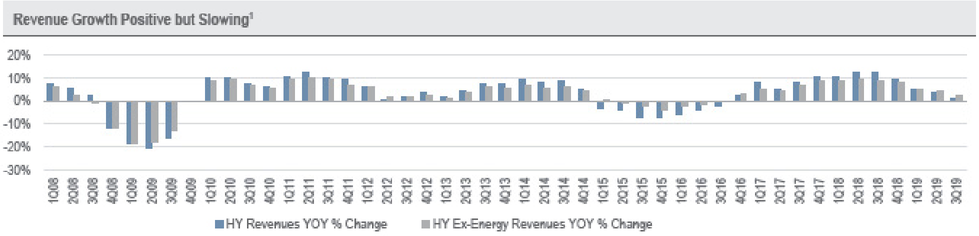
After last year's aggressive easing, a commensurate move away from flat-to-negative yield curves, and the narrowing of credit spreads, the Manager believes that total returns will likely be harder to come by this year in fixed income. This is especially true given the strong performance of virtually all fixed income sectors in December, which likely moved some 2020 performance into 2019. But while returns may be more muted this year, the themes that drive performance will likely remain similar, and centre on:

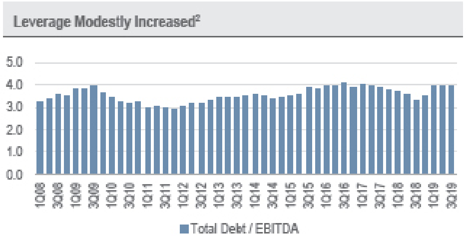
- Low/negative yields in many non-U.S. developed markets generally favour a focus on high-quality U.S. assets.
- Given current monetary support, the Manager believes that the U.S. high yield sector is likely to see more muted defaults this year than currently reflected in pricing.
- In Europe fundamentals remain solid and there is technical support coming from the ECB's asset purchases, a muted M&A pipeline and improving credits. The Manager believes value can still be found.

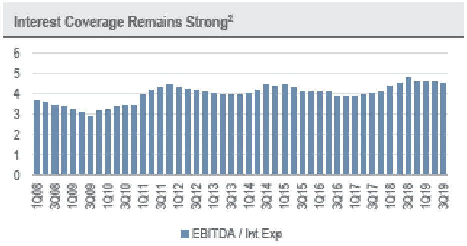
The Manager expects to see an extension of the credit cycle, which should support corporate bonds. This is supported by the evidence the Investment Manager presents that the majority of companies have not overly geared to a stronger growth environment, with most having managed balance sheets prudently.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

The first chart illustrates positive revenue growth in the high yield sector, albeit at a slowing rate. The second illustrates a modest increase in leverage, but generally in line with average levels over the last four years.. The third that interest cover remains strong and is as strong as any period over the last ten years covered by the analysis.

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





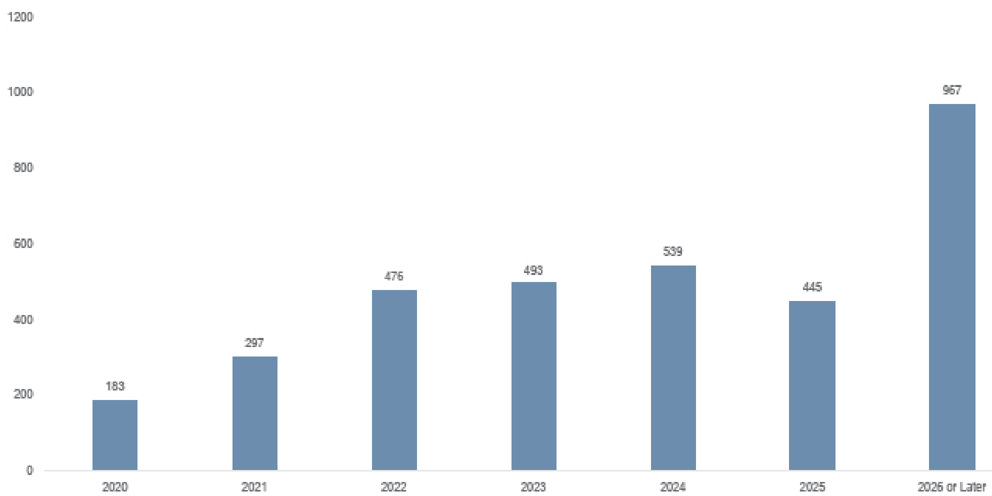


[1] Source: Bank of America Merrill Lynch. Data as of September 30, 2019. [2] Source: Bank of America Merrill Lynch. Data as of September 30, 2019.

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

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

Modest Maturity Wall



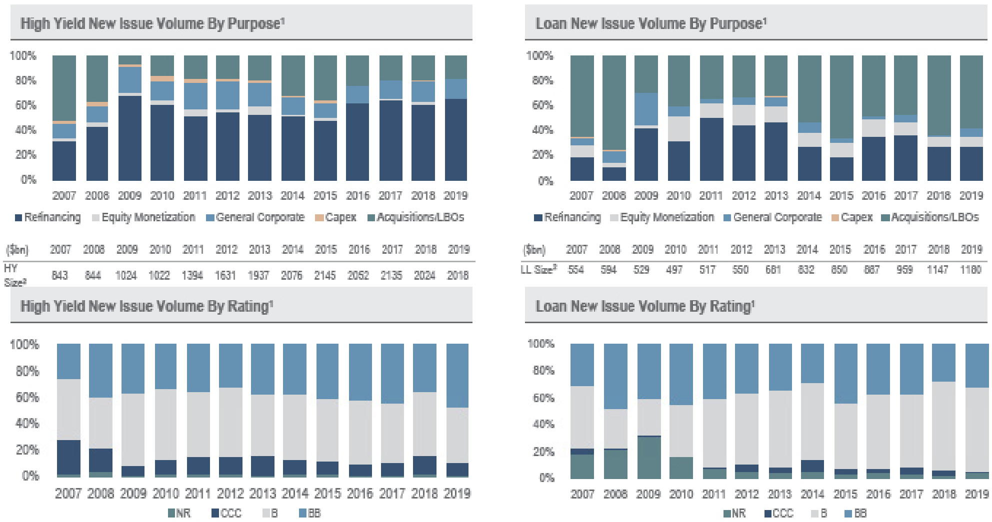
Source: Neuberger Berman

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

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

A comparison with the bank loans market makes for an interest read. The two charts below on the right hand side similarly illustrate bank loan new issuance by purpose and credit rating. There are clearer signs of excess in this market versus the HY market. In the HY market, new issuance leverage has declined almost every year over the last 10 years. In contrast, in the bank loans market it has literally increased every year over the last 10 years and continues to do so. What once may have driven a lot of defaults in the HY market has moved over to the loans market. The expectation is that ultimately the bank loans market will likely have a higher default rate than HY market.

Issuance Trends

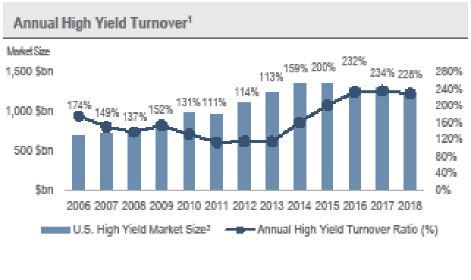


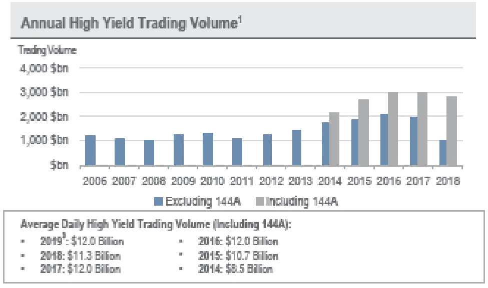
Source: Neuberger Berman

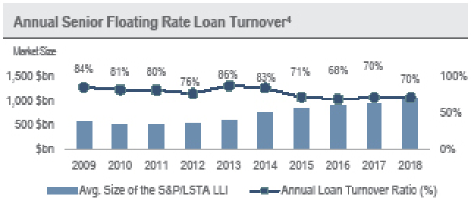
In the context of the significant growth in corporate debt issuance since the GFC, there has been much written about liquidity in the fixed income markets, with the view being put that should it all end in tears there may be many sellers and limited buyers, risking a marked downturn in realised prices.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

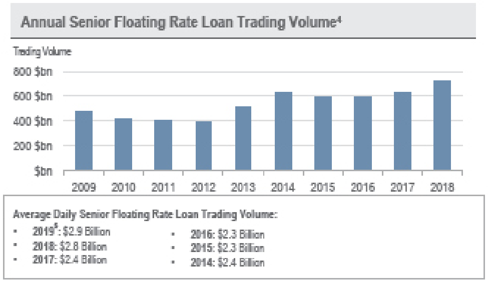
In contrast, in the high yield segment, approximately 35% of the market is held by daily flow funds, such as the inherent potential buying interest is greater. Additionally, the duration of debt instruments in the high yield segment averages only four years which, when combined with the relatively high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

Liquidity Trends









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

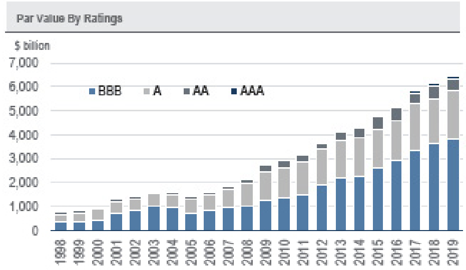
Over the past 20 years, the average rating in the credit markets has fallen from A to BBB as more companies have capitalized on cheap debt, while investors' search for yield has fed exceptional growth in BBB rated bonds as well as high yield loans, European corporate debt and emerging markets debt.

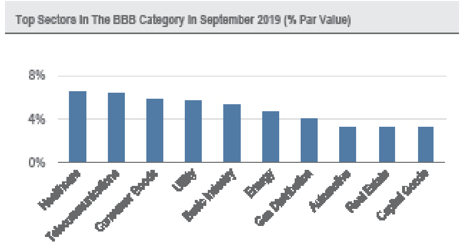
The Investment Manager believes the credit cycle will turn at some point over the next two to three years, at which point a substantial proportion of the BBB market could be downgraded from investment grade to high yield. As many institutional investors are only able to hold a limited amount of non-investment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

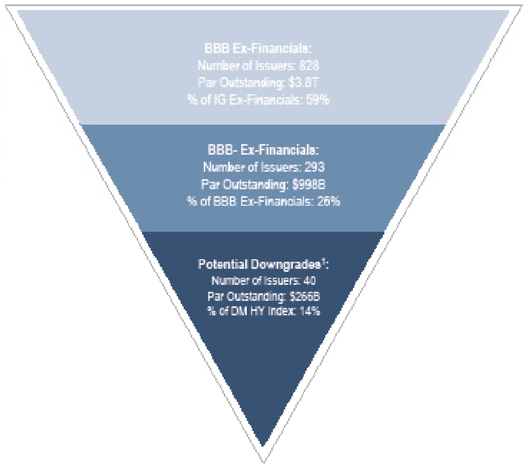
In anticipation of this, the Investment Manager has undertaken an assessment of the degree of investment grade downgrade risk (to sub-investment grade). The BBB market represents a US$3.8 trillion market. Of that, the lower tier of BBB market, specifically BBB-, reduces the most susceptible downgrade segment of the investment grade market to approximately US$998 billion. Of this, the Investment Manager has, based on its fundamental investment process, assessed what percentage of the BBB- segment is susceptible to downgrade over the next 24 month period. On the basis of this assessment, it has identified a total number of 40 issuers with total debt outstanding of US$266 billion at risk.

This constitutes a relatively small percentage of the 828 issues in the BBB segment (Ex-Financials) and the US$3.8 trillion in debt outstanding. The Investment Manager's explanation is that this is due, in no small part, to many issuers being in non-cyclical sectors, such as health care, telecommunications, and consumer staples. It is the Investment Manager's view that idiosyncratic factors at a company specific level will cause potential downgrades, rather than a broader swathe of potential downgrades driven by a slowing global economic outlook. Furthermore, it is not only the number of issuers susceptible to downgrade risk that matters, it is also the time period in which such downgrades potentially occur that may impact any potential market dislocation. It is the Investment Manager's view that the likelihood of all 40 issuers being downgraded over the course of one year is close to zero. In short, the Investment Manager believes the headlines are significantly overstating the tail risk relative to the assessed likelihood.

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







[1] Source: Neuberger Berman

COMPARATIVE ANALYSIS

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

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

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

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

The table overleaf details the fee structure of ASX LITs that have debt related investment strategies. We have included Moelis Australia Fixed Income Fund in the analysis due to the expectation of a 1H 2020 ASX listing. While the fee structures and expected levels are relatively variable (albeit with the higher risk-return strategies universally applying a performance fee, and vice versa), we note the Trust is at the lower end of the peer group.

Comparable Listed Credit Funds						
Fund	**ASX Code**	**MER**	**Perf. Fee**	**Target Return (post fees)**	**Credit Segment**	**IIR Rating**
Moelis Australia Fixed Income Fund	N/A	0.5%	n/a	RBA + 4.0% (4.75%)	Consumer, commercial ABS	Recommended +
MCP Master Income Trust	MXT	0.6%*	Possibly **	RBA + 3.25% (4.0%)	Corporate loans	Recommended +
MCP Income Opportunities Trust	MOT	1.03%*	15.4% over RBA + 6% p.a.	8.0 - 10.0%	Private debt	Not Rated
Gryphon Capital Income Trust	GCI	0.86-0.96%	n/a	RBA + 3.5% (4.25%)	ABS, RMBS	Recommended
NB Global Income Trust	NBI	0.85%	n/a	5.25%	Global high yield	Recommended +
Perpetual Credit Income Trust	PCI	0.88%	n/a	RBA + 3.25% (4.0%)	Domestic diversified credit	Recommended +
Qualitas Real Estate Income Fund	QRI	2.34%	20.5% over 8% p.a	8.0% p.a. net	Commercial real estate loans	Recommended
KKR Credit Income Trust	KKC	0.90%	5% over RBA Cash Rate + 4% p.a.	6% - 8%	Diversified credit, private debt	Recommend +
Partners Group Global Income Fund	PGG	1.00%	***	RBA + 4.0% (4.75%)	Private debt	Recommended

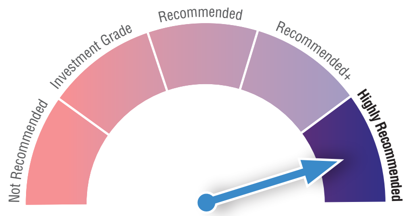
* Inclusive of a 0.22% Investor Equalisation Expense (IEE). ** Underlying wholesale fund investments may charge a performance fee. *** a performance fee equal to 10% over a hurdle equal to the RBA Cash Rate + 6% p.a. (currently 6.75%) applied on the Special Situations Strategy, capped at 25bps p.a (accessed across a rolling three year period).

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

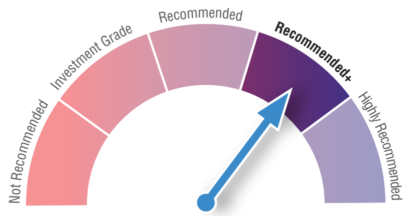
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	**83 and above**



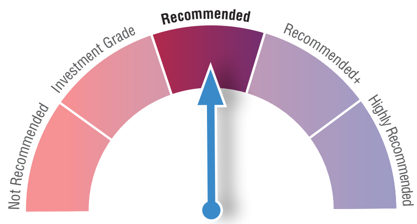
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return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

LMI Ratings	SCORE
Recommended +	**79–83**



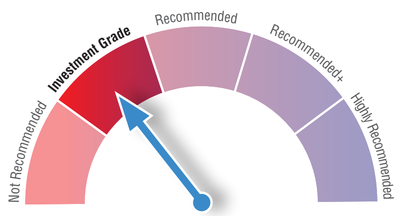
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key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

LMI Ratings	SCORE
Recommended	**70–79**



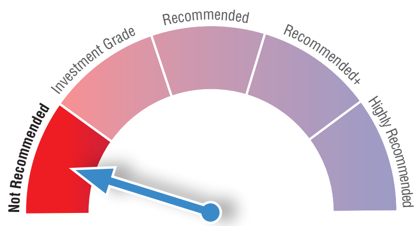
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted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

LMI Ratings	SCORE
Investment Grade	**60-70**



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

LMI Ratings	SCORE
Not Recommended	**<60**

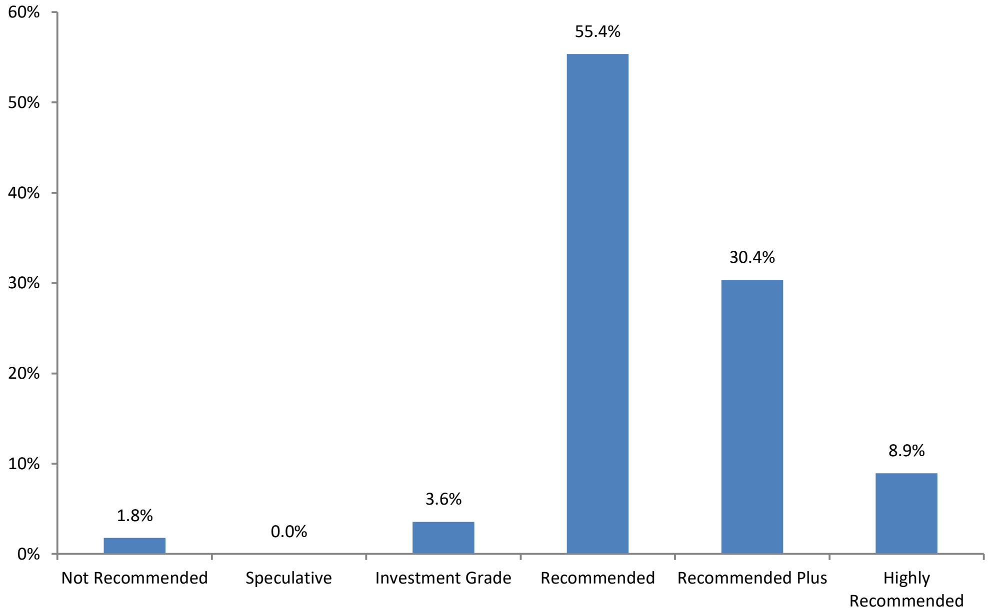


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this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

APPENDIX B – MANAGED INVESTMENTS COVERAGE

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

SPREAD OF MANAGED INVESTMENT RATINGS



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