Zenith INVESTMENT PARTNERS

RECOMMENDED

Product Assessment

NB Global Corporate Income Trust

Report data as at 31 Jan 2022
Rating issued on 02 Mar 2022

APIR Code

ASX:NBI

Asset / Sub-Asset Class

International Fixed Interest
High Income

Investment Style

Active

Investment Objective

The Trust aims to provide a consistent and stable monthly income stream, while achieving an attractive level of total return over a full market cycle.

Zenith Assigned Benchmark

Bloomberg AusBond Bank Bill Index
NBI Net Portfolio Returns

Net Returns (% p.a.)

	3 yrs	2 yrs	1 yr
Fund	1.29	-0.69	1.78
Benchmark	0.57	0.16	0.03
Median	4.02	2.38	0.98

Fees (% p.a., Incl. GST)

Management Cost: 0.85%
Performance Fee: N/A

VIEWPOINT

NB Global Corporate Income Trust (ASX:NBI) is a Listed Investment Trust (LIT) managed by New York-based asset manager, Neuberger Berman (NB). The Trust provides investors with exposure to a diversified portfolio of sub-investment grade corporate bonds, issued in both developed and emerging markets (EM). Zenith continues to view favourably NB's structured process and strength in bottom-up security selection. That said, we are keen to observe the interaction across members of the Portfolio Management team, following a recent departure and news of a pending retirement.

Responsibility for the management of the Trust rests with NB's global high yield team. Leading this team is Managing Director and Head of Global Non-Investment Grade Credit, Joe Lynch, who oversees a platform of over 50 investment professionals that spans the US, Europe and Asia. In terms of number and geographical breadth, NB's global high yield team is one of the largest within Zenith's high-income the peer group.

Regarding the Trust’s portfolio management arrangements, this rests with a team of five senior investors, each of whom are bring specific areas of expertise to the decision-making process. Included amongst these are Senior Portfolio Managers Joseph Lind, Russ Covode, Simon Mattews, Nish Popat and Jennifer Gogoll.

NB has advised that Covode is to retire in June 2022 and this announcement follows the departure of Vivek Bommi in June 2021, who had also been a member of the portfolio management team. Whilst Zenith believes NB has put in place appropriate arrangements to transition their responsibilities, we are nonetheless keen to observe the dynamic amongst remaining members of the portfolio management team, noting the significant contributions made by Covode and Bommi to the underlying strategy.

The Trust aims to provide a consistent and stable monthly income stream, while achieving an attractive level of total return over a full market cycle. To achieve these objective, NB invests in sub-investment grade corporate bonds across the US, Europe and select EM's, targeting 70% of returns from security selection and the remainder from top-down positioning. In terms of former, this is an area where Zenith believes NB has a competitive strength, noting the depth of research undertaken in terms of financial modelling and qualitative analysis.

In constructing the portfolio, the Trust’s starting point is a strategic asset allocation (SAA) comprising the US (60%), Europe (20%) and Emerging Markets (20%). Any deviation from the SAA is subsequently determined by the Global High Yield Asset Allocation Committee (GHYAAC), which comprises senior representatives across the non-investment grade team. Meeting weekly, the GHYAAC determine the Trust's asset mix based on a relative value assessment, taking into consideration factors such as macro variables, technicals, and the outputs of NB's bottom-up research teams.

In constructing regional portfolio sleeves, the Portfolio Management Team (PMT) assign responsibility to members based on their areas of expertise (ie. a US sleeve would be assigned to Lind). Regional sleeves are structured on a benchmark relative basis, with the assigned PM provided autonomy to populate the portfolio from a bottom-up perspective.

The final portfolio represents an aggregation of the respective regional sleeves, with the Trust’s overall duration positioning being an outworking of the bottom up security selection process rather than being a top-down view implemented through an overlay. Furthermore, portfolio positions are only permitted to be gained on a physical basis. Given the limited liquidity that can be present across high yield markets, Zenith believes the inability to use credit derivatives is a drawback of the Fund and is in contrast to peers managing similar strategies.

FUND FACTS:

- LIT holding a portfolio of global sub-investment grade corporate bonds
- Regional/multi-portfolio manager approach to portfolio construction
- Focus on bottom-up security selection to drive performance outcomes
- Responsible Investment Classification of **Integrated**

ABSOLUTE RISK (SECTOR)

VERY HIGH
HIGH
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

Emerging Market Debt
High Yield
Multi-Sector
Opportunistic Credit
Syndicated Loans

INCOME DISTRIBUTIONS PER

MONTH QUARTER 6 MONTH ANNUM

INVESTMENT TIMEFRAME

1-2 YRS 3-4 YRS 5-6 YRS 7+ YRS

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Listed Investment Trusts (LITs)

In assessing the performance of LITs, it is vital to understand how their structure affects the final performance figures as it is materially different to unlisted funds. As listed vehicles, the portfolio returns generated are exposed to additional volatility from unit price movements and can trade at significant premiums or discounts to Net Asset Value (NAV).

As an indication however, a series of return data can be viewed on the basis of the returns generated by:

- Unit price and distributions
- Change in NAV and distributions
- Returns generated internally by the investment portfolio

For comparison purposes, the use of the internal portfolio returns versus the benchmark gives the closest measure of the investment manager's skill in generating returns. However, these returns may not be able to be fully crystallised for holders given the potential for unit price movements on the ASX.

At various times when assessed on a purely quantitative basis, a LIT can trade away from its NAV which may represent good buying or selling opportunities. While these instances may boost investment returns, there is no guarantee that the discount or premium will converge to NAV, therefore, gains cannot be crystallised.

LITs differ in several important ways from Listed Investment Companies (LICs). Of particular note, owing to the trust structure used by LITs, 100% of net trust income must be paid as a distribution in the year it is earned. As a company, LIC's will pay dividends at the election of the Board in accordance with the LIC's dividend policy. LIC profits may be retained in order to create a more even flow of dividends.

International Fixed Interest

The Zenith 'International Fixed Interest – High Income' sub-sector consists of all funds that invest predominantly in the higher-yielding sectors of the global fixed interest market. These sectors typically include high-yield, securitised loans and emerging market debt. The category includes funds that invest in specific underlying markets or a combination of each. Given the idiosyncratic nature of the sectors, managers commonly add value through security selection and/or sector rotation.

Zenith benchmarks all funds in this space against the Bloomberg AusBond Bank Bill Index. However, Zenith only uses this benchmark as a common reference point and it may not be reflective of the underlying benchmark used by many managers in this category.

It should be noted that the Bloomberg AusBond Bank Bill Index is typically used as a benchmark to measure the investment performance of a passively managed short-term cash portfolio. The Index has an average term to maturity of approximately 45 days. It is comprised of 13 domestic bank bills of equal face value, each with a maturity seven days apart.

Given the funds in the 'International Fixed Interest – High Income' sector invest in longer dated, higher default risk securities, they will potentially display higher downside volatility relative to the Zenith assigned Index. i.e. while the index is used as a performance benchmark, it should not be used as an indication of the risk involved in investing in the sector.

PORTFOLIO APPLICATIONS

The Trust is designed to provide exposure to sub-investment grade fixed interest securities, with a focus placed on bottom-up fundamental analysis when selecting investments for inclusion in the portfolio. While the investable universe is wide, the Trust is expected to comprise large allocations to US-denominated corporate debt, owing to NBI's investment focus and the relative size of the market, with smaller allocations to European and emerging markets.

Zenith believes the Trust may be suitable for investors seeking exposure to a higher yielding portfolio which may improve a portfolio's potential risk-return profile. However, given the Trust will primarily invest in sub-investment grade assets, it may not be suitable for the more risk-averse investor.

From a portfolio perspective, the Trust may be suitable as a component of a well-diversified portfolio. The Trust is considered appropriate as a component of a global fixed interest allocation; however, given the higher expected return and volatility profile of the strategy, Zenith believes that investors may partly fund the allocation from the growth portion of a portfolio. Zenith does not believe the Trust is appropriate as a core holding within the defensive allocation of a portfolio.

Due to the anticipated moderate to high levels of volatility, with the potential for capital loss, Zenith recommends taking a medium to long-term investment time frame. We caution against the Trust being used by investors with short-term (e.g. daily) liquidity needs.

Investors also need to be aware that as a LIT, the units will have their own trading patterns and may trade away from their NAV which at times may impact the effectiveness of NB's investment process and/or expected risk-return profile in the hands of the client.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the International Fixed Interest – High Income sub-sector are exposed to the following broad risks:

MARKET RISK: Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

INTEREST RATE RISK: Fixed interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

CREDIT SPREAD RISK: In addition to being sensitive to general interest rate changes, non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a government bond and a corporate security). A widening of spreads results in a fall in the value of these securities.

DEFAULT RISK: Given fixed interest securities represent loans to borrowers (including governments, banks and companies) there is a risk that these borrowers may default on interest or principal repayments. Credit risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

CURRENCY RISK: In addition to being exposed to general market risk, investments in international markets are exposed to changes in value of the Australian dollar relative to other foreign currencies. This may lead to increased volatility, independent of market moves. While fixed interest funds typically hedge their foreign investments back into Australian dollars, there can be no guarantee that the funds will be hedged at all times or that a manager will be successful in employing the hedge.

LIQUIDITY RISK: Fixed interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

DERIVATIVE RISK: Derivatives are commonly employed by fixed interest managers to hedge currency and other risks and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

LEVERAGE RISK: Many derivatives have a leverage component. While leverage offers the opportunity to magnify gains, it may additionally magnify losses. An associated risk with leverage and magnification of gains/losses is that the portfolio's volatility may increase as a result. Investors need to be cognisant that the Fund may exhibit more volatility than one that is unlevered.

REGULATORY RISK: The ASIC Regulatory Guide 97 'Disclosing Fees and Costs in Product Disclosure Statements and Periodic Statements' came into effect on 1 October 2017 and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors.

In November 2019, ASIC released its final recommendations, with proposed changes to be phased in from 30 September 2020, with all Funds required to be compliant by 30 September 2022.

In its current form, RG97 will not impact the actual costs (or after fee returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower cost alternatives, potentially leading to fund outflows.

FUND RISKS

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

PREMIUM / DISCOUNT TO NET ASSETS: The listed structure means that the Trust's unit price may deviate substantially from its underlying net assets due to cyclical and/or sentiment driven factors. Movements in either premiums or discounts can be unpredictable and may have a significant impact on realisable value and the overall investment returns regardless of the investment manager's skill.

PMT CONTINUITY RISK: Changes have been made to the configuration of the portfolio management team, and in the absence of a period of stability, this has the potential to detract from the performance of the underlying strategy.

HIGH YIELD CREDIT RISK: By its nature and as reflected by its rating, sub-investment grade debt has a higher potential of default. Although investors have historically been compensated, in the form of excess returns, there is the potential for the strategy to experience more defaults than the broader market. Additionally, defaults tend to cluster in certain years and therefore investors should expect periodic episodes of higher defaults.

RELATIVE PERFORMANCE RISK: Investors should also acknowledge that the Trust's portfolio may underperform traditional bond funds and those benchmarked against domestic or global bond indices in a falling interest rate environment or in an environment where credit performs poorly correlative to government bonds.

EMERGING/FRONTIER MARKET RISK: The Trust is likely to maintain an exposure to bonds of emerging and frontier markets as defined by traditional market indices. Zenith believes that these markets have higher associated risks such as higher volatility and illiquidity.

ORGANISATION

Neuberger Berman Australia commenced operations in 2009 and is a wholly-owned subsidiary of Neuberger Berman Group (NB), a New York-based global investment manager.

Founded in 1939, NB is an employee-owned business with offices in 36 cities worldwide. Employing over 625 investment professionals globally, NB manages equity, fixed income, private equity and hedge fund strategies on behalf of institutions, advisors and individual investors.

As at 31 December 2021, NB managed approximately $US 460.5 billion worldwide, of which $A 13.3 billion was on behalf of Australian clients.

As at 31 January 2022, NBI had a market capitalisation of $A 768 million.

INVESTMENT PERSONNEL

Name	Title	Tenure
Joe Lynch	Head of Global Non-Investment Grade Credit	20 Yr(s)
Russ Covode	Senior Portfolio Manager	18 Yr(s)
Jennifer Gorgoll	Senior Portfolio Manager	9 Yr(s)
Joseph Lind	Senior Portfolio Manager	4 Yr(s)
Simon Mattews	Senior Portfolio Manager	3 Yr(s)
Nish Popat	Senior Portfolio Manager	9 Yr(s)

NB's Global Fixed Interest (GFI) team comprises over 180 investment professionals and is led by Brad Tank, Chief

Investment Officer (CIO) - Fixed Income. Team members are predominately located in the US, albeit NB's global footprint has continued to expand in recent years, with a greater presence in Europe, as well as an Asian team based in Singapore, and a dedicated China team located in Shanghai.

Responsibility for the management of the Trust rests with NB's global high yield team. Leading this team is Managing Director and Head of Global Non-Investment Grade Credit, Joe Lynch, who oversees a platform of more than 50 investment professionals who are located across multiple geographies, albeit with most members residing in Chicago. The team has responsibilities across developed and emerging markets research, portfolio management, trading, and economic research.

Lynch has over 25 years industry experience and joined NB via its acquisition of LightPoint Capital Management LLC in 2007, where he had been a founding member. Prior to this, Lynch held several senior roles, most of which were linked to the management of non-investment grade fixed interest portfolios. In Zenith's opinion, Lynch provides sound leadership over the HY team which is amongst the largest and geographically diverse across our High Income peer group.

Regarding the Trust’s portfolio management arrangements, this rests with a team of five senior investors, each of whom bring specific areas of expertise to the decision-making process. Included amongst these are Senior Portfolio Managers Joseph Lind, Russ Covode, Simon Matthews, Nish Popat and Jennifer Gogoll. The PMT reside over the construction of regional portfolios, the formation of portfolio strategy and implementation, with Lind, Covode and Matthews providing expert input in terms of developed markets, while Popat and Gogoll are focused on emerging market strategies.

NB has advised that Covode is to retire in June 2022, and will be replaced by Senior Portfolio Manager, Chris Kocinski who joined the firm in 2006. Kocinski is a member of the Non-Investment Grade Credit Committee as well as the firms ESG Advisory Committee. Covode has over 30 years industry experience including 16 years at NB, where he has managed high yield and blended credit portfolios, whilst also being a member of the Non-Investment Grade Credit Committee.

Covode's announced retirement follows the departure of Vivek Bommi, Senior Portfolio Manager and past member of the PMT. Bommi was subsequently replaced by Matthews who joined NB in 2019 and has experience across Global and European non investment grade portfolios. Whilst Zenith believes NB has put in place appropriate arrangements in transitioning the PMT to its new configuration, we are nonetheless keen to observe the dynamic amongst remaining members, noting the significant contributions made by Covode and previously Bommi, to the underlying strategy.

NB's process is centred around the outputs of various decision-making bodies, each of which address key areas pertaining to security selection, portfolio construction, risk management and monitoring. The process is team-based and focused on extracting the best ideas from across NB's GFI platform. Most pertinent to the management of the Trust are the Global High Yield Credit Committee (GHYCC) and Global High Yield Asset Allocation Committee (GHYAAC).

The GHYCC is tasked with bottom-up security selection, which includes credit approval, analysis and monitoring. The committee comprises the most senior personnel from across the NB global high yield platform including the PMT. The committee meets on a weekly basis and seeks to achieve consensus in terms of decision making. Where this cannot be achieved, Lynch has the ultimate say.

In terms of the allocation decision between US, European and emerging markets, this is the responsibility of the GHYAAC. The committee comprises the PMT, Tank, and several other senior personnel from across NB’s high yield platform, with decisions made through a consensus approach.

The PMT is supported by a large pool of high yield credit analysts which provide research over corporate bonds and senior secured loan issuers, with analysts maintaining coverage of 25 to 35 companies. Analysts are organised into smaller speciality industry sector teams across consumer cyclical, telecom/media/technology and energy/utilities with analysts based in Chicago, New York and London.

In the EM corporate team, analysts are divided across regions; Asia, Latin America and Europe/Middle East/Africa, then among asset class (local currency, hard currency and corporate). Analysts are located across Atlanta, Netherlands, Singapore and Shanghai. The EM team is also supported by two economists, a strategist and a quantitative analyst.

Compensation for portfolio managers and analysts consists of a base salary and discretionary bonus. Bonuses allocated to portfolio managers is based largely on investment performance as well as their overall contribution to the investment process. Analyst remuneration is based on the performance of their credit recommendations and overall contribution. Bonuses are paid in cash with a portion paid out in units of the investment strategy, which vests over a three-year period. Zenith believes NB’s remuneration structure is consistent with industry standards, with balance achieved between short and long-term incentives while also establishing an alignment of clients’ interests.

In Zenith’s opinion, the NB high yield team is well structured and designed to support investment capabilities consistent with the focus of the Trust. Generally, the level of resourcing available to this Trust exceeds that available to peers, enabling NB to assess a wider opportunity set through which it can achieve its objectives.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Trust aims to provide a consistent and stable monthly income stream, while achieving an attractive level of total return over a full market cycle. To achieve these objective, NB invests in sub-investment grade corporate bonds across the US, Europe and select EM's, targeting 70% of returns from security selection and the remainder from top-down positioning.

While NB does not target a specific absolute or excess return objective, it expects to outperform the ICE BofAML Global High Yield Constrained Index (gross of fees) with an ex-ante Tracking Error of 2.0% p.a. to 3.5% p.a., over rolling three to five-year periods. NB also publishes an annual target distribution, which is currently 4.75% (as at 1 July 2021) and communicated to investors via ASX announcements.

NB believes that attractive high yield investment results can be achieved through all market cycles using an active investment approach that incorporates experience and investment judgement, supported by risk management techniques. NB believe they can deliver competitive returns by avoiding companies with deteriorating financials, and as such, the investment process is centred around in-depth bottom-up credit analysis with some top-down asset allocation.

While the team communicate across various forums including a daily team meeting, the investment process is centred around two key decision-making bodies: the GHYCC, which is responsible for approving issuers; and GHYAAC which decides on the blend across US, European and emerging markets. It also reviews credit quality and industry exposures from a top-down perspective.

SECURITY SELECTION

The Fund's universe contains over 1,500 issuers of corporate bonds externally rated below investment grade (BBB-) across the US, Europe and emerging markets (EM) (US dollar denominated).

The universe is screened to filter out smaller and less liquid issuers and those close to default, on the following basis:

- Minimum Liquidity as measured by public issuance outstanding: US - $US 500 million, Europe - $US 200 million, EM - $US 300 million;
- Minimum company earnings (as measured by Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)): US - $US 100 million, Europe and EM - $US 75 million.

The remaining eligible investable universe is then subject to fundamental, bottom-up credit analysis within a common research framework called the Credit Best Practices Checklist, which culminates in the team assigning an internal credit rating to each issuer.

Credit analysts are industry sector specialists covering both high yield bond and senior secured loan issuers. Each analyst is expected to cover 25 to 35 issuers, maintaining ongoing coverage of their universe, rather than predominantly focusing on new issuance. Analysts are expected to meet face-to-face with management twice per year and speak with company contacts at least quarterly.

The Credit Best Practices Checklist incorporates a number of top-down and issuer-specific factors (outlined below), which includes qualitative measures along with comprehensive financial modelling.

Credit analysis incorporates both macro-economic and industry analysis. In terms of the former, key inputs include the direction of the global economy, credit cycle and political factors. Industry analysis includes life cycle, competitive landscape, regulatory environment, industry size, growth and value chain and industry model/return profile.

Regarding company-specific factors, NB focuses on the following metrics:

- **Business fundamentals:** business track record, ability to de-lever, business products, method of business growth.
- **Quality of Cash Flow:** does it offset business risk, CAPEX, ability to delay commitments, accounting practices, cautious of large transformative acquisitions.
- **Scenario Analysis:** understand upside/downside potential across credit ratios, spreads and ratings, compare with industry and the company's own history.
- **Capital Structure:** management's intention and ability to manage the capital structure, focus on senior structures in tight capital markets.
- **Liquidity:** cash, bank lines, covenants, non-core asset sales, other sources of cash.
- **Environmental, Social and Governance (ESG) Scorecard:** industry-specific environmental and social factors, management and governance, customised industry weightings. In terms of 'E' and 'S' matters, these are determined on an industry specific basis (using the Sustainability Accounting Standards Board as a starting point), whereas 'G' matters are standardised alongside noninvestment grade criteria (i.e. governance structure, experience & track record, transparency and adaptability).

For EM corporates, the analysis covers a similar structure but with additional emphasis placed on country/macro analysis.

Analysts then apply an internal credit rating to the issuer which supports relative value analysis across industries. From this, analysts make a buy, hold or sell recommendation. This may be across the whole capital structure or based on a specific issue i.e. secured bonds versus senior secured loans or specific tenors.

Global High Yield Credit Committee (GHYCC)

Once analyst's recommendations are vetted by senior peers within their industry sector teams, they are presented to the GHYCC for approval. Comprising the team's most senior members, the credit committee is a key decision-making body for the Trust. Meeting weekly, the committee consists of portfolio managers across non-investment grade developed markets and the co-heads of credit research.

The committee operates on a consensus basis with Lynch having the final decision where agreement can't be achieved. Once an issuer is approved, portfolio managers are then permitted to include the securities in portfolios.

The committee will also review any credit that has moved either up or down by 5% relative to the market. While NB typically focuses on 'higher quality' high yield issuers, Zenith does note that the committee will consider opportunistically approving credits with weaker fundamentals on a relative value basis.

In considering EM securities, the EM team follow a similarly structured process in reviewing corporate issuers, albeit with a greater focus on individual country economics.

Zenith views the collective experience of the GHYCC favourably. We believe that the committee offers a diversity of viewpoints and provides a rigorous forum for review. Furthermore, Zenith believes that NB's bottom-up credit research is in-depth and a key area of strength.

PORTFOLIO CONSTRUCTION

In constructing the portfolio, the Trust's starting point is a strategic asset allocation (SAA) comprising the US (60%), Europe (20%) and Emerging Markets (20%). Any deviation from the SAA is subsequently determined by the GHYAAC who meets on a weekly basis to review the portfolio from a top-down perspective.

Key to the determination of the Trust's asset mix is an assessment of relative value. To assist with this, the GHYAAC implement a scorecard approach whereby its members assign scores across a set of macro factors and technicals, whilst also taking into consideration the outputs of the bottom-up research teams. The GHYAAC will then score variables between +/- 1, with +1 being high relative value, 0 neutral and -1 being low relative value. A weighted composite score is then derived and together with the qualitative views of the GHYAAC, is used to position the portfolio across regions.

In constructing regional portfolio sleeves, the PMT assign responsibility to members based on their areas of expertise (ie. a US high yield sleeve would be assigned to Lind). Regional sleeves are structured on a benchmark relative basis, with the assigned PM provided autonomy to populate the portfolio from a bottom-up perspective, taking into consideration the best ideas from across its global research platform.

The final portfolio will represent an aggregation of regional portfolios and will typically consist of 250 to 350 issuers, rated BB and B. Opportunistically the portfolio will invest in bonds rated CCC and below and in bonds rated BBB and above (investment grade). Typically, issuer size is 0.25% to 0.50% with a maximum exposure of 3% to a single issuer.

Zenith notes that the Trust's overall duration positioning is an outworking of the bottom up security selection process rather than being a top-down view implemented through an overlay. Furthermore, the Trust's mandate does not permit the use of credit derivatives, therefore all exposures are gained through physical exposure. Given the limited liquidity that can be experienced across high yield markets (i.e. a risk off environment), Zenith believes the inability to use credit derivatives is a drawback of the Fund and is in contrast to peers managing similar strategies.

Overall, Zenith has a favourable view of NB's portfolio construction process. We believe the GHYAAC provides a sound framework for determining the Trust's asset mix, with portfolio managers provided with sufficient latitude to construct regional sleeves; expressing their fundamental views while also capturing the best ideas from across NB's global research platform.

RISK MANAGEMENT

Portfolio Constraints	Description
Exposure to single Issuer (%)	max: 3%
Outstanding debt of single issuer (%)	max: 10%
Regional Allocation - Activee Position (%)	max: 20%
Trracking Error (%)	2%-3.5% p.a. (Guide)
ESG Constraints	EM Issuers supporting child labour or the production of controversial weapons

The Trust is subject to a number of constraints (listed above).

NB employs risk management in each step of its investment process. Through its focus on bottom-up analysis, NB aims to avoid companies with deteriorating financials. As detailed earlier, the GHYCC review any issuer whose bonds move up or down by 5% relative to the market. Also, the asset allocation process incorporates an element of risk management, in reviewing the portfolio in light of a number of macro and technical factors.

On a day-to-day basis, the portfolio is reviewed at a daily morning meeting, supported by granular risk management and performance contribution reports. At this meeting, the team also reviews any credit events or material price changes from the prior day/overnight. The portfolio managers monitor their respective portfolios through third-party systems, Blackrock Aladdin and Bloomberg Point which have a number of risk management functions.

The investment team is supported by an independent risk function, led by Anne Brennan, Chief Risk Officer (CRO). NB's risk management structure has three separate functions: asset management guidelines; operational risk and investment risk. These functions operate in a committee-based structure which all report up to Brennan, who in turn reports to the Chief Executive Officer of NB.

The investment risk team generates reporting across a number of risk metrics, scenario analysis and stress tests. The portfolios are formally reviewed monthly by the risk team. However, Zenith notes that dialogue between the teams is ongoing and fluid.

Zenith believes that the risk management framework is sufficient, noting the risk management team is well resourced in headcount and analytical infrastructure.

Responsible Investment Approach

NB has been a signatory to the United Nations Principles for Responsible Investment (UN PRI) since 2012 and last submitted materials for assessment in December 2021. As at the date of this report, NB had been assigned the following module scores:

- Strategy & Governance: A+
- Direct Fixed Income (SSA): A+
- Direct Fixed Interest (Corporate Non-financial): A+

NB has an established Responsible Investment Policy (RIP) that was last updated in February 2021, and is available for public viewing. Compliance with the RIP is monitored by the individual investment teams with an ESG Committee overseeing firm-wide ESG efforts. NB has advised that for the 12 months to 31 December 2021, there have been no material breaches of its RIP globally.

With respect to Environmental, Social and Governance (ESG) factors, the Fund excludes investment in Emerging Market issuers that use child labour or are involved in the production of controversial weapons. ESG factors are also incorporated into the security selection process via the Credit Best Practices Checklist. It should be noted however that the precise methodology applied by analysts in assessing ESG varies across market segments, (i.e. corporate versus municipal issuers), and are ultimately integrated into NB's internal credit ratings.

From a classification scale of:

- Impact
- Thematic
- Integrated
- Aware
- Traditional

Zenith has assigned the Fund a Responsible Investment Classification of **Integrated**.

INVESTMENT FEES

The sector average management cost (in the table below) is based on the average management cost of all flagship 'International Fixed Interest - High Income' funds surveyed by Zenith.

The Fund's fee structure comprises a 0.85% p.a. management cost (plus GST) with no performance fee payable. Zenith considers the Fund's base management cost to be in line with peers in both listed and unlisted formats.

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	0.85% p.a.	0.85% p.a.
	Description	
Performance Fee	N/A	

PERFORMANCE ANALYSIS

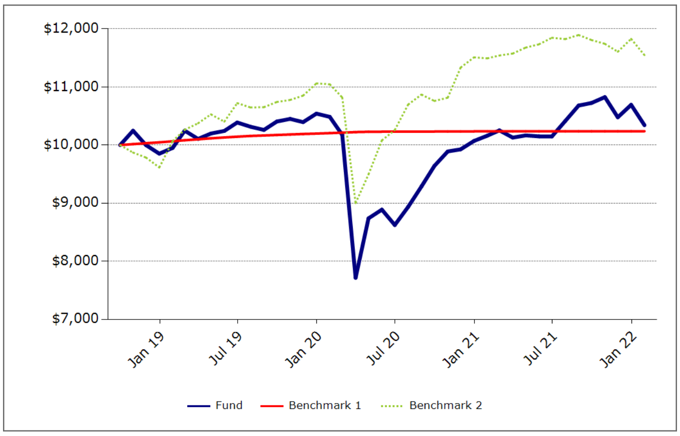
Report data: 31 Jan 2022, product inception: Oct 2018

Monthly Performance History (%, net of fees)

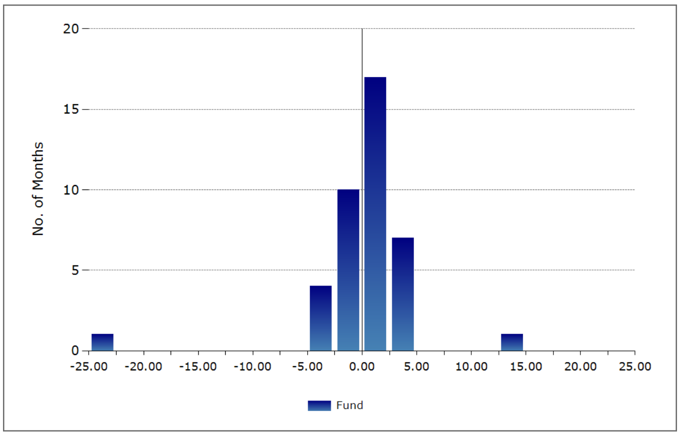
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BM1 YTD	BM2 YTD
2022	-3.28												-3.28	0.01	-2.37
2021	0.90	0.90	-1.21	0.37	-0.16	-0.01	2.61	2.56	0.42	0.94	-3.21	2.05	6.17	0.03	2.77
2020	-0.53	-2.96	-24.17	13.27	1.72	-2.98	3.62	3.94	3.80	2.58	0.37	1.45	-4.46	0.37	4.05
2019	1.01	2.99	-1.38	0.92	0.43	1.42	-0.70	-0.53	1.41	0.43	-0.53	1.41	7.00	1.50	15.05
2018										2.48	-2.42	-1.48	-1.48	0.48	-3.85

Benchmark 1: Bloomberg AusBond Bank Bill Index, Benchmark 2: NBI Net Portfolio Returns

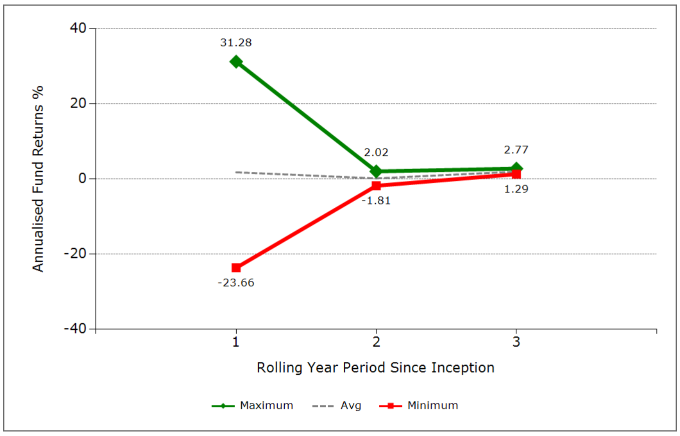
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



Return	Incpt.	3 yr	2 yr	1 yr
Fund (% p.a.)	1.01	1.29	-0.69	1.78
Benchmark 1 (% p.a.)	0.71	0.57	0.16	0.03
Benchmark 2 (% p.a.)	4.41	4.68	2.25	0.48
Median (% p.a.)	3.63	4.02	2.38	0.98
Ranking within Sector	**Incpt.**	**3 yr**	**2 yr**	**1 yr**
Fund Ranking	16 / 18	17 / 19	20 / 24	12 / 27
Quartile	4th	4th	4th	2nd
Standard Deviation	**Incpt.**	**3 yr**	**2 yr**	**1 yr**
Fund (% p.a.)	16.51	17.25	20.92	6.46
Benchmark 1 (% p.a.)	0.22	0.20	0.08	0.01
Median (% p.a.)	7.00	7.45	9.85	3.43
Downside Deviation	**Incpt.**	**3 yr**	**2 yr**	**1 yr**
Fund (% p.a.)	13.81	14.47	17.67	4.75
Benchmark 1 (% p.a.)	0.00	0.00	0.00	0.00
Median (% p.a.)	5.27	6.82	8.16	2.66
Risk/Return	**Incpt.**	**3 yr**	**2 yr**	**1 yr**
Sharpe Ratio - Fund	0.02	0.04	-0.04	0.27
Sortino Ratio - Fund	0.02	0.05	-0.05	0.37

Readers should note that unless otherwise indicated, all performance, consistency and risk/return data is referenced to the Zenith assigned benchmark (as represented by Benchmark 1 in the above table) with the LIT returns representing those attributable to shareholders (i.e. unit price + dividends). Zenith typically includes the ongoing net returns of a LIT's investment portfolio as we believe this is the best measure of the investment manager's skill.

All commentary below is as at 31 January 2022.

The investment objective is to provide a consistent and stable income stream paid via monthly distributions while achieving an attractive level of total return (income plus capital appreciation) over a full market cycle.

While NB does not target a specific absolute or excess return objective, it expects to outperform the ICE BofAML Global High Yield Constrained Index with an ex-ante Tracking Error of 2.0%

ABSOLUTE PERFORMANCE ANALYSIS

p.a. to 3.5% p.a., over rolling three to five-year periods.

As the Trust's performance track record is shorter than that of its stated investment horizon, Zenith believes there is an insufficient track record against which we are able to draw meaningful conclusions. That said, we note that NB has been managing global high yield portfolios for an extended period, and similarly structured strategies have performed in line with expectations.

WARNING: Zenith ratings applied to LICs/LITs do not explicitly take into account share/unit prices vs. NTA and do not represent a buy/sell recommendation based on valuation. Potential investors should make their own determination of the appropriateness of prevailing premiums or discounts to NTA when acquiring or disposing of LICs/LITs.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	3 yr	2 yr	1 yr
Excess Return (% p.a.)	0.30	0.72	-0.84	1.75
% Monthly Excess (All Mkts)	62.50	63.89	66.67	58.33
% Monthly Excess (Up Mkts)	60.53	61.76	63.64	50.00
% Monthly Excess (Down Mkts)	100.00	100.00	100.00	100.00
Beta Statistics	**Incpt.**	**3 yr**	**2 yr**	**1 yr**
Beta	-10.04	-13.62	-134.99	-503.57
R-Squared	0.02	0.02	0.30	0.28
Tracking Error (% p.a.)	16.54	17.28	20.97	6.47
Correlation	-0.14	-0.16	-0.55	-0.53
Risk/Return	**Incpt.**	**3 yr**	**2 yr**	**1 yr**
Information Ratio	0.02	0.04	-0.04	0.27

All commentary below is as at 31 January 2022.

It is important to note that the Relative Performance Analysis shown above combines the Fund's unit price returns with distributions to give the reader detail on the investor experience.

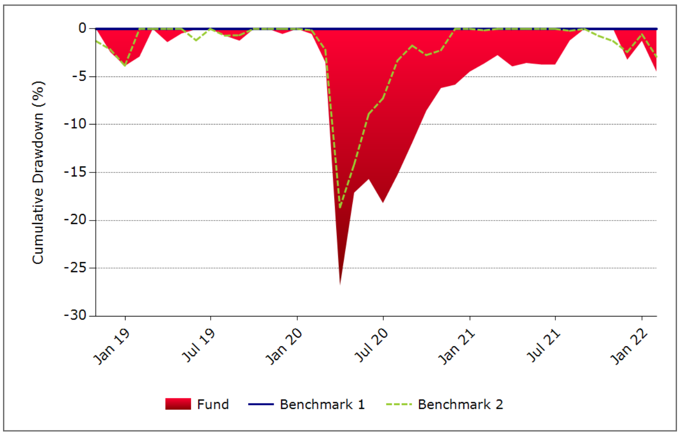
Zenith seeks to identify funds that can achieve an outperformance ratio above 50% of months in all market conditions as we believe this represents a persistence of manager skill. The Fund has yet to gain a sufficient track record for Zenith to draw any meaningful conclusions.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	Fund	BM1	BM2
Max Drawdown (%)	-26.81	0.00	-18.63
Months in Max Drawdown	3	1	3
Months to Recover	17	1	8

Worst Drawdowns	Fund	Benchmark 1	Benchmark 2
1	-26.81	0.00	-18.63
2	-4.47	0.00	-3.85
3	-3.86		-2.91
4	-1.38		-1.19
5	-1.23		-0.70



All commentary below is at 31 January 2022.

The Trust has yet to gain a sufficient track record for Zenith to draw any meaningful conclusions with respect to drawdowns. That said, we note that the Trust's largest drawdown to date occurred during the COVID pandemic, which was perpetuated by illiquidity induced drawdowns in credit sectors during this market extreme.

Zenith notes as the Fund invests in sub-investment grade corporate bonds including those from EM it may be subject to drawdowns due to the higher volatility and mark to market losses than traditional bond markets.

Investors should be aware that accessing a strategy via a LIT will mean that the effectiveness of the strategy may be significantly diminished due to the Fund's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of the Fund is driven by market sentiment.

DISTRIBUTION POLICY

The Fund seeks to pay a stable and consistent monthly distribution.

NB publishes an annual target distribution (4.75% as at 31 March 2021) which is communicated to investors via an ASX announcement.

The Trust also offers a Distribution Reinvestment Plan which operates at the prevailing NAV.

REPORT CERTIFICATION

Date of issue: 2 Mar 2022

Role	Analyst	Title
Author	Andrew Yap	Head of Multi Asset & Austn. Fixed Income
Sector Lead	Rodney Sebire	Head of Alternatives & Global Fixed Interest
Authoriser	Bronwen Moncrieff	Head of Research

ASSOCIATIONS & RELATIONSHIPS

ASIC Regulatory Guide RG79.164 requires Research Houses to disclose certain associations or relationships that they may have with a product issuer. We may receive remuneration from an issuer or investment manager for subscription to our other research/ data services or the research/ data services of our related entities. Conflict management arrangements are in place where we or our related entities provide research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group's Conflict of Interests Policy. Further details in relation to our relationships and associations are available on request.

RATING HISTORY

As At	Rating*
2 Mar 2022	Recommended
2 Jun 2020	Recommended
14 May 2019	Recommended
20 Aug 2018	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

*In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

DISCLAIMER AND DISCLOSURE

Zenith Investment Partners (ABN 27 103 132 672) is the holder of Australian Financial Services Licence 226872 and is authorised to provide general financial product advice. This Product Assessment Report (report) has been prepared by Zenith exclusively for Zenith clients and should not be relied on by any other person. Any advice or rating contained in this report is limited to General Advice for Wholesale clients only, based solely on the assessment of the investment merits of the financial product. This report is current as at the date of issue until it is updated, replaced or withdrawn and is subject to change at any time without notice in line with Zenith's regulatory guidelines. Zenith clients are advised to check the currency of reports and ratings via Zenith's website for updates and should also verify information in relation to the fund with the relevant Fund Manager. Any advice contained in this report has been prepared without taking into account the objectives, financial situation or needs of any specific person who may read it, including target markets of financial products, where applicable. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek their own independent financial or tax advice, obtain a copy of, and consider any relevant PDS or offer document and consider the appropriateness of this advice in light of their own objectives prior to making any investment decision. Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related party to produce research on funds that conform to Zenith's Research Methodology. Zenith's fee and Analyst remuneration are not linked to the rating outcome in any way. Views expressed in Zenith reports accurately reflect the personal, professional, reasonable opinion of the Analyst who has prepared the report. Zenith may also receive a fee for other non-research related services such as subscription fees for Zenith's research services and/or for the provision of investment consultancy services. Conflicts management arrangements are in place where Zenith provides research services to financial advisory businesses who provide financial planning services to investors and are also associated entities of the product issuers, with any such conflicts of interest disclosed within reports as appropriate. Full details regarding such arrangements are outlined in Zenith's Conflicts of Interest Policy www.zenithpartners.com.au/ConflictsOfInterestPolicy

Zenith's research process seeks to identify investment managers considered to be the 'best of breed' through a comprehensive, multi-dimensional selection process. Zenith utilises both quantitative and qualitative factors in its ratings models. Models maximise commonality across different asset classes while retaining flexibility for specialist asset classes and strategies. The selection process is rigorous in both its qualitative and quantitative analysis and each component is equally weighted. Zenith does not manage any proprietary assets and as such Zenith is able to choose investment managers with absolute independence and objectivity. More detailed information regarding Zenith's fund research methodology and Zenith's traditional index research methodology, coverage and ratings is available on Zenith's website at Fund Research Methodology and Traditional Index Research Methodology.

This report is subject to copyright and may not be reproduced, modified or distributed without the consent of the copyright owner. The information contained in this report has been prepared in good faith and is believed to be reliable at the time it was prepared, however, no representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this report. Except for any liability which cannot be excluded, Zenith does not accept any liability, whether direct or indirect arising from the use of information contained in this report. Past performance is not an indication of future performance.

Third Party data may be sourced from Financial Express, Refinitiv, Bloomberg and/or MSCI. Third party data and content used in this document has not been independently verified by Zenith and Zenith provides no warranty, representation or responsibility to update this document. Third Party data is the intellectual property of that third party and must not be reproduced, stored or transmitted without their consent.

Full details regarding the methodology, ratings definitions and regulatory compliance are available at www.zenithpartners.com.au/RegulatoryGuidelines

Zenith is not required to be licensed under New Zealand law or be registered on the FSPR. Zenith has not engaged or authorised any party to provide financial advice on its behalf to New Zealand investors.

Zenith ratings and research are prepared by Zenith and are not connected in any way to research and ratings prepared by any of our related entities.

This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

Zenith will seek to confirm with the product issuer that, where required, the fund has in place a current Target Market Determination as per Regulatory Guide 274: Product Design & Distribution Obligations, issued by the Australian Securities and Investments Commission.

Zenith has charged Neuberger Berman Australia a fee to produce this report.