Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Report data as at 31 Mar 2020
Rating issued on 02 Jun 2020

NB Global Corporate Income Trust

VIEWPOINT

NB Global Corporate Income Trust (ASX:NBI) is a Listed Investment Trust (LIT) managed by New York-based asset manager, Neuberger Berman. The Fund listed on the Australian Stock Exchange in September 2018 and provides investors with exposure to a diversified portfolio of sub-investment grade corporate bonds from both developed and emerging markets (EM). Adhering to a regimented security selection process that is applied to a wide investable universe, Zenith believes the Trust is positioned favourably to meet its investment objectives.

Neuberger Berman (NB), is a privately held New York-based global investment management group founded in 1939. As at 31 March 2020, NB managed approximately $A 535 billion of funds under management (FUM).

With investment professionals located across the US, Europe and Asia, the NB global high yield team is one of the largest in the peer group and is led by Managing Director and Head of Global Non-Investment Grade Credit, Joe Lynch.

The Trust's Portfolio Management team comprises five senior personnel located across the US (Chicago and Atlanta), the United Kingdom (London) and the Netherlands. Adopting a multi-portfolio manager approach, Chicago-based Joseph Lind and Russ Covode, and London-based Vivek Bommi are responsible for developed markets high yield. Completing the team and responsible for emerging market high yield are Senior Portfolio Managers Nish Popat and Jennifer Gogoll.

The Trust aims to provide a consistent and stable income stream of 5.25% p.a. paid via monthly distributions while achieving an attractive level of total return (income plus capital appreciation) over a full market cycle. To achieve the Fund's objective, NB invests in sub-investment grade corporate bonds across the US, Europe and EM targeting 70% of returns from security selection and the remainder from top-down positioning.

To harness value from the large analyst pool, NB adheres to a committee-based decision-making format. Through this approach, NB are effective in ensuring consistency in investment approach across the various regions in which it operates, with several committees retaining responsibility for security selection, asset allocation and general portfolio management functions pertaining to the Trust.

Bottom-up credit analysis is at the core of the investment process with NB incorporating a number of top-down and issuer-specific factors, including comprehensive financial modelling and qualitative measures. From this, credit analysts make a buy, hold or sell recommendation to the Credit Committee, tasked with approving issuers for inclusion in portfolios.

The portfolio is constructed on a regional basis with portfolio managers responsible for building discrete portfolios based on their respective regional responsibilities. While credits must be approved by the credit committee to be included in the portfolio, final inclusion and position sizing is at the discretion of the respective portfolio managers.

From a top-down perspective, the Fund's starting point is a strategic asset allocation (SAA) across US, Europe and EM is 60%/20%/20%, respectively. NB's Global High Yield Asset Allocation Committee decides on the blend across each region and also reviews the portfolio's credit quality and industry exposures from a top-down perspective. Typically, the portfolio will consist of 250 to 350 issuers, externally rated BB and B. Opportunistically the portfolio will also invest in bonds rated CCC and below and in bonds rated BBB and above (investment grade).

FUND FACTS

- LIT holding a portfolio of global sub-investment grade corporate bonds
- Non-investment grade management team with material breadth and depth
- Regional/multi-portfolio manager approach to portfolio construction

ABSOLUTE RISK (SECTOR)

- VERY HIGH
- HIGH
- ▶ MODERATE
- LOW
- VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

- ▶ High Yield
- Investment Grade
- Multi-Sector
- Opportunistic Credit
- Private Credit

INCOME DISTRIBUTIONS PER

MONTH (selected) | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS (selected) | 5-6 YRS | 7+ YRS

APIR Code
ASX:NBI

Asset / Sub-Asset Class
International Fixed Interest
Listed Investment Entities – LICs/LITs

Investment Style
Active

Investment Objective
The Trust's investment objective is to provide its Unitholders with 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.

Zenith Assigned Benchmark
Bloomberg AusBond Bank Bill Index
NBI Net Portfolio Returns

Net Returns (% p.a.)

	1 yr	6 mth	3 mth
LIC	-23.66	-25.85	-26.81
Benchmark	1.23	0.49	0.26

Fees (% p.a., Incl. GST)
Management Cost: 0.85%
Performance Fee: N/A

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 sector typically comprises 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 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 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 Fund 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 - Listed Investment Entities” sector are exposed to the following broad risks:

BUY/SELL SPREAD INCREASES: Global markets are experiencing significant volatility due to the COVID-19 situation. As a result, the cost of transacting has risen significantly. In addition, funds employing currency hedging have also been impacted with an increase in foreign exchange transaction costs. In response to this, many managers have been frequently adjusting the buy/sell spreads for many funds, often daily. In some cases, the adjustments have been material. Zenith encourages all advisers/investors to reconfirm the buy/sell spread on each fund prior to making any investment decision and prior to issuing trade instructions. As markets stabilise, Zenith expects spreads to revert to historical levels, however, this may take several months.

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 can also 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 Trust may exhibit more volatility than one that is unlevered.

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 managers skill.

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 all proposed changes to be implemented by 30 September 2020.

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.

KEY PERSON: Given the role of the Credit Committee in the investment process and the team-based approach, Zenith believes key person risk is largely mitigated. Notwithstanding this, each of the portfolio managers has responsibility for managing separate sleeves of the Fund. Given the specific sector knowledge of these individuals, Zenith believes that their ongoing involvement remains important, as does continuity in the portfolio management structure.

SUB-INVESTMENT GRADE 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 relative to government bonds.

EMERGING/FRONTIER MARKET RISK: The Fund 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.

QUALITATIVE DUE DILIGENCE

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 35 cities worldwide. Employing over 600 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 March 2020, NB managed approximately $US 330 billion in funds under management (FUM) worldwide, of which $A 8.5 billion was on behalf of Australian clients.

As at 31 March 2020 NBI had a market capitalisation of $A 668 million.

INVESTMENT PERSONNEL

Name	Title	Tenure
Joe Lynch	Head of Global Non-Investment Grade Credit	18 Yr(s)
Russ Covode	Senior Portfolio Manager	16 Yr(s)
Vivek Bommi	Senior Portfolio Manager	13 Yr(s)
Nish Popat	Senior Portfolio Manager	7 Yr(s)
Jennifer Gorgoll	Senior Portfolio Manager	7 Yr(s)
Joseph Lind	Senior Portfolio Manager	2 Yr(s)

NB's global high yield investment team comprises 56 members and is located across several global regions, with most members residing in Chicago. The team retains capabilities across developed and emerging markets research, portfolio management, trading, economic research and several other client-centric functions. Brand Tank, Chief Investment Officer, Fixed Income, is the most senior member of the fixed income group, and in addition to his leadership responsibilities, is a contributing member to NB's Operating, Investment Risk and Asset Allocation Committees.

As of January 2020, NB's non-investment grade credit capabilities have been the responsibility of Joe Lynch, Managing Director and Head of Global Non-Investment Grade Credit. In 2002, Lynch establish LightPoint Capital Management LLC (LightPoint) as a founding member, and joined NB as part of the LightPoint acquisition in 2007. With over 23 years of industry experience across several senior roles, most of which were in the domain of non-investment grade fixed interest, Zenith considers Lynch to be a sound fit to his leadership position.

The Trust's Portfolio Management team comprises five senior personnel located across the US (Chicago and Atlanta), the United Kingdom (London) and the Netherlands. Adopting a multi-portfolio manager approach, Chicago-based Joseph Lind and Russ Covode, and London-based Vivek Bommi are responsible for developed markets high yield. Completing the team and responsible for emerging market high yield are Senior Portfolio Managers Nish Popat and Jennifer Gogoll.

While not specifically involved in the management of this fund, Zenith notes that Lind, Covode and Bommi are further supported by three additional portfolio managers for NB's dedicated developed markets high yield strategies.

In terms of the management responsibilities attributed to the Portfolio Management Team, this includes regional sleeve construction, portfolio strategy and portfolio implementation.

Covode is a highly experience investment professional with over 32 years of industry experience, with the most recent 15 years spent at NB and prior to this, Covode held several senior roles at Banc One Capital Markets and Banc of America Securities. Currently, Covode is responsible for high yield and blended credit portfolios, with additional responsibilities encompassing membership with the Credit Committee for Non-Investment Grade Credit.

NB adheres to a team-based investment process which necessitates the formation of several key decision-making bodies, each of which addresses key areas pertaining to security selection, portfolio construction and risk management and monitoring.

The Global High Yield Credit Committee is tasked with bottom-up security selection, which includes credit approval, analysis and monitoring. The committee comprises several senior personnel from across the NB global high yield platform including the Portfolio Management Team. The committee meets on a weekly basis and adheres to a consensus approach to decision making, or where this cannot be achieved, responsibility rests with Lynch.

In terms of the allocation decision between US, European and emerging markets, this is the responsibility of the Global High Yield Asset Allocation Committee. The committee comprises the Portfolio Management Team, Tank, and several other senior personnel from across NB's high yield platform, with decisions made through a consensus approach.

The portfolio managers are supported by a large pool of credit analysts. The developed market high yield team are led by Steven Ruh and Rachel Young, both Co-Directors of Research. The research team cover both high yield 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 bonus. Bonuses allocated to the portfolio managers is based largely on the investment performance of the portfolios 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 fixed interest platform is well-structured and appropriately designed to support investment capabilities consistent with the focus and complexity 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 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. To achieve the Fund's objective, NB invests in high yield corporate bonds across the US, Europe and emerging markets. NB targets 70% of returns from security selection with 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 with an ex-ante Tracking Error of 2.0% p.a. to 3.5% p.a., over rolling three to five-year periods. NB publishes an annual target distribution, which is currently 5.25% (as at 31 March 2020) 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. The investment process is centred around deep bottom-up credit analysis with some top-down asset allocation.

While the team communicate across various forums including the daily team meeting, the investment process is centred around two key decision-making bodies: the Credit Committee which is responsible for approving issuers; and Global High Yield Asset Allocation Committee 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 then 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 resulting 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 latter, 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.

In terms of 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: i**ndustry-specific environmental and social factors, management and governance, customised industry weightings.

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.

Credit Committee

Once analyst's recommendations are vetted by senior peers within their industry sector teams, they are presented to the Credit Committee for approval. Comprising the team's most senior members, the credit committee is a key decision-making body for the Fund. 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 Credit committee favourably. We believe that the committee offers a diversity of viewpoints and provides a rigorous forum for review. Furthermore, Zenith believes that NB's credit research is robust, detailed and at a level consistent with highly rated peers.

PORTFOLIO CONSTRUCTION

In constructing the portfolio, the Fund's starting point is a strategic asset allocation (SAA) across US, European and EM of 60%/20%/20%, respectively. In deviating from the SAA, the Global High Yield Asset Allocation Committee meets on a weekly basis to review the portfolio from a top-down perspective.

A scorecard approach is used to assess the relative value of the regions. The individual regions macro/fundamentals, technicals and valuations are scored between +/- 1, with +1 being high relative value, 0 neutral and -1 being low relative value. A weighted composite score is used to position the portfolio under/overweight across the regions.

While the scorecard approach provides a repeatable framework for assessing relative value across the regions, Zenith notes that the process captures the qualitative views of the portfolio managers. The committee also serves as a forum for the portfolio managers to calibrate any top-down views with respect to overall portfolio exposures to industry or credit ratings or individual positions.

Construction of the individual sleeves is the responsibility of the portfolio managers. While credits must be approved by the credit committee, final inclusion and position sizing is at the discretion of the respective portfolio managers.

While Zenith does typically not favour multi-portfolio manager approach, we note that in NB's case there is a degree of specialisation in security selection across the different regions. Furthermore, Zenith views the Global High Yield Asset Allocation Committee as an appropriate forum for review and integration of the overall portfolio.

Typically, the portfolio will 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 Fund's overall duration positioning is an outworking of the bottom up security selection rather than a top-down view implemented through an overlay. Rather, in constructing individual sleeves, yield curve positioning is considered as part of the relative value decision by portfolio managers.

Credits are included in the portfolio with relative valuation on a total return basis. Typically, the Fund's sell discipline is consistent with this, exiting positions once the spread target is reached or a superior relative value opportunity exists.

The Fund's mandate does not permit the use of credit derivatives, therefore all exposures are gained through physical bond positions. Given the limited liquidity present across high yield markets at times, particularly in deteriorating markets, 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 the portfolio construction process. We believe the process allows individual portfolio managers sufficient latitude to construct their regional sleeves with a deep bottom-up focus on relative value.

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Construction of the individual sleeves is the responsibility of the portfolio managers. While credits must be approved by the credit committee, final inclusion and position sizing is at the discretion of the respective portfolio managers.

Zenith believes the multi-portfolio manager approach is an appropriate structure for this strategy, noting the varying degrees of specialisation in security selection across the different regions. Furthermore, Zenith views the Global High Yield Asset Allocation Committee as an appropriate forum for review and integration of the overall portfolio.

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RISK MANAGEMENT

Portfolio Constraints	Description
Exposure to single Issuer (%)	max: 3%
Outstanding debt of single issuer (%)	max: 10%
Regoinal Allocation - active position (%)	max: 20%
Tracking Error (% p.a.)	2% p.a. to 3.5% p.a. (Guide, not hard constraint)
ESG Constraints - Excluded Sectors	Child Labour, Controversial Weapons

In constructing the final portfolio, the Fund is subject to a number of constraints (listed above).

From an Environmental, Social and Governance (ESG) perspective, the Fund excludes investment in companies that use child labour or are involved in armaments and controversial weapons. ESG factors are also incorporated into the investment process via an integrated approach (see security selection).

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 Credit Committee will 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 the daily morning meetings, supported by granular risk management and performance contribution reports. This meeting 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.

NB retain an Environmental Social Governance (ESG) policy which provides a broad framework for to guide ESG integration. This policy is reviewed annually by NB's ESG Committee, which is responsible for overseeing our ESG integration efforts, setting goals, and reporting on the firm's performance.

INVESTMENT FEES

LICs/LITs can broadly be categorised into two groups from a management and fee standpoint on the basis of whether they are internally or externally managed (operating under an Investment Management Agreement). Typically, internally managed vehicles have lower proportional management costs due to a larger asset pool. Externally managed vehicles tend to have base management fees more in line with unlisted managed funds.

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 other peers in both listed and unlisted formats.

Investment Fees		
Product		NB Global Corporate Income Trust
Asset Class		International Fixed Interest
Sub-Asset Class		Int. Fixed Interest - Specialist
Management Structure		Externally Managed
Management Cost		0.85%
Performance Fee		Nil
Annual Management Fee Comparision		**% p.a.**
International Fixed Interest	Peer Average - LICs/LITs (Internally Managed) [1]	N/A
	Peer Average - LICs/LITs (Externally Managed)	0.89%

[1] *Internally Managed LICs/LITs data use published Management Cost as a percentage of assets. All other vehicles quote management fees and costs inclusive of GST, less Reduced Input Tax Credits where available.*

PERFORMANCE ANALYSIS

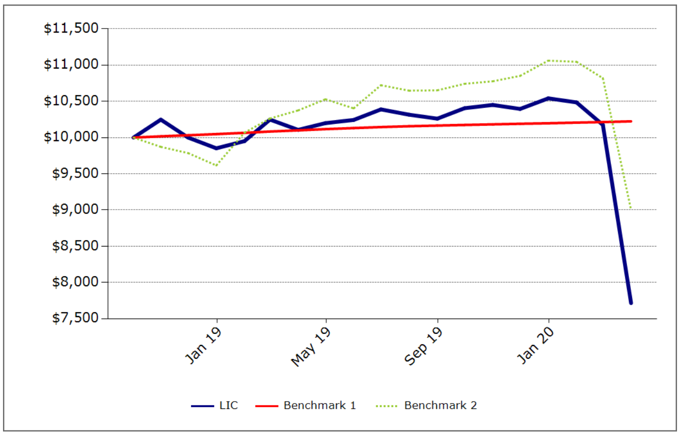
Report data: 31 Mar 2020, product inception: Oct 2018

Monthly Performance History (%, net of fees)

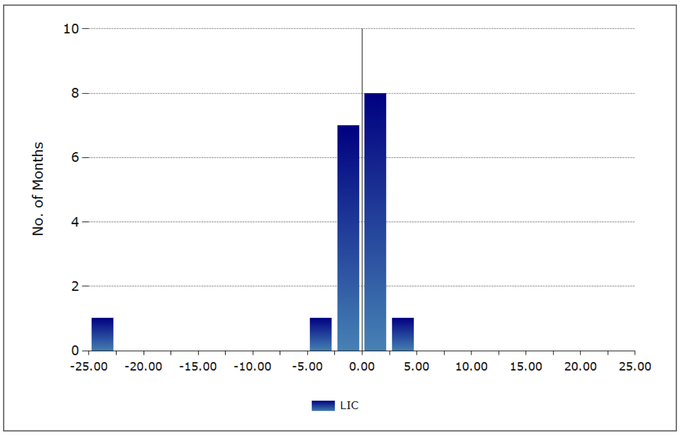
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LIC YTD	BM1 YTD	BM2 YTD
2020	-0.53	-2.96	-24.17										-26.81	0.26	-18.63
2019	1.01	2.99	-1.38	0.92	0.43	1.42	-0.70	-0.53	1.41	0.43	-0.53	1.41	7.00	1.50	15.05
2018										2.48	-2.42	-1.48	-1.48	0.48	-3.85

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

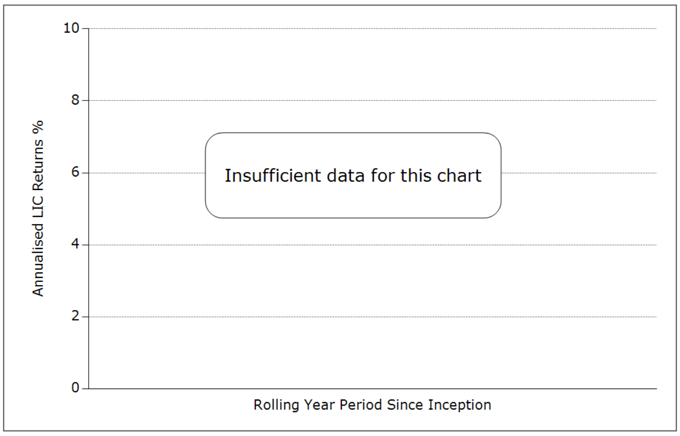
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



Return	Incpt.	1 yr	6 mth	3 mth
LIC (% p.a.)	-15.88	-23.66	-25.85	-26.81
Benchmark 1 (% p.a.)	1.49	1.23	0.49	0.26
Benchmark 2 (% p.a.)	-6.78	-13.24	-16.21	-18.63
Median (% p.a.)	-15.88	-23.66	-23.52	-26.81
Ranking within Sector	**Incpt.**	**1 yr**	**6 mth**	**3 mth**
Fund Ranking	1 / 1	1 / 1	2 / 2	2 / 3
Quartile	1st	1st	2nd	2nd
Standard Deviation	**Incpt.**	**1 yr**	**6 mth**	**3 mth**
LIC (% p.a.)	20.00	23.58	30.98	36.78
Benchmark 1 (% p.a.)	0.14	0.10	0.03	0.04
Median (% p.a.)	20.00	23.58	24.77	36.78
Downside Deviation	**Incpt.**	**1 yr**	**6 mth**	**3 mth**
LIC (% p.a.)	18.93	22.85	30.37	36.78
Benchmark 1 (% p.a.)	0.00	0.00	0.00	0.00
Median (% p.a.)	18.93	22.85	23.70	36.78
Risk/Return	**Incpt.**	**1 yr**	**6 mth**	**3 mth**
Sharpe Ratio - LIC	-0.87	-1.06	-0.85	-0.74
Sortino Ratio - LIC	-0.92	-1.09	-0.87	-0.74

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 March 2020.

ABSOLUTE PERFORMANCE ANALYSIS

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.

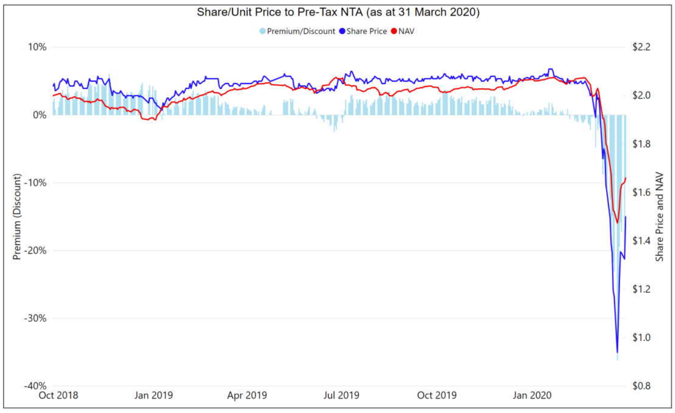
While NB does not target a specific absolute or excess return objective, it expects to outperform the ICE BofAML Global High Yield Constrained Index with an ex-ante Tracking Error of 2.0% p.a. to 3.5% p.a., over rolling three to five-year periods. NB publishes an annual target distribution, which is currently

5.25% (as at 31 March 2020) and communicated to investors via an ASX announcement.

The Fund has yet to gain a sufficient track record for Zenith to draw any conclusions from this data. That said, we do take comfort in NB's long track record investing across high yield.

Share Price vs. NTA

The following chart shows the Fund's premium/discount since inception.



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.	1 yr	6 mth	3 mth
Excess Return (% p.a.)	-17.37	-24.89	-26.34	-27.06
% Monthly Excess (All Mkts)	50.00	50.00	33.33	0.00
% Monthly Excess (Up Mkts)	50.00	50.00	33.33	0.00
Beta Statistics	**Incpt.**	**1 yr**	**6 mth**	**3 mth**
Beta	30.57	19.11	-940.54	-982.61
R-Squared	0.04	0.01	0.82	0.89
Tracking Error (% p.a.)	19.97	23.57	31.01	36.82
Correlation	0.21	0.08	-0.90	-0.94
Risk/Return	**Incpt.**	**1 yr**	**6 mth**	**3 mth**
Information Ratio	-0.87	-1.06	-0.85	-0.74

All commentary below is as at 31 March 2020.

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.

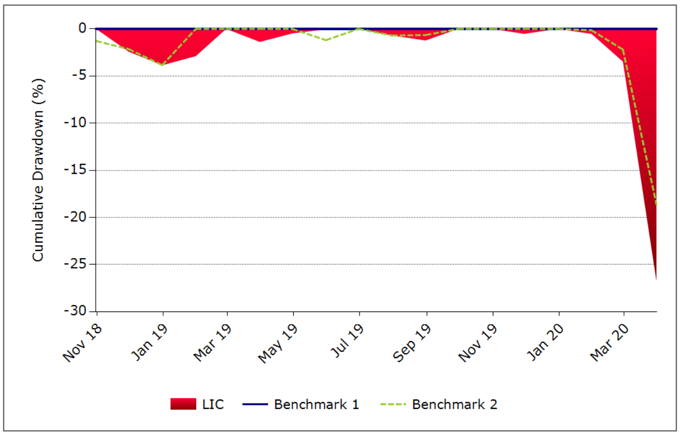
The Fund has yet to gain a sufficient track record for Zenith to draw any conclusions from this data.

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	LIC	BM1	BM2
Max Drawdown (%)	-26.81		-18.63
Months in Max Drawdown	3		3
Months to Recover	-		-

Worst Drawdowns	LIC	Benchmark 1	Benchmark 2
1	-26.81		-18.63
2	-3.86		-3.85
3	-1.38		-1.19
4	-1.23		-0.70
5	-0.53		



All commentary below is at 31 March 2020.

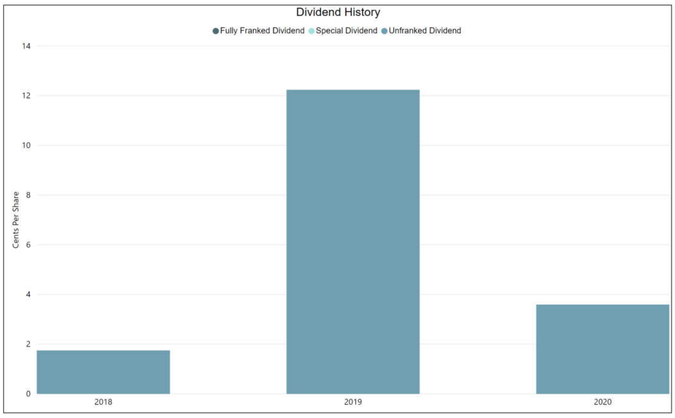
The Fund has yet to gain a sufficient track record for Zenith to draw any meaningful conclusions from this data.

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 equivalent to at least 5.25% p.a. The Responsible Entity intends to pay distributions to Unitholders monthly. The Trust has a Distribution Reinvestment Plan which operates at the prevailing NAV.



REPORT CERTIFICATION

Date of issue: 2 Jun 2020

Role	Analyst	Title
Author	Daniel Vinicombe	Investment Analyst
Sector Lead	Rodney Sebire	Head of Alternatives & Global Fixed Interest
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
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.	

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