Product Assessment

Report as at 07 Mar 2024

RECOMMENDED

Neuberger Berman Strategic Income Fund - W Class

Rating issued on 07 Mar 2024 | APIR: ETL1411AU

Investment objective

To maximise total return, whilst providing a monthly income stream that is at a premium to Cash.

Manager	Neuberger Berman Australia
Distributor	Neuberger Berman Australia
Sector	International Fixed Interest \ High Income
Investment Style	Active
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Multi-Sector
Investment Timeframe	5-6 Years
Benchmark	Bloomberg AusBond Bank Bill Index
Min Investment Amount	$25,000
Redemption Frequency	Daily
Income Distribution	Monthly
Fund Size (31 Jan 2024)	$131.66M
Management Cost	0.75% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.10% / 0.10%
Inception Date	01 Jul 2019

Fund facts

- Multi-sector strategy seeking to maximise total return whilst providing a monthly income stream
- High-quality PM team that benefits from the specialist insights from across NB's global networks
- Investment process combining quantitative research with fundamental insights

Viewpoint

The Fund, managed by New York-based Neuberger Berman (NB), provides investors with exposure to a multi-sector global Fixed Income strategy that seeks to maximise total returns whilst providing a monthly income stream that is at a premium to Cash. Managed by NB's Multi-Sector Team (MST), the Fund invests across a broad range of Fixed Income sectors, targeting returns from sector rotation and security selection. Zenith's conviction in the Fund is underpinned by its differentiated process, which combines a blend of quantitative research and the fundamental insights from across NB's global network of specialist sector teams.

NB is a privately held global investment management group founded in 1939. As at 31 December 2023, NB managed approximately $US 463 billion globally, of which $A 14.58 billion was on behalf of Australian investors.

The MST comprises six senior members from across NB's Global Fixed Interest (GFI) platform. Spread across Chicago and London, the team includes Co-Chief Investment Officer's (Co-CIO) - Fixed Income, Brad Tank and Ashok Bhatia, and Senior Portfolio Manager, Jon Jonsson. Bhatia is the lead Portfolio Manager responsible for the day-to-day management of the Fund.

Bhatia was appointed Co-CIO in January 2024 (previously Deputy CIO). Effective 2025, following a one-year transition period, Bhatia will assume sole CIO and Global Head of Fixed Income responsibility, with Tank becoming a Senior Advisor to the firm. Zenith believes Bhatia is a logical successor and has a positive view of his experience across Global Fixed Income and Currency markets, while also noting his strong contribution to the Fund's sector rotation strategies. In sum, Zenith believes the MST will continue to comprise high-quality investment professionals that have skill sets conducive to the management of a multi-sector Fixed Income strategy.

Supporting the MST are NB's specialist sector teams who interact through a series of structured meetings and produce research that acts as an input into the Fund's process. Most pertinent are the outputs from NB's quarterly Strategic Review Meeting (SRM) at which senior investors from across NB's GFI platform meet to produce forward-looking market views and asset class return forecasts that aid in the determination of investment strategy.

NB's investment process is centered around opportunistically positioning the Fund across sectors, with the MST targeting those market segments deemed to be mispriced. Consistent with this approach, the Fund has a flexible investment mandate and targets an asset mix deemed most likely to deliver upon the Fund's stated objectives. To aid with this, the MST use a proprietary optimiser to generate a set of theoretical portfolios, each of which offers a discrete risk/return outcome, reflecting varying asset class allocations.

Taking into consideration outputs of the optimiser and views expressed across NB's global platform, the MST seek to reach consensus with regard to the Fund's targeted asset mix and strategies for extracting value. With respect to asset class exposures, these are gained on an interfunding basis, with capital allocated to NB's sector teams.

In managing the Fund, the MST generally favours physical exposure, however, will use derivatives to manage the Fund's interest rate strategies. While implementation is generally performed via physical bonds, the Fund does use credit derivatives (including CDS, TRS) on an opportunistic basis to manage credit exposure. Notwithstanding this, we believe NB's preference for physical exposure has the potential to constrain the opportunistic nature of the Fund, particularly in less liquid markets (i.e., High Yield, Bank Loans) and at times of market stress.

Fund analysis

Fund characteristics

Constraint	Value
Duration	2-8 Years
Government & Agency	-35% to 80%
Treasury Inflation-Protected Securities	0% to 20%
Agency Mortgage Backed Securities	0% to 80%
Securitised Credit	0% to 60%
Investment Grade Credit	0% to 60%
Non-Investment Grade Credit	0% to 50%
Global Developed Market Sovereign	-10% to 33%
Emerging Market Debt	0% to 25%
Active Currency	0% to 5%

Investment objective and philosophy

The Fund aims to maximise total return, whilst providing a monthly income stream that is at a premium to cash. A secondary objective is to preserve capital and maintain volatility (as measured by Standard Deviation) between the Bloomberg US Aggregate Index and BBB Credit.

To achieve these objectives, NB adopts an active approach to Fixed Income management and seeks to construct a portfolio that benefits from a broad range of strategies. Included amongst these are duration, yield curve positioning, sector rotation, country and security selection. Operating within a flexible investment mandate, the Fund is opportunistically positioned across sectors, with the MST targeting those market segments deemed to be mispriced.

The investment process commences with the MST seeking to establish an asset mix that positions the Fund to deliver upon its stated objectives. To aid with this, the team takes into consideration the outputs of NB's Strategic Review Meeting (SRM). The SRM is convened quarterly and is a collaborative forum at which senior PMs from across NB's global platform discuss macroeconomic themes and asset class valuations. This meeting is separated into two sessions; the first is focused on developing a six to twelve-month forward view of the global economy, which is then contrasted to the current state. Members subsequently debate key areas of difference in an effort to reach consensus with respect to key economic variables (i.e. implied growth rates, inflation, the shape of forward yield curves), market directionality and a pecking order of conviction-based views.

The second session is focused on asset class relative valuations and the identification of market segments and industries deemed to be mispriced. To aid with this, participating members produce twelve-month forward return forecasts across a broad range of Fixed Income sectors including Sovereigns, Municipal, Investment Grade Bonds, High Yield, Securitised Assets and Loans.

As part of this process, return forecasts are derived across a range of market states (i.e., strong growth, stable/deteriorating growth), with probabilities assigned to each of these. Zenith notes that market states may vary across sectors reflecting the fact that different factors impact their directionality. This process is designed to account for both probable and extreme outcomes and by consequence, necessitates sector PMs to take into consideration tail risks.

Zenith notes that forecasts are derived taking into consideration the bottom-up views of NB's specialist teams which meet regularly to exchange ideas. On a daily basis, sector teams review the work undertaken by credit analysts, highlighting rating developments and changes in credit views. These meetings are supplemented by monthly deep-dive reviews at which asset class teams formulate views with respect to valuations, emerging trends and opportunities.

The next step in the process is to input return forecasts into a proprietary optimiser along with estimates of risk, asset class correlations, fund objectives and mandate constraints. Using an extended Black-Litterman modelling methodology, the optimiser generates a set of theoretical portfolios, each of which offers a discrete risk/return outcome, reflecting varying asset class allocations. The MST then determines the most appropriate naive portfolio, taking into consideration the qualitative views of its members.

In Zenith's opinion, NB's process effectively combines a blend of quantitative research with the fundamental insights garnered from across its global network of sector specialists.

Portfolio applications

The Fund is a multi-sector Global Fixed Income strategy that is permitted to allocate across a range of higher-yielding market segments including Investment Grade Credit, High-Yield, Securitised Assets, Loans and Emerging Market Debt. The Fund is subject to few constraints however must maintain an average credit quality of Investment Grade (BBB-). It is also permitted to invest in Sovereigns (that trade at a relative value discount to US Treasuries), albeit for spread rather than defensive purposes.

The Fund is positioned as a total return, income-orientated strategy and seeks to add value through a broad set of active strategies. Key amongst these are security selection (40%) and sector rotation (40%), with the former representing an avenue through which NB has a demonstrated track record.

Zenith believes the Fund may be appropriate for those investors seeking a strategy that pays a monthly income stream in excess of Cash. From a portfolio perspective, the Fund may be suitable as a component of an investor's Global Fixed Interest allocation. Notwithstanding this, Zenith believes it may be more appropriate to fund an allocation to the strategy from the growth portion of their portfolios.

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.

The Fund utilises a feeder fund structure, in that the domestic unit trust invests in an offshore domiciled fund. Investors should be aware that the use of such structures affords benefits such as cost synergies, diversity of clientele across regions and neutralises the impact of limited fund size and investor concentration. However, the use of interposed entities introduces additional structuring, complexity and regulatory risk, while also reducing the proximity between the Responsible Entity and the underlying investment portfolio. Zenith recommends investors seeking advice regarding the tax implications of a feeder fund structure, consult with a taxation professional.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Absolute performance

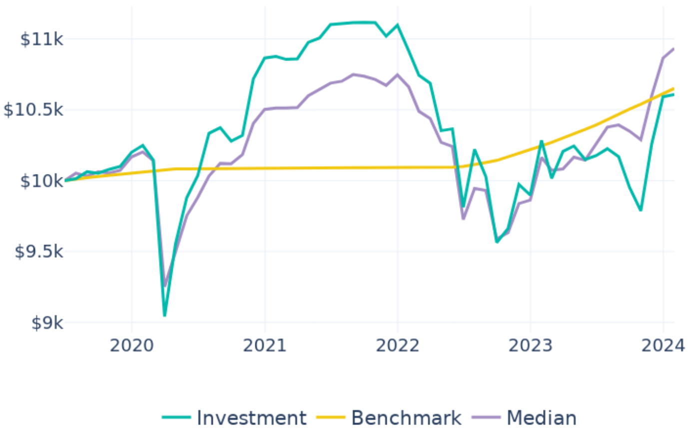
Performance as at 31 Jan 2024

Monthly performance history (%, net of fees)

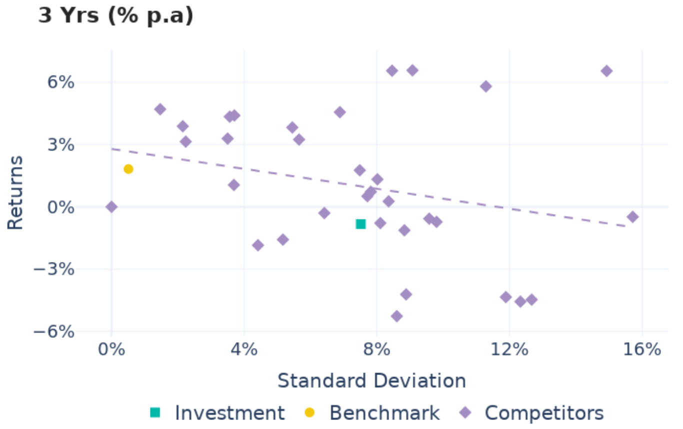
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	0.15%												0.15%	0.37%
2023	3.90%	-2.61%	1.90%	0.38%	-0.94%	0.27%	0.48%	-0.55%	-2.13%	-1.67%	4.84%	3.24%	7.01%	3.85%
2022	-1.63%	-1.57%	-0.53%	-3.13%	0.12%	-5.33%	4.15%	-1.87%	-4.64%	1.04%	3.21%	-0.75%	-10.80%	1.25%
2021	0.10%	-0.19%	0.04%	1.07%	0.28%	0.86%	0.08%	0.04%	0.02%	-0.02%	-0.86%	0.70%	2.13%	0.03%
2020	0.47%	-1.00%	-10.88%	5.67%	3.42%	1.55%	2.99%	0.38%	-0.91%	0.39%	3.87%	1.37%	6.52%	0.37%

**Bloomberg AusBond Bank Bill Index*

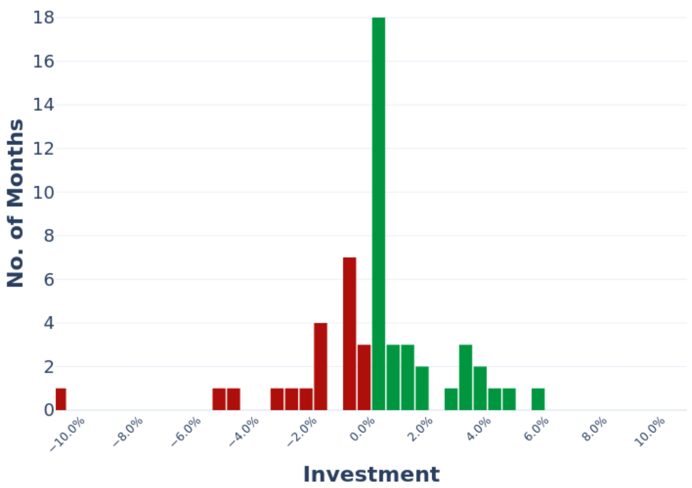
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Investment	3.74%	3.15%	-1.42%	-0.83%	1.30%
Benchmark	2.11%	3.96%	2.73%	1.82%	1.39%
Median	5.36%	7.57%	1.27%	1.31%	1.97%
Cash	2.11%	3.96%	2.73%	1.82%	1.39%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	Inception
Fund Ranking	25 / 34	20 / 27	11 / 21
Quartile	3rd	3rd	2nd

Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Standard Deviation (% p.a.)				
Investment	7.24%	9.04%	7.52%	8.90%
Benchmark	0.13%	0.44%	0.51%	0.45%
Median	3.99%	6.41%	5.31%	6.39%
Downside Deviation (% p.a.)				
Investment	3.91%	6.40%	5.33%	6.70%
Benchmark	0.00%	0.01%	0.01%	0.01%
Median	1.17%	4.70%	3.87%	5.17%

Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Sharpe Ratio (p.a.)				
Investment	-0.11	-0.46	-0.35	-0.01
Benchmark	0.00	0.00	0.00	0.00
Median	0.91	-0.23	-0.10	0.09
Sortino Ratio (p.a.)				
Investment	-0.21	-0.65	-0.50	-0.01
Benchmark	NaN	0.00	0.00	0.00
Median	3.10	-0.31	-0.13	0.11

Zenith benchmarks funds within the 'International Fixed Interest - High Income' peer-group against the Bloomberg Bank Bill Index. While this benchmark may not be consistent with the one adhered to by all sector participants, it has been adopted to provide investors with a common reference point against which the performance of similarly structured strategies may be assessed.

The following commentary is current as at 31 January 2024.

The objective of the Fund is to maximise total return, whilst providing a monthly income stream that is at a premium to cash rates. The Fund is also positioned to preserve capital and maintain volatility between the Bloomberg Barclays US Aggregate Index and BBB Credit.

The Fund has underperformed the median manager within its peer group, when assessed across a range of investment terms. Notwithstanding this, Zenith highlights that the Fund has provided a stable distribution over the past 12 months, consistent with its income objective.

Relative performance

Excess returns

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Excess Return	1.64%	-0.81%	-4.15%	-2.65%	-0.09%
Monthly Excess (All Mkts)	33.33%	41.67%	41.67%	50.00%	60.00%
Monthly Excess (Up Mkts)	33.33%	41.67%	43.48%	54.55%	63.46%
Monthly Excess (Down Mkts)	0.00%	0.00%	0.00%	0.00%	0.00%

Capture ratios (% p.a.)

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Downside Capture	0.00%	0.00%	19562.50%	19240.76%	19240.76%
Upside Capture	176.44%	79.82%	5.97%	16.43%	146.99%

Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	7.20%	8.88%	7.41%	8.88%
Median	3.94%	6.19%	5.15%	6.34%

Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	-0.11	-0.47	-0.36	-0.01
Median	0.92	-0.24	-0.10	0.09

Beta statistics

Statistic	1 Yr	2 Yrs	3 Yrs	Inception
Beta	15.53	7.96	3.64	1.17
R-Squared	0.08	0.15	0.06	0.00
Correlation	0.28	0.38	0.25	0.06

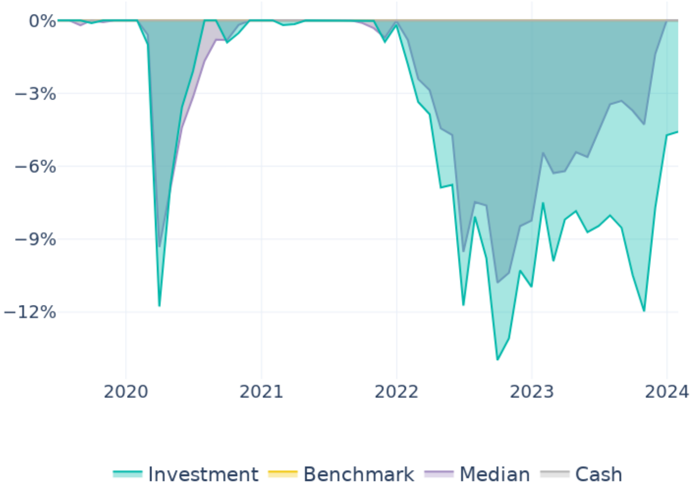
The following commentary is current as at 31 January 2024.

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 largely failed to outperform the index in more than 50% of months in all market conditions, when assessed across various time periods.

Drawdown analysis (since inception)

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.

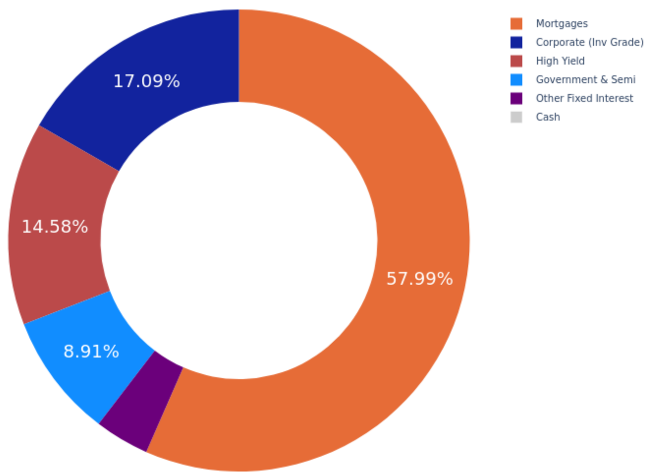


The following commentary is current as at 31 January 2024.

The Fund experienced its largest drawdown in September 2022, which was deeper than the drawdown of the peer group's median manager.

The larger drawdown is in line with expectations, given the largely unconstrained nature of the Fund with meaningful allocations to higher-yielding securities and Emerging Market Debt.

Fixed interest sector holdings



Fund commentary

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 risk: Zenith believes there key person risk associated with Bhatia and his departure would necessitate a reassessment of the Fund's rating.

Default risk: The Fund is permitted to invest in High-Yield, a market segment which by its nature has a higher potential of default. Although investors have historically been compensated for these risks through incremental spread (and often returns), the sector is inherently more volatile than that of Investment Grade Credit, and risks of capital loss tend to be magnified in this market segment. Additionally, defaults tend to cluster in certain years and therefore investors should expect periodic episodes of higher defaults.

Nevertheless, given the Fund can invest up to 75% of its portfolio in sub-investment grade debt, investors should be aware of the increased risks associated with this market segment.

Income risk: Notwithstanding the Fund's monthly distribution schedule and emphasis on income, there is a risk that NB fails to meet its distribution objectives.

Currency risk: The Fund is permitted to hold active currency positions. These have the potential to either add or detract from performance.

Mandate risk: The Fund's mandate is broad, permitting exposure across a range of market segments. By virtue of this flexibility, there is a risk the Fund performs in a manner that is differentiated to peers, potentially lagging that of benchmark-relative strategies.

Structuring risk: The Fund invests through a feeder fund structure, in that the domestic unit invests in an offshore fund. The use of interposed entities introduces additional structuring, complexity and regulatory risk, while also reducing the proximity between the Responsible Entity and the underlying investment portfolio.

Security/asset selection

The following section provides a broad overview of NB's credit selection process. Zenith notes however that each of NB's spread-based teams (i.e., Investment Grade, High Yield, Emerging Market Debt) implement a slightly different approach, reflecting the idiosyncrasies of their respective areas of coverage. That said, a high level of commonality does exist with respect to the level of fundamental due diligence undertaken by analysts, and the mechanism through which findings are translated into assessments of issuer credit worthiness and relative value.

Analysts are coordinated across industry lines and are assigned to sectors based on their past experience and areas of interest. Zenith notes that credit analysts are predominantly career analysts with long tenure in their chosen area/s of specialty, permitting a deeper level of insight. Furthermore, analysts retain responsibility for 30-35 issuers which is broadly consistent with global competitors.

To promote a level of consistency with respect to credit research, NB implements a Best Practice Checklist, which requires analysts to consider a broad range of factors. Included amongst these are:

Business fundamentals: business track record, ability to de-lever, business products, method of business growth.

- **Quality of cash flow:** impact on business risk, CAPEX, ability to delay commitments, accounting practices, cautious of large transformation 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:

non-investment grade analysts implement a quotient methodology whereby environmental and social factors are considered alongside a set of management and governance matters. 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 non-investment grade criteria (i.e., governance structure, experience and track record, transparency and adaptability).

Next, analysts undertake detailed cash flow assessments, taking into consideration industry-specific considerations (i.e., regulatory and competitive pressures) and outputs of the SRM. Most notable are the SRM's global growth, currency and commodity forecasts. Upon completion of their assessments, analysts are responsible for assigning issuer-based credit ratings, along with buy, hold or sell recommendations. Assessments are then subject to peer review, and once vetted, are presented to NB's Credit Committee for approval.

In Zenith's opinion, NB's credit selection process is detailed and well structured, and we view favourably the common framework adopted for the assessment of issuers.

Responsible investment approach

NB has been a signatory to the United Nations Principles for Responsible Investment (PRI) since 2012. In addition, NB has an established Responsible Investment Policy (RIP) that was last updated in October 2022 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.

ESG factors are also incorporated into the security selection process by the individual specialist sector teams. While the precise methodology varies across market segments, ESG risks and factors are ultimately integrated into NB's internal credit ratings.

In addition, NB actively engages with issuers on ESG factors, including board diversity, greenhouse gas emissions and workplace conditions.

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

Portfolio construction

The MST is responsible for setting the Fund's investment strategy and overall risk tolerance. To aid with these responsibilities, the team meets weekly to discuss the Fund's key positions and risk setting, taking into consideration the outputs of NB's optimiser, the views expressed from across NB's sector teams and asset class valuations.

PMs seek to reach consensus with regard to the Fund's targeted asset mix and strategies for extracting value. With respect to asset class exposures, these are gained on an interfunding basis, with capital allocated to sector teams. Where these teams offer multiple strategies, preference is given to flagship offerings and those that are cost-efficient.

Zenith notes that since the inception of the strategy, NB's targeted asset mix has become more diversified. This trend has coincided with the expansion of NB's global network to include a growing number of specialist teams. In Zenith's opinion, a broadening of NB's specialist capabilities has been of benefit to the Fund, permitting it to access discrete market segments that would otherwise be unavailable.

The Fund's permitted duration range is relatively wide at two to eight years. Notwithstanding this, the Fund's duration tends to fall within a range of three to six years, and reflects an outworking of the MST's security selection and optimisation processes. With respect to currency, the Fund may retain up to 10% in active positions. NB has advised that it is unlikely to test the mandate's outer limit, other than in extreme market conditions, and historical exposure has generally been a maximum of 5%.

In managing the Fund, the MST generally favours physical exposure, however, will use derivatives to manage the Fund's interest rate strategies. While the team anchors on physical bonds in credit, they do use derivatives to build exposure (when warranted by their views on relative value and desire to have less frictional positioning). Zenith believes NB's preference for physical exposure has the potential to constrain the opportunistic nature of the Fund, particularly in less liquid markets and times of market stress.

In Zenith's opinion, NB's portfolio construction process is scalable, drawing on the collective insights and views from across its global channels. Notwithstanding this, we believe there is an opportunity to enhance trade execution through the use of derivatives which permit the MST to manage the Fund's credit spread characteristics, while also enhancing its drawdown and skew profile.

Risk management

The Fund's mandate is broad and consistent with this, it is subject to few constraints. With respect to portfolio risk, the Fund has no formal limits, rather it is managed such that its volatility is consistent with that of the Bloomberg Barclays US Aggregate Index. Further, the Fund is positioned to produce a liquidity profile commensurate with a global investment-grade portfolio.

The MST considers risk at multiple levels. At a portfolio level, the MST meets regularly to discuss the Fund's key exposures and risk positioning. To aid with their deliberations, members use BlackRock Aladdin and Bloomberg Point to produce high-level risk reports which are subsequently scrutinised. From a bottom-up perspective, risk is also considered through the due diligence undertaken by analysts who focus on credit quality and avoiding those issuers with deteriorating financials.

The investment team is supported by an independent risk function, led by Anne Brennan, Chief Risk Officer (CRO). This division comprises three separate sleeves, each of which have a discrete set of responsibilities including:

Investment risk: analyse risk metrics, produce scenario analysis, stress testing and liquidity coverage ratios. In addition, this team audits performance analysis and provides independent assessments of portfolio managers

Operational risk: this team is principally focused on identifying, monitoring and reporting on operational risks

Asset management guideline oversight: monitor compliance with investment mandates, independently critique and assess the integrity of the Fund's process, and provides support to the overall portfolio management process

Zenith notes that there is a high degree of overlap in membership across each of the three risk divisions. In our opinion, greater independence across functions would add further credibility to the team's outputs. Notwithstanding this, we view favourably the existence of direct reporting lines between Brennan and NB's Chief Executive Officer.

Overall, Zenith believes NB's risk management framework is sound, noting the risk management team is well resourced and supported through both proprietary and third-party risk reporting systems.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.75% p.a.	0.89% p.a.
Management Fees and Costs	0.75% p.a.	0.82% p.a.
Transaction Costs	0.00% p.a.	0.10% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.00%
Performance fees description	N/A	
Management Cost	0.75% p.a.	0.85% p.a.
Buy / Sell spread	0.10% / 0.10%	0.16% / 0.17%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

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

Zenith believes the Fund's management fee is competitive relative to peers.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

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 39 cities worldwide. Employing over 700 investment professionals globally, NB manages Equity, Fixed Income, Private Equity and Hedge Fund strategies on behalf of institutions, advisors and individual investors. Since its re-emergence as an independent firm in the aftermath of its employee-led Buyout from Lehmann Brothers in 2008, NB has enjoyed a sustained period of growth, managing approximately $US 463 billion worldwide, of which $A 9.95 billion was on behalf of Australian clients as of 31 December 2023. Its privately-owned structure has led to a 96% retention rate of the senior investment team since its independence in 2009.

As at 31 December 2023, NB managed approximately $US 181 billion in Fixed Interest assets, spanning Multi-Sector, Investment Grade, Non-Investment Grade, Emerging Market Debt, Municipals and Alternatives. Included amongst these assets is the Strategic Income strategy which represented $US 10.01 billion as at the same date, with the Fund contributing $A 137.1 million.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Brad Tank	Co-Chief Investment Officer - Fixed Income	42	22	Chicago , USA
Ashok Bhatia	Co-Chief Investment Officer - Fixed Income	30	7	Chicago , USA
Jon Jonsson	Senior Portfolio Manager	28	11	London, UK

NB's Global Fixed Interest (GFI) team comprises over 190 investment professionals and is led by Co-CIO's, Fixed Income, Tank and Bhatia. Team members are predominantly 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.

The MST comprises six senior members from across NB's Global Fixed Interest (GFI) platform. Spread across Chicago and London, the team includes Tank, Bhatia, and Senior Portfolio Manager, Jon Jonsson. Bhatia is the lead Portfolio Manager responsible for the day-to-day management of the Fund.

Bhatia was appointed Co-CIO in January 2024 (previously Deputy CIO). Effective 2025, following a one-year transition period, Bhatia will assume sole CIO and Global Head of Fixed Income responsibility, with Tank becoming a Senior Advisor to the firm. Zenith believes Bhatia is a logical succession and has a positive view of his experience across Global Fixed Income and Currency markets, while also noting his strong contribution to the Fund's sector rotation strategies.

Based in Chicago, Bhatia joined NB in 2017 and is a member of the Fixed Income Investment Strategy Committee and the firm's Asset Allocation Committee. Prior to NB, Bhatia held senior investment and leadership positions across several asset management firms and hedge funds, including Wells Fargo Asset Management, Balyasny Asset Management, and Stark Investments.

Tank joined NB in 2002 from Strong Capital Management where he was Director of Fixed Income, and prior to this he was Vice President at Solomon Brothers. Based in Chicago, Tank has retained a number of leadership responsibilities, including standing as a member of NB's Operating, Investment Risk, Asset Allocation, and Fixed Income Investment Strategy Committees. He is an experienced investor with a breadth of knowledge across the Fixed Income asset class.

Jonsson joined NB in 2013 from JP Morgan Asset Management, where he was involved in the management of global aggregate and multi-sector funds over a period spanning 15 years. Based in London, Jonsson was promoted to the portfolio management team in 2018.

The remaining members of the MST are David Brown (Co-Head of Global Investment Grade Fixed Income), Thanos Bardas (Co-Head of Global Investment Grade Fixed Income) and Adam Grotzinger (Senior Portfolio Manager), each whom provide input into the formation of investment strategy.

The MST retains close lines of communication with analysts and portfolio managers from across NB's global platform, with the view to incorporate specialist insights to the team's deliberations. This is achieved through a series of structured meetings which promote the free flow of information with respect to valuations, market developments and the most contemporary views of its members.

Zenith notes that NB's GFI platform has grown considerably over a sustained period, which has been mainly achieved through acquisition. Zenith believes that as NB continues to broaden its specialist capabilities, this will be of benefit to the Fund, permitting the team to access a broader set of discrete betas.

Overall, Zenith believes the MST will continue to comprise high-quality investment professionals that have skill sets aligned to the management of a multi-sector fixed income strategy. Furthermore, we view favourably the team's ability to access specialist insights from across NB's global network, believing these aid with the derivation of investment strategy and ultimately the Fund's targeted objectives.

About the sector

Sector characteristics

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 comprises 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).

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 Bond). 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. Default 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 the 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.

Administration and operations

Responsible Entity	Equity Trustees Limited

Zenith rating

Report certification

Date of issue: 07 Mar 2024

Role	Analyst	Title
Analyst	Pelin Gurses	Investment Analyst
Sector Lead	Rodney Sebire	Head of Alternatives & Global Fixed Interest
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
07 Mar 2024	Recommended
09 Mar 2023	Recommended
02 Mar 2022	Recommended
01 Mar 2021	Recommended
27 Feb 2020	Recommended
20 Dec 2019	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.

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

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