# NB Distressed Debt Investment Fund Limited New Global Shares

NEUBERGER BERMAN

September 30, 2015

## FUND OBJECTIVE

NB Distressed Debt Investment Fund Limited ("NBDDIF") is a Guernsey-incorporated closed-ended investment company that launched in June 2010. NBDDIF's primary objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic stressed, distressed and special situation credit-related investments while seeking to limit downside risk.

NBDDIF owns holdings diversified across distressed, stressed and special situations investments, with a focus on senior debt backed by hard assets. The portfolio is managed by the Distressed Debt team at Neuberger Berman, which sits within what we believe is one of the largest and most experienced non-investment grade credit teams in the industry.

The New Global Share Class ("NBDG") was created in March 2014 and aims to capture the growing opportunity in distressed debt globally. NBDG is subject to an investment period ending on 31 March 2017, following which the assets will be placed into the harvest period.

The New Global Share Class is one of three classes of shares in NBDDIF. The other classes are the Ordinary Share Class and the Extended Life Share Class. The Ordinary Share Class is subject to an investment period which ended on 10 June 2013 and the Extended Life Share Class is subject to an investment period which ended on 31 March 2015. Separate factsheets are produced for those classes.

## MANAGER COMMENTARY

**As previously announced, our chairman Robin Monro-Davies passed away during the quarter. His insight and knowledge will be missed. John Hallam was appointed by the Board of Directors as chairman of the Company. Sarah Evans joined the board, effective 26 October, 2015 and will chair the Audit Committee.**

**Summary**

Given the current volatility across global markets and the commodity pricing environment, we believe that the opportunity set in distressed debt and post-reorganisation securities of companies with tangible assets remains robust, particularly in the oil & gas, power generation, transportation, and commercial and residential real estate sectors. We continue to focus on distressed situations backed by hard assets at attractive valuations and actively manage the current investments in our portfolio in order to generate profitable realisations through significant events (asset sales, legal outcomes, foreclosures, etc.). We remain positive about the investments in the portfolio and believe we can generate attractive returns from current mark-to-market valuations.

**Portfolio**

As at 30 September 2015, 86.1% of NBDDIF New Global Share net asset value ("NAV") was invested in distressed assets. 13.9% of NBDG's NAV is held in cash and is available for new investments and working capital. NBDG had investments in 27 names across 11 industries. The largest sector concentrations were in lodging & casinos, utilities, shipping and oil & gas.

NBDG's NAV per share increased 0.2% in the third quarter, to 81.45 pence per share from 81.25 pence per share. For the third quarter, positive movement in FX prices offset a decline in value of the portfolio from mark-to-market unrealised losses resulting in relatively flat performance for NBDG. One of the lodging & casino investments contributed the largest mark-to-market gain in the portfolio. Declines in energy markets and subsequent mark-to-market unrealised losses in our energy related investments generally contributed to the unrealised losses in the portfolio.

Performance in the distressed and high yield debt markets during the third quarter was challenging from a mark-to-market perspective. We believe that performance comparison versus other distressed debt managers is best indicated by the HFRI Distressed/Restructuring Index[2], which declined 4.7% in the third quarter. Another indication of the defaulted loan market's volatility is the defaulted S&P/LSTA US D Rating Loan Index[3], which returned negative 23.3% for the third quarter. Further, the Credit Suisse and Bank of American Merrill Lynch distressed high yield indices[4,5] returned negative 19.6% and 22.9%, respectively, during the third quarter.

In the quarter, one of NBDG's utility investments announced that it entered into a sale of substantially all of its assets at a proposed purchase price that is approximately 60% higher than the market price at the time of the sale announcement. The sale is expected (but not guaranteed) to close in the fourth quarter at which time we expect to receive a majority of the purchase price with a small amount held back in escrow. We had anticipated a sale of the company as one of the most likely exit scenarios for this asset.

The manager of one of our largest investments announced its intention to combine our investment's assets with other land assets controlled by the manager into a newly formed, publicly traded entity ("NewCo"). The announcement of this news resulted in a 13% increase in the price of the equity. If the transaction is successful, shareholders, including NBDG, would receive shares of the NewCo and would allow all NewCo shareholders to diversify risk through equitable participation in a diversified land portfolio. To date, the market has recognised the potential value of a diversified land portfolio NewCo and our investment has benefited from this view. There is market risk surrounding the potential IPO, however, and there is no guarantee the IPO will be consummated or that our investment will continue to benefit from the improved market view.

Subsequent to quarter end, a utility investment announced that it reached an agreement to sell its core asset, a combined-cycle natural gas power plant, to a large utility company. The bid price for the LLC units held by NBDG rose 12% upon announcement. There is no guarantee that our investment will continue to benefit from the announcement of this sale transaction.

These are three examples of event driven outcomes for our investments that we anticipate in our analysis, but which are not fully reflected in market pricing until the announcement of a specific event. We believe there are more opportunities like this in the portfolio.

We continue to actively manage the investments in our portfolio in order to generate profitable realisations through significant events (asset sales, legal outcomes, foreclosures, etc.). We continue to remain positive about the investments in the portfolio and believe we can generate attractive returns from current mark-to-market valuations.

**Market Update**[6]

The turmoil in credit markets in 2015 presents NBDG with a pipeline of stressed and distressed opportunities in the real estate, transportation, and energy sectors. Given the volatility in energy markets, we continue to evaluate different opportunities and how best to invest NBDG capital.

EU banks have increased their disposal of European and U.S. loans and assets to €139 billion year to date through 30 June 2015, surpassing the 2014 level of €91 billion. The level of 2015 disposals is expected to exceed €150 billion for the full year. However, over €1 trillion of non-performing loans still remain on EU banks' balance sheets. We believe that the European regulatory environment may continue to facilitate further recognition and disposal of stressed and distressed assets.

**Exits**

There was one exit in the quarter bringing the total number of exits since inception to date to six. Weighted average IRR[7] on the six exits is 17% with £1.5 million of net income on these exits.

**Investment 6:** We purchased $3.9 million face value of a senior secured loan at 36.5% of par. The loan was secured by five 2,800 TEU containership vessels, that were time chartered out by the parent company. The company defaulted on the loans, and the lenders sought recovery by taking ownership of the vessels. Given a difference of opinion on strategies for the vessels post-restructuring, we partnered with two other lenders, and took control of two of the vessels while the remaining lender group took control of the final three. After a period of maintenance on the vessels, and a number of short-term charters, we ultimately sold the vessels to strategic buyers. Total income from the investment was £0.2 million (NBDG's currency).

| Face Value | Entry price | Exit Price | IRR |
|---|---|---|---|
| $3.9 million | 36.50% | 44.00% | 23% |

## FUND MANAGERS

**MICHAEL HOLMBERG**

27 years investment experience

**PATRICK FLYNN**

23 years investment experience

**BRENDAN MCDERMOTT**

12 years investment experience

**RAVI SONI**

11 years investment experience

## KEY STATISTICS (as at September 30, 2015)[1]

| | |
|---|---|
| NAV Per Share: | GBP 81.450 |
| Share Price: | GBP 69.500 |
| Share Price (Discount) / Premium vs. NAV | (14.67)% |
| Market Cap | £75.60m |

## KEY INFORMATION

| | |
|---|---|
| Fund Type: | Closed-ended Investment Company |
| Launch Date: | 10 June 2010 |
| Base Currency: | GBP |
| NAV Frequency: | Daily |
| Domicile: | Guernsey |
| Year End: | 31 December |
| Management Fee: | 1.5% |
| Bloomberg Ticker: | NBDG |
| ISIN: | GG00BH7JH183 |
| Website: | www.nbddif.com |

## DIRECTORS

John Hallam (Chairman)
Sarah Evans (effective 26 October, 2015)
Patrick Flynn
Michael Holmberg
Talmai Morgan
Christopher Sherwell

*Data as at September 30, 2015. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDX.*

1. *Source: Bloomberg, except where otherwise stated.*
2. *The HFRI Distressed/Restructuring Index reflects distressed restructuring strategies which employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings (provided by Hedge Fund Research, Inc.).*
3. *This refers to the D-rated cohort of the S&P /LSTA Leveraged Loan Index indicating defaulted loans. The S&P/LSTA Leveraged Loan Index is designed to mirror the investible universe of the $US-denominated leveraged loan market.*
4. *Credit Suisse High Yield Index is designed to mirror the investible universe of the $US-denominated high yield debt market. The distressed/default rating index includes issuers who have filed for bankruptcy protection or missed a coupon payment and the grace period has expired; Standard & Poor rating is D,CC or C and/or Moody's rating is Ca or C (provided by Credit Suisse).*
5. *The BofA Merrill Lynch US Distressed High Yield Index is a subset of the BofA Merrill Lynch US High Yield Index including all securities with an option-adjusted spread greater than or equal to 1,000 basis points. The BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market (Data source: Bloomberg).*
6. *Source: Data from PWC dated July 2015 and March 2015.*
7. *The term 'weighted average IRR', as used in this fact sheet, is determined by Neuberger Berman by calculating, for each investment exit, (A) the investment exit's original purchase price, divided by (B) the total of all investment exits' original purchase prices, multiplied by (C) the IRR for the applicable investment exit. Neuberger Berman then calculates the sum of the figures calculated in the prior sentence for all of investment exits for the share class.*

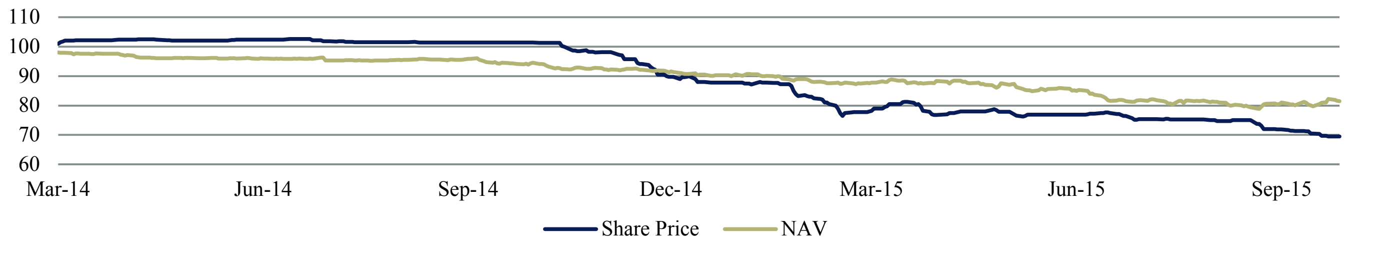
**Share Buy Back**

Under the authorised share buy-back policy, 1,460,000 shares of NBDG were purchased in the open market at a cost of £1,044,785 or an average cost of 71.56 pence. This brings the total shares of NBDG purchased in the market as at 30 September 2015 to 2,010,000 at a cost of £1,465,910. The purchased shares of NBDG are held in treasury. See www.nbddif.com for further information.

## TOP 10 HOLDINGS[1]

| Holding | Industry | Purchased Instrument | Status | Country | % of NAV | Primary Assets |
|---|---|---|---|---|---|---|
| 1 | Lodging & Casino | Post-Reorg Equity | Post-Reorg | US | 8% | Casino |
| 2 | Utilities | Secured Loan | Current | US | 6% | Power plants |
| 3 | Building & Development | Post-Reorg Equity | Post-Reorg | US | 5% | Residential real estate |
| 4 | Lodging & Casino | Secured Loan | Defaulted | Spain | 5% | Hotels |
| 5 | Shipping | Secured Loan | Defaulted | Denmark | 5% | Maritime vessels |
| 6 | Commercial Mortgage | Secured Loan | Current | Netherlands | 5% | Commercial real estate |
| 7 | Utilities | Post-Reorg Equity | Post-Reorg | US | 4% | Power plants |
| 8 | Nonferrous Metals/Minerals | Post-Reorg Equity | Post-Reorg | US | 4% | Manufacturing/distribution real estate |
| 9 | Lodging & Casino | Secured Loan | Current | US | 4% | Casino/hotel real estate |
| 10 | Oil & Gas | Senior Notes | Current | US | 4% | Oil and gas reserves |
| Total | | | | | 50% | |

## PERFORMANCE[2]



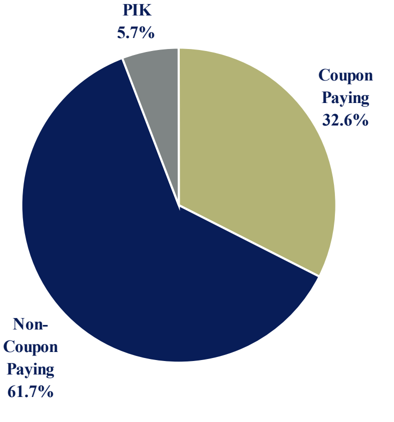

## COUNTRY BREAKDOWN[3,4] (%)

| | |
|---|---|
| United States | 62.4% |
| United Kingdom (inc. cash) | 13.9% |
| Spain | 9.1% |
| Denmark | 5.4% |
| Netherlands | 4.8% |
| Marshall Islands | 3.0% |
| Australia | 1.3% |

## CURRENCY BREAKDOWN[3,4] (%)

| | |
|---|---|
| USD | 68.0% |
| EUR | 18.8% |
| GBP | 6.7% |
| DKK | 4.8% |
| AUD | 1.8% |

## COUPON PAYMENTS (excluding cash)[3]




## SECTOR BREAKDOWN[3,4] (%)

| | |
|---|---|
| Lodging & Casinos | 19.6% |
| Utilities | 17.0% |
| Shipping | 10.2% |
| Oil & Gas | 9.2% |
| Surface Transport | 8.8% |
| Building & Development | 5.5% |
| Commercial Mortgage | 4.8% |
| Nonferrous Metals/Mining | 4.2% |
| Industrials | 3.4% |
| Air Transport | 2.4% |
| Chemicals & Plastics | 1.1% |
| Cash, Accruals and Equivalents | 13.9% |

*Data as at September 30, 2015. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDG.*

1. *Categorisations determined by Neuberger Berman and percentages determined by U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited, as administrator to NBDDIF, based on market value as of September 30, 2015. Excludes cash and short term investments.*
2. *Source: Bloomberg.*
3. *Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited as Fund Administrator. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment may comprise real estate assets in a number of cases. As a result, NBDG's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.*
4. *Includes cash and accruals.*

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