

INVESTMENT STRUCTURE OF THE COMPANY

SENIOR SECURED DEBT (BANK LOANS)	Highest
HIGH YIELD DEBT (UNSECURED OR SUBORDINATED)	Priority of paymen
PREFERRED STOCK	
COMMON STOCK	Lowest

SAMPLE CAPITAL STRUCTURE

#### LIBOR FLOOR

The minimum base rate of LIBOR even if LIBOR falls below that level

## CREDIT SPREAD

The amount of interest paid over LIBOR to compensate an investor for the associated credit risk

#### DISCOUNT<sup>1</sup>

The amount a loan is priced below par in the primary or secondary market e.g. if a loan is priced at 97 this equals a 3 percent discount.

# INDICATIVE BREAKDOWN OF SENIOR SECURED LOAN RETURNS

Approximately 800-1100 issuers	QUALITY SCREENS  Approximately 400-600 issuers	CREDIT AND INDUSTRY ANALYSIS Approximately 200-250 issuers	PORTFOLIO CONSTRUCTION Approximately 175-225 issuers
Comprised of loans and securities rated BB+ and below Includes U.S. and non-U.S. issuers	Focused on companies with historically stable cash flows, liquidity and access to capital Seeks to eliminate:  • Less liquid issuers (EBITDA <\$100M)  • Most defaulted and distressed securities  • Outliers and high default potential issuers	Macroeconomic Analysis: State of global economy, credit cycle, political factors, etc.  Industry Analysis: Competitive landscape, life cycle, regulatory environment, etc.  Credit Analysis: Cash flow analysis, default analysis, recovery analysis	Strive to construct highly diversified portfolios across:  Industry  Companies  Investment size  Credit ratings  Yield analysis  Avoid concentration of cyclical industries
<	Focus on	Risk Management	$\rightarrow$

**Investment Process** 

#### **ECONOMY:** KEY DATA POINTS

- Direction of Global Economy:
  - Economic Indicators
- Globalisation Trends:
  - Regional GDP/economic forecasts Banking Industrial Global equity market movements Political Factors:

  - Currency fluctuations
- Credit Cycle:
  - Degree of cyclicality
  - Spreads relative to historic levels
  - Banking Industry
  - - Budget surplus / deficit
    - Election / wars

# INDUSTRY: KEY DATA POINTS

- Where are we in industry life cycle
- · Competitive landscape
- Competitive landscape
   Trend for industry consolidation
- · Capacity levels
- Regulatory environment
- · Competitor analysis

- Industry value chain
- Industry size and growth
- Rating agency trends
  - Industry model / return
  - Sensitivity to exogenous factors

**Top-Down Analysis** 

BUSINESS	QUALITY OF	SCENARIO	CAPITAL	LIQUIDITY	MANAGEMENT
FUNDAMENTALS	CASH FLOW	ANALYSIS	STRUCTURE		OWNERSHIP
Established businesses with longer-term track records     Ability to de-lever     Origination (roll-up vs. organic)     Understand business and products	Off-set business risk Cautious of large transforming acquisitions Quantifylevaluate CAPEX Ability to delay commitments Accounting practices	Understand upside/downside in terms of credit ratios, spreads and ratings     Benchmark company vs. industry and its own history	Evaluate management's intention and ability to right size the capital structure     Focus on senior structures in tight capital markets and slow growth periods	Cash Bank lines Covenants Non-core asset sales Other sources of cash	Understand any unusual equity ownership Evaluate management's abilities and incentives Consider turnover of senior management

# **Bottom-Up Analysis**

#### PROACTIVE INVESTMENT PROCESS

- Develop investment thesis and benchmark the drivers
- · Proprietary fundamental research
- · Disciplined and repeatable processes
- We endeavor to add value throughout all market cycles

#### **GENERATE ADDED VALUE**

- We seek to capitalise on market opportunities and generate added value through:
- Efforts to reduce credit deterioration Industry and quality rotation Relative value analysis

#### RISK MANAGEMENT

- We have developed proprietary systems to manage risk in accordance with client objectives and constraints
- Oversight provided by independent Neuberger Berman Risk Management Committee

# **Investment Philosophy**

#### CREDIT

- Process driven by longstanding "Credit Best Practices" checklist
- Three financial models; upside, downside and base case modeling
- Focus on cash flow for debt service
- Assessment of management
- Seek multiple sources of repayment
- Bond indenture/credit agreement analysis
- Vigilant and proactive monitoring using proprietary monitoring database

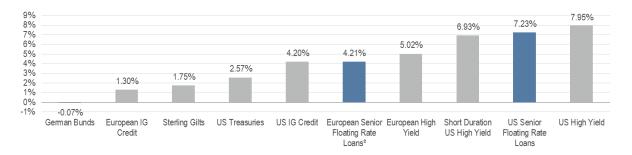
#### VALUATION

- Internal Neuberger Berman credit rating
- Relative Value spread analysis across industry and credit tier in light of Neuberger Berman rating
- Potential for deleveraging and credit upgrade

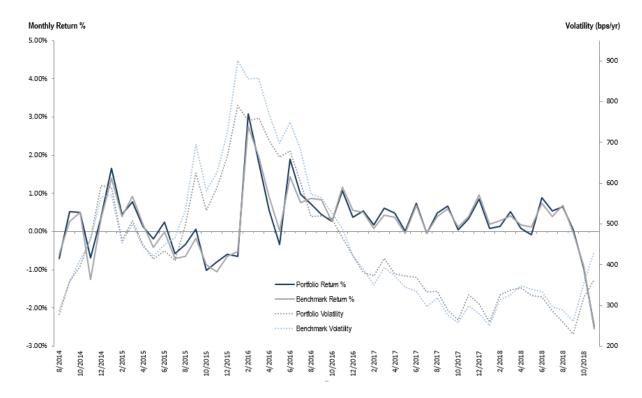
#### **SELL DISCIPLINE**

- Anticipation of deteriorating credit fundamentals
- Unexplained shortfall relative to financial scenarios
- Unexpected developments, including unanticipated change in management
- Fundamental problems at an industry level
- Holding reaches full valuation and Neuberger Berman Investment Advisers LLC ("NBIA") has identified a swap opportunity

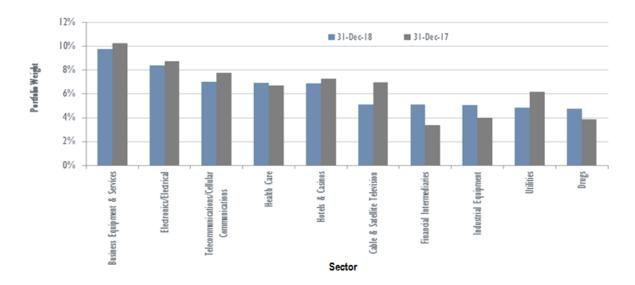
## **Selection Process**



# **Asset Class Yield Comparison**

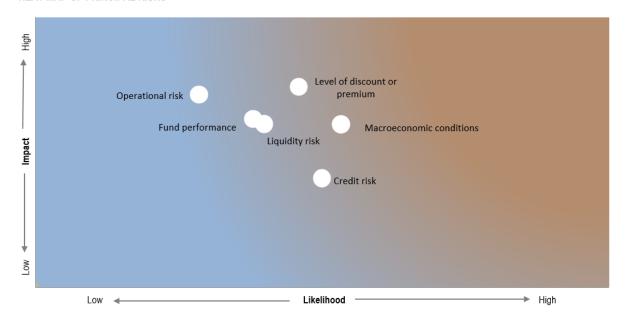


**VOLATILITY VERSUS RETURN** 



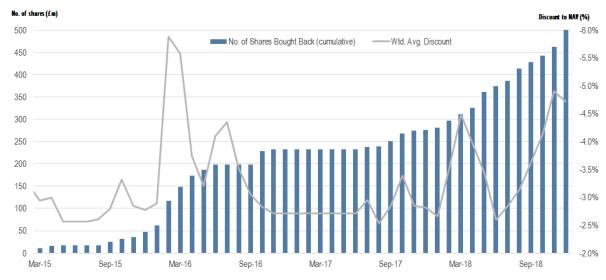
Top 10 S&P Sector Breakdown

## HEAT MAP OF PRINCIPAL RISKS

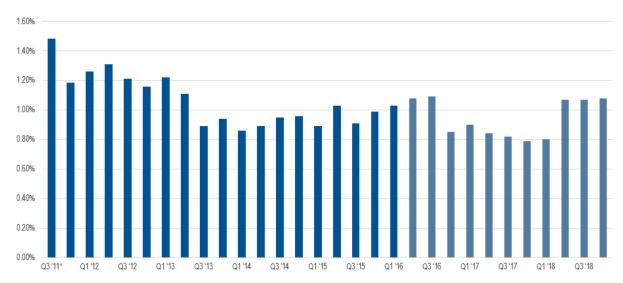


**Heat Map of Principal Risks** 

#### CUMULATIVE SHARE BUYBACKS 1 March 2015 - 31 December 2018



**Share Repurchases** 



Dividends Per Share (weighted average of NBLS and NBLU)

