

# NB Distressed Debt Investment Fund Limited – Ordinary Shares (“NBDD”)

31 December 2016

## NBDD FUND OBJECTIVE

NB Distressed Debt Investment Fund Limited's (“NBDDIF”) 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's holdings are 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.

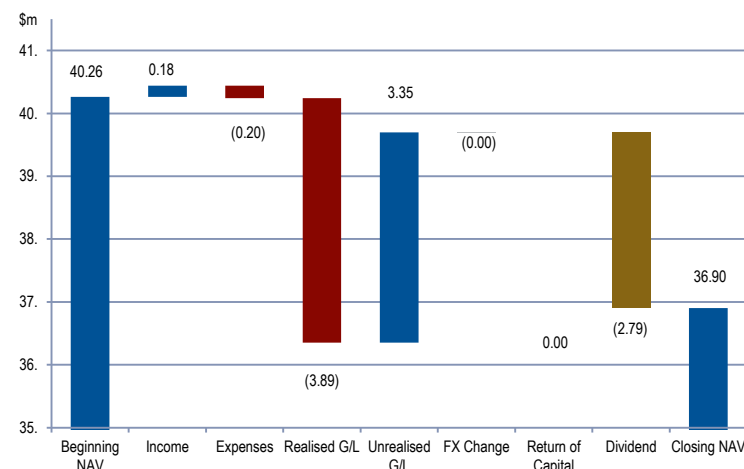
On 10 June 2013, the investment period of the NBDD Share Class (“NBDD” or the “Company”) expired. The assets of NBDDIF attributable to the Ordinary Shares were placed into the harvest period following the expiry of the investment period. To date, \$111.2 million (equivalent to 89% of original capital) has been approved for distribution (income by way of dividend and capital) to shareholders since the realisation phase for this share class.

The Ordinary Share Class is one of three classes of shares in NBDDIF. The others are the Extended Life Share Class and the New Global Share Class, which both offer exposure to new opportunities in this asset class beyond 10 June 2013. The Extended Life Share Class was subject to an investment period which ended on 31 March 2015 and the New Global Share Class is subject to an investment period ending on 31 March 2017. Separate factsheets are produced for those share classes.

## FUND FACTS<sup>1</sup>

NAV Per Share:	\$1.0478
Share Price:	\$1.0250
Share Price Discount vs. NAV	(2.18)%
Market Cap.	\$36.1m
Total NAV	\$36.9m
No. of issuers	22
Launch Date:	10 June 2010
Base Currency:	USD
NAV Frequency:	Daily
Domicile:	Guernsey
Year End:	31 December
Management Fee:	1.5%
Bloomberg Ticker:	NBDD
ISIN:	GG00BYT2S112
Website:	www.nbddif.com
Fund Type:	Closed-ended Investment Company

## NAV BRIDGE – 30 SEPTEMBER 2016 TO 31 DECEMBER 2016



Source: Neuberger Berman

Beginning NAV and Closing NAV are based on published NAVs for NBDD and not on a per share basis.

Realised gains and losses may include amounts from certain restructuring events during the quarter that are not attributable to full position exits.

FX Changes due to share class's exposure to foreign currencies. As further detailed in its prospectus, the share class may, but is not required to, engage in currency hedging in connection with investments in assets not denominated in US dollars (the currency in which shares are denominated).

Return of Capital includes distributions and buy backs.

Figures presented are based on quarter-end published financial information and financial information provided by U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited, as administrator to NBDDIF (the “Administrator”). This NAV bridge has not been audited and figures are subject to change.

## MANAGER COMMENTARY

Markets continued their recovery during the fourth quarter due to stable economic data, anticipation of a pro-growth change in U.S. economic policy, and the positive reaction to the Federal Reserve's decision to increase interest rates. Liquidity in distressed debt markets remains strained as investment banks continue to pull back their proprietary investing activities due to regulatory changes. NBDD's remaining investments are predominantly in illiquid securities, which had limited price movement during the quarter. We believe value in these assets will be realised upon exit after a liquidity event (i.e. sale, refinancing, IPO) and we are committed to returning capital to investors as we exit investments.

NBDD had two exits during the quarter, which generated a total return (income and capital gains over the life of the investments) of \$5.2 million. NBDD generated cash during the quarter of \$0.7 million, consisting of \$0.4 from exits and \$0.3 million from portfolio activity. During the quarter the Board made an income distribution by way of dividend of \$2.8 million to NBDD shareholders. Capital distributions and dividends totalled \$17.8 million (approximately 48% of year-end NAV) during 2016 and \$111.2 million over the life of the Company (equivalent to 89% of original capital). The ratio of total value (capital distributions, dividends and current NAV) to original capital was 119% of original capital at year-end.

## Portfolio Update

Including the aforementioned income dividend of \$0.0793 paid on 20 December 2016, NBDD's total return was (1.4%) for the quarter. NBDD ended the year with NAV per share of \$1.0478 as compared to \$1.1432 at the end of September. An unrealised gain in the restructured equity of a utility investment was offset by unrealised losses in two utility investments. The portfolio consists of 22 issuers across 12 sectors. While the majority of NBDD's investments were stable during the quarter; certain notable events are highlighted on the next page<sup>2</sup>:

Data as at 31 December 2016. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDD.

1. Source: Bloomberg, except where otherwise stated.

2. Notable corporate events may or may not result in an increase or decrease in the value of an NBDD investment or a change in NBDD's NAV per share. Please note that an investment may experience a change in value (positive or negative) during the quarter whether or not it was subject to a notable corporate event. Not all events involving existing investments are disclosed. In addition, certain corporate events may not have been disclosed due to confidentiality obligations.

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## FUND MANAGERS

### Michael Holmberg

27 years' investment experience

### Brendan McDermott

12 years' investment experience

### Ravi Soni

11 years' investment experience

### Directors:

John Hallam (Chairman)

Sarah Evans

Michael Holmberg

Christopher Sherwell

Stephen Vakil

## Portfolio Update continued

- A power generation company in the U.S. emerged from bankruptcy and secured debt claims were exchanged for public equity securities. The company paid a dividend of \$2.00 per share after emerging from bankruptcy. Equity price at year-end was above the issued level at emergence (adjusted for dividend).
- A power generation asset filed for Chapter 11 protection during December. We expected this development as part of a needed restructuring and it establishes a process to resolve certain perfected lien issues that could have otherwise had limited recoveries.
- To avoid dilution and protect NBDD's investment in a utility investment, NBDD participated in an equity supported debt raise in the amount of \$0.2 million.

## Significant Value Change (approximately 0.5% of NBDD NAV or +/- \$200,000)<sup>1</sup>

INDUSTRY	INSTRUMENT	Q416 TOTAL RETURN	COMMENT
Utilities	Private equity	(\$0.4 million)	Equity diluted with new financing

## Exit 33

In 2010, NBDD purchased \$9.5 million of private shares in 14 side pocket investments from a large private equity fund that sought to provide liquidity to its investors who needed to exit these investments. The investments included European commercial real estate properties, an Indian real estate company, a European PVC manufacturer, and an aircraft leasing company. Each of the 14 investments was exited at different points in time through sales and refinancing of the underlying properties and companies, with a final wind-down at year-end 2016. The total return on this investment was \$5.5 million, with initial cash invested of \$9.5 million and total cash received over the life of the investments of \$15.0 million (1.6x on initial investment). IRR on the investment was 12% over 72 months and ROR was 58%.

## Exit 34

Beginning in 2010, NBDD invested \$4.7 million to purchase defaulted bonds issued by a US financial company. The company was the largest thrift failure in U.S. history and was seized by the Federal Deposit Insurance Corporation (FDIC) in 2008. Shortly after acquiring our position, the FDIC arranged for a sale of the bank's assets to another major financial institution. Proceeds from the sale are being administered by the FDIC and will be used to repay partially creditors of the company. Creditors also received recoveries from a settlement of various legal claims stemming from the company's failure and the subsequent sale. NBDD originally purchased the defaulted bonds because we expected favourable settlement and litigation outcomes relative to the market value of the bonds at the time of purchase. We ultimately sold the defaulted bonds during the fourth quarter because a recent settlement suggested limited upside to the current market price. Total return was (\$0.3 million) over 76 months. IRR was (4%) and ROR was (7%).

EXIT	CASH INVESTED	CASH RECEIVED	TOTAL RETURN	HOLDING PERIOD	IRR	ROR
33	\$9.5 million	\$15.0 million	\$5.5 million	72 months	12%	58%
34	\$4.7 million	\$4.4 million	(\$0.3 million)	76 months	-4%	-7%

## Distributions

During the fourth quarter, the Board announced an income distribution by way of dividend of \$2.8 million to be paid to shareholders. This brings total distributions (capital and income) to \$111.2 million, equivalent to 89% of original capital. During 2016, the Board distributed 33% of the beginning NAV (1/1/16) to shareholders through exits and capital activity in the investments.

1. Industry categorisations determined by Neuberger Berman. Total Return determined by the Administrator and includes realised and unrealised gains and losses, expenses, FX gains and losses, and all income on investments according to US GAAP accounting.

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## COUNTRY BREAKDOWN<sup>2,3</sup> (%)

U.S.A	74.1%
Brazil	9.0%
Australia	7.8%
Luxembourg	6.5%
Great Britain	1.6%
Germany	1.1%
Greece	0.1%

## CURRENCY BREAKDOWN<sup>2,3</sup> (%)

USD	74.9%
EUR	9.5%
BRL	9.0%
AUD	5.7%
GBP	0.8%

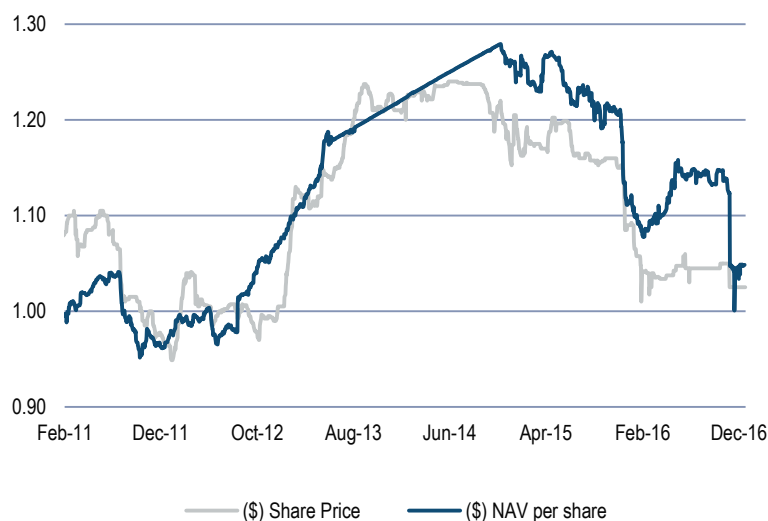
## SECTOR BREAKDOWN<sup>2,4</sup> (%)

Lodging & Casinos	18.9%
Utilities	15.9%
Building & Development	13.5%
Surface Transport	9.0%
Containers and Packaging	8.0%
Commercial Mortgage	3.4%
Real Estate Development	2.7%
Financial Intermediaries	2.4%
Auto Components	1.7%
Forest Products	1.1%
Shipping	0.9%
Air Transport	0.7%
Restricted Cash	0.9%
Unrestricted Cash	7.5%

## COUPON PAYMENTS (ex cash)<sup>2</sup>

Non Coupon Paying	80.6%
Coupon Paying	15.8%
PIK	3.6%

## FUND PERFORMANCE<sup>1</sup>



## PORTFOLIO COMPOSITION – TOP 10 HOLDINGS<sup>4</sup>

Holding	Industry	Instrument	Status	Country	% of NAV	Primary Assets
1	Lodging & Casinos	Secured Loan	Post-Reorg	US	19%	Hotel/lodging real estate
2	Building & Development	Post-Reorg Equity	Post-Reorg	US	13%	Residential real estate
3	Surface Transportation	Trade Claim	Defaulted	Brazil	9%	Municipal claim
4	Utilities	Secured Loan	Current	Australia	8%	Power plants
5	Containers and Packaging	Post-Reorg Equity	Post-Reorg	Luxembourg	6%	Manufacturing / distribution / real estate
6	Utilities	Secured Loan	Post-Reorg	US	5%	Power plants
7	Commercial Mortgage	Secured Loan	Current	US	3%	Commercial real estate
8	Financial Intermediaries	Secured Notes	Defaulted	US	2%	Cash and securities
9	Utilities	Secured Loan	Post-Reorg	US	2%	Power plants
10	Real Estate Development	Secured Loan	Post-Reorg	US	2%	Residential real estate
<b>Total</b>					<b>70%</b>	

Data as at 31 December 2016. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDD.

1. Source: Bloomberg.


2. Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market value as of 31 December 2016.

3. Includes cash and accruals.

4. Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and the Administrator. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDD's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

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