

# NB Distressed Debt Investment Fund Limited Extended Life Shares

NEUBERGER BERMAN

December 31, 2014

## 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 Extended Life Share Class ("NBDX") was created in April 2013<sup>1</sup> and is subject to an investment period ending on 31 March 2015, following which the assets will be placed into run-off and all proceeds from realisations returned to shareholders. NBDDIF will seek to return to the holders of Extended Life Shares all net capital profits arising from the exit of any assets attributable to those shares, at least every six months, with the first such distribution having been made in the first quarter of 2014. A second distribution was made in the third quarter of 2014.

The Extended Life Shares are one of three classes of shares in NBDDIF. The other classes are the Ordinary Share Class and the New Global Share Class. The Ordinary Share Class is subject to an investment period which ended on 10 June 2013 and the Global Share Class is subject to an investment period which will end on 31 March 2017. Separate factsheets are produced for those classes.

## MANAGER COMMENTARY

### Summary

We remain satisfied with the portfolio's performance to date. Given the volatility of the distressed debt markets in 2014, we were gratified to preserve our investors' capital whilst at the same time deploying the portfolio in attractive debt backed by hard assets. In the fourth quarter of 2014, we exited a position that contributed positively to NAV. We continue to see significant upside potential in the existing portfolio, which we expect to realise as we restructure and exit investments.

### Portfolio

As at 31 December 2014, 97.6% of the NBDDIF Extended Life Share NAV ("NBDX's NAV") was invested in distressed assets. Cash available for new investments and working capital ended the quarter at 2.4% of the NBDX NAV. NBDX's NAV per share decreased 1.5% in 2014, to \$1.2030 per share from \$1.2218 per share. We believe that performance comparison versus other distressed debt managers is indicated by the HFRI Distressed/Restructuring Index<sup>3</sup> which returned negative 1.0% in 2014. In the fourth quarter of 2014, NBDX's NAV per share declined 5.2%, primarily due to mark-to-market declines on existing positions. The mark-to-market environment for distressed debt was challenging in the quarter, as indicated by the HFRI Distressed/Restructuring Index which declined 3.6% in the fourth quarter. During the quarter we saw our 27th exit since inception, which is described in detail below. We added incrementally to existing names in the real estate, power generation and industrial sectors as well as adding new names in the oil & gas sector.

### Stock Repurchases

Pursuant to the NBDX discount management policy, NBDX made four repurchases of shares for cancellation in January 2015 totalling 260,000 shares. Subject to the NBDX discount management policy, NBDX may make additional repurchases at the sole discretion of the Board of Directors.

### Market Update<sup>4</sup>

We continue to believe the pipeline of opportunities in real estate, transportation and energy debt is compelling. EU banks in particular increased their disposal of European and U.S. loans and assets to €64 billion in 2013, versus €46 billion in 2012, €36 billion in 2011 and €11 billion in 2010. €67 billion of debt sales have occurred in the first nine months of 2014, on a run-rate to exceed €89 billion for the full year. However, over €1 trillion of non-performing loans remain on EU banks' balance sheets. We believe that the European regulatory environment may continue to facilitate further recognition and disposal of distressed loans. Additionally, the recent volatility in energy markets has presented new opportunities in the U.S.

### Exits

In the fourth quarter we saw our 27th exit since inception. This exit generated approximately \$1.8 million of total income and gains for NBDX.

**Investment 27:** We purchased \$11.8 million face value of a secured loan at 91.2% of par, secured by a portfolio of commercial office and industrial properties in the U.S. Prior to our purchase, the borrower had defaulted at maturity of the loan and began to liquidate properties to repay creditors. Our investment thesis was that the proceeds from asset sales would be sufficient to repay par plus accrued interest. Over the ensuing 16 months, sufficient assets were sold to repay our position in full. Total income from this investment was \$1.8 million.

Data as at December 31, 2014. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDX.

1. The Extended Life Share Class was created in April 2013 when holders of Ordinary Shares were invited to convert those shares into Extended Life Shares. The information in this fact sheet therefore relates to the Ordinary Shares up to April 2013 and to the Extended Life Shares thereafter.

2. Source: Bloomberg, except where otherwise stated.

3. 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.).

4. Source: Data from PWC dated July 2014 and December 2014.

## FUND MANAGERS



**MICHAEL HOLMBERG**

27 years investment experience



**PATRICK FLYNN**

23 years investment experience

## KEY STATISTICS (as at December 31, 2014)<sup>2</sup>

NAV Per Share:	\$1.2030
Share Price:	\$1.0775
Share Price (Discount) / Premium vs. NAV	(10.43)%
Market Cap	\$357.64m

## KEY INFORMATION

Fund Type:	Closed-ended Investment Company
Launch Date:	10 June 2010
Base Currency:	USD
NAV Frequency:	Daily
Domicile:	Guernsey
Year End:	31 December
Management Fee:	1.5%
Bloomberg Ticker:	NBDX
ISIN:	GG00BPT2C943
Website:	www.nbddf.com

## DIRECTORS

Robin Monro-Davies (Chairman)

Talmat Morgan

John Hallam

Christopher Sherwell

Michael Holmberg

Patrick Flynn

**EXITS**

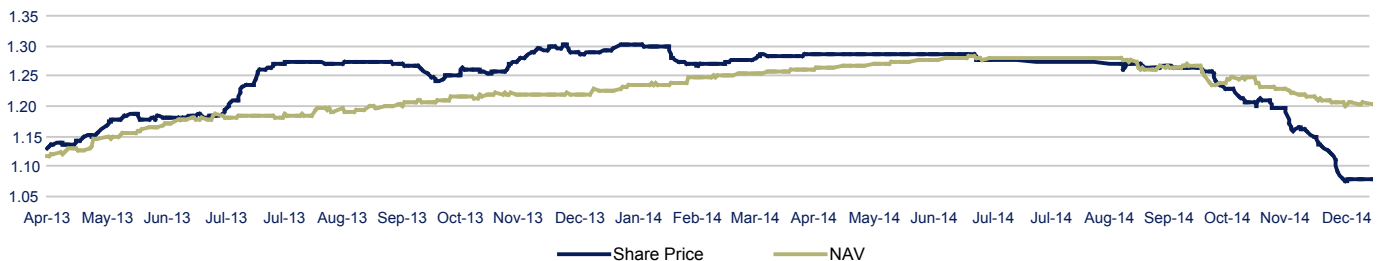
Exit	Industry	Instrument	Entry Value <sup>1</sup>	Exit Value <sup>1</sup>	Timing	Catalyst	ROR <sup>2</sup>	IRR <sup>3</sup>
27	Commercial Mortgage	Secured Loan	91.2%	100.0%	16 months	Liquidation	17%	24%

**TOP 10 HOLDINGS<sup>4</sup>**

Holding	Industry	Purchased Instrument	Status	Country	% of NAV	Primary Assets
1	Commercial Mortgage	Secured Loan	Defaulted	US	6%	Multifamily residential real estate
2	Building & Development	Post-Reorg Equity	Post-Reorg	US	5%	Residential real estate
3	Financial Intermediary	Private Notes	Post-Reorg	US	5%	Cash & securities
4	REIT/REOCs	Private Equity	Current	US	4%	Residential real estate
5	Utilities	Secured Loan	Defaulted	US	4%	Power plants
6	Lodging & Casinos	Secured Loan	Defaulted	US	4%	Hotel/lodging real estate
7	Utilities	Post-Reorg Equity	Post-Reorg	US	4%	Power plants
8	Financial Intermediary	Private Equity	Current	Germany	3%	Manufacturing/distribution real estate
9	Utilities	Secured Loan	Defaulted	US	3%	Power plants
10	Shipping	Secured Loan	Defaulted	Marshall Islands	3%	Maritime vessels
Total					41%*	

\* 41% is the true percentage of NBDX's NAV. The sum of the individual holding numbers may appear larger due to rounding of decimal places.

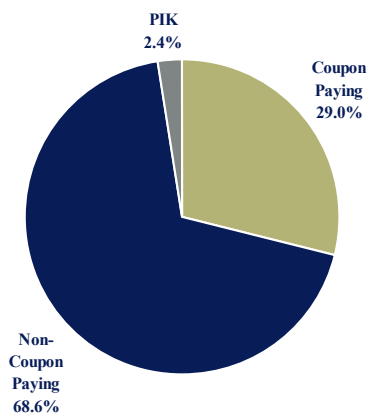
**PERFORMANCE<sup>5</sup>**



**COUNTRY BREAKDOWN<sup>6,7</sup> (%)**

United States	72.6%
Germany	7.7%
Australia	3.4%
Marshall Islands	3.3%
Spain	2.4%
Brazil	2.0%
Denmark	1.8%
Luxembourg	1.7%
United Kingdom	1.5%
Netherlands	1.4%
Cayman Islands	1.1%
Norway	0.9%
Greece	0.3%

**COUPON PAYMENTS (excluding cash)<sup>6</sup>**



**SECTOR BREAKDOWN<sup>6,7</sup> (%)**

Utilities	18.5%
Financial Intermediaries	15.3%
Lodging & Casinos	10.2%
Shipping	8.9%
Commercial Mortgage	8.3%
Building and Development	7.2%
REITs/REOCs	4.3%
Surface Transport	4.2%
Oil and Gas	4.1%
Real Estate Development	3.7%
Healthcare	2.5%
Containers and Packaging	2.2%
Non Ferrous Metals/Minerals	2.1%
Industrial	1.5%
Air Transport	0.9%
Forest Products	0.6%
Cash - Distressed Restricted	3.1%
Cash & Accruals - Non Distressed	2.4%

**CURRENCY BREAKDOWN<sup>6,7</sup> (%)**

USD	88.5%
EUR	6.4%
BRL	2.0%
AUD	1.7%
GBP	1.5%

Data as at December 31, 2014. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDX.

1. Actual price information is generally provided where investments have not been converted into other assets.

2. The Rate of Return (ROR) represents the change in value of the security (capital appreciation, depreciation and income) as a percentage of the purchase amount.

3. The annualized internal rate of return (IRR) was computed based on the actual dates of the cash flows of the security (purchases, sales, interest, principal paydowns).

4. Source: BNP Paribas as Fund Administrator - based on market value as at December 31, 2014. Excludes cash and short term investments.

5. Source: Bloomberg.

6. Categorizations determined by Neuberger Berman; percentages determined by Neuberger Berman and BNP Paribas 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 comprise real estate assets in a majority of cases. As a result, NBDX's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

7. Includes cash and accruals.

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