

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

31 March 2018

## 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.

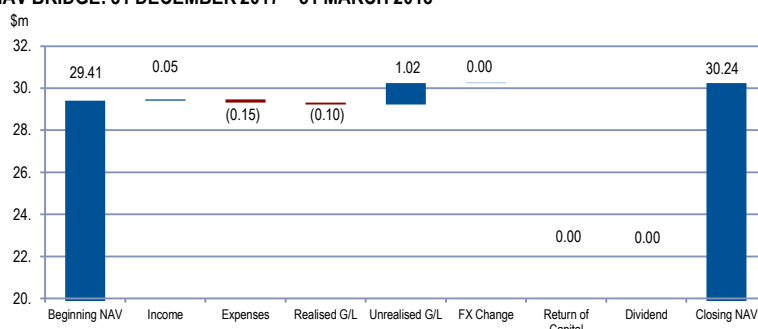
On 10 June 2013, the investment period of the NBDD Share Class (“NBDD”) expired and the assets of NBDDIF attributable to the Ordinary Shares were placed into the harvest period. Including the \$0.3 million income distribution by way of dividend paid in Q118 and the \$3.8 million capital distribution approved in Q218 (as described below), \$125.3 million (equivalent to 101% of original capital) has been approved for distribution (income by way of dividend and capital by way of redemption) 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 offered 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 was subject to an investment period which ended on 31 March 2017. Separate factsheets are produced for those share classes.

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

NAV Per Share:	\$1.1321
Share Price:	\$1.030
Share Price Discount vs. NAV	(9.0)%
Market Cap.	\$27.5m
Total NAV	\$30.2m
No. of issuers	16
Launch Date:	10 June 2010
Base Currency:	USD
NAV Frequency:	Daily
Domicile:	Guernsey
Year End:	31 December
Management Fee:	1.5%
Bloomberg Ticker:	NBDD:LN
ISIN:	GG00BF52R043
Website:	<a href="http://www.nbddif.com">www.nbddif.com</a>
Fund Type:	Closed-ended Investment Company

## NAV BRIDGE: 31 DECEMBER 2017 – 31 MARCH 2018



Source: Neuberger Berman

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

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

NBDD is in the harvest period and the investment manager is working to restructure, reorganise, and realise exits for each investment to maximise the value of the portfolio for the shareholders. Post quarter-end, the Board of Directors approved a \$3.8 million capital distribution by way of redemption.

The investment manager uses economic, industry and issuer specific data to estimate the gross realisable value in downside, base case and upside scenarios for each investment in the portfolio. It currently estimates the range of the aggregated realisable value for the investments in the portfolio is between 87% and 162% of the 31 March 2018 market values of these investments, with a base case of 131%. The values changed from the previous quarter mainly from an increase in NAV and changes in FX rates that affect the value of non-USD investments. Shareholders should, however, note that: (i) the realisable values of the investments are calculated on a gross basis and, in particular, do not reflect the investment manager’s management fee and investment-related expenses; and (ii) this range of aggregate realisable values is an estimate only, and there is no guarantee that the value actually realised will be within this range. Further details on the risks relating to “forward looking information” are set out at the end of this factsheet.

The investment manager estimate of timing of distributions did not change materially during the quarter and remains at 60-65% of remaining NAV to shareholders in 2018, 35-40% in 2019, and any remainder in 2020. It will review and, where appropriate, update these ranges and expectations in the quarterly factsheets going forward.

NAV increased by 2.8% in the quarter principally driven by unrealised gains in Vistra public equity and the private equity of a Las Vegas land investment. During the quarter, an income distribution by way of dividend of \$0.3 million was paid and post quarter-end, NBDD received par repayment of a significant bank debt investment in an Australian power company. This cash, combined with existing cash, will be used to fund a capital distribution of \$3.8 million approved May 2018. These bring total distributions approved / paid (income distributions by way of dividends and redemption of shares) to \$125.3 million or 101% of original capital. There was one exit during the quarter that had previously been reported as partial realisation #2. The exit generated a total return of \$1.1 million and IRR of 22%.

Net cash of \$0.6 million was generated during the quarter from principal repayment on bank loans, \$0.2 from the exit for the quarter and \$0.1 cash from a receivable on an exit. Including the Q218 approved capital distribution, the ratio of total value (capital distributions, dividends and current NAV) to original capital is 122%.

## Portfolio Update

NBDD ended the quarter with NAV per share of \$1.1321 compared to \$1.101 at the end of December. At quarter-end, 96% of the NAV was invested in distressed investments (including cash in subsidiary accounts, receivables and net payables) and 4% held in cash net of payables. The portfolio consists of 16 issuers across 10 sectors. The largest sector concentrations were in Lodging & Casinos, Utilities, Building & Development, and Surface Transportation.

Data as at 31 March 2018. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDD.

1. Source: Bloomberg, except where otherwise stated.

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## FUND MANAGERS

**Michael Holmberg**  
28 years' investment experience

**Brendan McDermott**  
13 years' investment experience

**Ravi Soni**  
12 years' investment experience

### Directors:

John Hallam (Chairman)  
Michael Holmberg  
Christopher Legge  
Christopher Sherwell  
Stephen Vakil

## Portfolio Update continued

Outside of the investments detailed below, the portfolio was relatively unchanged. Notable events below describe activity in the investments over the quarter<sup>1</sup>.

- Australian utility investment – The company notified lenders of a refinancing with a repayment of all existing debt in April 2018.
- Five Point Holdings – The company's 4Q17 earnings report described positive developments at Newhall with the first lot sales expected in 2H19, one year earlier than expected. We expect the company to be cash-flow breakeven by 2020, potentially one year earlier than we originally forecast.

### Significant Value Change (approximately 0.5% of NBDD NAV or +/- \$175,000)<sup>2</sup>

INDUSTRY	INSTRUMENT	Q118 TOTAL RETURN	MARKET VALUE	COMMENT
Lodging & Casinos	Private Equity	\$0.2 million	\$6.8 million	Negotiations progressing with potential buyer
Oil & Gas	Pubic Equity	\$0.2 million	\$2.1 million	Company merger with Dynegy viewed positively

## Sector Analysis

To continue the in-depth look at investments by sector, below is a review of the Building & Development holdings, which is NBDD's third largest sector, representing 14.9% of NAV. This provides a description of all investments in the sector, including their investment thesis and expected exit strategy.

### Building & Development (14.9% of NAV)

#### Investment #1 Five Point Holdings – 14.6% of NAV

Five Point Holdings (fka Newhall) (“Five Point”) is primarily engaged in the business of planning and developing mixed-use, master-planned communities. The principal source of revenue is the sale of the prepared residential and commercial land sites to homebuilders, and commercial developers. The company currently has ownership stakes in over 17,000 acres, 38,000 home sites and 18.5mm sf of commercial and industrial land in 3 separate master-planned communities located in San Francisco, Los Angeles County and Irvine, CA. NBDD originally held shares in Newhall, which owned the land located in Los Angeles County. In May 2016, Newhall was involved in a business combination transaction with two other master-planned communities and NBDD's Newhall shares were exchanged for shares in Five Point. We believe that the value of the Five Point assets will increase with a continued recovery in the California residential housing market. Five Point completed an IPO in June 2017 to raise cash to fund the development of three communities, which gives investors more liquidity in its shares. Five Point raised new financing to provide funds for the development of Newhall Ranch and the company has broken ground on the development. To date, the estimated return on investment represents a 1.5x multiple on invested capital.

#### Investment #2 Resort Development – 0.3% of NAV

NBDD purchased first lien secured debt in a resort development located in the Caribbean. The project sponsors borrowed over \$500 million in 2006 to fund a \$330 million dividend to themselves and refinance existing debt used for the remaining development build-out of the property. Due to sluggish lot sales leading up to and during the financial crisis, the borrower defaulted. We purchased first lien debt at approximately 7% of original par value (cash on the balance sheet at the time of purchase totalled approximately 3% of the par value of the debt) with the expectation of an increase in land value during a recovery. Disagreements among the investors and the borrower hampered the resolution and we did not increase the position. The lenders ultimately foreclosed on the collateral in 2014, which includes 650 lots and over 1,200 acres in West End. The property is currently under an LOI to be purchased by an investor and is expected to close in the next few months. Proceeds to the lender group would total \$16 million or 3.2% of par value where the position is valued today. This represents an estimated 0.3x multiple on invested capital or an estimated loss of \$0.3 million given the nominal dollar amount of the purchase.

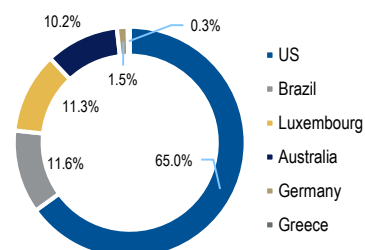
1. Notable corporate events may or may not result in an increase or decrease in the value of an NBDD investment or a change in NBDD's NAV per share. Please note that an investment may experience a change in value (positive or negative) during the quarter whether or not it was subject to a notable corporate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

2. 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. References in this factsheet to the market value of specific fund investments refers to the value determined in accordance with NBDD's valuation policy, which may include fair valued investments where third party prices are not available or are not considered accurate.

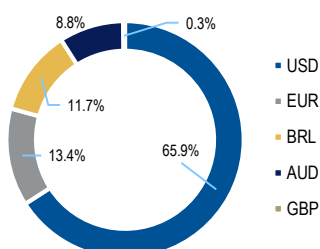
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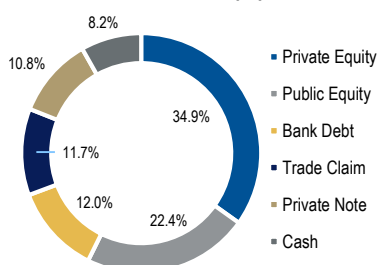
## COUNTRY BREAKDOWN<sup>1,2</sup> (%)



## CURRENCY BREAKDOWN<sup>1,2</sup> (%)



## INVESTMENT TYPE<sup>3</sup> (%)



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

Lodging & Casinos	22.4%
Utilities	17.9%
Building & Development	14.9%
Surface Transport	11.6%
Containers & Packaging	11.3%
Auto Components	7.6%
Financial Intermediaries	3.1%
Forest Products	1.5%
Shipping	0.9%
Real Estate Development	0.6%
Restricted cash net of accruals	4.6%
Unrestricted cash net of accruals	3.6%

## Exits

There was one exit during the quarter which was previously reported as a partial realisation.

NBDD purchased \$2.2 million of senior notes at a price of 62% of face value secured by a portfolio of nine aircraft leased to various operators. Eight of the nine aircraft were sold during 2016 with proceeds used to repay the notes. The remaining aircraft was sold in early 2018 and the notes were repaid with the proceeds and cancelled. Cash invested was \$1.3 million and cash received from coupon and principal repayments was \$2.4 million. The total return on the investment was \$1.1 million over 56 months. The IRR was 22% and ROR was 83%.

EXIT	CASH INVESTED	CASH RECEIVED	TOTAL RETURN	HOLDING PERIOD	IRR	ROR
40	\$1.3 million	\$2.4 million	\$1.1 million	56 months	22%	83%

## Partial Realisations

There was no activity during the quarter. The table below has been updated with current values.

PARTIAL REALISATION	SECTOR	QUARTER REPORTED	CASH INVESTED	CASH RECEIVED TO DATE	CURRENT VALUE OF INVESTMENT	TOTAL RETURN	CURRENT IRR	CURRENT ROR	MONTHS HELD
1	Real Estate Development	Pre-2017	\$3.1 million	\$4.1 million	\$0.2 million	\$1.2 million	11%	39%	87
3	Containers & Packaging	Q217	\$2.0 million	\$2.7 million	\$0.4 million	\$1.1 million	29%	56%	63
4	Containers & Packaging	Q217	\$2.6 million	\$6.5 million	\$3.0 million	\$6.9 million	59%	268%	66

## Distributions

NBDD paid the approved income distribution by way of dividend of \$0.3 million or \$0.014 / share, in accordance with NBDD's distribution policy which requires that all portfolio income be distributed after deducting reasonable expenses. Post quarter-end, NBDD received par repayment of a significant bank debt investment in an Australian power company. This cash, combined with existing cash, will fund a capital distribution of \$3.8 million approved by the Board of Directors on 8 May 2018. These bring total distributions approved / distributed including income distributions by way of dividends and capital distributions to \$125.3 million or 101% of original capital. The ratio of total value (capital distributions, income dividends and current NAV) to original capital is 122%.

Data as at 31 March 2018. Past performance is not indicative of future returns. All comments unless otherwise stated relate to NBDD.

1. Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market value as of 31 March 2018.

2. Includes cash and accruals.

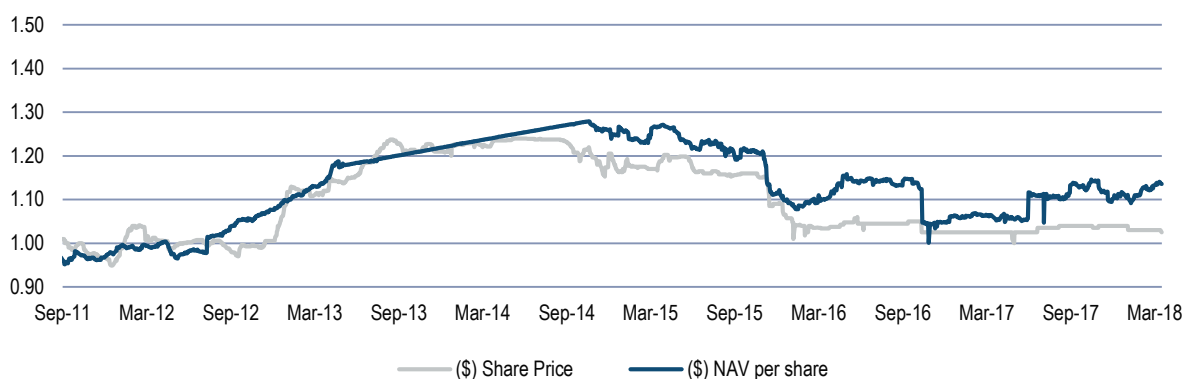
3. Cash includes restricted and unrestricted cash, net accruals.

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.

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

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



## PORTFOLIO COMPOSITION – TOP 10 HOLDINGS<sup>2</sup>

Holding	Industry	Instrument	Status	Country	% of NAV	Primary Assets
1	Lodging & Casinos	Secured Loan	Post-Reorg	US	22%	Hotel / Lodging real estate
2	Building & Development	Post-Reorg Equity	Post-Reorg	US	15%	Residential real estate
3	Surface Transportation	Trade Claim	Defaulted	Brazil	12%	Municipal claim
4	Utilities	Secured Loan	Current	Australia	10%	Power plants
5	Containers and Packaging	Post-Reorg Equity	Post-Reorg	Luxembourg	10%	Manufacturing / Distribution real estate
6	Auto Components	Secured Notes	Post-Reorg	US	8%	Manufacturing plant
7	Utilities	Secured Loan	Post-Reorg	US	7%	Power plants
8	Financial Intermediaries	Secured Notes	Defaulted	US	3%	Cash and securities
9	Containers & Packaging	Post-Reorg Equity	Post-Reorg	UK	1%	Manufacturing / Distribution real estate
10	Forest Products	Secured Notes	Post-Reorg	Germany	2%	Manufacturing plant
<b>Total</b>					<b>90%</b>	

1. Source: Bloomberg

2. 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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Past performance is not a reliable indicator of current or future results. The value of investments may go down as well as up and investors may not get back any of the amount invested. The performance data does not take account of the commissions and costs incurred on the issue and redemption of units.

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