# NB Distressed Debt Investment Fund Limited

Annual Report December 2010

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# Company Overview

The Company's investment 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 by, amongst other things, focusing on senior and senior secured debt with both collateral and structural protection.

The Company expects to invest in 40 to 50 holdings diversified across distressed and specialist 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 one of the largest and most experienced credit teams in the industry.

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|---|---|
| Company | **NB Distressed Debt Investment Fund Limited (the "Company")**<br>• Guernsey incorporated, closed-ended investment company<br>• Admitted to trading on the Specialist Fund Market of the London Stock Exchange and listed on the Channel Islands Stock Exchange<br>• IPO on 10 June 2010 raising $197.2 million<br>• Second offering on 20 October 2010 raising $244.2 million<br>• 440,169,296 Ordinary Shares outstanding<br>• 39,437,205 Subscription Shares outstanding |
| Investment Manager | **Neuberger Berman Europe Limited (the "Investment Manager")**<br>• Access to a large team of over 121 fixed income investment professionals<br>• Portfolio Managers have an average of 20 years of industry experience<br>• Total fixed income assets of over $80 billion<br>• Over $11 billion in high yield bonds, loans and distressed assets |

| (US$ in millions, except per share data) | **At 31 December 2010** |
|---|---:|
| Net Asset Value | $429.3 |
| Net Asset Value per share | $0.9754 |
| Investments | $470.7 |
| - Distressed Portfolio | $131.3 |
| - Temporary Investments | $339.4 |
| Cash and Cash Equivalents | $21.8 |

# Chairman's Statement

Dear Shareholder,

It is with pleasure that I write to you for the first time as your Chairman of NB Distressed Debt Investment Fund Limited (the "Company"). I would like to take this opportunity to formally welcome you as a shareholder of the Company.

## The Company

The Company's initial public offering raised gross proceeds of $197.2 million and the Company was admitted to trading on the Specialist Fund Market of the London Stock Exchange plc and the Channel Islands Stock Exchange on 10 June 2010. Your Board was pleased by the response from global investors with the amount raised exceeding the Company's target of $150 million at a time of rising financial market volatility.

Due to considerable interest from both existing shareholders and potential new investors who were unable to participate in the initial public offering, your Board, in consultation with shareholders, took the decision in August 2010 to proceed with a secondary placing with a target of raising further capital in excess of $75 million.

The Company ultimately raised $244.2 million at a price of $1.005 per ordinary share via a secondary placing and dealings in the new ordinary shares commenced on 20 October 2010. Your Board was again delighted by this response from existing and new shareholders.

## Portfolio and Company Performance

In the Company's period of operation to 31 December 2010, the net asset value total return per ordinary share decreased by 0.47% whilst the share price total return rose by 7.62%, reflecting a premium in the share price over net asset value.

As at 31 December 2010, the Company had deployed 30.68% of its capital (including one investment that had already been realised) and had active investments in 36 companies, close to the Company's target of 40 to 50 holdings once cash proceeds have been fully deployed.

In making these investments, the Investment Manager has maintained strict price discipline with an average cost of investments of 52% of face value against the Company's expected level of 60%.

The Company exited its first investment in November 2010 – the bank debt of a private power generation company that was accumulated in July 2010. The position was approximately 3% of the portfolio at that time and was ultimately sold at a price approximately 15% higher than the purchase price. You will find an in-depth analysis of the Company's portfolio in the Investment Manager's Review.

## Post Year-End Update

The Company has made good progress during the first three months of 2011, deploying a further 33% of available capital. As at 31 March 2011, a total of 64% of the Company's capital had been deployed in 40 companies across 12 industries at an average cost of 54% of face value.

As at 31 March 2011, the net asset value per ordinary share was $1.0177, representing an increase of 4.34% on the net asset value as at 31 December 2010.

# Outlook for 2011

You will have seen from the Company's announcement in January 2011 that your Board, in consultation with the Investment Manager, has increased the maximum limit on non-North American investments that the Company could invest in from 10% to 30%. This decision was taken in order to allow the Investment Manager to actively participate in what it saw to be attractive opportunities in Europe. Your Board will continue to work closely with the Investment Manager and review broader opportunities that may exist which are in the interests of shareholders.

Looking to the remainder of 2011, your Board is pleased with the pipeline of investments that the Investment Manager has identified and you will note from the Investment Manager's Review that Neuberger Berman remains confident in its ability to continue to generate positive net returns for shareholders.

I would like to close by thanking you for your commitment and I look forward to continuing the positive start that the Company has made.

Robin Monro-Davies
Chairman
13 April 2011

# Investment Manager's Report

## Market Environment

Access to the capital markets remains divided with larger cap public companies having greater access than smaller private companies. In 2010 the public high yield bond market saw record issuance of $277 billion compared to $181 billion in 2009, however, bank lending to private companies remains constrained. Total U'S Commercial and Industrial Loans on banks' balance sheets were $1.2 trillion as at 31 December 2010, compared to a peak of $1.6 trillion at the end of 2008. We believe that the relative lack of capital for private companies will continue to result in opportunities for investing in distressed loans during 2011.

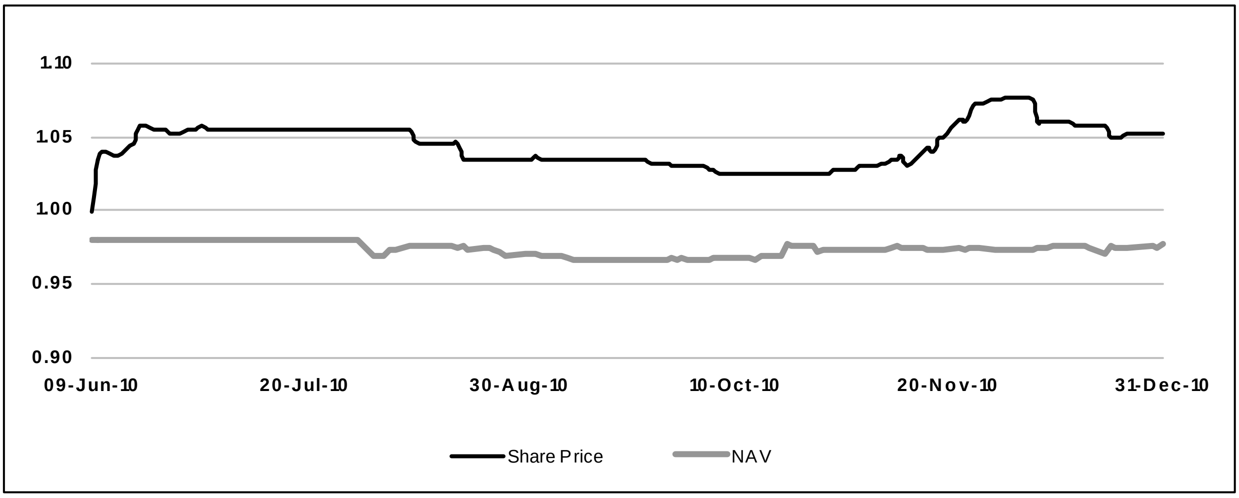
## Performance

We remain pleased with the distressed market environment and the capital deployment of the fund to date. The Company had investments in 36 names as at 31 December 2010 versus an expectation of 40-50 once fully deployed and, accordingly, a significant amount of due diligence has been completed by the Investment Manager. Maintaining our price discipline has resulted in lower than expected prices, with an average price of 52% of face value against the previously expected level of 60%. Industry diversification remains strong with the portfolio invested across 12 industries. Our bids on existing and new names and pipeline of additional opportunities give us confidence that the remaining cash will be deployed in the coming months, albeit that the deployment is taking slightly longer than that anticipated at the time of the Company's launch. However, if there is a trade-off between a modestly more deliberate pace versus raising bids, we will stick to our price discipline.

The Company exited its first investment during November 2010 – the bank debt of a private power generation company which was accumulated in July 2010. The position represented approximately 3% of the Company portfolio at that time. In early August, the power company announced that it had reached an agreement to sell its assets to another energy company, and as a result we ultimately sold our interest at a price approximately 15% higher than our initial purchase price.

As of 31 December 2010, the Company's published Ordinary Share price was $1.0525, representing a 7.62% premium compared to the net asset value per Ordinary Share at 31 December 2010. During the year, the increase in NAV was primarily driven by net unrealised gains across the investment portfolio.

**2010 SHARE PRICE PERFORMANCE AND NAV PER ORDINARY SHARE**



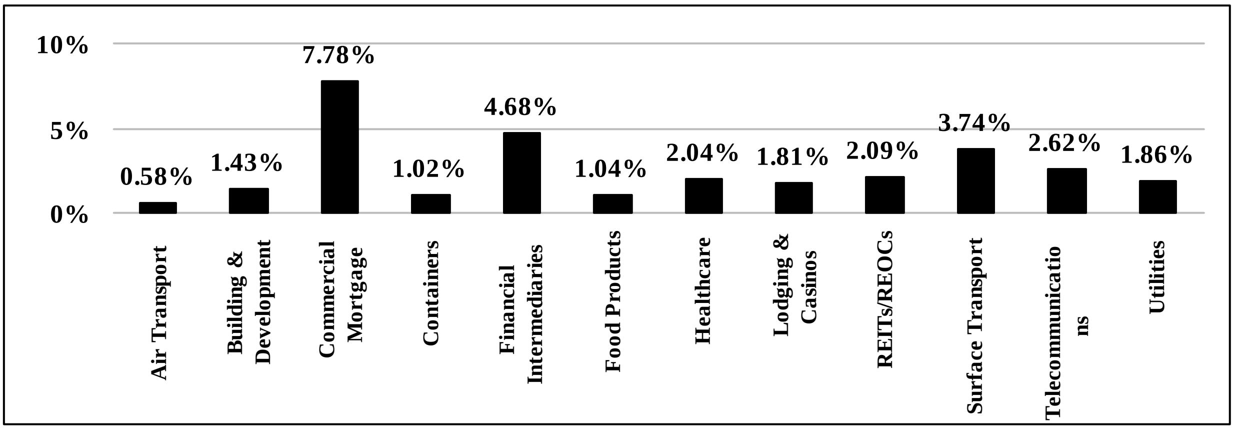
# Investment Pipeline

We continue to see strong opportunities in middle-market and small cap loans backed by hard assets. We have bids out on new names as well as for additional exposure to existing investments. Current sectors of interest include Utilities, Surface Transportation, Lodging, Healthcare, Commercial Mortgages and Building & Development. We will continue to maintain our rigorous price discipline which to date has resulted in low acquisition costs. In particular, the Investment Manager has identified a number of very attractive opportunities in Europe and, accordingly, the Board of the Company has decided to increase the maximum limit on non-US or Canadian investments from 10% to 30%.

# Portfolio Analysis

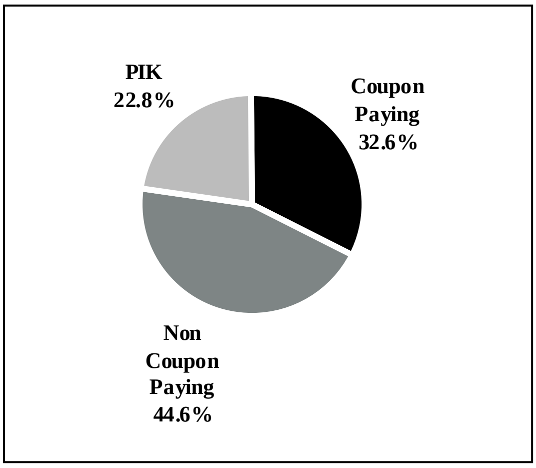
As at 31 December 2010, the Company's assets were allocated in the following approximate proportions:

**SECTOR BREAKDOWN (excluding cash)**




As at 31 December 2010, 30.68% of the portfolio was invested into distressed assets across 12 different sectors, with the remainder of the portfolio being invested in short term assets and cash or cash equivalents.

**COUPON PAYMENTS**




**COUNTRY BREAKDOWN**

| | |
|---|---|
| Australia | 2.07% |
| Cayman Islands | 0.65% |
| Germany | 3.76% |
| India | 0.03% |
| Ireland | 0.03% |
| Japan | 0.10% |
| UK | 1.83% |
| US | 91.53% |
| | 100.00% |

# Forward-looking Statements

This report includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They include statements regarding the intentions, beliefs or current expectations of the Company concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, prospects, and dividend policy of the Company and the markets in which it, and its portfolio of investments, invest and/or operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition of the Company, and the development of its financing strategies, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to:

- changes in economic conditions generally and the Company's ability to achieve its investment objective and returns on equity for investors;
- the Company's ability to invest the cash on its balance sheet and the proceeds of the 2010 Issues (“the Issues”) in suitable investments on a timely basis;
- foreign exchange mismatches with respect to exposed assets;
- changes in interest rates and/or credit spreads, as well as the success of the Company's investment strategy in relation to such changes and the management of the uninvested proceeds of the Issue;
- impairments in the value of the Company's investments;
- the availability and cost of capital for future investments;
- the departure of key personnel employed by the Investment Manager and Sub-Investment Manager;
- the failure of the Investment Manager to perform its obligations under the Investment Management Agreement with the Company or the termination of the Investment Manager;
- the failure of the Sub-Investment Manager to perform its obligations under the Sub-Investment Management Agreement with the Investment Manager or the termination of the Sub-Investment Manager;
- changes in laws or regulations, including tax laws, or new interpretations or applications of laws and regulations, that are applicable to the Company or Portfolio Companies; and
- general economic trends and other external factors, including those resulting from war, incidents of terrorism or responses to such events.

Forward-looking statements speak only as at the date of this document. Although the Company and the Investment Manager undertake no obligation to revise or update any forward looking statements contained herein (save where required by the Prospectus Rules or Disclosure and Transparency Rules or rules of the CISX), whether as a result of new information, future events, conditions or circumstances, any change in the Company's or the Investment Manager's expectations with regard thereto or otherwise.

# Risk Factors

The following has been extracted from the Prospectus of the Company dated September 2010

The Company is a recently formed company with a limited operating history. Because the Company's operating history is limited, investors have a limited basis on which to evaluate the Company's ability to achieve its investment objective and provide a satisfactory investment return. In addition, the portfolio managers only worked together as a group for a limited period and there can be no assurance that they will continue to be compatible with one another. The prior performance and investment profile of the Investment Manager and Sub-Investment Manager (together the "Investment Managers") are being provided for illustrative purposes only and may not be indicative of the likely performance or investment profile of the Company. Past performance is never indicative of future results.

The Company's returns and operating cash flows will depend on many factors, including the price and performance of its investments, the availability and liquidity of investment opportunities falling within the Company's investment objective and policy, the level and volatility of interest rates, readily accessible short-term and borrowings, conditions in the financial markets, real estate market and economy, the financial performance of Portfolio Companies, the timing of restructurings and exits and the Company's ability to successfully operate its business and execute its investment strategy. There can be no assurance that the Company's investment strategy will be successful.

## The Company's target return of 20 percent per annum gross of fees and expenses is based on estimates and assumptions that are inherently subject to significant business and economic uncertainties and contingencies, and the actual rate of return may be materially lower than the Target Return

The Company's Target Return is a target only and is based on estimates and assumptions about a variety of factors including, without limitation, asset mix, value, volatility, holding periods, performance of underlying Portfolio Companies, investment liquidity, changes in current market conditions, interest rates, government regulations or other policies, the worldwide economic environment, changes in law and taxation, natural disasters, terrorism, social unrest and civil disturbances or the occurrence of risks described in the prospectus for the Company, which are inherently subject to significant business, economic and market uncertainties and contingencies, all of which are beyond the Company's control and which may adversely affect the Company's ability to achieve its Target Return. Such Target Return is also based on the assumption that the Company will be able to implement its investment policy and strategy successfully as well as market conditions and the economic environment at the time of assessing the proposed target return, and is therefore subject to change. There is no guarantee or assurance that the Target Return or actual returns can be achieved at or near the levels set forth in the prospectus for the Company. Accordingly, the actual rate of return achieved may be materially lower than the Target Return, or may result in a loss, which could have a material adverse effect on the Company's profitability, NAV and the price of the Ordinary Shares.

Potential investors should not place any reliance on the Target Return set forth in the prospectus for the Company and should make their own determination as to whether the Target Return is reasonable or achievable in deciding whether to invest in the Company. The Company does not intend to regularly publish target returns or to update or otherwise revise its Target Return to reflect subsequent events or circumstances. A failure to achieve the Target Return set forth in the prospectus for the Company may adversely affect the Company's business, financial condition and results of operations.

## Holders of Ordinary Shares have limited voting rights

The Ordinary Shares do not carry voting rights in relation to the election of the Company's board of directors and generally have no voting rights, except: (i) that certain fundamental changes to the Company and the terms of the Ordinary Shares and certain other matters (such as the voluntary liquidation or winding-up of the Company; any change in the rights conferred upon any shares in the Company, or any amendment to the

Articles adverse to the Ordinary Shareholders; merger, consolidation or the sale of substantially all of the assets of the Company; the change in domicile of the Company and the termination by the Company of the Investment Management Agreement) require the consent of the Ordinary Shareholders by ordinary resolution (such that the Ordinary Shareholders may veto, but cannot force the Company to take, any such actions); and (ii) as may be required by Guernsey law. Further, Ordinary Shareholders cannot direct the Directors to redeem or repurchase any shares or return capital or liquidate the Company. The limited voting rights of the holders of the Ordinary Shares limit their ability to have an impact on Board decisions or Company policy and may adversely affect the value of such shares.

## The Company may be unable to realise value from its investments and investors could lose all or part of their investment

Investments made by the Company may not appreciate in value and, in fact, may decline in value. A substantial component of the Investment Managers' analysis of the desirability of making a given investment relates to the estimated residual or recovery value of such investments in the event of the insolvency of the issuer or the borrower. This residual or recovery value will be driven primarily by the value of the underlying assets constituting the collateral for such investment. The value of collateral can, however, be extremely difficult to predict and in certain market circumstances there could be little, if any, market for such assets. Moreover, depending upon the status of these assets at the time of an issuer's default, they may be substantially worthless. The types of collateral owned by the issuers in which the Company invests will vary widely, but are expected primarily to be hard assets such as aircraft, office buildings, power stations and commercial property. During times of recession and economic contraction, there may be little or no ability to realise value on any of these assets, or the value which can be realised may be substantially below the assessed value of the collateral. Furthermore, due to the illiquid nature of many of the investments the Company has made and expects to make, the Investment Managers are unable to predict with confidence, what, if any, exit strategy for a given investment will ultimately be available to the Company and the Company may be unable to realise value from these investments. Accordingly, there can be no assurance that the Company's investments will generate gains or income or that any gains or income that may be generated will be sufficient to offset any losses that may be sustained. As a result, investing in the Company is speculative and involves a high degree of risk. The Company's performance may be volatile and investors could lose all or part of their investment. Past performance is no indication of future results and there can be no assurance that the Company will achieve results comparable to any past performance achieved by the Investment Managers or any employee of the Investment Managers described in the prospectus for the Company.

## Gains from the Company's investments may require significant time to materialise or may not materialise at all

There is likely to be a significant period between the date that the Company makes an investment and the date that any gain or loss on such investment is realised. Based on the Investment Managers' experience with investments generally comparable to those expected to be made by the Company, it is likely that no significant return, if any, from the disposition of any of the Company's investments will be realised until year four after the IPO. Return on the Company's investments, therefore, is not likely to be realised for a substantial time period, if at all.

## Global capital markets have been experiencing volatility, disruption and instability. Material changes affecting global debt and equity capital markets may have a negative effect on the Company's business, financial condition and results of operations

Global capital markets have been experiencing extreme volatility and disruption for more than two years as evidenced by a lack of liquidity in the equity and debt capital markets, significant write-offs in the financial services sector, the repricing of credit risk in the credit market and the failure of major financial institutions.

Despite actions of government authorities, these events have contributed to worsening general economic conditions that have materially and adversely affected the broader financial and credit markets and reduced the availability of debt and equity capital. Continued or recurring market deterioration may materially adversely affect the ability of a Portfolio Company to refinance its outstanding debt. Further, such financial market disruptions may have a negative effect on the valuations of the Company's investments, or the ability to restructure investments, and on the potential for liquidity events involving its investments. In the future, non-performing assets in the Company Portfolio may cause the value of its investment portfolio to decrease if the Company is required to write down the values of its investments. Adverse economic conditions may also decrease the value of collateral securing some of its loans. In the event of sustained market improvement, the Company may have access to only a limited number of potential investment opportunities, which also would result in limited returns to Shareholders. Depending on market conditions, the Company may incur substantial realised losses and may suffer additional unrealised losses in future periods, which may adversely affect its business, financial condition and results of operations.

## With respect to investments that do not have a readily ascertainable market quotation in an active market, the Sub-Investment Manager will value such investments at fair value and such valuations will be inherently uncertain

With respect to investments comprised in the Company Portfolio that do not have a readily available market quotation, such as unquoted investments or investments which are listed but deemed to be illiquid, the Sub-Investment Manager will value such investments at fair value on each NAV Calculation Date in accordance with the customary valuation methods, policies and procedures of the Sub-Investment Manager. Because of the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily ascertainable market quotation in an active market, the fair value of the Company's investments as determined in good faith by the Sub-Investment Manager may differ significantly from the values that would have been used had a ready market existed for such investments. The reliability of the NAV calculations published by the Company will be impacted accordingly.

## The Ordinary Shares may trade at a discount to NAV and Shareholders may be unable to realise their investments through the secondary market at NAV

The Ordinary Shares may trade at a discount to NAV per Ordinary Share for a variety of reasons, including due to market conditions or to the extent investors undervalue the management activities of the Investment Managers or discount their valuation methodology and judgments. While the Directors may seek to mitigate any discount to NAV through discount management mechanisms they consider appropriate, there can be no guarantee that they will do so or that such mechanisms will be successful and the Directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount.

## The due diligence process that the Investment Managers undertake in evaluating specific investment ideas for the Company may not reveal all facts that may be relevant in connection with an investment and any corporate mismanagement, fraud or accounting irregularities may materially affect the integrity of the Investment Managers' due diligence on investment opportunities

When conducting due diligence and making an assessment regarding an investment, the Investment Managers will be required to rely on resources available to them, including internal sources of information as well as information provided by existing and potential Portfolio Companies any equity sponsor(s), lenders and other independent sources. The due diligence process may at times be required to rely on limited or incomplete information particularly with respect to newly established companies for which only limited information may be available. In addition, the Investment Managers will continue to select investments for the Company in part on the basis of information and data relating to potential investments filed with various government regulators and publicly available or made directly available to the Investment Managers by such issuers or third parties. Although the Investment managers evaluate all such information and data and seek independent corroboration when they consider it appropriate and reasonably available, the Investment Managers are not and will not be in a position to confirm the completeness, genuineness or accuracy of such information and data. The Investment Managers are dependent upon the integrity of the management of the entities filing such information and of such third parties as well as the financial reporting process in general. Recent events have demonstrated the material losses that investors such as the Company may incur as a result of corporate mismanagement, fraud and accounting irregularities. In addition, investment analyses and decisions by the Investment Managers may be undertaken on an expedited basis in order to make it possible for the Company to take advantage of short-lived investment opportunities. In such cases, the available information at the time of an investment decision may be limited, inaccurate and/or incomplete. Furthermore, the Investment Managers are unlikely to have sufficient time to evaluate fully such information even if it is available. Accordingly, due to a number of factors, the Company cannot guarantee that the due diligence investigation it carries out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Any failure by the Company to identify relevant facts through the due diligence process may cause it to make inappropriate investment decisions, which may have a material adverse effect on the Company’s business, financial condition, results of operations or the value of the New Ordinary Shares. Due diligence may also be costly, which will decrease the Company’s overall profit from an investment.

# Directors

## Robin Monro-Davies (Chairman)

Robin Monro-Davies served as a regular officer in the Royal Navy from 1958-1968, operating as a carrier pilot mainly in the Far East. He subsequently obtained a Master of Science degree from the Sloan School of Management, Massachusetts Institute of Technology in Boston (**"MIT"**). On leaving MIT, Mr. Monro-Davies spent a year as an investment analyst on Wall Street and then joined Fox-Pitt Kelton (**"FPK"**). FPK became one of the U.K.'s leading independent brokerage and research houses and Mr. Monro-Davies was appointed joint Chief Executive Officer (CEO) in 1976. In 1978, Mr. Monro-Davies was appointed CEO of IBCA, FPK's newly established independent bank credit rating business, in addition to his role as FPK's CEO. He continued as CEO of IBCA following his retirement from FPK in 1992, developing the business to become Fitch, the world's third largest rating agency. Mr. Monro-Davies retired as CEO of Fitch at the end of 2001. Since then he has acted in various non executive roles and currently is a Board Member of AXA UK, Assured Guaranty Limited in Bermuda and HSBC Bank plc. He is also on the board of a listed investment trust. Mr. Monro-Davies was educated at St. Paul's School, London, and the Britannia Royal Naval College, Dartmouth.

## Talmai Morgan

Talmai Morgan qualified as a barrister in the United Kingdom in 1976. He moved to Guernsey in 1988 where he worked for Barings as general counsel and then for the Bank of Bermuda as managing director of Bermuda Trust (Guernsey) Limited. From January 1999 to June 2004, Mr. Morgan was director of Fiduciary Services and Enforcement at the Guernsey Financial Services Commission (Guernsey's financial regulatory agency) where he was responsible for the design and subsequent implementation of Guernsey's law relating to the regulation of fiduciaries, administration businesses and company directors. Mr. Morgan was also involved in working groups of the Financial Action Task Force and the Offshore Group of Banking Supervisors. From July 2004 to May 2005, Mr. Morgan served as chief executive of Guernsey Finance, which is the official body for the promotion of the Guernsey finance industry. Mr. Morgan is now the chairman or a non-executive director of a number of investment-companies including companies listed on the LSE. He holds an M.A. in economics and law from the University of Cambridge.

## John Hallam

John Hallam is a fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. Previously, Mr. Hallam was a partner at PricewaterhouseCoopers and retired in 1999 after 27 years with the firm in Guernsey and in other countries. Mr. Hallam is currently chairman of Cazenove Absolute Equity Ltd, Dexion Absolute Ltd and Partners Group Global Opportunities Ltd. He is also a director of a number of other financial services companies, some of which are listed on the LSE. Mr. Hallam served for many years as a member and latterly chairman of the GFSC, from which he retired in 2006.

## Christopher Sherwell

Christopher Sherwell is a non-executive director of a number of investment-related companies. Mr. Sherwell was managing director of Schroders (C.I.) Limited from April 2000 to January 2004. He remained a non-executive director of Schroders (C.I.) Limited until he stepped down at the end of December 2008. His other directorships include chairmanship of Goldman Sachs Dynamic Opportunities Limited, a fund of hedge funds. Before joining Schroders in 1993, he worked as Far East regional strategist with Smith New Court Securities in London and then in Hong Kong. Mr. Sherwell was previously a journalist, working for the Financial Times. Mr. Sherwell received a B.Sc. (Gen) from the University of London in 1968, an M.A. from the University of Oxford in 1971 and a M.Phil. from the University of Oxford in 1973.

# Michael J. Holmberg

Michael J. Holmberg, Managing Director, joined NB Group in 2009. Michael is the co-head of distressed portfolio management. Prior to joining NB Group, Michael founded Newberry Capital Management LLC in 2006 and prior to that Michael founded and managed Ritchie Capital Management's Special Credit Opportunities Group. He was also a managing director at Strategic Value Partners and Moore Strategic Value Partners. He began investing in distressed and credit oriented strategies as a portfolio manager at Continental Bank/Bank of America, where he established the bank's global proprietary capital account. Michael received an AB in economics from Kenyon College and an MBA from the University of Chicago.

# Patrick H. Flynn

Patrick H. Flynn, Managing Director, joined NB Group in 2006. Patrick is the co-head of distressed portfolio management. He came to NB Group with more than 15 years of experience, including positions with Putnam Investments, UBS and JP Morgan Chase. Most recently, Patrick served as director of research at DDJ Capital Management, LLC. He holds an AB from Columbia University and a MBA in Finance and Economics from the University of Chicago. Patrick has been awarded the Chartered Financial Analyst designation.

# Directors' Report and Responsibilities

The Directors present their report and the financial statements of the Company for the period from date of incorporation, 20 April 2010 to 31 December 2010.

## Principal Activities and Business Review

The principal activity of the Company is to carry out business as an investment company. The Directors do not envisage any changes in these activities for the foreseeable future.

The Company is managed by Neuberger Berman Europe Limited, an indirect wholly-owned subsidiary of Neuberger Berman Group LLC (the "NB Group"). Neuberger Berman Europe Limited (the "Investment Manager") has delegated certain of its responsibilities and functions to the sub-investment manager, Neuberger Berman Fixed Income LLC, also an indirect wholly-owned subsidiary of NB Group (together, the "Investment Managers").

The Company intends to invest in assets diversified across distressed and special situation investments, with a focus on senior debt backed by hard assets to attempt to limit downside risk.

The initial public offering of the Company took place in June 2010, raising gross proceeds of approximately $197.2 million. Subsequently, the Company raised gross proceeds of approximately $244.2 million at a price of $1.005 per ordinary share by means of a Secondary Placing in October 2010.

The Company's investment period will run for a period of three years from the date of the IPO, after which the Company's Portfolio will be placed into run-off and the proceeds (net of fees and expenses payable by the Company) of realising the Company's investments will be distributed to Ordinary Shareholders over the remaining life of the Company.

## Status

The Company is a registered closed-ended investment company incorporated in Guernsey on 20 April 2010, with registration number 51774. The Company is governed under the provisions of the Companies (Guernsey) Law, 2008 (the "Law") and the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended.

The Company's shares were admitted to trading on the Specialist Fund Market of the London Stock Exchange (the "SFM") and to listing and trading on the Channel Islands Stock Exchange ("CISX") on 10 June 2010.

The Company's management and administration takes place in Guernsey and the Company has been granted exemption from income tax in Guernsey by the Administrator of Income Tax. It is the intention of the Directors to continue to operate the Company so that each year this tax-exempt status is maintained.

## Results and Dividends

The results for the period are set out on Page 26.

The Company aims 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.

The Company aims to distribute all cash income received on investments after deduction of reasonable expenses of the Company, by way of two half yearly dividends. The exact amount of any such dividend will be variable depending on the amounts of income received by the Company.

Since the date of incorporation of the Company, there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its share capital.

# Directors

The Directors in office are shown on pages 12 and 13. Further details of the Director's responsibilities are given on page 19 and 20.

The interest of the Directors in the shares of the Company as the date of this report is as follows:

| Director | Shares | Number of Shares |
|---|---|---|
| Mr Robin Monro-Davies | Ordinary Shares | 300,000 |
| | Subscription Shares | 60,000 |
| Mr Patrick Flynn | Ordinary Shares | 103,000 |
| | Subscription Shares | 20,000 |
| Mr John Hallam | Ordinary Shares | 75,000 |
| | Subscription Shares | 15,000 |
| Mr Michael Holmberg | Ordinary Shares | 103,000 |
| | Subscription Shares | 20,000 |
| Mr Talmai Morgan | Ordinary Shares | NIL |
| | Subscription Shares | NIL |
| Mr Christopher Sherwell | Ordinary Shares | 45,000 |
| | Subscription Shares | 9,000 |

No changes took place in the interests of the Director between 31 December 2010 and 13 April 2011.

Other than the above share transactions, none of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements and none of the Directors has or has had any interest in any transactions which is or was unusual in its nature or conditions or significant to the business of the Company, and which was effected by the Company during the reporting period.

At the date of this report, there are no outstanding loans or guarantees between the Company and any of its directors.

# Net Asset Value

The net asset value of the Company's Ordinary shares as at 31 December 2010 was $0.9754 per Ordinary share.

# Investment Management Agreement

The Board is responsible for setting the Company's investment policy and has overall responsibility for the Company's day-to-day activities. The Company has entered into an Investment Management Agreement with Neuberger Berman Europe Limited (the "Investment Manager"), who have in turn delegated certain of its responsibilities and functions to Neuberger Berman Fixed Income LLC (the "Sub-Investment Manager"), (together the "Investment Managers"). Under the Investment Management Agreement, the Investment Managers are responsible for the discretionary management of, and will conduct day-today management of, the assets held in the Company Portfolio (including un-invested cash). The Investment Managers are not required to and generally will not submit individual decisions for approval by the Board.

# Administration Agreement

BNP Paribas Fund Services (Guernsey) Limited has been appointed as Administrator, Secretary, Custodian, Designated Manager of the Company. In such capacity, the Administrator will be responsible for the day-to-day administration of the Company, including but not limited to the calculation and publication of the estimated daily NAV, general secretarial functions required by The Companies (Guernsey) Law, 2008 as amended (including but not limited to the maintenance of the Company's accounting and statutory records) and ensuring that the Company complies with its continuing obligations as a company traded on the SFM and the CISX.

In acting as custodian of the Company's investments, the Administrator shall provide for the safe keeping of contracts or other documents of title to the loans and may take custody of cash and other assets. The Company has consented to and the Administrator is permitted and may delegate the safekeeping function to BNP Paribas Securities Services London Branch and the custody function to BNP Paribas Securities Services Guernsey Branch or such other associate company of the Administrator.

# Corporate Governance

## Corporate Governance Codes

The Company is committed to complying with the corporate governance obligations which apply to Guernsey registered companies. As a Guernsey incorporated company under SFM and CISX rules, the Company was not, for the period under review, required to comply with the Combined Code of Corporate Governance (the "Combined Code") appended to the Listing Rules of the UK's Financial Services Authority. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have therefore chosen voluntarily to comply with the provisions of the Combined Code and the AIC Code of Corporate Governance (the "AIC Code"), to the extent they are considered relevant to the Company.

As an investment company an element of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and a majority of the Board are non-executive. Thus, not all of the provisions of the Combined Code are applicable to the Company.

The Financial Reporting Council (the "FRC") has confirmed that by following the Corporate Governance Guide, produced by the Association of Investment Companies (the "AIC") in 2009, boards of investment companies should fully meet their obligations in relation to the Combined Code. The 2009 AIC Guide addresses all the principles set out in section 1 of the 2008 Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

In May 2010, the FRC published the new UK Corporate Governance Code which applies to accounting periods commencing on or after 29 June 2010 and will therefore be applicable to the Company for the year ended 31 December 2011. The revised AIC Code was published in October 2010 and will be reported against in the next annual report.

## Compliance

The AIC Code consists of 21 Principles, which the Directors believe have largely been complied with during the period under review to the extent that they apply to the Company's business.

The only area of non-compliance was that the Board did not undertake a formal evaluation of its own performance and that of its committees and individual directors as required by Principle 7. The Board decided that this would be undertaken once the first year of the Company had been completed.

## Board Responsibilities

The Board comprises of six Directors, who meet quarterly to consider the affairs of the Company in a prescribed and structured manner. Apart from Michael Holmberg and Patrick Flynn, the Directors are independent of the Manager. Talmai Morgan, John Hallam and Christopher Sherwell are also directors of NB Private Equity Partners Limited, another investment company managed by a member of the NB Group. Biographies of the Directors appear on page 12 and 13 demonstrating the wide range of skills and experience they bring to the Board.

The Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense. The Directors also have access to the advice and services of the Company Secretary through its respected appointed representatives who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

No Director has a service contract with the Company, nor are any such contracts proposed. Any Director who has held office at the two preceding annual general meetings and did not retire from office shall be available for re-election at the same meeting.

During the period ended 31 December 2010 the number of quarterly Board meetings and Audit committee meetings* attended by the Directors were as follows:

| | **Quarterly Board Meetings*** | **Audit Committee Meetings** |
|---|---|---|
| **Number of meetings** | **1** | **1** |
| Mr Robin Monro-Davies | 1 | N/A |
| Mr Patrick Flynn | 0 | N/A |
| Mr John Hallam | 1 | 1 |
| Mr Michael Holmberg | 1 | N/A |
| Mr Talmai Morgan | 1 | 1 |
| Mr Christopher Sherwell | 1 | 1 |

* other ad hoc meetings occurred in the period to cover administrative matters and were attended by the Directors who were available at that time.

# Audit Committee

The Company's Audit Committee meets formally at least twice a year for the purpose, amongst other things, of considering the appointment, independence and remuneration of the auditor and to review the annual accounts, half-year reports and interim management statements. Where non-audit services are to be provided by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement will be considered before proceeding.

The Audit Committee comprises John Hallam, Talmai Morgan and Christopher Sherwell. John Hallam acts as chairman of the Audit Committee.

The principal duties of the Audit Committee are to consider the appointment of external auditors, to discuss and agree with the external auditors the nature and scope of the audit, to keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditor, to review the external auditors' letter of engagement and management letter and to analyse the key procedures adopted by the Company's service providers.

The ultimate responsibility for reviewing and approving the annual and half-year report and financial statements remains with the Board.

# Internal Control and Financial Reporting

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

Since investment management services are provided to the Company by the Investment Manager and custody of assets and all administrative services are provided to the Company by the Administrator, the Company's system of internal control mainly comprises monitoring the services provided by the Investment Manager and Administrator and their associates, including the operating controls established by them, to ensure they meet the Company's business objectives. The Company does not have an internal audit function of its own, but relies on the internal audit departments of the Investment Manager and Administrator. The key elements designed to provide effective internal control are as follows:

- Financial Reporting – Regular and comprehensive review by the Board of key investment and financial data, including Company periodic financial reports, report of the Investment Manager, report of the Administrator and Company Secretary;
- Investment Management Agreement – Appointment of an investment manager regulated by the UK Financial Services Authority whose responsibilities are clearly defined in a written agreement;
- Administration and Custody Agreement - Appointment of an administrator and custodian regulated by the Guernsey Financial Services Commission (GFSC), whose responsibilities are clearly defined in a written agreement;
- Management Systems – The Investment Manager's system of internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Investment Manager's compliance department which regularly monitors compliance with fund rules;
- Administrator's system of internal control includes internal procedures, checklists and controls that are subject to a compliance monitoring programme conducted by the Compliance Manager. Quarterly checks are carried out by BNP Paribas Risk and Permanent Controls team to ensure that work is carried out in accordance with documented policies and procedures. Immediate action is taken to resolve any issues raised as a result of both compliance monitoring and permanent control checks. The Administrator is subject to periodic inspection by Inspection Generale, BNP Paribas head office internal audit team, when a comprehensive review is carried out on the business to include detailed sampled audit checks on all aspects of the operations. The Administrator is required to explain all findings and implement recommendations by set deadlines.
- Investment Strategy – Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Investment Manager and Administrator and their associates as follows:

- the Board reviews the terms of the Investment Management and Administration Agreements,
- the Board receives regular compliance reports from the Administrator;
- the Board reviews the report on the internal controls and the operations of the Investment Manager and Administrator; and
- By means of the procedures set out above, the Board confirms that it will review the effectiveness of the Company's system of internal control on an annual basis.

# Dialogue with Shareholders

The primary responsibility for shareholder relations lies with the Investment Manager and the Corporate Brokers. However, the Directors are always available to enter into dialogue with shareholders and the Chairman is always willing to meet major shareholders as the Company believes such communication to be important. The Company Directors can be contacted at the Company's registered office.

# General Meeting

The Company's first annual general meeting (the "AGM") will be held on 2 June 2011 and the notice for the meeting is available on the Company's website.

# Going Concern

The Company's principal activities are set out on pages 2. The financial position of the Company is set out on page 22. In addition, Note 9 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements and that they have been prepared in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council.

# Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with accounting principles generally accepted in United States of America ("U.S. GAAP") and the applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm in accordance with the provisions of Section 249 of the Companies Law that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and that each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

# Auditors

KPMG Channel Islands Limited were appointed as auditors on 21 April 2010. They have expressed their willingness to continue in office as Auditor. A resolution proposing their reappointment will be submitted at the forthcoming AGM.

# Responsibility Statement

The Directors confirm to the best of their knowledge and belief:

(a) This Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces; and
(b) The financial statements, prepared in accordance with U.S. GAAP, give a true and fair view of the assets, liabilities financial position and profits of the Company and performance of the Company over the period.

A description of important events which have occurred during the financial period, their impact on the performance of the Company and a description of the principal risks and uncertainties facing the Company are given in the Annual Report and the notes to the financial statements and are incorporated here by reference.

Signed on behalf of the Board of Directors on 13 April 2011

By order of the Board

| | |
|---|---|
| Robin Monro-Davies | John Hallam |
| Director | Director |
| 13 April 2011 | 13 April 2011 |

# Independent Auditor’s Report

## To the members of NB Distressed Debt Investment Fund Limited

We have audited the accompanying Consolidated Statement of Assets and Liabilities of NB Distressed Debt Investment Fund Limited (the “Company”), including the Condensed Consolidated Schedule of Investments, as of 31 December 2010, and the related Consolidated Statements of Operations, Changes in Net Assets and Cash Flows for the period from 20 April 2010 (date of incorporation) to 31 December 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if the financial statements are not in agreement with the accounting records or if we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and the results of its operations, changes in net assets and cash flows for the period from 20 April 2010 to 31 December 2010, in conformity with accounting principles generally accepted in the United States of America.

In our opinion the financial statements are in compliance with the Companies (Guernsey) Law, 2008.

This report is made solely to the Company’s members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Robert A Hutchinson

For and on behalf of
KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Guernsey

# Consolidated Statement of Assets and Liabilities

## As at 31 December 2010
(Expressed in United States dollars)

| Assets | | 31 December 2010 |
|---|---|---|
| Investments, at fair value | $ | 470,739,677 |
| (cost of $ 472,557,325) | | |
| Cash and cash equivalents | | 21,808,522 |
| | $ | 492,548,199 |
| **Other assets:** | | |
| Receivables for Investments sold | | 6,614,558 |
| Interest receivables | | 572,543 |
| Other receivables and prepayments | | 75,640 |
| **Total assets** | **$** | **499,810,940** |
| **Liabilities** | | |
| Payables for Investments purchased | $ | 69,616,129 |
| Payables to Investment Manager and affiliates | | 536,691 |
| Accrued expenses and other liabilities | | 317,683 |
| **Total liabilities** | **$** | **70,470,503** |
| Ordinary shares | $ | 432,556,529 |
| 440,169,296 shares issued | | |
| Accumulated deficit | | (3,216,092) |
| **Total net assets** | **$** | **429,340,437** |
| **Total liabilities and net assets** | **$** | **499,810,940** |
| **Net asset value per ordinary share** | **$** | **0.9754** |

The financial statements on pages 23 to 38 were approved and authorised for issue by the Board of Directors on 13 April 2011, and signed on its behalf by:

Robin Monro-Davies
Director

John Hallam
Director

*The accompanying notes are an integral part of the consolidated financial statements*

# Condensed Consolidated Schedule of Investments

## As at 31 December 2010

(Expressed in United States dollars)

(1) This represents the percentage of Fair Value to total Net Asset Value.

(2) the surplus cash in the Company has been invested in cash, cash equivalents, money market instruments, government securities and other investment grade securities with short term maturities. All of these investments are issued by United States government and agencies, banks and other financial institutions.

| | | Cost | Fair Value | % (1) |
|---|---|---|---|---|
| **Distressed Portfolio** | | | | |
| Bank Debt Investments | $ | 110,409,382 | 109,071,085 | 25.40 |
| Limited Partnership Units | | 16,019,498 | 16,019,498 | 3.73 |
| Fixed Rate Bonds | | 4,101,175 | 3,736,250 | 0.87 |
| Asset Backed Securities | | 2,487,203 | 2,447,432 | 0.57 |
| | | 133,017,258 | 131,274,265 | 30.57 |
| **Temporary Investments (2)** | | | | |
| Floating rate corporate loan notes | | 161,521,958 | 161,468,180 | 37.61 |
| Fixed rate corporate loan notes | | 8,871,386 | 8,870,572 | 2.07 |
| U.S. Government and agency obligations | | 169,146,723 | 169,126,660 | 39.39 |
| | | 339,540,067 | 339,465,412 | 79.07 |
| | $ | **472,557,325** | **470,739,677** | **109.64** |

*The accompanying notes are an integral part of the consolidated financial statements*

# Condensed Consolidated Schedule of Investments (continued)

(Expressed in United States dollars)

Investments with the following issuers comprising greater than 5% of Net Asset Value:

| | Country | Industry | Nominal | Cost | Fair Value | % |
|---|---|---|---|---|---|---|
| **Floating rate corporate loan notes** | | | | | | |
| Bank of America Corporation FRN (maturity dates ranging from 02/12/2011 through to 30/04/2012) | United States | Financial Services | 34,500,000 | 34,742,095 | 34,743,899 | 8.09 |
| JP Morgan Chase & Co FRN (maturity dates ranging from 23/02/2011 through to 26/12/2012) | United States | Financial Services | 32,150,000 | 32,322,648 | 32,296,684 | 7.52 |
| Goldman Sachs FRN 12/05/2011 | United States | Financial Services | 28,000,000 | 28,221,827 | 28,217,924 | 6.57 |
| Morgan Stanley FRN (maturity dates ranging from 22/09/2011 through to 13/03/2012) | United States | Financial Services | 22,000,000 | 22,075,975 | 22,067,927 | 5.14 |
| | | | **116,650,000** | **117,362,545** | **117,326,434** | **27.32** |
| **U.S. Government and agency obligations** | | | | | | |
| U.S. Treasury Bill (maturity dates ranging from 03/03/2011 through to 21/04/2011) | United States | Government and agency | 57,000,000 | 56,972,516 | 56,978,350 | 13.27 |
| Federal Farm Credit Bank FRN (maturity dates ranging from 25/01/2012 through to 13/08/2012) | United States | Government and agency | 35,000,000 | 34,986,823 | 34,973,570 | 8.15 |
| Federal National Mortgage Association FRN (maturity dates ranging from 24/01/2011 through to 17/09/2012) | United States | Government and agency | 27,190,000 | 27,198,544 | 27,190,780 | 6.33 |
| Federal Home Loan Mortgage Corporation FRN (maturity dates ranging from 11/01/2012 through to 29/12/2011) | United States | Government and agency | 25,000,000 | 24,995,379 | 24,994,910 | 5.82 |
| Federal Home Loan Bank FRN 08/01/2011 | United States | Government and agency | 25,000,000 | 24,993,461 | 24,989,050 | 5.82 |
| | | | **169,200,000** | **169,146,723** | **169,126,661** | **39.39** |

*The accompanying notes are an integral part of the consolidated financial statements*

# Condensed Consolidated Schedule of Investments (continued)

(Expressed in United States dollars)

| | | Cost | Fair Value |
|---|---|---|---|
| **Geographic diversity of Distressed Portfolio** | | | |
| Australia | $ | 9,670,105 | 9,982,350 |
| Cayman Islands | | 2,832,198 | 2,832,198 |
| Germany | | 16,274,854 | 16,134,254 |
| Great Britain | | 7,989,938 | 8,184,156 |
| India | | 143,824 | 143,824 |
| Ireland | | 110,466 | 110,466 |
| Japan | | 443,917 | 443,917 |
| United States (U.S.A.) | | 95,551,956 | 93,443,100 |
| | **$** | **133,017,258** | **131,274,265** |

| | | Cost | Fair Value |
|---|---|---|---|
| **Industry diversity of Distressed Portfolio** | | | |
| Air Transport | $ | 2,487,203 | 2,447,433 |
| Building and Development | | 6,158,470 | 5,866,886 |
| Commercial Mortgage | | 33,413,571 | 32,211,070 |
| Containers and glass products | | 4,362,500 | 4,221,900 |
| Financial Intermediary | | 20,081,998 | 19,719,498 |
| Food Products | | 4,585,344 | 2,820,810 |
| Healthcare | | 8,738,675 | 8,736,250 |
| Lodging and Casinos | | 7,907,445 | 7,884,100 |
| Real estate trust | | 9,670,105 | 9,982,350 |
| Surface Transport | | 16,225,166 | 17,792,802 |
| Telecommunications | | 11,367,894 | 11,659,156 |
| Utilities | | 8,018,887 | 7,932,010 |
| | **$** | **133,017,258** | **131,274,265** |

*The accompanying notes are an integral part of the consolidated financial statements*

# Consolidated Statement of Operations

(Expressed in United States dollars)

| | | 20 April 2010 to 31 December 2010 |
|---|---|---|
| **Interest income** | $ | 2,760,523 |
| **Expenses** | | |
| Investment management and services | | 2,305,838 |
| Directors' fee and travel expenses | | 149,118 |
| Administration and professional | | 917,423 |
| | | 3,372,379 |
| Net loss | **$** | **(611,856)** |
| **Realised and unrealised gains and losses** | | |
| Net realised loss on investments | $ | (512,887) |
| Net change in unrealised loss on investments | | (1,817,649) |
| Realised loss on foreign currency | | (273,700) |
| **Net realised and unrealised gains and losses** | **$** | **(2,604,236)** |
| **Net decrease in net assets resulting from operations** | **$** | **(3,216,092)** |
| **Loss per ordinary share** | **$** | **(0.0114)** |

*The accompanying notes are an integral part of the consolidated financial statements*

# Consolidated Statement of Changes in Net Assets

**For the period from 20 April 2010 to 31 December 2010**

(Expressed in United States dollars)

| | | 20 April 2010 to 31 December 2010 |
|---|---|---|
| **Net assets at beginning of period** | **$** | **-** |
| Proceeds from issuance of ordinary shares (net of $8,827,683 of offering costs) | | 432,556,529 |
| Net decrease in net assets resulting from operations | $ | (3,216,092) |
| **Net assets at end of period** | **$** | **429,340,437** |

*The accompanying notes are an integral part of the consolidated financial statements*

# Consolidated Statement of Cash Flows

**For the period from 20 April 2010 to 31 December 2010**

(Expressed in United States dollars)

| | | 20 April 2010 to 31 December 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net decrease in net assets resulting from operations | $ | (3,216,092) |
| | | |
| Adjustment to reconcile net decrease in net assets resulting from operations: | | |
| Net realised loss on investments | $ | 512,887 |
| Net change in unrealised loss on investments | | 1,817,649 |
| Accretion of discount on loans and bonds | | (1,029,427) |
| PIK interest | | (33,659) |
| Changes in receivables for investments sold | | (6,614,558) |
| Changes in interest receivables | | (572,543) |
| Changes in other receivables and prepayments | | (75,640) |
| Changes in payables for investments purchased | | 69,616,129 |
| Changes in accrued expenses and other liabilities | | 854,374 |
| Purchase of investments | $ | (738,671,714) |
| Sale of investments | | 266,664,587 |
| Net cash used in operating activities | $ | (410,748,007) |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of ordinary shares (net of $8,827,683 of offering costs) | $ | 432,556,529 |
| Net cash provided by financing activities | $ | 432,556,529 |
| **Net increase in cash and cash equivalents** | **$** | **21,808,522** |
| Cash and cash equivalents at beginning of period | | - |
| **Cash and cash equivalents at end of period** | **$** | **21,808,522** |

The accompanying notes are an integral part of the consolidated financial statements

# Notes to the Consolidated Financial Statements
## For the period from 20 April 2010 to 31 December 2010

**Note 1 – Description of business**

NB Distressed Debt Investment Fund Limited (the "Company") is a closed-ended investment company registered and incorporated in Guernsey under the Companies (Guernsey) Law, 2008 on 20 April 2010, with registration number 51774. The Company's shares were admitted to the Specialist Fund Market of the London Stock Exchange (the "SFM") and to the Channel Islands Stock Exchange ("CISX") on 10 June 2010.

The Initial Public Offering of the Company took place in June 2010, raising gross proceeds of approximately $197.2 million. Subsequently, the Company raised further gross proceeds of approximately $244.2 million at a price of $1.005 per ordinary share by means of a Secondary Placing in October 2010.

The Company's investment 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.

The share capital of the Company is denominated in U.S. Dollars and consists of Ordinary Shares and Subscription Shares (both of which carry limited voting rights) and Class A Shares (which carry extensive voting rights). The Class A Shares are held by the Trustee pursuant to a purpose trust established under Guernsey law. Under the terms of the Trust Deed, the Trustee holds the Class A Shares for the purpose of exercising the rights conferred by such shares in the manner it considers, in its absolute discretion, to be in the best interests of the Ordinary Shareholders as a whole.

The Ordinary Shares (and not the Subscription Shares or the Class A Shares) carry rights to receive all income and capital returns distributed by the Company.

**Note 2 - Summary of significant accounting policies**

**Basis of preparation**

The accompanying consolidated financial statements have been presented on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008. The functional and reporting currency of the Company is the United States Dollar.

In June 2009, the Financial Accounting Standards Board (FASB) codified its standards and accounting principles for financial statements issued for the period ending after September 15, 2009. Starting with the accompanying consolidated financial statements, the Company will make reference to U.S. generally accepted accounting principles (U.S. GAAP) issued by the FASB as Accounting Standards Codification (ASC).

**Principles of Consolidation**

The consolidated financial statements include the results of the Company and its wholly owned subsidiaries, London Granite Ridge LLC and London Mayslake LLC, together the Group. All inter-company balances have been eliminated.

**Note 2 - Summary of significant accounting policies (continued)**

**Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires that the Directors make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Such estimates and associated assumptions are generally based on historical experience and various other factors that are believed to be reasonable under the circumstances, and form the basis of making the judgments about attributing values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from such accounting estimates in amounts that may have a material impact on the Financial Statements of the Company.

**Revenue recognition**

Interest earned on debt instruments is accounted for, gross of applicable withholding taxes and it is recognised as income over the terms of the loans. All fees earned and direct costs incurred in connection with the origination of loans are capitalized and amortised as an adjustment to interest income over the life of the related loan using the effective interest rate method. Discounts received or premiums paid in connection with the acquisition of loans are amortized into interest income using the effective interest method over the contractual life of the related loan. If a loan pays off prior to maturity, the recognition of the fees and costs is accelerated as appropriate. Payment-in-kind (PIK) interest is computed at the contractual rate specified in the loan agreement for any portion of the interest which may be added to the principal balance of a loan rather than paid in cash by obligator on the scheduled interest payment date. PIK interest is periodically added to the principal balance of the loan and recorded as interest income. The Manager places a receivable on non accrual status when the collection of principal or interest is deemed doubtful. Divided income is recognised on the ex-dividend date. Realised gains and losses are determined using the specific identification method.

**Cash and cash equivalents**

The Company's cash and cash equivalents comprise cash on hand and demand deposits and highly liquid investments with original maturities of less than 90 days that are both readily convertible to known amounts or cash and so near maturity that they represent insignificant risk of changes in value.

**Valuation of Investments**

The Company carries investments on its books at fair value in accordance with U.S. GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period. Quoted investments are valued according to their bid price as at the close of the relevant reporting date. Investments in private securities are priced at the bid price using a pricing service for private loans. If a price cannot be ascertained from the above sources, the Company will seek bid prices from third party broker/dealer quotes for the investments.

In cases where no third party price is available and for investments in Limited Partnership Units, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Sub-Investment Manager determines the valuation based on the Sub-Investment Manager's fair valuation policy.

The overall criterion for fair value is a price at which a round lot of the securities involved would change hands in a transaction between a willing buyer and a willing seller, neither being under compulsion to buy or sell and both having the same knowledge of the relevant facts.

**Note 2 - Summary of significant accounting policies (continued)**

Consistent with the above criterion, the following criteria is considered when applicable:

- Valuation of other securities by the same issuer for which market quotations are available;
- Reasons for absence of market quotations;
- The soundness of the security, its interest yield, the date of maturity, the credit standing of the issue and the current general interest rates;
- Recent sales prices and/or bid and asked quotations for the security;
- Value of similar securities of issuers in the same or similar industries for which market quotations are available;
- Economic outlook of the industry;
- Issuer's position in the industry;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

**Realised Gains and Losses on Investments**

All investment transactions are recorded on a trade date basis. Upon sale or maturity, the difference between the consideration received and the cost of the investment is recognised as a realised gain or loss. The cost is determined based on the average cost method.

**Operating expenses**

Operating expenses are recognised on an accruals basis. Operating expenses include amounts directly or indirectly incurred by the Company as part of its operations.

**Issuance cost**

In line with the Prospectus, all expenses incurred for the initial and secondary placing were borne by the Company up to a maximum of 2 percent of the Gross Issue Proceeds. Any expenses exceeding this amount were paid by the Investment Manager. These expenses includes placing fees and commissions; registration, listing and admission fees; the cost of settlement and escrow arrangements; printing, advertising and distribution costs; legal fees, and any other applicable expenses incurred in connection with the offering of shares.

All such expenses are charged to capital, reducing the issue proceeds received. During 2010, there were 440,169,297 ordinary shares issued, with proceeds raised of $432,556,529, net of issue costs of $8,827,683.

**Performance fee**

Performance fee amounts due on investments (see note 4) are computed and accrued at each period end date based on period-to-date results in accordance with the terms of the agreements.

**Note 2 - Summary of significant accounting policies (continued)**

**Currency translation**

Monetary assets and liabilities denominated in a currency other than U.S. dollars are translated into U.S. dollar equivalents using spot rates as at the period end date. On initial recognition, a foreign currency transaction is recorded and translates at the spot exchange rate at the transaction date. Non monetary assets and liabilities are translated at the historic exchange rate.

**Payables on investments purchased**

At 31 December 2010, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the balance sheet date.

**Note 3 – Recent standards and pronouncements**

On 21 January 2010, the FASB issued the ASU 2010 – 06, "Improving Disclosures about Fair Value Measurement," an amendment to Subtopic 820 – 10 which requires the following disclosures upon the fair value of investments:-

1) a reporting entity should disclose the amounts of significant transfers in and/or out of Level I and Level 2 fair value measurements and the reason for the transfers;

2) the reasons for any transfers in and out of Level 3; and

3) Information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis.

In addition to these new disclosure requirements, the ASU also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. Prior to the issuance of ASU 2010 - 06, the guidance in ASC 820 required separate fair value disclosures for each major category of assets and liabilities.

ASU 2010 - 06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements, except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, which are not yet effective.

**Note 4 – Agreements and related parties**

**Investment Management Agreement**

The Board is responsible for managing the business affairs of the Company but has delegated certain functions to the Investment Manager under the Investment Management Agreement dated 5 May 2010, subsequently amended and revised on 17 June 2010.

The investment manager of the Company is Neuberger Berman Europe Limited, an indirect wholly-owned subsidiary of NB Group. Under the Sub-Investment Management Agreement dated 9 June 2010, the Investment Manager has delegated certain of its responsibilities and functions to the Sub-Investment Manager, Neuberger Berman Fixed Income LLC, also an indirect wholly-owned subsidiary of NB Group (together the "Investment Managers").

The Investment Managers are responsible for the discretionary management of the assets held in the Company Portfolio and will conduct the day-to-day management of the Company's assets (including un-invested cash). The Investment Managers are not required to and generally will not submit individual investment decisions for approval by the Board.

**Note 4 – Agreements and related parties (continued)**

The Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrear, at a rate of 0.125 percent per month of the Company's NAV. For the period ended 31 December 2010, the management fee expense was $2,305,838.

In addition, the Investment Manager is entitled a performance fee by the Company. The performance fee will only become payable once the Company has made aggregate distributions in cash to Ordinary Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Ordinary Shares (the "Contributed Capital") plus such amounts as will result in Ordinary Shareholders having received a realised (cash-paid) IRR in respect of the Contributed Capital equal to preferred Return (6 percent), following which there will be a 100 percent catch up to the Investment Manager until the Investment Manager has received 20 percent of all amounts in excess of Contributed Capital distributed to Ordinary Shareholders and paid to the Investment Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Investment Manager's performance fee and the cash distributed to the Ordinary Shareholders respectively. For the period ended 31 December 2010, the performance fee expense was nil.

**Administration and Custody Agreement**

The Company has appointed BNP Paribas Fund Services (Guernsey) Limited as Administrator, Secretary, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement. In such capacity, the Administrator is responsible for the day–to-day administration of the Company (including but not limited to the calculation and publications of the estimated daily Net Asset Value), general secretarial functions (including but not limited to the maintenance of the Company's accounting and statutory records) and certain safekeeping and custody services. The Administrator is entitled to a fee based on 0.11 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000.

The Secretary is entitled to an annual fee of £36,000 plus fees for adhoc board meetings and services. The Custodian is entitled to a fee of 0.02 percent of the Market Value of the portfolio or a minimum annual fee of £20,000 and a fee of 0.08 percent per annum of the net asset value, minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the period ended 31 December 2010, the administration fee expense was $194,380, the secretarial fee was $38,078 and the custodian and loan administration fee expense was $160,481.

**Note 5 – Directors' remuneration and other interests**

The Directors are related parties and are remunerated for their services at a fee of $45,000 per annum ($60,000 for the Chairman). In addition, the chairman of the Audit Committee receives an additional $5,000 for his services in this role. Each of Michael Holmberg and Patrick Flynn, the non-independent Directors, has waived their fees for their services as Directors. For the period ended 31 December 2010, the directors' fees and travel expenses amounted to $149,118.

The Director's shareholdings as at 31 December 2010 are disclosed on page 15.

**Note 6 - Bank Debt Investments**

The Company generally purchases bank debt investments in the secondary market. Bank debt consists primarily of senior term loans, revolvers and second lien loans. The Company primarily purchases bank debt of borrowers which are experiencing varying degrees of financial distress. The loans purchased by the Company are generally marketable and traded in the secondary market for distressed bank debt. Loans purchased by the Company are typically senior in the issuer's capital structure.

The following table summarises the bank debt investments balance at 31 December 2010.

| | | **31 December 2010** |
|---|---|---|
| Senior Secured loans | | 101,113,286 |
| Second lien secured loans | | 7,957,799 |
| Mezzanine loans | | - |
| | **$** | **109,071,085** |

**Note 7 – Fair Value of Financial Instruments**

A financial instrument is defined by ASC 825, *Disclosures about Fair Value of Financial Instruments*, as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favourable terms. Fair value estimates are made at a discrete point in time, based on relevant market data, information about the financial instruments, and other factors.

Fair value was determined using available market information and appropriate valuation methodologies. Estimates of fair value of financial instruments without quoted market prices are subjective in nature and involve various assumptions and estimates that are matters of judgement. Accordingly, fair values are not necessarily indicative of the amounts realised on disposition of financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

The following estimates and assumptions were used at 31 December 2010 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents – The carrying value is a reasonable estimate of fair value due to the short-term nature of these instruments.

- Receivables for Investments Sold – The carrying value reasonably approximates fair value as they reflects the value at which investments are sold to a willing buyer and settlement period on their balances is short term.

- Interest receivables – The carrying value reasonably approximates fair value.

- Other receivables and prepayments – The carrying value reasonably approximates fair value.

    - The valuation of distressed investments is estimated based on bid levels in the secondary market based on independent pricing services, at 31 December 2010, with the exception of $24,719,498 Level 3 investments valued using good faith valuation and $32,211,070 priced from single broker source. As at 31 December 2010, the fair value of the distressed investments was $131,274,265. Temporary investments were valued at their bid prices derived at the relevant reporting date.
    -

**Note 7 – Fair Value of Financial Instruments (continued)**

- Payables for Investments Purchased – The carrying value reasonably approximates fair value as they reflect the value at which investments are purchased from a willing seller and settlement period on their balances is short term.

- Payables to Investment Manager and affiliates - The carrying value reasonably approximates fair value.

- Accrued expenses and other liabilities – The carrying value reasonably approximates fair value.

The Company categorises its investments as follows based on the inputs used in valuation techniques:

**Level 1:** Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

**Level 2:** Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly; and

**Level 3:** Significant unobservable inputs

The following table details the Company's investments that were accounted for at fair value as at 31 December 2010.

| | Investments at Fair Value as at 31 December 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Bank debt investments | - | 68,160,015 | 40,911,070 | 109,071,085 |
| Limited Partnership Units | - | - | 16,019,498 | 16,019,498 |
| Asset Backed Securities | - | 2,447,432 | - | 2,447,432 |
| Loans notes and bonds | - | 343,201,662 | - | 343,201,662 |
| **Total investments that are accounted for at fair value** | - | **$413,809,109** | **$56,930,568** | **$ 470,739,677** |

The following is a reconciliation of beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs:

| | **31 December 2010** |
|---|---|
| Balance, beginning of the period | - |
| Purchases | 58,133,069 |
| Total unrealised losses | (1,202,501) |
| **Fair value, end of the period** | **$ 56,930,568** |
| **Net change in unrealised loss on investments held as of 31 December 2010** | **$ (1,202,501)** |

**Note 8 – Unfunded Loan Commitments**
As at 31 December 2010, the Company has no unfunded loan commitments.

**Note 9 – Risks**

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager attempts to monitor and manage these risks on an ongoing basis. While the Investment Manager generally seeks to hedge certain portfolio risks, the Investment Manager is not required and may not attempt to hedge all market or other risks in the portfolio, and it may decide to only partially hedge certain risks. The Company does not have any material exposure to currency risk as at 31 December 2010.

***Market Risk***
Market risk is the potential for changes in the value of investments. Categories of market risk include, but are not limited to interest rates. Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads.

***Credit Risk***
The Company may invest in a range of corporate and other bonds and other credit sensitive securities. Until such investments are sold or are paid in full at maturity, the Company is exposed to credit risk relating to whether the issuer will meet its obligations when the securities come due. Distressed debt securities by nature are securities in companies which are in default or are heading into default and will expose the Company to a higher than normal amount of credit risk.

The cash and other liquid securities held can subject the Company to a concentration of credit risk. The Investment Manager attempts to mitigate the credit risk that exists with cash deposits and other liquid securities by regularly monitoring the credit ratings of such financial institutions and at times attempting to hold a significant amount of the Company's cash and cash equivalents in U.S. Treasuries or other highly liquid securities.

Credit risk is the risk of losses due to the failure of counterparty to perform according to the terms of a contract. Since the Company does not clear all of its own securities transactions, it has established accounts with other financial institutions for this purpose. This can, and often does, result in a concentration of credit risk with one or more of these institutions. Such risk, however, is partially mitigated by the obligation of certain of these financial institutions to comply with rules and regulations governing financial institutions in countries where they conduct their business activities.

These rules and regulations generally require maintenance of minimum net capital and may also require segregation of customers' funds and financial instruments from the holdings of the financial institutions themselves. The Company actively reviews and attempts to manage exposures to various financial institutions in an attempt to mitigate these risks.

***Liquidity Risk***
Liquidity risk is the risk that the Company will not be able to meet its obligations as and when these fall due. Liquidity risk is managed by the Investment Manager so as to ensure that the Company maintains sufficient working capital in cash or near cash form so as to be able to meet the Company's ongoing requirements as these are budgeted for.

***Other Risks***
Legal, tax and regulatory changes could occur during the term of the Company that may adversely affect the Company. The regulatory environment for alternative investment vehicles is evolving, and changes in the regulation of alternative investment vehicles may adversely affect the value of investments held by the Company or the ability of the Company to pursue its trading strategies. The effect of any future regulatory change on the Company could be substantial and adverse.

**Note 10 – Income taxes**

The Company is exempt from Guernsey tax on income derived from non-Guernsey sources. However, certain of its underlying investments may generate income that is subject to tax in other jurisdictions, principally in the United States.

In accordance with U.S. GAAP Management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognised is measured as the largest amount of benefit that is greater than fifty percent likely of being realised upon ultimate settlement. De-recognition of a tax benefit previously recognised could result in the Company recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.
Income derived from investments may be subject to withholding or other taxes imposed by the US or other countries. Such taxes are reflected in the Statement of Operations.

As of 31 December 2010, the Company has recorded no liability for net unrecognised tax benefits relating to uncertain tax positions they have taken or expect to take in future tax returns.

**Note 11 – Financial highlights**

| | | Ordinary Share Class |
|---|---|---|
| **Per share operating performance**<br>Net proceeds per share at the initial offering | **$** | 0.9800 |
| Impact of second offering | | 0.0068 |
| **Income from investment operations** (a) | | |
| Net loss | | (0.0022) |
| Net realised and unrealised loss from investments | | (0.0092) |
| **Total loss from operations** | | (0.0114) |
| **Net asset value per share at the end of the period** | **$** | **0.9754** |

| **Total return* (b)** | **Ordinary Share Class** |
|---|---|
| Total return before performance fees | (0.47)% |
| Performance fees | - |
| Total return after performance fees | (0.47)% |

| **Ratios to average net assets (b)** | **Ordinary Share Class** |
|---|---|
| Net loss (c) | (0.40%) |
| Expenses (c) | (2.20%) |

(a) Average shares outstanding were used for calculation.
(b) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.
(c) Annualized.

*Total return is calculated for the ordinary share class only, which is calculated based on movement in the net asset value, and does not reflect any movement in the market value. An ordinary shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. Subscription shares are not presented as they are not profit participating shares.

**Note 12 – Share Capital**

The Company's share capital consist of (a) 10,000 Class A Shares authorised, of par value $1 each (which carry extensive voting rights); and (b) an unlimited number of shares of no par value which may upon issue by designated as Ordinary Shares or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

As at the 31 December 2010, the Company had following shares in issue:

(a) two Class A Shares issued and fully paid up;

(b) 440,169,296 ordinary shares of no par value in issue, with proceeds raised of $432,556,529, net of issue costs of $8,827,683.

(c) 39,437,205 subscriptions shares of no par value in issue. Each subscription share carries the right to subscribe in cash for one ordinary share on or around 9 December 2011 at the relevant subscription price as set out in the prospectus dated 23 September 2011.

**Note 13 - Subsequent events**

Management has evaluated subsequent events for the Company through 13 April 2011, the date the consolidated financial statements are available to be issued, and had concluded there are not any material events that require disclosure or adjustment of the consolidated financial statements other than those listed below.

# Directors, Manager and Advisers

**Directors**

Robin Monro-Davies
(*Chairman*)
Talmai Morgan
John Hallam
Christopher Sherwell
Michael Holmberg
Patrick Flynn

All c/o the Company's registered office.

**Registered Office**

BNP Paribas House
1 St. Julian's Avenue
St. Peter Port
Guernsey
GY1 1WA

**Administrator, Custodian and Company Secretary**

BNP Paribas Fund Services (Guernsey) Limited
BNP Paribas House
1 St. Julian's Avenue
St. Peter Port
Guernsey
GY1 6BH

**Registrar**

Capita Registrars (Guernsey) Limited
PO Box 627
Longue Hougue House
St Sampson
Guernsey
GY1 3US

**Investment Manager**

Neuberger Berman Europe Limited
4th Floor, 57 Berkeley Square
London W1J 6ER
United Kingdom

**Sub-Investment Manager**

Neuberger Berman Fixed Income LLC
190 S LaSalle Street
Chicago IL 60603
United States of America

**Financial Adviser and Joint Corporate Broker**

Oriel Securities Limited
125 Wood Street
London EC2V 7AN
United Kingdom

**Joint Corporate Broker**

RBS Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA
United Kingdom

**Solicitors to the Company (as to English law and U.S. securities law)**

Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS
United Kingdom

**Advocates to the Company (as to Guernsey law)**

Carey Olsen
PO Box 98
Carey House
Les Banques St Peter Port
Guernsey GY1 4BZ
Channel Islands

**Auditors**

KPMG Channel Islands Limited
20 New Street
St. Peter Port
Guernsey GY1 4AN

**Principal Bankers**

BNP Paribas Fund Services (Guernsey) Limited
BNP Paribas House
1 St. Julian's Avenue
St. Peter Port
Guernsey
GY1 6BH