NEUBERGER | BERMAN

ANNUAL REPORT

AUDITED FINANCIAL STATEMENTS

NB Distressed Debt Investment Fund Limited

YEAR ENDED 31 DECEMBER 2014

PARTNERING WITH CLIENTS FOR OVER 70 YEARS

NEUBERGER BERMAN

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COMPANY OVERVIEW

The investment objective of NB Distressed Debt Investment Fund Limited and its subsidiaries (together the ''Company'') 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 consists of three different share classes, with different capital return profiles and in some instances different geographical remits.

The Ordinary Share Class ("NBDD") and the Extended Life Share Class ("NBDX") have been returning capital and capital profits respectively. On 12 February 2014, investors in these share classes received their maiden capital return, made by way of a compulsory partial redemption. The capital return totalled $28 million to NBDD shareholders and $21 million to NBDX shareholders.

On 3 March 2014, the Company announced that it had raised gross proceeds of approximately £111 million through the creation of a New Global Share Class ("NBDG"). 110,785,785 New Global Shares were admitted to trading on the Specialist Fund Market and the Official List of the Channel Islands Securities Exchange on 4 March 2014 under ISIN GG00BH7JH183.

NBDG has the remit to invest in the global distressed market with a focus on Europe and North America where the Manager has seen a growing pipeline of opportunities. The creation of NBDG has not impacted the structure or strategy of the existing NBDD and NBDX.

On 16 May 2014 the Company returned a total (before expenses) of $15 million in respect to NBDD shareholders.

On 27 August 2014 the Company returned a total (before expenses) of $7 million to NBDD shareholders and $4 million to NBDX shareholders.

On 15 December 2014 the Company returned a total (before expenses) of $11 million to NBDD shareholders.

On 18 March 2015 the Company returned a total (before expenses) of $5 million to NBDD shareholders and $8.9 million to NBDX shareholders.

COMPANY OVERVIEW (CONTINUED)

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. Neuberger Berman Fixed Income LLC was appointed as the Company's Alternative Investment Fund Manager on 17 July 2014 to provide portfolio and risk management services. Neuberger Berman Europe Limited provides administrative and limited currency hedging services to the Company. Please see page 11 for further details.

Company (As at 31 December 2014)	**NB Distressed Debt Investment Fund Limited (the "Company")** • Guernsey incorporated, closed-ended investment company • Trading on the Specialist Fund Market of the London Stock Exchange and listed on the Channel Islands Securities Exchange • 331,917,856 Extended Life Shares outstanding • 75,011,865 Ordinary Shares outstanding • 110,785,785 New Global Shares outstanding
Investment Manager and Alternative Investment Fund Manager (As at 31 December 2014)	**Neuberger Berman Europe Limited (the "Investment Manager")** **Neuberger Berman Fixed Income LLC (the "Alternative Investment Fund Manager")** • A large team of 140 fixed income investment professionals • Portfolio Managers have an average of 24 years of industry experience • Total fixed income assets of approximately $103 billion • Over $37 billion in high yield bonds and loans • Non-investment grade research team of over 22 analysts

(US$ in millions, except per share data)	**At 31 December 2014 Ordinary Share Class**	**At 31 December 2014 Extended Life Share Class**	**At 31 December 2014 New Global Share Class**	**At 31 December 2014 Aggregated**
Net Asset Value	$93.9	$395.3	$153.0	$642.2
Net Asset Value per share	$1.2521	$1.1909	$1.3814	-
Investments	$87.4	$390.9	$154.1	$632.4
- Distressed Portfolio	$82.4	$372.9	$107.4	$562.7
- Temporary Investments	$5.0	$18.0	$46.7	$69.7
Cash and Cash Equivalents	$7.6	$29.0	$22.7	$59.3

(US$ in millions, except per share data)	**At 31 December 2013 Ordinary Share Class**	**At 31 December 2013 Extended Life Share Class**	**At 31 December 2013 Aggregated**
Net Asset Value	$151.3	$430.2	$581.5
Net Asset Value per share	$1.2189	$1.2218	-
Investments	$143.2	$410.3	$553.5
- Distressed Portfolio	$116.2	$380.3	$496.5
- Temporary Investments	$27.0	$30.0	$57.0
Cash and Cash Equivalents	$7.2	$24.1	$31.3

CHAIRMAN'S STATEMENT

Dear Shareholder:

2014 proved to be a very volatile year for the distressed debt markets, as a consequence of a number of factors relating to the ability of banks to carry debt on their balance sheets, with the fourth quarter proving particularly challenging.

However, under the management of the distressed debt team at Neuberger Berman Fixed Income LLC ("NBFI"), all three portfolios kept to their original premise of having a diversified pool of distressed, stressed and special situations assets, all focussed on senior debt backed by hard assets.

This discipline is evidenced by the fact that we were able to successfully exit a number of investments during the year. It is gratifying to note that since inception there have been 29 exits and all have generated a profit. These exits enabled us to return $61 million to NBDD shareholders and $25 million to NBDX shareholders. Full details of these returns can be found in the financial statements. There have been further returns in 2015 with $5 million and $9 million being returned so far to the NBDD and NBDX shareholders, respectively, with a further $12.5 million and $4 million respectively to be distributed shortly. The investment period of the NBDX class ended on 31 March 2015, and it has now moved into its realisation phase. NBDD saw a modest increase of 2.7% in NAV during the year while NBDX suffered a decrease in its NAV of 2.5%.

In 2015, we also made modest buybacks of the NBDX shares in the market in response to what we believed to be an excessive discount to NAV. We will continue to make such purchases when we believe it is in the interests of shareholders and it is accretive to NAV.

In response to investor demand, we launched the NBDG class in early 2014 and I am pleased to report that this raised £111 million. This class, which is denominated in Sterling, has a greater focus on Europe than its predecessors, an area which our portfolio managers believe to have promising opportunities. By the year end the NBDG class was 70.5% invested, a figure that has risen as of 31 March 2015 to 78.7%.

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

You will note that during the year, in response to the requirements of the Alternative Investment Fund Manager Directive, NBFI became the "alternative investment fund manager" for the Company (it had previously been the sub-investment manager). The distressed debt team at NBFI sits within what we believe is one of the largest and most experienced non-investment grade credit teams in the industry. We were disappointed to have to announce that Patrick Flynn will be stepping down at the end of this year, as a consequence of taking on a senior role in the High Yield group at NBFI. However I am pleased to report that the plans for his succession, which includes the promotion of Brendan McDermott and Ravi Soni to Co-Portfolio Managers for Distressed Debt, make me confident that the rigour of the investment process will be maintained. Both Brendan and Ravi have been members of our investment management team for many years.

I would like to take this opportunity to thank Patrick, on behalf of the whole Board, for his tireless efforts and wish him well for the future.

While, as I noted at the start, the distressed debt market was challenging in 2014 we remain optimistic for 2015. Specifically, we believe there is a pipeline of opportunities in real estate, transportation and energy distressed debt investments. We continue to see significant upside potential in the existing portfolio, which we expect to realise as we restructure and exit investments.

CHAIRMAN'S STATEMENT (CONTINUED)

The composition of the Board has been constant since the Company listed in 2010. I am an independent Chairman. There are two non-independent directors from the Investment Manager, Michael Holmberg and Patrick Flynn. Both the Board and I believe that it is beneficial to have representatives of the Investment Manager on the Board. The remaining three members of the Board are John Hallam, Talmai Morgan and Christopher Sherwell. Their biographies may be seen on pages 33 and 34 of this report. As noted, they serve on the board of NB Private Equity Partners Limited ("NB Private Equity"). This is a publicly listed private equity company which is managed by a separate part of the Neuberger Berman Group. In the eyes of a minority of shareholders, this renders Messrs Hallam, Morgan and Sherwell non-independent. This matter has been discussed at length by the Board, who also asked the Company's brokers to consult major shareholders on their views. The message received was that this was not a major issue in the view of the majority of those major shareholders consulted. The Board is actively considering its composition and succession planning but, at the forthcoming AGM, we will be proposing the re-election of all of the present directors for the following reasons:

- I consider John Hallam, Talmai Morgan and Christopher Sherwell to be of a totally independent frame of mind;
- The business of NB Private Equity is materially different from this Company's business and we don't believe that there is a conflict;
- NB Private Equity is managed by a Neuberger Berman private equity team in Dallas, Texas. This Company's business is managed from Chicago, Illinois and the two teams generally have no contact with one another; and
- At this juncture of the Company's life, I believe that the interests of the Company and its shareholders as a whole will be best promoted by the re-election of the present Board and I ask shareholders to accept this recommendation.

I thank you for your continued commitment to our Company and look forward to updating you on our progress in the coming year.

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Robin Monro-Davies
Chairman
27 April 2015

INVESTMENT MANAGER'S REPORT

Summary

Given the volatility of the distressed debt market in 2014, we remain satisfied with the Fund's performance during the year and are particularly gratified to have preserved our investors' capital. We also remain encouraged by the market. Looking into 2015, we see an attractive pipeline of opportunities in select sectors, such as real estate, transportation and energy debt, in both Europe and the U.S.

We make particular note that €67 billion of debt sales had occurred in the first nine months of 2014, on a run-rate to exceed €89 billion for the full year. However, over €1 trillion of non-performing loans remain on EU banks' balance sheets. We believe that the European regulatory environment may continue to facilitate further recognition and disposal of distressed loans. Additionally, the recent volatility in energy markets has presented new opportunities in the U.S.

NBDD Portfolio

As at 31 December 2014, 92.9% of NBDD's NAV was invested in distressed assets and 7.1% of NAV was held in cash and equivalents. NBDD's NAV per share increased 2.7% in 2014, to $1.2521 from $1.2189 per share. NAV benefited from the reversal of an accrual for performance fees of $0.0116 per share, or approximately 1.3% of NBDD's NAV. We believe that performance comparison versus other distressed debt managers is indicated by the HFRI Distressed/Restructuring Index which returned negative 1.0% in 2014.

In line with the investment strategy of NBDD, total capital distribution payments of $61 million were made to shareholders during 2014 by way of a compulsory partial redemption of NBDD shares. The current return comprises the total capital profit from investment exits from the NBDD portfolio during the investment period and all cash available to NBDD, save for amounts deemed to be required for existing positions and for working capital requirements.

NBDX Portfolio

As at 31 December 2014, 97.6% of NBDX's NAV was invested in distressed assets and 2.4% of NAV was held in cash and equivalents. NBDX's NAV per share decreased 2.5% in 2014, to $1.1909 per share from $1.2218 per share. We believe that performance comparison versus other distressed debt managers is indicated by the HFRI Distressed/Restructuring Index which returned negative 1.0% in 2014.

In line with the investment strategy of NBDX, total capital distribution payments of $25 million were made to shareholders during 2014 by way of a compulsory partial redemption of NBDX shares. The current return comprised the total capital profit from investment exits from the NBDX portfolio during the investment period.

NBDG Portfolio

In March, the Board of the Company announced the issuance of a new share class, NBDG. NBDG aims to capture the growing opportunity in distressed debt globally. NBDG is subject to an investment period ending on 31 March 2017, following which the assets will be placed into run-off.

As at 31 December 2014, approximately 70.5% of NBDG's NAV was invested in distressed assets and 29.5% was held in cash and equivalents. NBDG's NAV per share decreased 9.6% in 2014 from GBP 0.9800 per share to GBP 0.8860 per share.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Exits

During 2014, the Fund experienced 9 investment exits, bringing the total to 29 since inception.

Realisation one in the year: We purchased $21.1 million face value of secured term loans at 86.9% of par, issued by a media company with businesses including broadcast radio and outdoor advertising. The term loan was secured by substantially all of the assets of the company, including broadcasting licenses, equipment and real estate. We believed that the debt would be refinanced, or that in the event of a default, we would ultimately own the assets at an attractive valuation. The company subsequently engaged in a series of transactions which termed out debt maturities and enhanced the economics of its bank debt. As a result of the actions and positive operating performance, the prices of the company's debt moved up and we exited the position in the secondary market. Total return from this investment was $5 million. The IRR was 11%.

Realisation two in the year: We purchased $5.3 million of defaulted senior secured debt at 85% secured by an office building in Belgium. We believed that even in a downside evaluation scenario the sale of the building would cover our purchase cost of the debt. Our intention was to get involved in the debt restructuring process and purchase additional pieces of debt at lower valuations as banks exited the position. However, no additional debt became available for sale at attractive levels. Ultimately, the bank group took control of the property and sold it at the lower end of our valuation. As a result, we received our original capital back and generated no return from the investment. The IRR was 0%.

Realisation three in the year: We purchased $12.5 million of post-reorganization equity of a power generation company that owned three power plants located in the northeast US. Our purchase price valued the plants at approximately $520/kW, which we believe represented a discount versus the likely proceeds of a sale of the plants. Subsequently, the company's assets were sold to a strategic buyer for a value of approximately $620/kW. We exited the investment through a combination of cash distributions and secondary sales of shares. Total return from the investment was $3.3 million. The IRR was 24%.

Realisation four in the year: We purchased $26.4 million face value of senior notes at 71.3% of par, issued by an independent power producer. At the time of purchase, the company was burdened by an over leveraged balance sheet and near-term debt maturities. Our investment thesis was that the debt would likely be restructured into new securities in order to avoid a default, or that in the event of default we would own equity in the assets at an attractive valuation relative to comparable assets. The company ultimately filed Chapter 11 bankruptcy and sold substantially all of its assets to a Fortune 500 energy company. Our recovery on the notes came from the proceeds of the sale, interest payments pre-bankruptcy filing and the sale of remaining claims in the secondary market. Total return from this investment was $4.5 million. The IRR was 10%.

Realisation five in the year: We purchased $26 million of defaulted senior secured debt at 80.0% of par secured by a professional sports team, arena and related real estate. At the time of purchase we believed that the value of the collateral package was well in excess of the face amount of the company's debt plus accrued and unpaid interest. We also believed that the team and arena would likely be sold to a new owner who would refinance our debt, or that we and other holders would assume an ownership position at a discounted valuation versus comparable assets. Ultimately, the assets were sold to a new ownership group who paid past due interest and refinanced the secured debt. Total return from this investment was $7.6 million. The IRR was 30%.

Realisation six in the year: We purchased $11.8 million face value of senior secured notes at 34.5% of par, secured by a continuing care retirement community located in the southern U.S. After construction was completed, the facility did not generate sufficient cash flows to service its debt and the issuer defaulted and filed Chapter 11 bankruptcy. We believed that the value of the property was significantly in excess of our purchase price and that we would either restructure the debt or ultimately own equity in the property. The bondholders and the company subsequently completed a debt restructuring which allowed the company to emerge from bankruptcy and ultimately refinance its restructured securities. Total return from this investment was $5.1 million. The IRR was 25%.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Exits (continued)

Realisation seven in the year: We purchased $16.4 million face value of a secured loan at 91.2% of par, secured by a portfolio of commercial office and industrial properties in the U.S. Prior to our purchase, the borrower had defaulted at maturity of the loan and began to liquidate properties to repay creditors. Our investment thesis was that the proceeds from asset sales would be sufficient to repay par plus accrued interest. Over the ensuing 16 months, sufficient assets were sold to repay our position in full. Total return from this investment was $2.5 million. The IRR was 24%.

Realisation eight in the year: We purchased $3.0 million face value of trade claims at 37% of par of a shipping company which had entered insolvency proceedings. Pursuant to a plan of restructuring, the trade claims were expected to be exchanged for new debt and post-reorganization equity. At the time of purchase, we believed that the trade claim purchase price represented a discount relative to the expected value of post-reorganization securities. Subsequent to the restructuring, we sold the post-reorganization equity and debt in the secondary market. Total return from this investment was $0.2 million. The IRR was 65%.

Realisation nine in the year: We purchased $6.4 million face value of term loans at 83% of par, secured by petroleum tanker ships. At the time of our purchase, we believed that our purchase price represented a significant discount relative to the value of the collateral. Subsequent to our purchase, the equity sponsor agreed to purchase our debt at a premium to our cost basis. Total return from this investment was $0.4 million. The IRR was 40%.

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Neuberger Berman Europe Limited
27 April 2015

STRATEGIC REPORT

The Directors present their annual report and the consolidated financial statements of NB Distressed Debt Investment Fund Limited and its subsidiaries which are detailed in note 2 (together the "Company") for the year ended 31 December 2014.

Business Review

The following review is designed to provide information primarily about the Company's business, the principal risks and uncertainties it faces and results for the year. The review should be read in conjunction with the Chairman's Statement on pages 4 and 5 together with the Investment Manager's Report on pages 6 to 8 which give a detailed review of the investment activities for the year and an outlook on the future.

Principal Activities and Structure

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

The Company is a registered closed-ended investment company incorporated in Guernsey on 20 April 2010, registration number 51774. The Company is governed under the provisions of the Companies (Guernsey) Law, 2008 (as amended), and the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission. The Company's shares commenced trading on the Channel Islands Securities Exchange ("CISE") and the Specialist Fund Market ("SFM") on 10 June 2010. Following the approval by the shareholders of the resolution proposed on 8 April 2013, 320,109,841 Ordinary Shares were converted to an equivalent number of Extended Life Shares. The end of the investment period of the Ordinary Shares remained 10 June 2013 and this share class is currently in realisation phase. The end of the investment period of the Extended Life Shares was 31 March 2015 and this share class is currently in realisation phase. Through the creation of a New Global Share Class, 110,785,785 New Global Shares were admitted to trading on the SFM and the CISE on 4 March 2014.

The Company is a member of the Association of Investment Companies (the "AIC") and is classified within the Debt Category.

During the year, the Company continued to incorporate wholly owned subsidiaries including Luxembourg subsidiaries, London Lux Masterco 1 S.a.r.l., London Lux Debtco 1 S.a.r.l. and London Lux Propco 1 S.a.r.l., in order to facilitate investing into Europe.

Investment Objective

The Company's primary objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic stressed, distressed and special situation credit-related investments while seeking to limit downside risk by, amongst other things, focusing on senior and senior secured debt with both collateral and structural protection.

Investment Policy

The Investment Manager seeks to identify mispriced or otherwise overlooked securities or assets that they believe have the potential to produce attractive absolute returns while seeking to limit downside risk through collateral and structured protection where possible.

The Company portfolio is biased toward investing in stressed and distressed debt securities secured by hard asset collateral. In investing on behalf of the Company, the Investment Manager focuses on companies with significant tangible assets they believe are likely to maintain long-term value through a restructuring. The Company avoids "asset-light" companies, as their value tends to be degraded in distressed scenarios. The Investment Manager will also aim to concentrate on companies with stressed balance sheets whose low implied enterprise value multiples - often calculated off currently depressed cash flows - offer a discount to current comparable market valuations.

STRATEGIC REPORT (CONTINUED)

Investment Policy (continued)

The Investment Manager will attempt to limit the Company's downside risk by focusing on senior and senior secured debt with both collateral and structural protection. The Investment Manager will attempt further to limit the Company's downside risk by investing in situations in which the debt acquired by the Company can be converted to equity at a valuation multiple below comparable valuation multiples in its sector. Such investments may include companies that are currently involved in a court-supervised or out-of-court restructuring or reorganisation, a liquidity crisis, a merger, a divestiture or another corporate event conducive to a mispricing of intrinsic value.

The Investment Manager will seek to achieve the Company's investment objective primarily by investing in: bankruptcy situations; out-of-court restructurings and workouts; as well as in special situations. The Investment Manager from time to time may, however, also make opportunistic investments that are neither distressed nor related to a special situation.

Principal Risks and Uncertainties

The Board is responsible for the Company’s system of internal financial operating controls and for reviewing its effectiveness. The Board also monitors the investment limits and restrictions set out in the Company’s investment objective and policy.

Investment Activity and Performance

An inappropriate investment strategy may result in under performance against the Company’s objectives. The Board manages these risks by ensuring a diversification of investments. The Investment Manager operates in accordance with the investment limits and restrictions policy determined by the Board. The Directors review the limits and restrictions on a regular basis and the Administrator monitors adherence to the limits and restrictions every month and will notify any breaches to the Board. The Investment Manager provides the board with management information including performance data and reports, and the Corporate Broker provides shareholder analyses. The Directors monitor the implementation and results of the investment process with the Investment Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting.

Level of Discount or Premium

A discount or premium to NAV can occur for a variety of reasons, including market conditions or to the extent investors undervalue the management activities of the Investment Manager or discount their valuation methodology and judgement. While the Directors may seek to mitigate any discount to NAV per Share through the discount management mechanisms set out in the Prospectus, 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 or premium.

Market Price Risk

The market value of senior loans may vary because of a number of factors, including, but not limited to, the financial condition of the underlying borrowers, the industry in which a borrower operates, general economic or political conditions, interest rates, the condition of the debt trading markets and certain other financial markets, developments or trends in any particular industry and changes in prevailing interest rates.

STRATEGIC REPORT (CONTINUED)

Principal Risks and Uncertainties (continued)

Accounting, Legal and Regulatory

The Company must comply with the provisions of the Companies (Guernsey) Law, 2008 (as amended), and since its shares are listed on the official list of the CISE, the CISE Listing Rules. In addition, the Company is required to comply with the FCA's Disclosure and Transparency Rules ("DTRs"). A breach of the legislation could result in the Company and/or the Directors being fined or subject to criminal proceedings and the suspension of the Company's shares to trading on the SFM and listing and trading on the CISE. The Board relies on its Company Secretary and advisers to ensure adherence to the Guernsey legislation, the CISE rules and the DTRs. The Investment Manager, Company Secretary and the Administrator, are contracted to provide investment, company secretarial, administration and accounting services through qualified professionals. The Board receives regular internal control reports.

Operational

Disruption to, or the failure of either the Investment Manager's or the Administrator's accounting, dealings or payment systems, or the custodians' records could prevent the accurate reporting or monitoring of the Company's financial position.

Details of how the Board monitors the services provided by the Investment Manager and the Administrator, and the key elements designed to provide effective internal control are explained further in the internal controls section of the Corporate Governance Report which is set out on pages 26 and 27.

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.

Under Directive 2011/61/EU of the European Parliament and of the Council of 8 July 2011 on the Alternative Investment Fund Manager Directive (the "AIFM Directive") the Company is required to appoint an Alternative Investment Fund Manager ("AIFM"). On 17 July 2014, the Company, the Investment Manager and the Sub Investment Manager made certain classificatory amendments to the Investment Management Agreement for the purposes of the AIFM Directive. The Sub Investment Management Agreement was terminated on 17 July 2014 and the Sub Investment Manager was appointed as the AIFM per the amended and restated Investment Management Agreement dated 17 July 2014. The Investment Manager has for the duration of its appointment discharged its responsibility to the AIFM, Neuberger Berman Fixed Income LLC.

Under the Investment Management Agreement, the Investment Manager is responsible for the discretionary management of, and will conduct day-to-day management of, the assets held in the Company Portfolio (including un-invested cash).

The Investment Manager is not required to and generally will not submit individual decisions for approval by the Board. See Note 4 for details of fee entitlement.

Administration and Custody Agreement

During the year ended 31 December 2014, BNP Paribas Securities Services S.C.A., Guernsey Branch was Administrator, Company Secretary, Custodian and Designated Manager of the Company. In such capacity, the Administrator was 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 admitted to trading on the SFM and the CISE.

STRATEGIC REPORT (CONTINUED)

Administration and Custody Agreement (continued)

In acting as Custodian of the Company's investments, the Administrator provided 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 was permitted and may delegate the safekeeping function to BNP Paribas Securities Services London Branch or such other associate companies of the Administrator. See Note 4 for details of fee entitlement.

Effective 1 March 2015, US Bancorp Fund Services (Guernsey), Limited was appointed Administrator and Designated Manager of the Company and Quintillion Limited was appointed Sub-Administrator and are responsible for the day-to-day administration of the Company. US Bank National Association was appointed Custodian to the Company effective 1 March 2015.

Company Secretarial services were provided by BNP Paribas Securities Services S.C.A., Guernsey Branch until 10 December 2014. On 11 December 2014, C.L. Secretaries Limited, a wholly owned subsidiary of Carey Commercial Limited was appointed Company Secretary. Registrar services are provided by Capita Registrars (Guernsey) Limited.

Related Party Transactions

The contracts with the Investment Manager are the only related party transactions currently in place. Other than fees payable in the ordinary course of business, there have been no material transactions with these related parties which have affected the financial position or performance of the Company in the financial year. Please see page 59 for further details on a portion of a loan sold by the Company to the "2013 Series" of NB Distressed Debt Master Fund LP, a fund also managed by the Investment Manager.

Financial Review

At 31 December 2014 the net assets of the Ordinary Shares amounted to $93,920,322 (2013: $151,344,261), those of the Extended Life Shares amounted to $395,281,487 (2013: 430,177,579) and those of the New Global Shares amounted to $153,044,225 (2013: Nil). The total return for the year was 2.72% (2013: 13.23%) for Ordinary Shares, (2.53)% for Extended Life Shares (2013: 7.62%) and (9.59)% for New Global Shares (2013: Nil).

Gearing

The Company will not employ leverage or gearing for investment purposes through the use of borrowings. The Company may, from time to time, use borrowings for share buy backs and short-term liquidity purposes, including bridging purposes, prior to the sale of investments. Save for such bridging borrowings, the Directors will restrict borrowing, with respect to each share class, to an amount not exceeding 10 percent of the NAV of the share class at the time of drawdown, and in any event, to an amount not exceeding 10 percent of the NAV of the Company at the time of drawdown at any time.

The Company does not currently have any borrowings.

Derivatives may be used for the purposes of efficient portfolio management and to hedge risk within the portfolio. In addition from time to time the Company may also invest in such derivatives for investment purposes.

Dividends and Distributions

The Company will distribute all net income received on investments attributable to such class of shares, as appropriate, after deduction of reasonable expenses and subject to the solvency test prescribed by Guernsey Law. The exact amount of any such dividend would be variable and only made when the aggregate amount of any such dividend becomes material. Net investment income in the Consolidated Statement of Operations represents cash and non-cash items and there is currently insufficient cash income to distribute.

STRATEGIC REPORT (CONTINUED)

Dividends and Distributions (continued)

As at 31 December 2014, there has been no dividend of any kind declared, paid or made by the Company on any class of its share capital (2013: $Nil).

A capital return by way of a compulsory partial redemption was paid on 12 February 2014:

- $28.0 million in relation to the Ordinary share class (equivalent to approximately $0.2255 per Ordinary share); and
- $20.9 million in relation to the Extended Life share class (equivalent to approximately $0.0593 per Extended Life share).

A capital return by way of a compulsory partial redemption was paid on 16 May 2014 of $15.0 million in relation to the Ordinary share class (equivalent to approximately $0.1481 per Ordinary share).

A capital return by way of a compulsory partial redemption was paid on 27 August 2014:

- $7.0 million in relation to the Ordinary share class (equivalent to approximately $0.0785 per Ordinary share); and
- $4.2 million in relation to the Extended Life share class (equivalent to approximately $0.0125 per Extended Life share).

A capital return by way of a compulsory partial redemption was paid on 15 December 2014 of $11.0 million in relation to the Ordinary share class (equivalent to approximately $0.1316 per Ordinary share).

A capital return by way of a compulsory partial redemption was paid on 18 March 2015:

- $5.0 million in relation to the Ordinary share class (equivalent to approximately $0.0666 per Ordinary share); and
- $8.9 million in relation to the Extended Life share class (equivalent to approximately $0.0270 per Extended Life share).

Performance Measurement and Key Performance Indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Investment Manager, the Directors take into account the following performance indicators:

- Returns and NAV - The Board reviews and compares at each meeting the performance of the portfolio as well as the NAV, income and share price of the Company;
- Discount/premium to NAV - at each Board meeting, the Board monitors the level of the Company's discount or premium to NAV and reviews the average discount/premium for the Company's peer group. The Company publishes a NAV per share on a daily basis through the official newswire of the London Stock Exchange;
- Formal reports from both the Investment Manager and brokers which assess the performance of the Asset Class and look at trading activity. The Investment Manager will also provide in depth analysis on the holdings within the portfolio; and
- The Board assesses the results of annual general meetings and will consider whether there is a significant number of votes not lodged in favour of a resolution. Where the Board considers that a significant number of votes have been lodged not in favour of a resolution the Board will ask its brokers to consult with major shareholders to ascertain their views. In addition to this the brokers and Investment Manager will provide the Board with feedback that has been received from investors around the performance of the Company and Investment Manager. This matter will be discussed further on page 20.

STRATEGIC REPORT (CONTINUED)

Performance Measurement and Key Performance Indicators (continued)

The ratio of total expenses to NAV is 2.0%, this is based on annual on-going charges figure for the year of $12,819,096. This figure which has been prepared in accordance with the recommended methodology of the AIC represents the annual percentage reduction in shareholder returns as a result of recurring operational expenses excluding the performance fee. No performance fees were payable as at 31 December 2014.

For and on behalf of the Board

Robin Monro-Davies
Chairman
27 April 2015

John Hallam
Director
27 April 2015

DIRECTORS' REPORT

The Directors present the audited consolidated financial statements of the Company and their report for the year ended 31 December 2014.

Share Capital

On 27 February 2014, the Company raised gross proceeds of approximately £111 million through the issue of 110,785,785 New Global Shares. On 4 March 2014, 110,785,785 New Global Shares were admitted to trading on the Specialist Fund Market and the official list of the Channel Islands Securities Exchange.

The number of shares in issue at 31 December 2014 was as follows:

Class A Shares	2
Ordinary Shares	75,011,865
Extended Life Shares	331,917,856
New Global Shares	110,785,785

Between 23 January 2015 and 10 February 2015, 542,000 Extended Life Shares were re-purchased for cancellation by the Company. See note 12 – Subsequent Events.

On 20 February 2015, the Company announced a capital return by way of a compulsory partial redemption of 4,028,692 Ordinary Shares and 7,614,466 Extended Life Shares which took place on 4 March 2015. Following the buybacks between 23 January and 10 February 2015 and the redemption on 4 March 2015, the shares in issue were:

Class A Shares	2
Ordinary Shares	70,983,173
Extended Life Shares	323,761,390
New Global Shares	110,785,785

Substantial Share Interests

Based upon information deemed to be reliable as provided by the Company's registrar, as at 20 April 2015, the following shareholders owned 10% or more of the issued shares of the Company.

Substantial Shareholders	No. of Ordinary Shares	No. of Extended Life Shares	No of New Global Shares	Percentage of Share Class (%)
Prudential Client HSBC GIS Nominee (UK) Limited PAC Acct		32,940,133		10.17
			27,379,750	24.71
State Street Nominees Limited Om04 Acct		21,906,133		6.77
			12,500,000	11.28
State Street Nominees Limited Om02 Acct		8,134,647		2.51
			7,537,618	6.80
BNY (OCS) Nominees Limited UKREITS Acct		8,545,851		2.64
			6,197,836	5.59
BNY (OCS) Nominees Limited		39,324,416		12.15
			3,936,860	3.55

DIRECTORS' REPORT (CONTINUED)

Notifications of Shareholdings

In the period to 24 February 2014, due to the Ordinary Shares and Extended Life Shares having limited voting rights, Ordinary Shareholders and Extended Life Shareholders were not required to make substantial shareholder notifications.

Following Class Meetings on 25 February 2014, full voting rights were conferred to all shareholders, with the exception of A Shareholders. Since this date the Company has been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules ("DTR") (which covers the acquisition and disposal of major shareholdings and voting rights), of the following voting rights as a shareholder of the Company. When more than one notification has been received from any shareholder, only the latest notification is shown. For non-UK issuers, the thresholds prescribed under DTR 5.1.2 for notification of holdings commence at 5%. Class A shares do not hold voting rights.

Shareholder Notifications	Number of Shares	Percentage of total voting rights (%)
Prudential Plc Group of Companies	36,912,524	12.41%
East Riding of Yorkshire Council	12,500,000	11.28%
Blackrock, Inc	35,647,849	6.51%
Miton Group Plc	16,406,258	4.9%
Investec Wealth & Investment Limited	25,315,582	4.63%

Going Concern

Going concern refers to the assumption that the Company has the resources to continue in operation for the foreseeable future.

The Company's principal activities are set out on page 9. The financial position of the Company is set out on page 40. In addition, Note 8 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 declare 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.

The going concern statement is set out in the "Directors' statement of responsibility" on page 36 to 37.

Life of the Company

The Company does not have a fixed life. However, each of the share classes has a specific investment period:

Share Class	Investment Period
Ordinary Shares	ended on 10 June 2013
Extended Life Shares	ended on 31 March 2015
New Global Shares	ends on 31 March 2017

Following the expiry of the investment period, the share class is put into run-off until all the investments have been realised.

DIRECTORS' REPORT (CONTINUED)

Discount Controls - Buybacks

At the annual general meeting of the Company held in July 2014, the Directors were granted the general authority to purchase in the market up to 14.99% of the Ordinary and Extended Life shares in issue (as at 24 July 2014). This authority will expire at the forthcoming AGM. The Directors intend to seek annual renewal of this authority from the Shareholders. In addition, the Company intends to seek authority from the Shareholders at the 2015 Annual General Meeting to repurchase New Global shares.

Pursuant to this authority, and subject to the Companies (Guernsey) Law, 2008 and the discretion of the Directors, the Company may purchase shares of any of its classes in the market on an on-going basis with a view to addressing any imbalance between the supply of and demand for such shares, thereby increasing the Net Asset Value per share of the shares and assisting in controlling the discount to Net Asset Value per share of the shares in relation to the price at which the shares of such class may be trading.

Between 23 January 2015 and 10 February 2015, 542,000 Extended Life Shares were re-purchased for cancellation by the Company. See note 12 – Subsequent Events.

The UK Bribery Act 2010

The Board of the Company has a zero tolerance approach to instances of bribery and corruption. Accordingly it expressly prohibits any Director or associated persons when acting on behalf of the Company, from accepting, soliciting, paying, offering or promising to pay or authorise any payment, public or private, in the United Kingdom or abroad to secure any improper benefit for themselves or for the Company. The Investment Manager has also adopted a zero tolerance approach to instances of bribery and corruption.

The Board insists on strict observance with these same standards by its service providers in their activities for the Company.

Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this Report are listed on page 19. Each of those Directors confirms that:

- to the best of his or her knowledge and belief, there is no information relevant to the preparation of their report of which the auditors are unaware; and
- he or she has taken all steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Global Greenhouse Gas Emissions

The Company has no significant greenhouse gas emissions to report from its operations for the year to 31 December 2014 (2013 – none), nor does it have responsibility for any other emissions producing sources.

For and on behalf of the Board

Robin Monro-Davies
Chairman
27 April 2015

John Hallam
Director
27 April 2015

CORPORATE GOVERNANCE REPORT

Applicable Corporate Governance Codes

As the Company is listed on the CISE and the SFM it is only required to follow the Guernsey Financial Services Commission ("GFSC") code of corporate governance, applicable to Guernsey companies. However, the Board has chosen to comply with the AIC Code of Corporate Governance (the "AIC Code").

On 1 January 2012, the GFSC's "Finance Sector Code of Corporate Governance" came into effect. The GFSC have stated in their Code that companies which report against the UK Corporate Governance Code or the AIC Code are deemed to meet their Code, and need take no further action.

The Board of the Company has considered the principles and recommendations of the AIC Code, by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"), both published in February 2013. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ("UK Code"), published in September 2012, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The 2013 AIC Code came into effect for financial years ending on or after 30 September 2013.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk.

On 17 September 2014 the Financial Reporting Council ("FRC") confirmed further changes to the UK Code and supporting guidance which will apply to reporting periods beginning on or after 1 October 2014. The AIC Code and AIC Guide were updated in February 2015 to reflect the updates made to the UK Code. The updated AIC code became effective for periods ending on or after 30 September 2015. The Company will report against the 2015 version of the AIC Code for the year ended 31 December 2015.

The Board will be taking steps to be substantially compliant with the updated AIC Code by 2016.

Corporate Governance Statement

Throughout the year ended 31 December 2014 the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- The role of the chief executive
- Executive directors' remuneration
- Internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, direct employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Directors believe that this Annual Report and Financial Statements presents a fair, balanced and understandable assessment of the Company's position and prospects, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Corporate Governance Statement (continued)

The Company complies with the corporate governance statement requirements pursuant to the UK Financial Conduct Authority's ("FCA") Disclosure and Transparency Rules by virtue of the information included in the Corporate Governance section of the annual report.

Our Governance Framework

Chairman

Robin Monro-Davies

Responsibilities:

The leadership, operation and governance of the Board, ensuring effectiveness, and setting the agenda for the Board.

More details below

The Board members of NB Distressed Debt Investment Fund Limited

Members:

Robin Monro-Davies (Chairman) – independent non-executive Director
John Hallam, Talmai Morgan and Christopher Sherwell – independent non-executive Directors
Patrick Flynn and Michael Holmberg – non-executive Directors

Responsibilities:

Overall conduct of the Company's business and setting the Company's strategy

More details on page 21

Audit Committee

Members:

John Hallam (Chairman)
Talmai Morgan
Christopher Sherwell

Responsibilities:

The provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of the external auditor, and the management of the Company's systems of internal controls and business risks

More details on pages 25 to 28

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board independence and composition

The Board is chaired by Robin Monro-Davies who is responsible for its leadership and for ensuring its effectiveness in all aspects of its role. The Board currently consists of six Directors. The biographical details of the Directors holding office at the date of this report are listed on pages 33 and 34, and demonstrate a breadth of investment, accounting and professional experience. A senior independent director has not been identified as the Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.

The Chairman, John Hallam, Talmai Morgan and Christopher Sherwell are considered independent from the Investment Manager. Michael Holmberg and Patrick Flynn are deemed not independent as they are employed by a Neuberger Berman group company. Mr Hallam, Mr Morgan and Mr Sherwell sit on the Board of NB Private Equity Partners Limited managed by NB Alternative Advisers LLC, a Neuberger Berman Group entity based in New York, whereas the Company is managed by Neuberger Berman Fixed Income LLC based in Chicago.

The Board believes that Mr Morgan, Mr Hallam and Mr Sherwell remain independent as the businesses of NB Private Equity Partners Limited and the Company are significantly different and have different managers which are geographically separated and that Mr Hallam, Mr Sherwell and Mr Morgan all satisfactorily contribute to the affairs of the Company. The Board also believe that Mr Holmberg and Mr Flynn bring a significant amount of experience and expertise to the Board, however as non-independent Directors, Mr Holmberg and Mr Flynn do not sit on the audit committee and are not involved in any matters concerning the Investment Manager.

The Directors review their independence annually. As a consequence of the number of votes lodged against the re-election of the Directors at the 2014 AGM, the Board instructed the brokers to consult with major shareholders to determine if action was required. The message received was that this was not a major issue in the view of the majority of those major shareholders consulted. All Directors will stand for re-election at the 2015 AGM, but the Board will nevertheless consider composition in the coming year.

The Company Secretary, C.L. Secretaries Limited, a wholly owned subsidiary of Carey Group, through its representative acts as Secretary to the Board and Committees and in doing so it assists the Chairman in ensuring that all Directors have full and timely access to all relevant documentation; organises induction of new directors; and is responsible for ensuring that the correct Board procedures are followed and advises the Board on corporate governance matters.

Directors' Appointment

No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company, copies of which are available for review by shareholders at the Registered Office and will be available at the Annual General Meeting. All Directors have served since incorporation of the Company. Any Director may resign in writing to the Board at any time.

In accordance with the AIC Code and the Company's Articles of Incorporation all Directors offered themselves for re-election at the first Annual General Meeting of the Company. All Directors now stand for annual re-election. Messrs Holmberg, Flynn, Hallam, Monro-Davies, Morgan and Sherwell were re-elected as Directors at the Annual General Meeting on 24 July 2014. The names and biographies of the Directors holding office at the date of this report are listed on pages 33 and 34. As employees of a Neuberger Berman group company Messrs Flynn and Holmberg will be subject to re-election annually at the Annual General Meeting.

The Board reviewed the independence, contributions and performance of all Directors during the 2014 Board Evaluation. After consultation with major shareholders by the brokers, at the Board's request, the Board have determined that it is in the best interests of the Company that all Directors stand for re-election at the 2015 AGM.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Tenure of Non-Executive Directors

The Board has adopted a policy on tenure that is considered appropriate for an investment company. The Board does not believe that length of service, by itself, leads to a closer relationship with the Investment Manager or necessarily affects a Director's independence. The Board's tenure and succession policy seeks to ensure that the Board is well balanced and will be refreshed from time to time by the appointment of new Directors with the skills and experience necessary to replace those lost by Directors' retirements. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business.

	Date first elected by shareholders	Years from first election to 2015 AGM	Considered to be independent by the Board
Robin Monro-Davies	6 July 2011	4	Yes
John Hallam	6 July 2011	4	Yes
Talmai Morgan	6 July 2011	4	Yes
Christopher Sherwell	6 July 2011	4	Yes
Patrick Flynn	6 July 2011	4	No
Michael Holmberg	6 July 2011	4	No

Board Diversity

The Board considers that its members have a balance of skills and experience which are relevant to the Company. The Board notes the Davies Report and believes in the value and importance of diversity in the boardroom but it does not consider it is appropriate or in the interests of the Company and its shareholders to set prescriptive targets for gender, nationality or any other criterion of representation on the Board.

Board Responsibilities

The Board meets at least four times each year and deals with the important aspects of the Company's affairs including the setting and monitoring of investment strategy, and the review of investment performance. The Investment Manager takes decisions as to the purchase and sale of individual investments, in line with the investment policy and strategy set by the Board. The Investment Manager together with the Company Secretary also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information relating to the Company and its portfolio of investments. Representatives of the Investment Manager attend each Board meeting, enabling Directors to question any matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors in the furtherance of their duties to take independent professional advice at the expense of the Company, this is available on the Company's website www.nbddif.com.

Conflict of Interests

Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and the Board may impose restrictions or refuse to authorise conflicts if deemed appropriate. The Directors have undertaken to notify the Company Secretary as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process.

It has also been agreed that the Directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment.

None of the Directors had a material interest in any contract, which is significant to the Company's business during the year ended 31 December 2014, except that it should be noted that Messrs Flynn and Holmberg are employees of the Neuberger Berman Group of which the Investment Manager is a part.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Conflict of Interests (continued)

The Directors' Remuneration Report on pages 29 to 32 provides information on the remuneration and interests of the Directors.

Performance Evaluation

The performance of the Board, its Committees and the Directors was reviewed by the Board in April 2014, by means of an internal questionnaire. The Company Secretary collated the results of the questionnaires and the consolidated results were reviewed and discussed by the Board. In addition, the Board reviewed the performance of the Chairman in his role. The independence of all Directors was considered. The Chairman reviews each individual Director's contribution.

As a result of the recommendations made in this year's Board performance evaluation, the Board has agreed that Messrs Monro-Davies, Hallam, Morgan and Sherwell are still considered independent.

The Board intends to conduct another internal board evaluation in 2015, and will continue to review its procedures, its effectiveness and development in the year ahead.

Induction/Information and Professional Development

Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice from, amongst others, the Company Secretary and the Auditors. Advisers to the Company also prepare reports for the Board from time to time on relevant topics and issues. In addition, Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment company industry. The Chairman reviewed the training and development needs of each Director during the annual Board evaluation process. He confirmed that all directors actively kept up to date with industry developments and issues.

When a new Director is appointed to the Board, they will be provided with all relevant information regarding the Company and their duties and responsibilities as a Director. In addition, a new Director will also spend time with representatives of the Investment Manager in order to learn more about their processes and procedures.

Independent advice

The Board recognises that there may be occasions when one or more of the Directors feels it is necessary to take independent legal advice at the Company's expense. A procedure is set out in the Directors letters of appointment to enable them to do so.

Indemnities

To the extent permitted by Guernsey Law, the Company's Articles of Incorporation provide an indemnity for the Directors against any liability except such (if any) as they shall incur by or through their own breach of trust, breach of duty or negligence.

During the year, the Company has maintained insurance cover for its Directors and Officers under a Directors' and Officers' liability insurance policy.

Board Meetings

The Board meets at least four times a year. Certain matters are considered at all Board meetings including investments, NAV and share price performance and associated matters such as asset allocation, risks, strategy, marketing and investor relations, peer group information and industry issues. Consideration is also given to administration and corporate governance matters, where applicable reports are received from Board committees.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Meetings (continued)

Directors unable to attend a board meeting are provided with the board papers and can discuss issues arising in the meeting with the Chairman or another Non-executive Director.

Attendance at scheduled meetings of the Board and its committees in the 2014 financial year

	Board	Audit Committee
Number of meetings during the year	**4**	**3**
Robin Monro-Davies	3	-
Patrick Flynn	4	-
John Hallam*	4	3
Michael Holmberg	3	-
Talmai Morgan*	4	3
Christopher Sherwell*	3	2

*Member of the Audit Committee

In addition to these meetings, 7 ad-hoc meetings were held during the year for various matters, primarily of an administration nature. These included, but were not limited to the launch of the New Global Share class, capital distributions and issue of shares, which were attended by those directors available at the time.

Board Committees

The Board has established an Audit Committee, with defined terms of reference and duties. Further details of this committee can be found in the Audit Committee report below. The terms of reference for the Audit Committee can be found on the Company's website www.nbddif.com.

The Board feel that due to the size and structure of the Company that establishing a Management Engagement Committee and a Remuneration and Nomination Committee was unnecessary and that the Board as a whole will consider matters relating to remuneration and appointment of directors and review of service providers including the Investment Manager.

Relationship with the Investment Manager, Company Secretary and the Administrator

All of the Company's management and administration functions are delegated to external parties including the management of the investment portfolio, the custodial services (including the safeguarding of assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from the Investment Manager and ad hoc reports and information are supplied to the Board as required. The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager, Company Secretary and Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager and Administrator attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and service of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Investment Manager, Company Secretary and the Administrator operate in a supportive, co-operative and open environment.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Relationship with the Investment Manager, Company Secretary and the Administrator (continued)

The Board annually assesses the performance and value of its service providers. On 11 December 2014 C.L. Secretaries Limited was appointed as Company Secretary. Effective 1 March 2015, US Bancorp Fund Services (Guernsey), Limited and Quintillion Limited were appointed as Administrator and Sub-Administrator respectively, in place of BNP Paribas Securities Services S.C.A., Guernsey Branch.

The Board considered that the service from all Service Providers, including the Investment Manager has been good.

Continued appointment of the Investment Manager

The Board reviews investment performance at each Board meeting and a review of all service providers is conducted annually by the Board.

As a result of the 2014 annual review it is the opinion of the Directors that the continued appointment of the current Investment Manager on the terms agreed is in the interest of the Company's shareholders as a whole. The Investment Manager has extensive investment management resources and wide experience in managing investment companies.

Shareholder Engagement

The Board believes that the maintenance of good relations with shareholders is important for the long-term prospects of the Company. It has, since admission, sought engagement with investors. Where appropriate the Chairman, and other Directors are available for discussion about governance and strategy with major shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its Corporate Broker and the Investment Manager, and shareholders are welcome to contact the Directors at any time via the Company Secretary.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Annual General Meeting will be attended by the Directors. There is an opportunity for individual shareholders to question the Chairman of the Board, and of the Audit Committee at the Annual General Meeting. Details of proxy votes received in respect of each resolution will be made available to shareholders at the meeting and will be posted on the Company's website following the meeting.

The Annual and Half-year Reports and a quarterly fact sheet are available to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication on the London Stock Exchange and Channel Islands Stock Exchange of the net asset value of the Company's shares. All documents issued by the Company can be viewed on the website, www.nbddif.com.

2015 Annual General Meeting ("AGM")

The AGM will be held in Guernsey on 4 June 2015 at 13.30 BST. The notice for the Annual General Meeting sets out the ordinary and special resolutions to be proposed at the meeting. Separate resolutions are proposed for each substantive issue.

It is the intention of the Board that the Notice of AGM is issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 75. At other times the Company Secretary responds to letters from shareholders on a range of issues.

Voting on all resolutions at the 2015 AGM will be on a poll. The proxy votes cast, including details of votes withheld are disclosed to those in attendance at the meeting and the results are published on our website and announced via a Regulatory Information Service.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Audit Committee ("the Committee")

Membership:

John Hallam - Chairman	(Independent non-executive Director)
Talmai Morgan	(Independent non-executive Director)
Christopher Sherwell	(Independent non-executive Director)

Key Objectives

The provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of the external auditor, and the management of the Company's systems of internal controls and business risks.

Responsibilities

- reviewing the Company's financial results announcements and financial statements and monitoring compliance with relevant statutory and listing requirements;
- reporting to the Board on the appropriateness of the Company's accounting policies and practices including critical accounting policies and practices;
- advising the Board on whether the Committee believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- overseeing the relationship with the external auditor;
- considering the financial and other implications on the independence of the auditors arising from any non-audit services to be provided by the auditor;
- to analyse the key procedures adopted by the Company's service providers;
- considering the nature and extent of the significant risks the Company faces in achieving its strategic objectives; and
- compile a report on its activities to be included in the Company's annual report.

Committee meetings

The Committee meets at least three times a year. Only members and Secretary of the Audit Committee have the right to attend Audit Committee meetings. However, other Directors and representatives of the Investment Manager and Administrator will be invited to attend Audit Committee meetings on a regular basis and other non-members may be invited to attend all or part of the meeting as and when appropriate and necessary. The Company's external auditor, KPMG Channel Islands Limited ("KPMG") is also invited on a regular basis. The Committee determine in conjunction with KPMG, whether it is necessary for the Committee to meet the Auditors without the Investment Manager being present.

Main Activities during the year

The Committee assists the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls. It also manages the Company's relationship with the external auditor. Meetings of the Committee generally take place prior to a Company Board meeting. The Committee reports to the Board as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work.

Following the publication of the revised version of the UK Corporate Governance Code and AIC Code, which apply to financial years commencing on or after 1 October 2012, the Board requested that the Committee advise them on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee's terms of reference have been amended to reflect this and can be found on the Company's website www.nbddif.com.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Committee (continued)

At its three meetings during the year, the Committee focused on:

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with the Investment Manager, Administrator and the External Auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor;
- whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to our financial reporting.

To aid its review, the Committee considers reports from the Investment Manager, Administrator, Company Secretary and also reports from the external auditor on the outcomes of their half-year review and annual audit.

Significant Issues

After discussion with both the Investment Manager and the external auditor, the Audit Committee determined that the key risks of material misstatement of the Group's financial statements related to the valuation of investments as detailed below:

Significant Issue	How the issue was addressed
The valuation of the Company's investments	The Audit Committee received a report from the Investment Manager on the valuation of the portfolio and on the assumptions used in valuing the portfolio. The Committee analysed the Investment portfolio of the Company in terms of investment mix, fair value hierarchy and valuation. The Committee has held detailed discussions with the Investment Manager with regards to the methodology used in valuing the portfolio. The Committee has also considered the auditor's approach to the valuation of the Company's investments. The Committee discussed in depth with KPMG, with regards to their approach to testing the appropriateness and robustness of the valuation methodology applied by the Investment Manager to the Company's portfolio. The members of the Committee had meetings with KPMG, where the audit findings were reported. KPMG did not report any significant differences between the valuations used by the Company and the work performed during their testing process. Based on their above review and analysis the Committee confirmed that they are satisfied with the valuation of the investments.

Internal Controls and Risk Management

The Committee has established a process for identifying, evaluating and managing any major risks faced by the Company. The process is subject to regular review by the Board and accords with the AIC Code.

The Committee is responsible overall for the Company's system of internal financial and operating controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Committee (continued)

Internal Controls and Risk Management (continued)

The Committee, receives reports from the Investment Manager on the Company's risk evaluation process and reviews changes to significant risks identified. The Board has undertaken a full review of the Company's business risks, which have been analysed and recorded in a risk report, which is reviewed and updated regularly and is formally reviewed at each quarterly Board meeting. The Board receives, each quarter from the Investment Manager, a formal report which details the steps taken to monitor the areas of risk including those that are not directly the responsibility of the Investment Manager and which reports the details of any known internal control failures.

In addition, the Committee receives and reviews Internal Controls reports of the Administrator, Registrar and Investment Manager on an annual basis.

The Committee will consider any applicable new requirements of the AIC Code in the coming year and will incorporate these into the 2015 annual report.

The Investment Manager has established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Investment Manager's compliance and risk department on an ongoing basis.

The Board's assessment of the Company's principal risks and uncertainties is set out on pages 10 and 11.

By means of the procedures set out above, the Committee confirms that it has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2014 and to the date of approval of this Annual Report and that no issues have been noted.

Appointment and Independence

External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received a detailed audit plan from KPMG, identifying their assessment of these key risks. For the 2014 financial year the significant risk identified was in relation to valuation of investments. This risk is tracked through the year and the Committee challenged the work done by the auditors to test management's assumptions and estimates around these areas. The Committee assess the effectiveness of the audit process in addressing these matters through the reporting received from KPMG at both the half-year and year end. In addition the Committee seeks feedback from the Investment Manager and the Administrator on the effectiveness of the audit process. For the 2014 financial year, the Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good.

The Committee considers the reappointment of the external auditor, including the rotation of the audit partner, and assesses their independence on an annual basis. The external auditor is required to rotate the audit partner responsible for the Company audit every five years. The Company's audit partner, Dermot Dempsey, was appointed in 2014 following the departure of Robert A. Hutchinson who had been the lead audit engagement partner for 4 years. The Audit Committee was satisfied that KPMG was independent in conducting the audit. KPMG has been the Company's external auditor since its stock exchange listing in 2010 (4 years). The Company has not formally tendered the audit since then, and will consider putting the audit out to tender at the appropriate time.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Committee (continued)

External Audit (continued)

In its assessment of the independence of the auditor, the Committee receives details of any relationships between the Company and KPMG that may have a bearing on their independence and receives confirmation that they are independent of the Company.

The Committee approved the fees for audit services for 2014 after a review of the level and nature of work to be performed, and after being satisfied by KPMG that the fees were appropriate for the scope of the work required.

Non Audit Services

To prevent the objectivity and independence of the external auditor from becoming compromised, the Committee has a policy governing the engagement of the external auditor to provide non audit services. No material changes have been made to this policy during the year. The Directors have agreed that all non-audit services require the pre-approval of the Committee prior to commencing any work. Fees for non-audit services are tabled annually by the auditor so that the Committee can consider the impact on the auditor's objectivity.

KPMG and other KPMG member firms were remunerated £372,380 for their services during and in respect of 2014. Of this amount £166,980 was in relation to tax compliance and tax advisory services. A further £26,100 was in relation to the procedures performed in respect of the half year review. The Committee noted that there was an increase in non-audit fees in the period, much of which is expected to be non-recurring, primarily in relation to tax advisory services required on the launch of the New Global Share Class and related matters. The Committee concluded that the nature of the services provided fell into the Company's pre-approved categories of non-audit services and were satisfied that appropriate safeguards were in place to reduce any threat to the auditor's objectivity to an acceptable level.

Having given careful consideration to the matter, the Committee is satisfied with the auditor's independence and the effectiveness of the audit conducted by KPMG. The Committee has therefore recommended to the Board that KPMG be reappointed as external auditor for the year ending 31 December 2015, and to authorise the Directors to determine their remuneration. Accordingly a resolution proposing the reappointment of KPMG as the Company's auditor will be put to the shareholders at the 2015 AGM.

There are no contractual obligations restricting the Committee's choice of external auditor and we do not indemnify our external auditor.

Committee Evaluation

The Committee's activities formed part of the Board evaluation performed in the year. Details of this process can be found under "Performance Evaluation" on page 22.

Robin Monro-Davies
Chairman
27 April 2015

John Hallam
Director
27 April 2015

DIRECTORS' REMUNERATION REPORT

Annual Statement

Dear Shareholder

This report describes how the Board has applied the principles relating to Directors' remuneration. An ordinary resolution to ratify this report will be proposed at the Annual General Meeting on 4 June 2015.

The rest of this report is split into two parts:

- The director's remuneration policy sets out the Company's proposed policy on Director's remuneration for the year. The Director's remuneration policy is subject to annual review.

- The annual report on remuneration sets out payments made to the directors.

Changes to the Board

There were no changes to the Board during the year.

In Conclusion

We have provided a summary of 2014 remuneration immediately after this letter. The Annual Report on Remuneration provides further details and the Director's Remuneration Policy sets out how the Directors will be remunerated in the forthcoming year.

Robin Monro-Davies
Chairman
27 April 2015

DIRECTORS' REMUNERATION REPORT (CONTINUED)

At a Glance

The Company paid the following fees to the Directors for the year ended 31 December 2014:

	Role	Board Fees US$	Board Fees GBP *	Other Fees GBP **	Total US$	Total GBP
Robin Monro-Davies	Chairman	60,000	10,000	10,000	60,000	20,000
Patrick Flynn		-	-	-	-	-
John Hallam	Chairman of Audit Committee	50,000	10,000	10,000	50,000	20,000
Michael Holmberg		-	-	-	-	-
Talmai Morgan	Member of Audit Committee	45,000	10,000	10,000	45,000	20,000
Christopher Sherwell	Member of Audit Committee	45,000	10,000	10,000	45,000	20,000
Total		200,000	40,000	40,000	200,000	80,000

The Company paid the following fees to the Directors for the year ended 31 December 2013:

	Role	Board Fees 2013 US$
Robin Monro-Davies	Chairman	60,000
Patrick Flynn		-
John Hallam	Chairman of Audit Committee	50,000
Michael Holmberg		-
Talmai Morgan	Member of Audit Committee	45,000
Christopher Sherwell	Member of Audit Committee	45,000
Total		200,000

* With the launch of the New Global Share Class it was agreed that the non-executive Directors' remuneration would increase by £10,000 each per annum.

** It was agreed that each non-executive Director would be entitled to a one off payment of £10,000 in regard to additional work on the New Global Share Class.

No other remuneration was paid or payable by the Company during the year to any of the Directors, other than travel expenses of $1,966 (2013 $9,719).

Remuneration Policy

The determination of the Directors' fees is a matter dealt with by the Board. The Board considers the remuneration policy annually to ensure that it remains appropriately positioned. The Board will review the fees paid to the boards of similar investment companies. No Director is to be involved in decisions relating to his or her own remuneration.

No Director has a service contract with the Company and Director's appointments may be terminated at any time with no compensation payable at termination.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. No Director has any entitlement to a pension, and the Company has not awarded any share options or long-term performance incentives to any of the Directors. No element of the Directors' remuneration is performance related.

Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Remuneration Policy (continued)

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable high calibre candidates to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Board may amend the level of remuneration paid within the limits of the Company's Articles of Incorporation.

Policy Table

Directors' Fees Policy

Element	Operation of the Element	Maximum Potential Value	Performance Metrics Used
Fees			
To recognise time spent and the responsibilities borne and to attract high calibre candidates who have the necessary experience and skills	Directors fees are set by the Board Annual fees are paid quarterly in arrears Fees are reviewed annually and against those for Directors in companies of similar scale and complexity Fees were last reviewed in January 2014 Directors do not receive benefits and do not participate in any incentive or pension plans	Current fee levels are shown in the remuneration report	Directors are not remunerated based on performance and are not eligible to participate in any performance related arrangements

Service Contracts and Policy on Payment of Loss of Office

The Directors appointments are not subject to any duration or limitation. All Directors have served since April 2010. Any Director may resign in writing at any time. Directors' appointments are reviewed during the annual board evaluation. No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company.

In accordance with the AIC Code of Corporate Governance all of the independent non-executive Directors were re-elected at the first AGM after their appointment and are subject to annual re-election. The names and biographies of the Directors holding office at the date of this report are listed on pages 33 and 34.

Copies of the Director's letters of appointment are available for inspection by shareholders at the Company's Registered Office, and are available at the Annual General Meeting. The dates of their letter of appointments are shown below.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Dates of Directors' Letters of Appointment

Standard provision	Date of Letter of Appointment
Robin Monro-Davies	21 April 2010
Patrick Flynn	21 April 2010
John Hallam	20 April 2010
Michael Holmberg	21 April 2010
Talmai Morgan	20 April 2010
Christopher Sherwell	20 April 2010

Directors Interests

The Company has not set any requirements or guidelines for Directors to own shares in the Company. The beneficial interests of the Directors and their connected persons in the Company's shares as at 31 December 2014 are shown in the table below:

Director	No. of Ordinary Shares	No. of Extended Life Shares	No. of New Global Shares	Total No. of Shares
Mr Robin Monro-Davies	-	300,000	100,000	400,000
Mr Patrick Flynn	-	123,000	65,000	188,000
Mr John Hallam	-	75,000	25,000	100,000
Mr Michael Holmberg	-	123,000	65,000	188,000
Mr Talmai Morgan	-	-	30,000	30,000
Mr Christopher Sherwell	-	45,000	25,000	70,000

Advisors to the Remuneration Committee

The Board has not sought the advice or services by any outside person in respect of its consideration of the Directors' remuneration.

Robin Monro-Davies
Chairman
27 April 2015

John Hallam
Director
27 April 2015

DIRECTORS BIOGRAPHIES

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 Chairman of Assured Guaranty Limited in Bermuda. He is also on the board of two listed investment trusts. Mr Monro-Davies was educated at St. Paul's School, London, and the Britannia Royal Naval College, Dartmouth.

John Hallam (Chairman of the Audit Committee)

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. He is a director of BH Global Limited alongside Mr Morgan and a number of other financial services companies, some of which are listed on the London Stock Exchange ("LSE"). Mr Hallam served for many years as a member and latterly chairman of the Guernsey Financial Services Commission ("GFSC"), from which he retired in 2006. Mr Hallam is a director of NB Private Equity Partners Limited, which is a publicly listed investment company to which a member of the Neuberger Berman Group ("NB Group") provides investment and accounting services, alongside Mr Morgan and Mr Sherwell.

Talmai Morgan

Talmai Morgan qualified as a Barrister in 1976. He holds a MA in Economics and Law from Cambridge University. He moved to Guernsey in 1988 where he worked for Barings and then for the Bank of Bermuda. From 1999 to 2004, he 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. He was also particularly involved in the activities of the Financial Action Task Force and the Offshore Group of Banking Supervisors.

For the last ten years, Mr Morgan has been the non-executive chairman or a non-executive director of a number of publicly listed investment companies. He is presently Chairman of NB Private Equity Partners Limited, Sherborne Investors (Guernsey) B Limited and Global Fixed Income Realisation Limited. He also sits on the board of BH Macro Limited, BH Global Limited, John Laing Infrastructure Fund Limited and Real Estate Credit Investments PCC Limited.

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. 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. Mr Sherwell is a director of NB Private Equity Partners Limited, which is a publicly listed investment company to which a member of the NB Group provides investment and accounting services, alongside Mr Hallam and Mr Morgan.

DIRECTORS BIOGRAPHIES (CONTINUED)

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. 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.

DIRECTORSHIP DISCLOSURES IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGE

Company Names	Exchange(s)
Mr Robin Monro-Davies	
Assured Guaranty Limited	New York
NB Distressed Debt Investment Fund Limited	SFM, London and CISE
The Ukraine Opportunities Trust PLC	London
Mr Talmai Morgan	
BH Global Limited	London, Bermuda and Dubai
BH Macro Limited	London, Bermuda and Dubai
Global Fixed Income Realisation Limited	Listed in Ireland and traded in London
John Laing Infrastructure Fund Limited	London
NB Distressed Debt Investment Fund Limited	SFM, London and CISE
NB Private Equity Partners Limited	Amsterdam, CISE and SFM, London
Real Estate Credit Investments PCC Limited	SFM,London and CISE and London
Sherborne Investors (Guernsey) B Limited	SFM, London
Mr John Hallam	
BH Global Limited	London, Bermuda and Dubai
HICL Infrastructure Co Limited	London
NB Distressed Debt Investment Fund Limited	SFM, London and CISE
NB Private Equity Partners Limited	Amsterdam, SFM, London and CISE
Partners Group Global Opportunities Limited	Ireland
Mr Christopher Sherwell	
Baker Steel Resources Trust Limited	London
NB Distressed Debt Investment Fund Limited	SFM, London and CISE
NB Private Equity Partners Limited	Amsterdam, SFM, London and CISE
Raven Russia Limited	London
Schroder Oriental Income Fund Limited	London
Mr Michael J. Holmberg	
NB Distressed Debt Investment Fund Limited	SFM, London and CISE
Mr Patrick H. Flynn	
NB Distressed Debt Investment Fund Limited	SFM, London and CISE

Certain of the Directors maintain additional directorships in companies that are not listed on any recognised stock exchange. Details may be obtained from the Company Secretary.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Directors' Report and the financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and US Generally Accepted Accounting Principles ('US GAAP'), of the state of affairs of the Company and of the profit or loss for the period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and 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 confirm that they have complied with the above requirements in preparing the Financial Statements.

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, as amended. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors of the Company have elected to prepare consolidated financial statements for NB Distressed Debt Investment Fund Limited for the year ended 31 December 2014 as the parent of the Group in accordance with Section 244(5) of the Companies (Guernsey) Law, 2008. They are not required to prepare individual accounts for NB Distressed Debt Investment Fund Limited in accordance with Section 243 of the Companies (Guernsey) Law 2008 for the financial period.

The Directors confirm to the best of their knowledge that:

- The consolidated financial statements which have been prepared in conformity with US GAAP and give a true and fair view of the assets, liabilities, financial position and loss of the Company, and the undertakings included in the consolidation taken as a whole as required by DTR 4.1.12R and are in compliance with the requirements set out in the Companies (Guernsey) Law, 2008 as amended; and
- The Annual Report includes a fair review of the information required by DTR 4.1.8R and DTR 4.1.11R, which provides an indication of important events that have occurred since the end of the financial year and the likely future development of the Company and a description of principal risks and uncertainties during the year.

The maintenance and integrity of the NB Distressed Debt Investment Fund Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of consolidated financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITIES STATEMENT (CONTINUED)

By order of the Board

Robin Monro-Davies
Chairman
27 April 2015

John Hallam
Director
27 April 2015

INDEPENDENT AUDITOR’S REPORT TO NB DISTRESSED DEBT INVESTMENT FUND LIMITED

We have audited the Group financial statements (the “financial statements”) of NB Distressed Debt Investment Fund Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31 December 2014 which comprise the consolidated statement of assets and liabilities, consolidated schedule of investments, consolidated statement of operations, consolidated statement of changes in net assets, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and U.S. generally accepted accounting principles.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities set out on page 36 and 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the Annual Report. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 December 2014 and of its results for the year then ended;
- are in conformity with U.S. generally accepted accounting principles; and
- comply with the Companies (Guernsey) Law, 2008.

INDEPENDENT AUDITOR'S REPORT TO NB DISTRESSED DEBT INVESTMENT FUND LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- 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.

Dermot A Dempsey
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors, Guernsey

Date: 27 April 2015

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
As at 31 December 2014 and 31 December 2013

(Expressed in United States Dollars)

Assets		**31 December 2014**		**31 December 2013**
Investments, at fair value	$	632,375,300	$	553,543,404
(2014: cost of $655,526,949; 2013: cost of $507,887,695)				
Forward currency contracts		1,923,298		224,257
Cash and cash equivalents		59,305,660		31,307,207
	$	693,604,258	$	585,074,868
Other assets:				
Interest receivables		2,001,400		1,221,658
Receivables for investments sold		9,055,267		15,781,861
Other receivables and prepayments		807,138		1,615,551
Total assets	**$**	**705,468,063**	**$**	**603,693,938**
Liabilities				
Payables for investments purchased	$	56,963,558	$	17,456,481
Credit default swap		23,055		33,864
Accrued expenses and other liabilities		706,272		506,147
Payables to Investment Manager and affiliates		728,720		2,176,922
Deferred tax liability		4,800,424		1,998,684
Total liabilities	**$**	**63,222,029**	**$**	**22,172,098**
Net Assets	**$**	**642,246,034**	**$**	**581,521,840**
Net asset value per Extended Life Share	**$**	**1.1909**	**$**	**1.2218**
Net assets attributable to Extended Life Shares	**$**	**395,281,487**	**$**	**430,177,579**
Net asset value per Ordinary Share	**$**	**1.2521**	**$**	**1.2189**
Net assets attributable to Ordinary Shares	**$**	**93,920,322**	**$**	**151,344,261**
Net asset value per New Global Share	**£**	**0.8860**	**£**	**-**
Net assets attributable to New Global Shares	**£**	**98,152,965**	**£**	**-**
Net asset value per New Global Share (USD equivalent)	**$**	**1.3814**	**$**	**-**
Net assets attributable to New Global Shares (USD equivalent)	**$**	**153,044,225**	**$**	**-**

The consolidated financial statements on pages 40 to 74 were approved and authorized for issue by the Board of Directors on 27 April 2015, and signed on its behalf by:

Director

Director

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS
As at 31 December 2014

(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Fund % (i)
Distressed Portfolio							
Bank Debt Investments	$	234,718,477	204,634,050	20.08	30.62	42.31	31.85
Commercial Mortgage		4,357,084	4,219,287	1.26	0.77	-	0.66
Fixed Rate Bonds		1,578,591	1,081,300	0.61	0.13	-	0.17
Limited Partnership Units		43,797,289	44,865,563	13.35	8.18	-	6.99
Ownership in Senior Living Facility		9,814,920	13,665,456	4.07	2.49	-	2.13
Private Equity		163,782,583	178,621,070	28.80	30.00	21.54	27.80
Private Equity: Real Estate Development		13,556,555	20,263,099	6.03	3.69	-	3.16
Private Note		33,093,404	31,950,069	1.57	6.69	2.62	4.97
Private Placement Bonds		3,866,324	3,063,979	0.91	0.56	-	0.48
Public Equity		30,766,717	32,853,494	7.60	5.94	1.47	5.12
Public Note		32,207,642	16,563,822	0.18	3.28	2.25	2.58
Trade Claim (ii)		13,066,759	10,859,649	3.23	1.98	-	1.69
		584,606,345	562,640,838	87.69	94.33	70.19	87.60
Temporary Investments							
U.S. Government and agency obligations		22,999,307	22,999,693	5.32	4.55	-	3.58
UK Treasury Bills		47,921,297	46,734,769	-	-	30.54	7.28
		70,920,604	69,734,462	5.32	4.55	30.54	10.86
Total Investments	**$**	**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**
Extended Life Shares		395,852,704	390,869,864	-	98.88	-	-
Ordinary Shares		82,953,535	87,358,217	93.01	-	-	-
New Global Shares		176,720,710	154,147,219	-	-	100.73	-
	$	**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**
Credit Default Swap							
Extended Life Shares		(75,088)	(16,571)	-	-	-	-
Ordinary Shares		(29,357)	(6,484)	(0.01)	-	-	-
New Global Shares		-	-	-	-	-	-
	$	**(104,445)**	**(23,055)**	**(0.01)**	**-**	**-**	**-**
Forward Currency Contracts							
Extended Life Shares		-	1,561,314	-	0.39	-	-
Ordinary Shares		-	361,984	0.38	-	-	-
New Global Shares		-	-	-	-	-	-
	$	**-**	**1,923,298**	**0.38**	**0.39**	**-**	**0.30**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value, Extended Life Share Net Asset Value and New Global Share Net Asset Value.

(ii) The trade claim was structured through a fully funded total return swap with a major US financial institution.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013

(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Distressed Portfolio						
Bank Debt Investments	$	177,299,881	170,260,017	26.54	30.23	29.28
Private Equity		78,649,532	102,245,157	13.44	19.03	17.58
Limited Partnership Units		31,701,905	51,996,494	9.60	8.71	8.94
Private Equity: Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75
Fixed Rate Bonds		19,461,567	23,428,780	3.57	4.19	4.03
Public Equity		21,029,175	22,481,550	4.15	3.77	3.87
Private Note		21,464,317	21,089,387	1.03	4.54	3.63
Public Note		16,455,344	16,132,324	2.00	3.05	2.77
Ownership in Senior Living Facility		9,693,512	12,203,418	2.26	2.04	2.10
Commercial Mortgage		13,183,956	13,183,956	2.44	2.21	2.27
Trade Claim (ii)		13,066,759	10,601,910	1.96	1.78	1.82
Private Placement Bonds		9,815,969	7,855,963	1.45	1.32	1.35
		450,895,014	496,546,258	76.76	88.42	85.39
Temporary Investments						
U.S. Government and agency obligations		56,992,681	56,997,146	17.84	6.97	9.80
Total Investments	**$**	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**
Extended Life Shares		377,486,203	410,378,281	-	95.39	-
Ordinary Shares		130,401,492	143,165,123	94.60	-	-
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**
Credit Default Swap						
Extended Life Shares		(67,264)	(24,400)	-	-	-
Ordinary Shares		(26,090)	(9,464)	-	-	-
	$	**(93,354)**	**(33,864)**	**-**	**-**	**-**
Forward Currency Contracts						
Extended Life Shares		-	161,029	-	0.03	-
Ordinary Shares		-	63,228	0.01	-	-
	$	**-**	**224,257**	**0.01**	**0.03**	**0.04**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

(ii) The trade claim was structured through a fully funded total return swap with a major US financial institution.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2014 and 31 December 2013

(Expressed in United States Dollars)

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

31 December 2014	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (ii)	Extended Life Shares % (ii)	New Global Shares % (ii)	Total Fund % (ii)
				$	$				
Temporary Investments									
UK Treasury Bill 0% 14-02/03/2015	United Kingdom	Government	20,000,000	32,249,391	31,163,009	-	-	20.36	4.85
UK Treasury Bill 0% 14-13/04/2015	United Kingdom	Government	5,000,000	7,836,413	7,786,387	-	-	5.09	1.21
UK Treasury Bill 0% 14-20/04/2015	United Kingdom	Government	5,000,000	7,835,493	7,785,373	-	-	5.09	1.21
				47,921,297	**46,734,769**	**-**	**-**	**30.54**	**7.27**

31 December 2013	Country	Industry	Nominal	Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
				$	$			
Temporary Investments								
US Treasury Bill 0% 13-13/03/2014	United States	Government	35,000,000	34,996,185	34,997,277	9.91	4.65	6.02
US Treasury Bill 0% 13-23/01/2014	United States	Government	15,000,000	14,998,692	14,999,913	6.61	1.16	2.58
US Treasury Bill 0% 13-09/01/2014	United States	Government	5,000,000	4,998,240	4,999,985	-	1.16	0.86
US Treasury Bill 0% 13-06/02/2014	United States	Government	2,000,000	1,999,564	1,999,971	1.32	-	0.34
				56,992,681	**56,997,146**	**17.84**	**6.97**	**9.80**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

(ii) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value, Extended Life Share Net Asset Value and New Global Share Class Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2014
(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Fund % (i)
Geographic diversity of Portfolio							
Distressed Portfolio							
Australia	$	24,111,071	20,228,350	5.20	3.41	1.23	3.15
Brazil		13,066,759	10,859,649	3.23	1.98	-	1.69
Cayman Islands		22,474,074	24,459,098	7.28	4.46	-	3.81
Denmark		16,460,107	13,103,188	-	1.84	3.81	2.04
Germany		24,703,099	20,699,939	6.16	3.77	-	3.22
Greece		2,789,643	1,630,896	0.49	0.30	-	0.25
Japan		486,440	-	-	-	-	-
Luxembourg		2,553,851	9,429,139	2.81	1.72	-	1.47
Marshall Islands		22,324,958	18,465,963	-	3.33	3.46	2.88
Netherlands		14,411,324	12,562,664	-	1.41	4.57	1.96
Norway		5,958,127	5,697,422	1.13	0.87	0.78	0.89
Spain		30,124,929	23,583,503	-	2.22	9.67	3.67
United Kingdom		11,286,045	12,275,081	0.81	1.50	34.18	1.91
United States (U.S.A.)		393,855,918	389,645,946	60.58	67.52	12.49	60.66
Temporary Investments							
United Kingdom		47,921,297	46,734,769	-	-	30.54	7.28
United States (U.S.A.)		22,999,307	22,999,693	5.32	4.55	-	3.58
	$	**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value, Extended Life Share Net Asset Value and New Global Share Class Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013
(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Geographic diversity of Portfolio						
Distressed Portfolio						
Australia	$	21,191,867	19,580,235	3.62	3.29	3.37
Belgium		628,357	21,124	-	-	-
Brazil		13,066,759	10,601,910	1.96	1.78	1.82
Cayman Islands		3,744,639	6,888,420	1.27	1.15	1.18
Germany		35,757,322	48,492,957	8.95	8.12	8.34
Great Britain		1,143,270	1,683,601	0.31	0.28	0.29
Greece		3,195,850	3,513,450	0.65	0.59	0.60
India		362,110	369,355	0.07	0.06	0.06
Japan		486,440	-	-	-	-
Luxembourg		2,553,851	10,280,562	1.90	1.72	1.77
Marshall Islands		8,321,150	8,321,150	-	1.93	1.43
Netherlands		-	-	-	-	-
Switzerland		-	-	-	-	-
United States (U.S.A.)		360,443,399	386,793,494	58.03	69.50	66.53
Temporary Investments						
United States (U.S.A.)		56,992,681	56,997,146	17.84	6.97	9.80
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2014

(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	New Global Shares % (i)	Total Fund % (i)
Industry diversity of Portfolio							
Distressed Portfolio							
Air Transport	$	4,922,800	5,161,000	1.54	0.94	-	0.80
Building and Development		31,419,962	42,315,911	9.87	6.66	4.40	6.59
Chemicals and Plastics		1,502,373	2,063,330	-	-	1.35	0.32
Commercial Mortgage		41,875,908	41,511,494	1.26	8.43	4.57	6.46
Containers and Packaging		3,697,121	12,164,124	3.62	2.22	-	1.89
Financial Intermediary		73,185,404	71,188,011	15.53	14.32	-	11.08
Forest Products		3,866,324	3,063,979	0.91	0.56	-	0.48
Healthcare		9,814,920	13,665,456	4.07	2.49	-	2.13
Industrial		24,388,486	8,561,859	0.18	1.51	1.58	1.33
Lodging and Casinos		80,606,090	74,577,805	8.23	11.29	14.51	11.62
Non Ferrous Metals/Minerals		13,184,646	13,569,875	-	2.16	3.29	2.11
Oil and Gas		25,828,536	22,803,632	-	4.13	4.23	3.55
Real Estate Development		13,556,555	20,263,099	6.03	3.69	-	3.16
Real Estate Investment Trust		21,029,175	23,647,260	7.04	4.31	-	3.68
Shipping		57,270,377	48,103,703	2.18	7.97	9.51	7.49
Surface Transport		52,051,809	43,146,646	3.23	5.04	13.20	6.72
Utilities		126,405,859	116,833,654	24.00	18.61	13.55	18.19
Temporary Investments							
UK Treasury		47,921,297	46,734,769	-	-	30.54	7.28
US Government and Agency		22,999,307	22,999,693	5.32	4.55	-	3.58
	$	**655,526,949**	**632,375,300**	**93.01**	**98.88**	**100.73**	**98.46**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value, Extended Life Share Net Asset Value and New Global Share Class Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
As at 31 December 2013
(Expressed in United States Dollars)

		Cost	Fair Value	Ordinary Shares % (i)	Extended Life Shares % (i)	Total Fund % (i)
Industry diversity of Portfolio						
Distressed Portfolio						
Air Transport	$	4,994,413	5,359,500	0.99	0.90	0.92
Broadcasting		6,834,331	7,405,133	1.37	1.24	1.27
Building and Development		23,223,511	35,224,733	6.08	6.05	6.06
Commercial Mortgage		36,919,814	36,280,081	2.44	7.58	6.24
Containers and Packaging		3,697,121	11,964,162	2.21	2.00	2.06
Financial Intermediary		61,090,020	80,179,697	11.02	14.76	13.79
Forest Products		10,140,441	8,159,689	1.51	1.37	1.40
Healthcare		14,147,401	19,067,682	3.52	3.19	3.28
Industrial		11,805,524	11,708,840	1.99	2.02	2.01
Leisure		18,932,072	20,570,313	3.80	3.44	3.54
Lodging and Casinos		31,869,045	34,277,028	3.80	6.63	5.89
Non Ferrous Metals/Minerals		2,701,650	2,506,350	-	0.58	0.43
Real Estate Development		39,073,097	45,067,302	8.32	7.55	7.75
Real Estate Investment Trust		21,029,175	22,481,550	4.15	3.77	3.87
Shipping		24,819,139	25,461,189	1.98	5.22	4.38
Surface Transport		13,066,759	10,601,910	1.96	1.78	1.82
Utilities		126,551,501	120,231,099	21.62	20.34	20.68
Temporary Investments						
US Government and Agency		56,992,681	56,997,146	17.84	6.97	9.80
	$	**507,887,695**	**553,543,404**	**94.60**	**95.39**	**95.19**

(i) This represents the percentage of Fair Value attributed to total Fund Net Asset Value, Ordinary Share Net Asset Value and Extended Life Share Net Asset Value.

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS
31 December 2014 and 31 December 2013

(Expressed in United States Dollars)

		31 December 2014		31 December 2013
Income				
Interest income	$	15,465,745	$	14,360,675
Dividend income net of withholding tax: (2014; $329,396 2013; $15,140)	$	769,507	$	27,652
Expenses				
Investment management fee	$	8,925,513	$	8,097,558
Performance fee	$	(1,444,064)	$	1,444,064
Professional and other expenses	$	2,423,572	$	3,415,932
Administration fees	$	698,811	$	545,623
Loan administration and custody fees	$	446,648	$	314,444
Directors' fees and expenses	$	324,552	$	209,719
	$	11,375,032	$	14,027,340
Net investment income	**$**	**4,860,220**	$	**360,987**
Realised and unrealised gains from investments and foreign exchange				
Net realised gain on investments, credit default swap and forward currency transactions	$	30,249,273	$	14,901,126
Non cash gain on investment restructuring transactions	$	4,884,841	$	-
Net change in unrealised (loss)/gain on investments, credit default swap and forward currency transactions	$	(69,980,893)	$	54,108,085
Income taxes from net realised/unrealised gains on investments	$	(4,291,505)	$	(4,104,769)
Realised and unrealised (loss)/gains from investments and foreign exchange	**$**	**(39,138,284)**	**$**	**64,904,442**
Net (decrease)/increase in net assets resulting from operations	**$**	**(34,278,064)**	**$**	**65,265,429**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
31 December 2014

(Expressed in United States Dollars)

		31 December 2014 Ordinary Shares	31 December 2014 Extended Life Shares	31 December 2014 New Global Shares	31 December 2014 Aggregated
Net assets at the beginning of the year	$	151,344,261	430,177,579	-	581,521,840
Net investment income		1,765,296	2,598,487	496,437	4,860,220
Net realised gain / (loss) on investments, credit default swap and forward currency transactions		9,272,410	22,332,610	(1,355,747)	30,249,273
Non cash gain / (loss) on investment restructuring transactions		1,638,268	4,446,347	(1,199,774)	4,884,841
Net change in unrealised (loss) on investments, credit default swap and forward currency transactions		(8,064,448)	(36,452,107)	(25,464,338)	(69,980,893)
Income taxes from net realised/unrealised gains from investments		(1,069,619)	(2,762,623)	(459,263)	(4,291,505)
Net proceeds from issuance of shares		-	-	181,026,910	181,026,910
Distribution		(60,965,846)	(25,058,806)	-	(86,024,652)
Net assets at the end of the year	$	**93,920,322**	**395,281,487**	**153,044,225**	**642,246,034**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
31 December 2013

(Expressed in United States Dollars)

		31 December 2013 Ordinary Shares	31 December 2013 Extended Life Shares	31 December 2013 Aggregated
Net assets at beginning of year	$	478,265,391	-	478,265,391
Net increase in asset before Share Class split on 12 April 2013				
Net investment income		1,311,662	-	1,311,662
Net realised gain on investments, derivatives and forward foreign currency contracts		2,934,434	-	2,934,434
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		21,827,953	-	21,827,953
Transfer of Net Assets from Ordinary to Extended Life Share Class		(363,391,416)	363,391,416	-
Net increase in asset after Share Class split on 12 April 2013				
Net investment (loss)		(751,615)	(199,062)	(950,677)
Net realised gain on investments, derivatives and forward foreign currency contracts		3,447,782	8,518,913	11,966,695
Net change in unrealised gain on investments, derivatives and forward foreign currency contracts		8,847,234	23,432,897	32,280,131
Income taxes from net realised/unrealised gains from investments		(1,147,164)	(2,957,605)	(4,104,769)
Net proceeds from issue of Extended Life Shares		-	37,991,020	37,991,020
Net assets at the end of the year	$	**151,344,261**	**430,177,579**	**581,521,840**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
31 December 2014 and 31 December 2013

(Expressed in United States Dollars)

		31 December 2014		31 December 2013
Cash flows from operating activities:				
Net (decrease)/increase in assets resulting from operations	$	(34,278,064)		65,265,429
Adjustment to reconcile net (decrease)/increase in net assets resulting from operations to net cash flow (used in)/provided by operations:				
Net realised gain on investments		(30,249,273)		(14,901,126)
Non cash gain on restructuring		(4,884,841)		-
Net change in unrealised gain on investments and forward foreign currency transactions		69,980,893		(54,108,085)
Accretion of discount on loans and bonds		(4,356,332)		(1,937,392)
Changes in interest receivables		(779,742)		1,222,738
Changes in receivables for investments sold		6,726,594		(13,180,689)
Changes in other receivables and prepayments		808,414		(1,561,512)
Changes in payables for investments purchased		39,507,077		(42,638,493)
Changes in payables, accrued expenses and other liabilities		(1,248,077)		1,449,998
Change in deferred tax liability		2,801,740		1,998,684
Credit default swap		100,811		305,320
Cash received/(paid) on settled forward foreign currency contracts		2,649,678		(269,494)
Purchase of investments		(226,249,309)		(150,797,224)
Sale of investments		132,296,808		162,379,709
Net purchase of short term investments		(16,939,339)		(15,007,953)
Net cash used in operating activities	$	(64,112,962)	$	(61,780,090)
Cash flows from financing activities:				
Net proceeds from issuance of shares		181,026,910		37,991,020
Distributions paid		(86,024,652)		-
Net cash provided by financing activities	$	95,002,258	$	37,991,020
Net increase/(decrease) in cash and cash equivalents	**$**	**30,889,296**	**$**	**(23,789,070)**
Cash and cash equivalents at the beginning of the year		31,307,207		55,096,277
Effect of exchange rate changes on cash and cash equivalents		(2,890,843)		-
Cash and cash equivalents at the end of the year	**$**	**59,305,660**	**$**	**31,307,207**

Supplemental non-cash flow operating activities

During the year $67,253,782 (31 December 2013: $Nil) is excluded from purchases of and proceeds from sales of investments related to the value of non-cash investment transactions, including reorganisations and exchanges. Tax paid during the year was $1,489,765 (31 December 2013; $2,106,085).

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

The Company is a closed-ended investment company registered and incorporated in Guernsey under the Companies (Guernsey) Law, 2008 (as amended), 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 Securities Exchange ("CISE") on 10 June 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 Company's share capital is denominated in U.S Dollars for Ordinary Shares (Ordinary Share and Extended Life Share) and Pound Sterling for New Global Shares.

New Global Share Class

The creation of a New Global Share Class has not impacted the structure or strategy of the existing Ordinary Share Class and Extended Life Share Class.

Issue costs for the New Global Share Class were USD 3,694,427 (GBP 2,215,716) which were netted against share capital.

Distribution Policy

Income

The Company will pay out for each year, in respect of each share class, all net income received on investments of the Company attributable to such share class, as appropriate. It is not anticipated that income on the portfolio will be material and therefore any dividends may be on an ad-hoc basis. It is a requirement of an exception to the United Kingdom offshore fund rules that all income from the Company's portfolio (after deduction of reasonable expenses) is to be paid to investors. This dividend policy should ensure that this requirement will be met. The exact amount of such dividend in respect of any class of Shares will be variable depending on the amounts of income received by the Company attributable to such share class and will only be made available in accordance with applicable law at the relevant time, including the Companies (Guernsey) Law, 2008 ("Companies Law") (and, in particular, will be subject to the Company passing the solvency test contained in the Companies Law at the relevant time). The amount of dividends paid in respect of one class of Shares may be different from that of another class.

Capital

Following the expiry of any investment period the capital proceeds attributable to the corresponding share class (as determined by the Directors in accordance with the Articles), will, at such times and in such amounts as the Directors shall in their absolute discretion determine, be distributed to Shareholders of that class pro rata to their respective holdings of the relevant Shares. The amount and timing of any such return of capital will be solely within the discretion of the Directors to determine.

Any capital return will only be made by the Company in accordance with the articles of incorporation of the Company and applicable law at the relevant time, including the Companies Law (and, in particular, will be subject to the Company passing the solvency test contained in the Companies Law at the relevant time).

Although the Directors intend to return capital to shareholders in such manner so that shareholders who are ordinarily resident in the United Kingdom, or who carry on business in the United Kingdom through a branch, agency or permanent establishment with which their investment in the Company is connected, may be liable to United Kingdom tax on chargeable gains on such distributions, they may, at their sole discretion, return capital to shareholders by way of a dividend in circumstances where, in the opinion of the Directors, it would be reasonably practicable to do so.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – DESCRIPTION OF BUSINESS (CONTINUED)

Distributions

Set out below are details of the distributions made during the year:

	Ordinary Share Class		Extended Life Share Class		New Global Share Class	
	Distribution Amount	**Per Share Amount**	**Distribution Amount**	**Per Share Amount**	**Distribution Amount**	**Per Share Amount**
12 February 2014	$28.0 million	$0.2255	$20.9 million	$0.0593	-	-
16 May 2014	$15.0 million	$0.1481	-	-	-	-
27 August 2014	$7.0 million	$0.0785	$4.2 million	$0.0125	-	-
15 December 2014	$11.0 million	$0.1316	-	-	-	-
Total	**$61.0 million**	**-**	**$25.1 million**	-	-	-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements (“the financial statements”) have been presented on a going concern basis and give a true and fair view of the assets, liabilities, financial position and return and are prepared in conformity with US generally accepted accounting principles (“US GAAP”) and Companies Law. The functional and reporting currency is the United States Dollar (“USD”).

Basis of Consolidation

The financial statements include the results of the Company and its wholly owned subsidiaries.

Wholly owned subsidiaries, London Adams LLC, London Dearborn LLC, London Granite Ridge LLC, London Jackson LLC, London Madison LLC, London Mayslake LLC, London Randolph LLC, London Wabash LLC, London Washington LLC, London Tides LLC, London Randolph Holdco LLC, London Washington Holdco LLC, London Jackson Holdco LLC, London Tides Holdco LLC, London Wacker LLC, London Granite Ridge (Global) LLC, London Madison (Global) LLC and London Dearborn (Global) LLC are incorporated in Delaware and operate in the United States.

The wholly owned subsidiary London American Homes LP is incorporated in the Cayman Islands.

During the year, wholly owned subsidiaries, London Lake Michigan LP and London Lake Michigan (Global) LP were incorporated in the Cayman Islands. In addition, on 27 June 2014, wholly owned subsidiaries, London Lux Masterco 1 S.a.r.l., London Lux Debtco 1 S.a.r.l. and London Lux Propco 1 S.a.r.l. were incorporated in Luxembourg.

During the year ended 31 December 2014, no subsidiaries were cancelled.

All inter-company balances have been eliminated fully on consolidation.

Reclassifications

Certain amounts in these annual financial statements have been reclassified to conform to the 2014 presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with US 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 judgements 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.

Valuation of Investments accounting policy and Note 7 'Fair Valuation of Financial Instruments' discloses further detail on the use of estimates.

Revenue Recognition

Interest earned on debt instruments is accounted for, net of applicable withholding taxes and it is recognised as income over the terms of the loans and bonds. Discounts received or premiums paid in connection with the acquisition of loans and bonds are amortised into interest income using the effective interest method over the contractual life of the related loan and bond. If a loan pays off prior to maturity, the recognition of the fees and costs is accelerated as appropriate. The Company raises a provision when the collection of interest is deemed doubtful.

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 the 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 Investment Manager places a receivable on non-accrual status when the collection of principal or interest is deemed doubtful.

Dividend income is recognised on the ex-dividend date.

For the year ended 31 December 2014, $4,356,332 (31 December 2013: $1,937,392) was recorded to reflect accretion of discount on loans and bonds during the year.

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 of cash and so near maturity that they represent insignificant risk of changes in value.

At 31 December 2014, the Company held cash balances in various currencies to the value of $59,305,660 (31 December 2013: $31,307,207). These balances consisted of Sterling: $22,475,305 (31 December 2013: $15,201), Euro: $1,077,408 (31 December 2013: $2,978,790), U.S. Dollar: $31,170,757 (31 December 2013: $28,148,055), and Australian Dollar: $4,582,190 (31 December 2013: $165,161).

Valuation of Investments

The Company carries investments on its Consolidated Statement of Assets and Liabilities at fair value in accordance with US 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. The Investment Manager believes that bid price is the best estimate of fair value and is in line with the valuation policy adopted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Investments (continued)

In cases where no third party price is available, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Investment Manager determines the valuation based on its fair valuation policy.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Consistent with the above criterion, the following criteria are 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 ask 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;
- Valuation utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

Derivative Financial Instruments

The Company may, from time to time, hold derivative financial instruments for the purposes of hedging foreign currency exposure. These derivatives are measured at fair value in accordance with US GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period.

As part of the Company’s investment strategy, the Company enters into over-the-counter (“OTC”) derivative contracts which include forward currency contracts and credit default swaps.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies on the reporting date and unrealised gains or losses are recorded daily. Forward contracts are generally categorised in Level 2 of the fair value hierarchy.

Credit default swaps are entered into on the OTC market. The fair value for a credit default swap contract is derived using a pricing model that is widely accepted by marketplace participants.

The pricing model takes into account multiple inputs including specific contract terms, interest rate yield curves, interest rates, credit curves, recovery rates, and current credit spreads obtained from swap counterparties and other market participants. Many inputs into the model do not require material subjectivity as they are observable in the marketplace or set per the contract. Other than the contract terms, valuation is heavily determined by the difference between the contract spread and the current market spread. The contract spread (or rate) is generally fixed and the market spread is determined by the credit risk of the underlying debt or reference entity. If the underlying debt is liquid and the OTC market for the current spread is active, credit default swaps are categorised in Level 2 of the fair value hierarchy. If the underlying debt is illiquid and the OTC market for the current spread is not active, credit default swaps are categorised in Level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Realised and Unrealised 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.

All transactions relating to the reorganisation of current investments are recorded at the date of such reorganisation. The difference between the fair value of the new consideration received and the cost of the original investment is recognised as a gain or loss.

Unrealised gains and losses on an investment are the difference between the cost if purchased during the year or fair value at the previous year end and the fair value at the current year end. Unrealised gains and losses are included in the Consolidated Statement of Operations.

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.

Following the creation of the Extended Life Share Class and the New Global Share Class, each Share Class will bear their respective pro rata share based on their respective NAVs of the ongoing costs and expenses of the Company. Each Share Class will also bear all costs and expenses of the Company determined by the Directors to be attributable solely to it.

Performance Fee

Performance fee amounts (see note 4) are computed and accrued daily in accordance with the terms of the agreements.

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, foreign currency sales and purchases transactions are recorded and translated at the spot exchange rate at the transaction date and for all other transactions the average rate is applied. Non-monetary assets and liabilities are translated at the historic exchange rate.

The Company does not separate the changes relating to currency exchange rates from those relating to changes in fair value of the investments. These fluctuations are included in the net realised gain and net change in unrealised gain/(loss) on investments, credit default swap and forward currency transactions in the Consolidated Statements of Operations.

Payables on Investments Purchased

At 31 December 2014, the amount payable on investments purchased represents amounts due for investments purchased that have been contracted for but not settled on the Consolidated Statement of Assets and Liabilities date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Issuance cost

In line with the Prospectus, the expenses incurred for the initial placing of the Extended Life Share Class in 2013 and the New Global Share Class in 2014 were capped at 2% of the Gross Issue Proceeds. These expenses include 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.

Income Taxes

The Company is not subject to income taxes in Guernsey; however it may be subject to taxes imposed by other countries on income it derives from investments. Such taxes are reflected in the Consolidated Statement of Operations. In accordance with US 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 pronouncement 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. There were no uncertain tax positions as at 31 December 2014 or 31 December 2013. The Company is subject to examination for US Federal and state tax returns for calendar years 2011 – 2014.

During the year ended 31 December 2014, the Company recorded current income tax expense of $1,489,765 (31 December 2013: $2,106,085). Deferred taxes are recorded to reflect the tax consequences of future years' differences between the tax basis of assets and their financial reporting basis. The amount of deferred tax expense for the year ended 31 December 2014 is equal to $2,801,740 (31 December 2013: $1,998,684). Total income tax expense for the year ended 31 December 2014 was $4,291,505 (31 December 2013: $4,104,769).

NOTE 3 – RECENT STANDARDS AND PRONOUNCEMENTS

In June 2013, the FASB issued ASU 2013-08, Financial Services — Investment Companies Topic 946 ("ASU 2013-08") which amends the scope, measurement, and disclosure requirements for investment companies. ASU 2013-08:

(i) amends the criteria for an entity to qualify as an investment company;

(ii) requires an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting; and

(iii) require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The Company does not provide any financial support to its investees.

This guidance is effective for the current financial year.

The Company meets the required characteristics to qualify as an investment company and the adoption of this guidance did not have a material impact on the Company's financial results and consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES

Investment Management Fees

Per the Investment Management Agreement dated 17 July 2014 and in relation to the Ordinary and Extended Life Shares the Investment Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 percent per month of the Company's Net Asset Value ("NAV").

Per the Investment Management Agreement dated 17 July 2014 and in relation to the New Global Shares the management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125 per cent. per month of the NAV of the New Global Share Class Fund (excluding, until such time as the New Global Share Class Fund is 85 per cent. invested, any cash balances (or cash equivalents)) calculated as at the last business day of the relevant month.

For the year ended 31 December 2014, the management fee expense was $8,925,513 (31 December 2013: $8,097,558). As at 31 December 2014, the investment manager fee payable was $728,720 (31 December 2013: $732,858).

Performance Fees

In addition, the Investment Manager is entitled to a performance fee. The performance fee for Ordinary, Extended Life and New Global Shares (the "Shareholders") will only become payable once the Company has made aggregate distributions in cash to the Shareholders (which shall include the aggregate price of all Shares repurchased or redeemed by the company) equal to the aggregate gross proceeds of issuing Shares (the "Contributed Capital") plus such amounts as will result in the Shareholders having received a realised (cash-paid) IRR in respect of the Contributed Capital equal to Preferred Return, 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 the 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 Shareholders.

The preferred rate of return for Ordinary Shares is an annualised 6%, Extended Life Shares is an annualised 8% and New Global Shares is an annualised 8%. For the purposes of financial reporting the performance fee is recognised on an accrual basis.

The cumulative performance fee for the Ordinary, Extended Life and New Global Share of Nil (31 December 2013: $1,444,064), $Nil (31 December 2013: $Nil), and $Nil (31 December 2013: Nil) respectively would be payable if the Company was to realise all investments at the Consolidated Statement of Assets and Liabilities date. For the year ended 31 December 2014, the performance fee expense for the Ordinary, Extended Life and New Global Share was $(1,444,064) (31 December 2013: $1,444,064), $Nil (31 December 2013: $Nil), and $Nil (31 December 2013: Nil) respectively. The performance fee of $1,444,064 accrued as at 31 December 2013, was reversed during the year to 31 December 2014 based on the performance of the Ordinary Share Class.

The performance fee is included in the Consolidated Statement of Operations. The performance fee outstanding is included in payables to investment manager and affiliates in the Consolidated Statement of Assets and Liabilities.

Administration and Custody Agreement

During the year, BNP Paribas Securities Services S.C.A., Guernsey Branch ("BNPP") was the Administrator, Custodian and Designated Manager of the Company pursuant to the Administration and Custody Agreement.

BNPP was the Secretary of the Company pursuant to the Administration and Custody Agreement until 10 December 2014. On 11 December 2014, C.L. Secretaries Limited, a wholly owned subsidiary of Carey Commercial Limited was appointed as Company Secretary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – MATERIAL AGREEMENTS AND RELATED PARTIES (CONTINUED)

Administration and Custody Agreement (continued)

BNPP was the Administrator, Custodian and Designated Manager until 28 February 2015. Please see Note 12 – Subsequent Events for further details.

The Administrator is responsible for the day-to-day administration of the Company (including but not limited to the calculation and publication 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 0.10 percent per annum of the net asset value of the Company subject to an annual minimum of £100,000.

For the period to 10 December 2014, the Secretary was entitled to an annual fee of £36,000 plus fees for ad-hoc board meetings and services. From 11 December 2014, the Secretary is entitled to an annual fee of £50,800, an annual compliance fee of £250 plus fees for ad-hoc board meetings and services.

The Custodian is entitled to a fee of 0.02 percent for transactions on the U.S. Market and Euroclear; or 0.04 per cent for unlisted equities of the Market Value of the portfolio subject to a minimum annual fee of £20,000. The loan administration fee is 0.08 percent per annum of the average market value of the loan assets with a minimum annual fee of £75,000 in respect of portfolio and loan administration.

For the year ended 31 December 2014, the administration fee expense was $698,811 (31 December 2013: $545,623), the secretarial fee was $59,378 (31 December 2013: $56,614) and the custodian and loan administration fee expense was $446,648 (31 December 2013: $314,444). As at 31 December 2014, the administration fee payable is $179,330 (31 December 2013: $150,478), the secretarial fee payable is $14,147 (31 December 2013: $15,028) and the custodian and loan administration fee payable is $124,636 (31 December 2013: $123,005).

Directors' Remuneration and Other Interests

The Directors are related parties and are remunerated for their services at a fee of $45,000 each per annum ($60,000 for the Chairman). With the launch of the New Global Share Class it was agreed that the Directors' remuneration would increase by £10,000 each per annum and they would be entitled to a one off payment of £10,000 in regard to additional work on the New Global Share Class. In addition, the Chairman of the Audit Committee receives an additional $5,000 for his services in this role. Each of Michael J. Holmberg and Patrick H. Flynn, the non-independent Directors, have waived their fees for their services as Directors. For the year ended 31 December 2014, the directors' fees and travel expenses amounted to $324,552 (31 December 2013: $209,719). As at 31 December 2014, the directors' fee payable is $60,493 (31 December 2013: $50,411).

Other Interests

During the year the Company acquired a loan in the shipping industry on behalf of itself and the "2013 Series" of NB Distressed Debt Master Fund LP (the "Master Fund"), a fund also managed by the Investment Manager. To satisfy the minimum transfer agreement set forth in the credit agreement of the loan, the Company purchased a face value of $8,200,000 and transferred an economic participation of the Loan with a face value of $2,054,795 to the Master Fund for $750,000 in cash. The Company retains the voting rights over the portion of the loan that it transferred to the Private Fund.

There were no other interests for the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES

The Company may enter into credit default swap agreements and forward currency contracts in the normal course of pursuing its investment objective. As a result of these the Company may be subject to credit and foreign currency risk.

Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return if a credit event occurs for the referenced entity, obligation or index. A credit event is defined under the terms of each swap agreement and may include, but is not limited to, underlying entity default, bankruptcy, write-down, principal shortfall, or interest shortfall.

The Company may use credit default swap agreements on corporate or sovereign issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where a Company owns or has exposure to the referenced obligation). During the period, the Company entered into a single credit default swap agreement to provide a measure of protection against defaults of a sovereign issue.

The Company can be either a seller or buyer of protection when entering into a credit default swap agreement. If the Company is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Company will either receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

Until a credit event occurs, recovery values are determined by market makers considering either industry standard recovery rates or entity specific factors and considerations. Either as a seller of protection or a buyer of protection of a credit default swap agreement, the Company's maximum risk of loss from counterparty risk is the fair value of the agreement.

In a forward currency contract, the Company agrees to receive or deliver a fixed quantity of one currency for another, at a pre-determined price at a future date.

Purchases and sales of forward currency contracts having the same notional value, settlement date and counterparty are generally offset (which result in a net foreign currency position of zero with the counterparty) and any realised gains or losses are recognised on settlement date. The fair value of forward currency contracts is based on the price at which a new forward foreign currency contract of the same notional value, currency and maturity could be affected at the close of business in the principal currency markets in which these currencies are traded.

The Company may, from time to time, hold derivative financial instruments for the purposes of hedging foreign currency exposure. These derivatives are measured at fair value in accordance with US GAAP, with changes in fair value recognised within the Consolidated Statement of Operations in each reporting period. Offsetting of financial assets and financial liabilities is permitted only when:

- The parties owe each other determinable amounts
- There is a right and intention to set-off
- The right of set-off is enforceable by law

Forward exchange contracts are subject to credit and market risk. Forward foreign exchange contracts result in exposure to market risk based on the changes in foreign currency exchange rates relative to contracted amounts. As a result, a relatively small foreign currency exchange rates movement may result in substantial losses to the Company. Credit risk is where the financial condition of an issuer of a security or instrument may cause it to default or become unable to pay interest or principal due on the security. Any trading counterparty to a derivative contract might default on their obligations. The effect of such derivative instruments on the Company's financial position and financial performance as reflected in the Consolidated Statement of Assets and Liabilities and Consolidated Statement of Operations are presented in the summary on the following page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

The following table presents the fair values of derivative instruments:

The notional outstanding as at 31 December 2014 and 31 December 2013 is representative of the exposure over the period/year (or similar).

31 December 2014		**Notional**			
	Buy/Sell Currency	**Foreign Currency**	**USD**	**Fair Value / USD Equivalent**	**Settlement Date Month/Year**
	1. EUR/USD	788,834	971,127	(16,531)	January 2015
	2. USD/BRL	28,879,784	11,319,635	509,717	January 2015
	3. USD/EUR	25,599,388	32,304,025	1,325,241	January 2015
Forward currency contracts (i)	4. USD/GBP	4,708,781	7,445,855	104,871	January 2015
				1,923,298	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030 (ii)	n/a	n/a	(12,800,000)	**(23,055)**	September 2015
31 December 2013		**Notional**			
	Buy/Sell Currency	**Foreign Currency**	**USD**	**Fair Value / USD Equivalent**	**Settlement Date Month/Year**
	5. USD/BRL	24,406,306	10,827,997	508,725	January 2014
	6. USD/EUR	16,942,660	23,093,393	(252,596)	January 2014
Forward currency contracts	7. USD/GBP	1,303,693	2,109,326	(49,685)	January 2014
	8. USD/BRL	874,200	389,307	19,689	January 2014
	9. USD/EUR	720,918	991,520	(1,876)	January 2014
				224,257	
Credit default swap (purchased protection) Federal Republic of Brazil 12.25% 06/03/2030	n/a	n/a	(12,100,000)	**(33,864)**	June 2014

(i) The counterparties for the forward currency contracts are Royal Bank of Canada (3 and 5), UBS AG (2, 4, 5, 6, 7, 8, and 9) and Societe Generale (1, 3, 4, 6 and 7).

The Company is subject to enforceable ISDA netting agreements with certain counterparties. These agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying offsetting mechanisms and collateral posting arrangements at prearranged exposure levels.

There were no collateral agreements during the year.

(ii) The counterparty for the credit default swap is Bank of America Merrill Lynch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – DERIVATIVES (CONTINUED)

The following table presents the impact of derivative instruments on the Consolidated Statement of Operations in conformity with US GAAP:

Primary underlying risk	Location of gain/(loss) recognised in Consolidated Statement of Operations	Amount of gain/(loss) recognised in income on derivative (US$)	
Credit		**31 December 2014**	**31 December 2013**
Credit default swap	Net change in unrealised gain/(loss) on investments, credit default swap and forward currency contracts	18,266	503,113
Credit default swap	Net realised gain/ (loss) on investments, credit default swap and forward currency contracts	93,354	(471,333)
Foreign Currency			
Forward currency contracts	Net change in unrealised gain/(loss) on investments, credit default swap and forward currency contracts	1,699,041	505,890
Forward currency contracts	Net realised gain/(loss) on investments, credit default swap and forward currency contracts	2,649,678	(269,494)
Total		**4,460,339**	**268,176**

The following table presents, as of 31 December 2014 and 31 December 2013, the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible under U.S. GAAP. Derivatives assets and liabilities have been netted with respect to those assets as to which the netting requirements have been met.

Offsetting of derivative assets	Gross amounts of recognised assets	Gross amounts offset in the Consolidated Statement of Assets and Liabilities	Net amounts offset in the Consolidated Statement of Assets and Liabilities
31 December 2014			
Forward Currency Contracts	1,939,829	(16,531)	1,923,298
31 December 2013			
Forward Currency Contracts	528,414	(304,157)	224,257

Offsetting of derivative liabilities	Gross amounts of recognised liabilities	Gross amounts offset in the Consolidated Statement of Assets and Liabilities	Net amounts offset in the Consolidated Statement of Assets and Liabilities
31 December 2014			
Forward Currency Contracts	16,531	(16,531)	-
Credit Default Swap	23,055	-	(23,055)
	39,586	**(16,531)**	**(23,055)**
31 December 2013			
Forward Currency Contracts	304,157	(304,157)	-
Credit Default Swap	33,864	-	33,864
	338,021	**(304,157)**	**33,864**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – UNFUNDED LOAN COMMITMENTS

As at 31 December 2014, the Company has no unfunded loan commitments.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

A financial instrument is defined by ASC 825, 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 2014 and 31 December 2013 to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents - The carrying value reasonably approximates fair value due to the short-term nature of these instruments.

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

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

- 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, or where the Investment Manager determines that the provided price is not an accurate representation of the fair value of the investment, the Investment Manager determines the valuation based on the Investment Manager’s fair valuation policy.

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

- Forward currency contracts are revalued using the exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.

- Investments in private investment companies/partnerships are valued utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient. The Company applies the practical expedient consistently in its portfolio unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Further to using the above inputs in investment valuations, the Company employs the net asset valuation policy approved by the board of directors that is consistent with ASC 820-10. The sources of inputs are evaluated in line with the Company's valuation policy. This includes any markets in which the Company's investments are trading, or any markets in which securities with similar attributes are trading, in determining fair value. The Company's valuation policy considers the fact that unobservable inputs must be used to determine the fair value of investments where there is not a readily available market valuation.

The table below details the Company's investments that were accounted for at fair value as at 31 December 2014.

Investments at Fair Value as at 31 December 2014

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	99,737,403	104,896,647	204,634,050
Commercial Mortgage	-	-	4,219,287	4,219,287
Limited Partnership Units	-	-	44,865,563	44,865,563
Private Equity	-	78,909,997	99,711,073	178,621,070
Private Equity: Real Estate Development	-	-	20,263,099	20,263,099
Private Placement Bonds	-	-	3,063,979	3,063,979
Fixed Rate Bonds	-	1,081,300	-	1,081,300
U.S. Government and Agency Obligations	-	22,999,693	-	22,999,693
UK Treasury Bills	-	46,734,769	-	46,734,769
Public Equity	32,853,494	-	-	32,853,494
Public Note	-	16,563,822	-	16,563,822
Trade Claim	-	-	10,859,649	10,859,649
Ownership in Senior Living Facility	-	-	13,665,456	13,665,456
Private Note	-	-	31,950,069	31,950,069
Total investments that are accounted for at fair value	**32,853,494**	**266,026,984**	**333,494,822**	**632,375,300**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments at Fair Value as at 31 December 2013

	Level 1	Level 2	Level 3	Total
Bank Debt Investments	-	105,755,222	64,504,795	170,260,017
Commercial Mortgage	-	-	13,183,956	13,183,956
Limited Partnership Units	-	-	51,996,494	51,996,494
Private Equity	-	43,085,074	59,160,083	102,245,157
Private Equity: Real Estate Development	-	-	45,067,302	45,067,302
Private Placement Bonds	-	-	7,855,963	7,855,963
Fixed Rate Bonds	-	23,428,780	-	23,428,780
U.S. Government and Agency Obligations	-	56,997,146	-	56,997,146
Public Equity	22,481,550	-	-	22,481,550
Public Note	-	16,132,324	-	16,132,324
Trade Claim	-	-	10,601,910	10,601,910
Ownership in Senior Living Facility	-	-	12,203,418	12,203,418
Private Note	-	-	21,089,387	21,089,387
Total investments that are accounted for at fair value	**22,481,550**	**245,398,546**	**285,663,308**	**553,543,404**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2014. The table is not intended to be all-inclusive, but instead captures the significant unobservable inputs relevant to our determination of fair values.

Type	Sector	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range Input	Weighted Average
Bank Debt Investments	Commercial Mortgage	4,219,287	Discounted Cash Flow ("DCF")	WACC and Price per Sq Foot	7.9% and $181 per sq. foot	N/A
Bank Debt Investments	Lodging and Casinos	9,098,425	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transport	17,927,955	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Air Transport	5,161,000	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Shipping	47,232,376	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	12,914,227	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	12,562,664	Market Information	Unadjusted Broker Quote	N/A	N/A
Limited Partnership Units	Financial Intermediaries	44,865,563	Net Assets Value	Net Asset Value	N/A	N/A
Ownership In Senior Living Facility	Healthcare	13,665,456	Scenario Analysis	Blended Weighted Scenario Avg DCF, BIDS, and Purchase and Sale Terms	30% at 11.3MM, 50% at 13.0MM and 20% at 18.7MM	N/A
Private Equity	Commercial Mortgage	24,729,543	DCF	WACC and Price per Sq Foot	10% and $437 per sq. foot	N/A
Private Equity	Financial Intermediaries	968,792	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging and Casinos	27,670,065	Comps	Price per Acre	$2,500,000 per acre	N/A
Private Equity	Real Estate Development	18,570,819	DCF	WACC and Price per Sq Foot	10% and $347 per sq. foot - 10% and $493 per sq. foot	10% and $383 per sq. foot
Private Equity	Real Estate Development	1,692,280	Expected Transaction	Sales Offer and Cash on Hand	N/A	N/A
Private Equity	Utilities	30,732,251	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Building and Development	3,446,298	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Containers and Packaging	12,164,124	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	19,908,381	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Lodging and Casinos	12,041,688	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Placement Bonds	Forest Products	3,063,979	Comps	EBITDA Multiple	5.92	N/A
Trade Claim	Surface Transport	10,859,649	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		**333,494,822**				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Changes in any of the above inputs may positively or adversely impact the fair value of the relevant investments.

Level 3 assets are valued using single bid-side broker quotes or by good faith methods of the Investment Manager. For single broker quotes, the Investment Manager uses unobservable inputs to assess the reasonableness of the broker quote. For good faith valuations, the Investment Manager directly uses unobservable inputs to produce valuations. The significant unobservable inputs used in Level 3 assets are outlined in the table on the previous page. These inputs vary by asset class. For example, real estate asset valuations may utilise discounted cash flow models using an average value per square foot and appropriate discount rate. Other assets may be based on analysis of the liquidation of the underlying assets. In general, increases/(decreases) to per unit valuation inputs such as value per square foot, will result in increases/(decreases) to investment value.

From 1 January 2014, investments in private investment companies/partnerships are valued utilising the net asset valuations provided by the underlying private investment companies/partnerships as a practical expedient. The Company applies the practical expedient consistently in its portfolio unless it is probable that the Company will sell a portion of an investment at an amount different from the net asset valuation. Prior to 1 January 2014 certain underlying investments in private companies/partnerships were subject to good faith valuation by the Investment Manager. This change is due to the maturing of the underlying assets and no significant differences resulted from good faith valuations.

Similarly, increases/ (decreases) of asset realisation inputs (liquidation estimate, letter of intent, etc.) will also result in increases/ (decreases) in value. In situations where discounted cash flow models are used, increasing/ (decreasing) discount rates or increasing/ (decreasing) weighted average life, in isolation, will generally result in decreased/ (increased) valuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 as of 31 December 2013.

Type	Sector	Fair Value ($)	Primary Valuation Technique	Unobservable inputs	Range Input	Weighted Average
Bank Debt Investments	Aircraft	5,359,500	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	13,183,956	Third Party Appraisal Market Comp Analysis	Third Party Appraisal Market Comp Analysis	8% - 14% and $53 - $264 per square foot	12% and approx. $74 per square foot
Bank Debt Investments	Land	20,616,936	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Leisure	20,570,313	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Other	303,726	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Shipping	11,894,150	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	5,760,170	Market Information	Unadjusted Broker Quote	N/A	N/A
Limited Partnership Units	Financial Intermediaries	51,996,494	Third Party Valuations Adjusted Using Management Assumptions	Third Party Valuations; Adjustments to Third Party Values	0%-30% Discount of Third Party Valuation	11% discount to Third Party Valuations
Ownership in Senior Living Facility	Healthcare	12,203,418	Discounted Cash Flow (DCF)	Third Party Appraisal	9.75%	N/A
Private Equity	Commercial Mortgage	23,075,000	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Building and Development	3,350,568	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Containers and Packaging	11,964,162	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Financial Intermediaries	1,574,287	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Real Estate Development	45,067,302	DCF	Third Party Appraisal Market Comp Analysis	9% - 11% and $200 - $500 per square foot	10% and approx. $345 per square foot
Private Equity	Utilities	19,196,066	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	21,089,387	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Placement Bond	Forest Products	7,855,963	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transport	10,601,910	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		**285,663,308**				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

For the year ended 31 December 2014

	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim	Private Note
Balance, 31 December 2013	$ **64,504,795**	$ **59,160,083**	$ **45,067,302**	$ **7,855,963**	$ **51,996,494**	$ **10,601,910**	$ **21,089,387**
Purchases	101,521,530	9,079,077	-	-	-	-	-
Sales and distributions	(26,104,279)	-	(27,663,800)	(7,119,143)	(1,715,279)	-	-
Restructuring assets	(27,670,065)	27,670,065	-	-	-	-	-
Non cash gain on restructuring	9,070,140	-	-	330,834	-	-	-
Realised gain/(loss) on sale of investments	4,027,862	(8,836)	2,147,260	811,971	13,810,661	-	-
Unrealised gain/(loss) on investments	(20,378,427)	3,810,684	712,337	1,184,354	(19,226,313)	257,739	(764,568)
Transfers into or (out of) level 3	(74,909)	-	-	-	-	-	11,625,250
Balance, 31 December 2014	$ **104,896,647**	$ **99,711,073**	$ **20,263,099**	$ **3,063,979**	$ **44,865,563**	$ **10,859,649**	$ **31,950,069**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2014	$ **(15,963,977)**	$ **3,810,684**	$ **712,337**	$ **(775,651)**	$ **(19,219,068)**	$ **257,738**	$ **(764,568)**

	Ownership in Senior Living Facility	Commercial Mortgage	Total
Balance, 31 December 2013	$ **12,203,418**	$ **13,183,956**	$ **285,663,308**
Purchases	121,408	-	110,722,015
Sales and distributions	-	(9,786,121)	(72,388,622)
Restructuring assets	-	-	-
Non cash gain on restructuring	-	-	9,400,974
Realised gains/(loss) on sale of investments	-	821,452	21,610,370
Unrealised gain/(loss) on investments	1,340,630	-	(33,063,564)
Transfers into or (out of) level 3	-	-	11,550,341
Balance, 31 December 2014	$ **13,665,456**	$ **4,219,287**	$ **333,494,822**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2014	$ **1,340,630**	$ **-**	$ **(30,601,875)**

The Company's policy is to recognise transfers into and out of various levels as of the actual date of the event or change in circumstances that caused the transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

For the year ended 31 December 2013

	Bank Debt Investments	Private Equity	Private Equity: Real Estate Development	Private Placement Bonds	Limited Partnership Units	Trade Claim	Private Note
Balance, 31 December 2012	$ 30,234,768	$ 48,088,830	$ 67,168,150	$ 9,854,912	$ 50,093,828	$ 11,233,247	$ -
Purchases	42,380,337	30,710,009	-	-	-	-	21,464,317
Sales and distributions	(13,005,908)	(8,593,673)	(26,189,673)	-	(1,714,286)	-	-
Realised gain/(loss) on sale of investments	(306,667)	1,051,991	-	-	1,496,561	-	-
Unrealised gain/(loss) on investments	5,202,265	10,384,476	4,088,825	(1,998,949)	2,120,391	(631,337)	(374,930)
Transfers into or (out of) level 3	-	(22,481,550)[i]	-	-		-	-
Balance, 31 December 2013	**$ 64,504,795**	**$ 59,160,083**	**$ 45,067,302**	**$ 7,855,963**	**$ 51,996,494**	**$ 10,601,910**	**$ 21,089,387**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2013	**$ 5,219,731**	**$ 9,040,425**	**$ 4,088,824**	**$ (1,998,949)**	**$ 2,120,391**	**$ (631,337)**	**$ (374,930)**

	Bankruptcy Claim	Ownership in Senior Living Facility	Fixed Rate Bonds	Asset Backed Securities	Commercial Mortgage	Total
Balance, 31 December 2012	$ 686,341	$ 10,098,587	$ 1,486,368	$ 660,791	$ -	229,605,822
Purchases	239,586	410,053	166,069	17	25,710,269	121,080,657
Sales and distributions	(371,518)	-	(3,413,567)	(520,499)	(13,124,929)	(66,934,053)
Realised gains/(loss) on sale of investments	-	-	-	(783,362)	598,616	2,057,139
Unrealised gain/(loss) on investments	(554,409)	1,694,778	1,761,130	643,053	-	22,335,293
Transfers into or (out of) level 3	-	-	-	-	-	(22,481,550)
Balance, 31 December 2013	**$ -**	**$ 12,203,418**	**$ -**	**$ -**	**$ 13,183,956**	**285,663,308**
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2013	**$ -**	**$ 1,694,779**	**$ -**	**$ -**	**$ -**	**19,158,934**

The Company's policy is to recognise transfers into and out of various levels as of the actual date of the event or change in circumstances that caused the transfer.

i) Transferred to level 1 from level 3 in the year due to public offering of equity security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 – RISKS

The Company is subject to various risks, including, but not limited to, market risk, credit risk and liquidity risk. The Investment Manager monitors and seeks to 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.

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. Details of the Company's investment portfolio at 31 December 2014 are disclosed in the consolidated schedule of investments. Each separate investment exceeding 5% of net assets is disclosed separately.

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.

The credit risk relating to derivatives is detailed in note 5.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – SHARE CAPITAL

The Company's share capital consists of:

10,000 Class A Shares authorised, of par value $1 each (which carry extensive voting rights); and, an unlimited number of shares of no par value which may upon issue be designated as Ordinary Shares (Ordinary Share, Extended Life Share Classes and New Global Shares) and or Subscription Shares (each of which carry limited voting rights) or Capital Distributions Shares.

The issued share capital of the Company is denominated in U.S. Dollars which consists of Ordinary Shares and Class A Shares and in Pound Sterling which consists of New Global Shares. Ordinary Shareholders and New Global Shareholders have the right to attend and vote at any general meeting of the Company. Class A Shareholders do not have the right to attend and vote at a general meeting of the Company save where there are no other shares of the Company is issue. 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 original investment period expired on 10 June 2013 and a proposal was made to Ordinary Shareholders to extend the investment period by 21 months to 31 March 2015. A vote was held at a class meeting of Shareholders on 8 April 2013 where the majority of shareholders voted in favour of the proposed extension.

Following this meeting and with the Ordinary Shareholders approval of the extension, a new Extended Life Share class was created (the "Extended Life Shares") which consists of 72% of initial Investors who elected to convert their Ordinary Shares to Extended Life Shares. The rest of investors remain invested on the basis of the current investment period.

The Extended Life Share class are subject to a new capital return policy pursuant to which the Company will seek to return to the holders of Extended Life Shares all capital profits arising from the exit of any assets attributable to the Extended Life Shares (net of any amount that the directors estimate may become payable as performance fee).

On 27 February 2014, the Company issued 110,785,785 New Global Shares.

As at the 31 December 2014, the Company had the following number of shares in issue:

	31 December 2014	31 December 2013
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Shares Class of no par value	75,011,865	124,160,471
Extended Life Share Class of no par value	331,917,856	352,088,814
New Global Share Class of no par value	110,785,785	-

Reconciliation of number of shares in issue in each class:

	Ordinary Shares	Extended Life Shares	New Global Shares	Total
Balance as at 31 December 2013	124,160,471	352,088,814	-	476,249,285
Shares issued during the period	-	-	110,785,785	110,785,785
Shares redeemed during the period	(49,148,606)	(20,170,958)	-	(69,319,564)
Balance as at 31 December 2014	**75,011,865**	**331,917,856**	**110,785,785**	**517,715,506**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – FINANCIAL HIGHLIGHTS

Per share operating performance	Ordinary Shares USD Year ended 31 December 2014	Extended Life Shares USD Year ended 31 December 2014	New Global Shares GBP 4 March 2014 to 31 December 2014	Ordinary Shares USD Year ended 31 December 2013	Extended Life Shares USD 12 April 2013 to 31 December 2013
Opening Balance	**1.2189**	**1.2218**	**0.9800**	**1.0765**	**1.1353**
Impact of capital distributions	(0.0051)	(0.0015)	-	-	0.0021
Income/(loss) from investment operations (i)					
Net investment (loss)/income	0.0191	0.0077	0.0028	(0.0031)	(0.0006)
Net realised and unrealised gain / (loss) from investments and foreign exchange	0.0192	(0.0371)	(0.0968)	0.1455	0.0850
Total from investment operations	**0.0383**	**(0.0294)**	**(0.0940)**	**0.1424**	**0.0844**
Net asset value per share at the end of the per the period/year	**1.2521**	**1.1909**	**0.8860**	**1.2189**	**1.2218**

(i) Weighted average numbers of shares outstanding were used for calculation.

Total return* (ii)	Ordinary Shares Year ended 31 December 2014	Extended Life Shares Year ended 31 December 2014	New Global Shares 4 March 2014 to 31 December 2014	Ordinary Shares Year ended 31 December 2013	Extended Life Shares 12 April 2013 to 31 December 2013
Total return before performance fees	1.44%	(2.53)%	(9.59)%	14.31%	7.62%
Performance fees	1.28%	-	-	(1.08)%	-
Total return after performance fees	**2.72%**	**(2.53)%**	**(9.59)%**	**13.23%**	**7.62%**

Ratios to average net assets (ii)					
Net investment income after performance fee	1.56%	0.62%	0.24% (iii)	(0.26)%	0.19% (iii)
Expenses before performance fee	(2.20)%	(2.09)%	(0.75)% (iii)	(2.08)%	(2.42)% (iii)
Performance fee	1.27%	-	-	(0.99)%	-
Total expenses after performance fees	**(0.93)%**	**(2.09)%**	**(0.75)% (iii)**	**(3.07)%**	**(2.42)% (iii)**

(ii) An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.
(iii) These ratios have been annualized to be comparable across share classes.

*Total return is calculated for the Ordinary, Extended Life Share and New Global 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. Class A shares are not presented as they are not profit participating shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – RECONCILIATION OF NET ASSETS VALUE TO PUBLISHED NET ASSET VALUE

In preparing the consolidated financial statements, there were post year end adjustments relating to investment valuations and deferred taxes. The impact of these adjustments on the NAV per Ordinary Share, Extended Life Share and New Global Share is detailed below:

	Ordinary Share Class Net Assets ($)	Ordinary Share Class NAV per Share ($)	Extended Life Share Class Net Assets ($)	Extended Life Share Class NAV per Share ($)	New Global Share Class Net Assets (£)	New Global Share Class NAV per Share (£)
Published Net Assets at 31 December 2014	94,462,728	1.2593	399,300,724	1.2030	99,651,315	0.8995
Deferred Tax Adjustment	21,821	0.0003	56,263	0.0001	(260,706)	(0.0024)
Valuation Adjustments	(564,227)	(0.0075)	(4,075,500)	(0.0122)	(1,237,644)	(0.0111)
Net Assets consolidated financial statements	93,920,322	1.2521	395,281,487	1.1909	98,152,965	0.8860

NOTE 12 - SUBSEQUENT EVENTS

The following subsequent events are for the period 1 January 2015 to 27 April 2015.

Change in Service Providers

From 1 March 2015, the new service providers are as follows:

The administrator is US Bancorp Fund Services (Guernsey) Limited

The sub-administrator is Quintillion Limited

The custodian is US Bank National Association

The principal bankers are US Bank National Association

Share Buy Back

Between 23 January 2015 and 10 February 2015, 542,000 Extended Life Shares were re-purchased for cancellation by the Company for gross consideration of $608,552.

Capital Return

A capital return by way of a compulsory partial redemption was paid on 4 March 2015:

- $5.0 million in relation to the Ordinary share class (equivalent to approximately $0.0667 per Ordinary share); and
- $8.9 million in relation to the Extended Life share class (equivalent to approximately $0.0270 per Extended share).

On 27 April 2015 it was announced that further capital distributions will be made in relation to the Ordinary share class and the Extended Life share class of approximately $12.5 million and $4.0 million respectively.

DIRECTORS, MANAGERS 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.

Registrar

Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey
GY2 4LH

Registered Office (until 10 December 2014)

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

Registered Office (from 11 December 2014)

1st & 2nd Floors, Elizabeth House
Les Ruettes Brayes
St Peter Port
Guernsey
GY1 1EW

Administrator, Custodian and Company Secretary (until 28 February 2015)

BNP Paribas Securities Services S.C.A., Guernsey Branch
BNP Paribas House
1 St. Julian's Avenue
St. Peter Port
Guernsey
GY1 1WA

Administrator (from 1 March 2015)

US Bancorp Fund Services (Guernsey) Limited
1st Floor, Tudor House
La Bordage
St Peter Port
Guernsey
GY1 1DB

Sub-Administrator (from 1 March 2015)

Quintillion Limited
24/26 City Quay
Dublin
Ireland

Independent Auditors

KPMG Channel Islands Limited
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR

Custodian (from 1 March 2015)

US Bank National Association
214 North Tryon Street
26th Floor, Charlotte
North Carolina 28202

Company Secretary (from 11 December 2014)

C.L Secretaries Limited
1st & 2nd Floors, Elizabeth House
Les Ruettes Brayes
St Peter Port
Guernsey
GY1 1EW

DIRECTORS, MANAGERS AND ADVISERS (CONTINUED)

Investment Manager

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

Alternative Investment Fund Manager (*Previously Sub-Investment Manager*)

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

Joint Financial Adviser and Joint Corporate Broker

Stifel Nicolaus Europe Limited London (formerly Oriel Securities Limited)
150 Cheapside
London
United Kingdom
EC2V 6ET

Joint Financial Adviser and Joint Corporate Broker

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
London
United Kingdom
EC4R 2GA

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

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

Advocates to the Company (as to Guernsey law)

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

Principal Bankers (until 28 February 2015)

BNP Paribas Securities Services S.C.A.,
Guernsey Branch
BNP Paribas House
1 St. Julian's Avenue
St. Peter Port
Guernsey
Channel Islands
GY1 1WA

Principal Bankers (from 1 March 2015)

US Bank National Association
214 North Tryon Street
26th Floor, Charlotte
North Carolina 28202