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NB DISTRESSED DEBT INVESTMENT FUND LIMITED
2017 ANNUAL REPORT

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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Features

NB Distressed Debt Investment Fund Limited (the "Company")

The Company is a closed-ended investment company incorporated and registered in Guernsey on 20 April 2010 with registration number 51774. The Company is governed under the provisions of the Companies (Guernsey) Law, 2008 (as amended) (the "Law"), and the Registered Collective Investment Scheme Rules 2015 issued by the Guernsey Financial Services Commission ("GFSC"). It is a non-cellular company limited by shares and has been declared by the GFSC to be a registered closed-ended collective investment scheme. The Company trades on the Specialist Fund Segment ("SFS") of the London Stock Exchange ("LSE").

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

Alternative Investment Fund Manager ("AIFM") and Manager

Investment management services are provided to the Company by Neuberger Berman Investment Advisers LLC (the "AIFM") and Neuberger Berman Europe Limited (the "Manager"), collectively the "Investment Manager". The AIFM is responsible for risk management and discretionary management of the Company's portfolio and the Manager provides, amongst other things, certain administrative services to the Company.

Share Capital

At 31 December 2017 the Company's share capital comprised the following[1]:

Ordinary Share Class ("NBDD")

26,714,397 Ordinary Shares, none of which were held in treasury.

Extended Life Share Class ("NBDX")

173,302,953 Extended Life Shares, none of which were held in treasury.

New Global Share Class ("NBDG")

98,733,585 New Global Shares, none of which were held in treasury.

For the purposes of efficient portfolio management, the Company has established a number of wholly-owned subsidiaries domiciled in the US, the Cayman Islands and Luxembourg. All references to the Company in this document refer to the Company together with its wholly-owned subsidiaries.

1 In addition the Company has two Class A Shares in issue. Further information is provided in the Capital Structure section of this report on page 3.

Non-Mainstream Pooled Investments

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream pooled investment ("NMPI") products and intends to continue to do so for the foreseeable future.

The Company's shares are excluded from the FCA's restrictions which apply to NMPI products.

Company Numbers

Ordinary Shares
LSE ISIN code: GG00BF52R043
Bloomberg code: NBDD:LN

Extended Life Shares
LSE ISIN code: GG00BF52QZ26
Bloomberg code: NBDX:LN

New Global Shares
LSE ISIN code: GG00BH7JH183
Bloomberg code: NBDG:LN

Legal Entity Identifier
YRFO7WKOU3V511VFX790

Website

www.nbddif.com

Capital Structure

The Company's share capital consists of three different share classes, all of which are in the harvest period: the Ordinary Share Class; the Extended Life Share Class; and the New Global Share Class. These share classes each have different capital return profiles and, in one instance, different geographical remits. In addition the Company has two Class A Shares in issue. Each is considered in turn below.

Ordinary Share Class

NBDD was established at the Company's launch on 10 June 2010 with a remit to invest in the global distressed debt market with a focus on North America. The investment period of NBDD expired on 10 June 2013.

Voting rights:	Yes
Denomination:	US Dollars
Hedging:	Portfolio hedged to US Dollars
Authorised share capital:	Unlimited
Par value:	Nil

Extended Life Share Class

A vote was held at a class meeting of NBDD shareholders on 8 April 2013 where the majority of shareholders voted in favour of a proposed extension.

Following this meeting and with the NBDD shareholders' approval of the extension, on 9 April 2013 a new Class, NBDX, was created and the NBDX Shares were issued to 72% of initial NBDD investors who elected to convert their NBDD Shares to NBDX Shares. NBDX had a remit to invest in the global distressed debt market with a focus on North America. The investment period of NBDX expired on 31 March 2015.

Voting rights:	Yes
Denomination:	US Dollars
Hedging:	Portfolio hedged to US Dollars
Authorised share capital:	Unlimited
Par value:	Nil

New Global Share Class

NBDG was created on 4 March 2014 and had a remit to invest in the global distressed market with a focus on Europe and North America. The investment period of NBDG expired on 31 March 2017.

Voting rights:	Yes
Denomination:	Pound Sterling
Hedging:	Unhedged portfolio
Authorised share capital:	Unlimited
Par value:	Nil

Class A Shares

The Class A Shares are held by a 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 right to receive notice of general meetings of the Company but the Trustee shall only have the right to attend and vote at general meetings of the Company when there are no other Shares of the Company in issue.

Voting rights:	No
Denomination:	US Dollars
Authorised share capital:	10,000 Class A Shares
Par value:	US Dollar $1

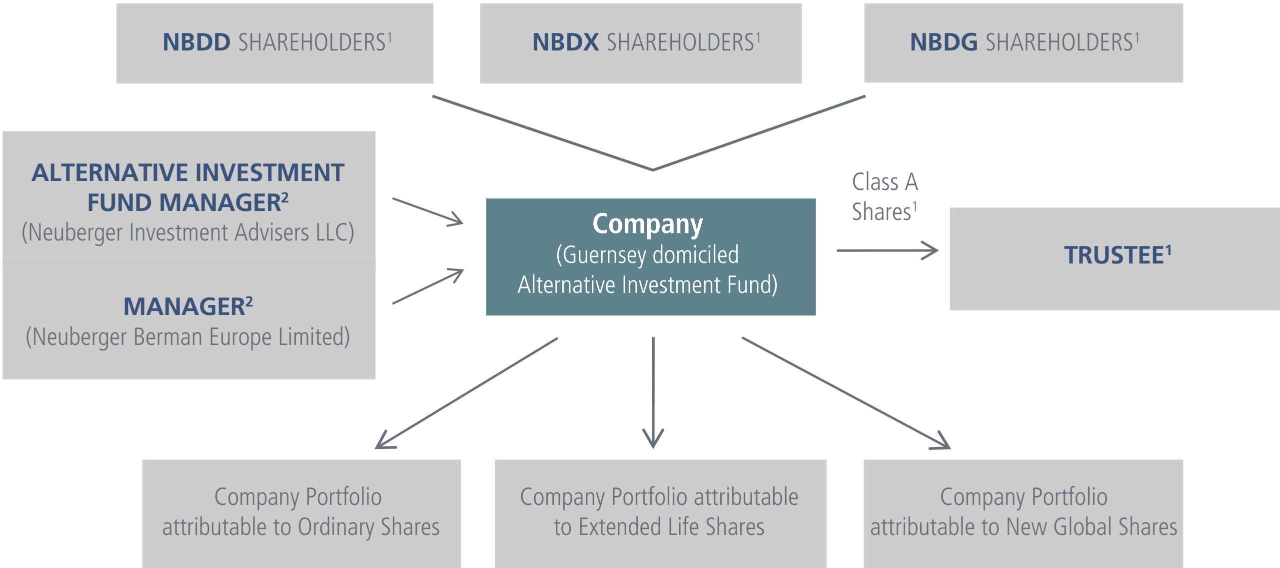
Business Model

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 chart below sets out the ownership, organisational and investment structure of the Company.

INVESTMENT STRUCTURE OF THE COMPANY



1 Further information on the Company's capital structure can be found on page 3.

2 Further information on the Company's investment management arrangements can be found on page 35.

Investment Objective

The Company's primary objective is to provide investors with attractive risk-adjusted returns through long-biased, opportunistic exposure to 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 period of each share class has expired. During the investment period, the Investment Manager sought, in accordance with the Investment Policy, to identify mis-priced or otherwise overlooked securities or assets that had the potential to produce attractive absolute returns while seeking to limit downside risk through collateral and structured protection where possible.

The Ordinary Shares, Extended Life Shares and New Global Shares (collectively the "Portfolios") are biased toward stressed and distressed debt securities secured by hard asset collateral in accordance with the Investment Policy. When investing on behalf of the Company, the Investment Manager focused on companies with significant tangible assets which were judged likely to maintain long-term value through a restructuring. The Investment Manager avoided "asset-light" companies, as their value tend to depreciate in distressed scenarios and also aimed to concentrate on companies with stressed balance sheets whose low implied enterprise value multiples, often calculated using currently depressed cash flows, offered a discount to comparable market valuations.

What is Distressed Debt?

Distressed debt generally refers to the financial obligations of a company that is either already in default, under bankruptcy protection, or in distress and heading toward default. Distressed debt often trades at a significant discount to its par value and may present investors with compelling opportunities to profit if there is a recovery in the business. Typically, when a company experiences financial distress or files for bankruptcy protection, the original debt holders often sell their debt securities or claims to a new set of investors at a discount. These investors often try to influence the process by which the issuer restructures its obligations or implements a plan to turn around its operations. These investors may also inject new capital into a distressed company in the form of debt or equity in order to prevent the company from going into liquidation or to aid the company in carrying out a restructuring plan. Investors in distressed debt typically must not only assess the issuer's ability to improve its operations but also whether the restructuring process is likely to result in a meaningful recovery to the investors' class of claims.

Distressed debt can be performing or non-performing. Performing debt is defined as debt that maintains its contractual obligations relating to interest and/or principal payments and can be debt that has yet to default or even debt that is under bankruptcy protection. Non-performing debt is defined as debt that does not continue to meet its financial obligations.

There are a number of different strategies related to investing in distressed debt. These strategies differ mainly in the types of securities that investors purchase, the life of a fund and its investment period, and a fund's expected returns. Four strategic categories include: (i) senior/senior secured debt strategies; (ii) control/private equity strategies; (iii) junior debt strategies; and (iv) capital structure arbitrage strategies. During the investment periods of the Portfolios, the Investment Manager focused on implementing a senior/senior secured debt strategy in which it invested primarily in secured debt with strong collateral value and structural protection. The Investment Manager has also invested in control positions and non-control positions with the objective of acquiring a blocking position on behalf of the Portfolios.

Investing in secured debt at the top of the capital structure is, in the opinion of the Investment Manager, towards the more conservative end of the distressed debt strategy risk spectrum due to the support from the value of the underlying collateral. Additionally, secured debt holders often have the ability to foreclose on the assets securing their claim and to drive the restructuring process. The typical holding period for investments in this type of strategy is at least six months and can be more than three years.

Business Model (continued)

Typical Life Cycle of a Distressed Debt Investment

IDENTIFY DISTRESSED OPPORTUNITY AND INITIATE INVESTMENT

- Identify Senior Secured debt secured by hard assets which maintain value during restructuring process
- Understand creditor group makeup and motivations of different constituencies

RESTRUCTURE COMPANY

- Enter negotiations with various creditor classes
- Assess value allocation to various creditor classes
- Consider pre-packaged bankruptcies versus "Chapter 11" court-based formal bankruptcy process[1]

COMPANY EMERGES FROM BANKRUPTCY

- Fund capital expenditures necessary for future profitability
- Optimise capital structure for return to profitability
- Implement business model for return to profitability

EXIT INVESTMENTS

- Company returns to profitability and creates value for equity
- Sale of the company to a strategic buyer
- Effect a dividend recapitalisation
- Liquidate the company to recover the original investment

Further information on the Company's investment process can be found in the Company's most recent prospectuses which are available on the Company's website at www.nbddif.com under the "Investor Information" tab.

1 Negotiations can take place within bankruptcy or creditors can negotiate with the company to agree on a pre-packaged bankruptcy whereby the plan of reorganisation is negotiated before the company files for bankruptcy protection (this has become more common).

Distributions to Shareholders

Income

In order to benefit from an exception to the United Kingdom ("UK") offshore fund rules, all income from the Company's Portfolio (after deduction of reasonable expenses) must be paid to investors. To meet this requirement the Company will pay out by way of dividend, 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 from the Portfolios will be material and therefore any income distributions by way of dividend will be on an ad-hoc basis. However, the Company monitors the need to distribute such income annually (less allowable expenses under the NMPI rules) in order to continue to be excluded from the FCA's restrictions which apply to non-mainstream investment products. The exact amount of such income distribution by way of 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 paid in accordance with applicable law at the relevant time, including the Companies (Guernsey) Law, 2008 (as amended) (the "Law") and, in particular, will be subject to the Company passing the solvency test contained in the Law at the relevant time. The amount of income distributions by way of dividend paid in respect of one class of shares may be different from that of another class.

Capital

Following the expiry of the Portfolios' investment periods, the capital proceeds attributable to the corresponding share class as determined by the Directors and in accordance with the articles of incorporation (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.

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

Towards the end of the Portfolios' respective harvest periods, a residual amount will be retained in accordance with regulatory requirements until such time as the relevant share class may be liquidated or its assets otherwise disposed of at the discretion of the Board.

Gearing

The Company will not employ leverage or gearing for investment purposes. The Company may, from time to time, use borrowings for share buybacks 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.

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 Portfolios. In addition from time to time the Company may also invest in such derivatives for investment purposes.

Financial Highlights

Key Figures

AT 31 DECEMBER 2017 (US Dollars in millions, except per share data)	**ORDINARY SHARE CLASS**	**EXTENDED LIFE SHARE CLASS**	**NEW GLOBAL SHARE CLASS**	**AGGREGATED**
Net Asset Value ("NAV")	29.7	180.0	123.0	332.7
NAV per Share ($)	1.1096	1.0387	1.2458	–
Share Price ($)	1.0400	0.8800	1.0619[1]	–
NAV per Share (£)	–	–	0.9210	–
Share Price (£)	–	–	0.7850	–
Premium /(Discount) to NAV per Share	(6.27%)	(15.28%)	(14.76%)	–
Investments	27.5	169.9	117.4	314.8
– Portfolio of Distressed Investments	27.5	169.9	117.4	314.8
– Temporary Investments	–	–	–	–
Cash and Cash Equivalents	1.6	10.5	11.7	23.8
Total Expense Ratio[2]	2.06%	2.03%	1.97%	–
Ongoing Charges[3]	2.06%	2.05%	1.93%	–

AT 31 DECEMBER 2016 (US Dollars in millions, except per share data)	**ORDINARY SHARE CLASS**	**EXTENDED LIFE SHARE CLASS**	**NEW GLOBAL SHARE CLASS**	**AGGREGATED**
Net Asset Value ("NAV")	37.3	216.6	117.0	370.9
NAV per Share ($)	1.0583	1.0035	1.1637	–
Share Price ($)	1.0250	0.9425	0.9823[1]	–
NAV per Share (£)	–	–	0.9417	–
Share Price (£)	–	–	0.7950	–
Premium /(Discount) to NAV per Share	(3.15%)	(6.08%)	(15.59%)	
Investments	29.2	194.2	107.3	330.7
– Portfolio of Distressed Investments	29.2	186.2	107.3	322.7
– Temporary Investments	–	8.0	–	8.0
Cash and Cash Equivalents	7.0	17.5	14.1	38.6
Total Expense Ratio ("TER")[2]	2.10%	2.22%	2.55%	–
Ongoing Charges[3]	1.99%	2.02%	2.13%	–

1 Stated in US Dollars, the £ price as at 31 December 2017 and 31 December 2016 converted to US Dollars using respective year end exchange rates.

2 The TERs represent the Company's management fees and all other operating expenses, as required by US Generally Accepted Accounting Principles ("US GAAP"), expressed as a percentage of average net assets.

3 The Ongoing Charges represent the Company's management fees and all other operating expenses, excluding finance costs payable, expressed as a percentage of average net assets and calculated in accordance with guidance issued by the AIC

Summary of Value in Excess of Original Capital Invested

AT 31 DECEMBER 2017 (millions)	ORDINARY SHARE CLASS ($)	EXTENDED LIFE SHARE CLASS ($)	NEW GLOBAL SHARE CLASS (£)
Original Capital Invested	(124,500,202)	(359,359,794)	(110,785,785)
Total Capital Distributions	117,893,451	182,164,124	–
Total Income Distributions[1]	3,166,835	11,823,595	2,080,643
Total Buybacks	–	7,082,632	8,476,665
NAV	29,641,938	180,009,723	90,930,929
Total of NAV Plus Capital and Income Returned ("Value")	150,702,224	381,080,075	101,488,237
Value in Excess of Original Capital Invested	26,202,022	21,720,281	(9,297,548)
Value as % of Original Capital Invested	121%	106%	92%

AT 31 DECEMBER 2016 (millions)	ORDINARY SHARE CLASS ($)	EXTENDED LIFE SHARE CLASS ($)	NEW GLOBAL SHARE CLASS (£)
Original Capital Invested	(124,500,202)	(359,359,794)	(110,785,785)
Total Capital Distributions	108,409,530	140,446,351	–
Total Income Distributions[1]	2,792,833	7,576,080	1,034,875
Total Buybacks	–	5,346,322	7,035,800
NAV	37,271,106	216,628,260	94,715,465
Total of NAV Plus Capital and Income Returned ("Value")	148,473,469	369,997,013	102,786,140
Value in Excess of Original Capital Invested	23,973,267	10,637,219	(7,999,645)
Value as % of Original Capital Invested	119%	103%	93%

Summary of Distributions Paid Since Inception

AT 31 DECEMBER 2017 (US Dollars in millions)	ORDINARY SHARE CLASS	EXTENDED LIFE SHARE CLASS	NEW GLOBAL SHARE CLASS	AGGREGATED
Total Capital Distributions	117.9	182.2	–	300.1
Total Income Distributions[1]	3.2	11.8	2.8	17.8
Distributions as % of Original Capital	97%	54%	2%	–

AT 31 DECEMBER 2016 (US Dollars in millions)	ORDINARY SHARE CLASS	EXTENDED LIFE SHARE CLASS	NEW GLOBAL SHARE CLASS	AGGREGATED
Total Capital Distributions	108.4	140.40	–	248.8
Total Income Distributions[1]	2.8	7.6	1.3	11.7
Distributions as % of Original Capital	89%	41%	1%	–

A detailed breakdown of the Company's distributions is provided on the Company's website at www.nbddif.com under "Investor Information", "Capital Activity".

1 By way of dividend.

Chairman's Statement

Dear Shareholder,

2017 saw an eventful political and economical environment in the United States, UK and Continental Europe. The distressed debt market continued to be resilient against this macroeconomic backdrop as a result of improving credits and a recovery in the energy and commodity sectors. On 31 March 2017, NBDG became the last of the existing share classes in issue to enter its harvest period. As ever we will be seeking to strike the right balance between the speed of exit and realisation of value.

Portfolios and Company Performance

The performance of the NBDD, NBDX and NBDG portfolios (together the "Portfolios") is set out in detail in the Investment Manager's Report but it is worth noting some high-level points here.

The Investment Manager is now focused on maximising the value of the Portfolios and returning capital to shareholders. Shareholders should note that towards the end of the Portfolios' respective harvest periods, a residual amount will be retained in accordance with regulatory requirements until such time that all assets in that Portfolio can be liquidated and returned to shareholders. That said, I would note that the Board continually reviews both the most appropriate means for returning of capital to shareholders and the very structure of the Company to maximise the benefit to shareholders. In addition, I would highlight that the Company's corporate umbrella has an indefinite life and as such it does have the flexibility to add new share classes in the future subject to identifiable demand, market opportunities and shareholder approval although there are no plans to do so at the current time.

No doubt shareholders will be concerned about the impact of costs on a reducing portfolio during the harvest period but it must be borne in mind that this is far from a passive exercise and that in many instances assets will require intense management activity if their full potential is to be realised. Having said that, your Board will be continuing to monitor all costs to ensure that they are appropriate. This has included establishing a methodology whereby the Board's own remuneration reduces as share classes close down further details of which can be found in the Remuneration Report on pages 59 to 61.

$121.1m

NBDD INVESTORS' ORIGINAL CAPITAL RETURNED

NBDD had returned $121.1m or 97% of investors' original capital of $124.5m by the end of the year. This, when added to the net asset value ("NAV") of $29.6m, brings the ratio of total value to 121% of original capital invested. The adjusted NBDD net asset value per share ("NAVPS") increased by 6.2% during the year. At the same time, the discount to NAV varied from a low of 2.1% to a high of 9.5% with an average discount over the year of 5.3%. Available cash which is net of cash held in subsidiaries and payables ("available cash") totalled $0.3m as at 31 December 2017; fuller details on a share class basis are set out in the Investment Manager's Report. Although the actual time and realisation values are uncertain, based on our current analysis we expect to make distributions to investors throughout 2018 and 2019 and any remainder in 2020.

$194m

NBDX INVESTORS' ORIGINAL CAPITAL RETURNED

NBDX had returned $194m or 54% of investors' original capital of $359.4m by the end of the year. This, when added to the NAV of $180m and buybacks of $1.7m brings the ratio of total value to 106% of original capital invested. The NBDX NAVPS increased by 5.9% during the year. The accretion in NAVPS as a result of the buybacks in the year amounted to 0.110%. Available cash totalled $3.7m as at 31 December 2017. As with the NBDD share class, whilst the actual timings and values of realisation are uncertain, based on the current analysis we anticipate making distributions through to 2020.

Although NBDG is yet to return capital to investors through capital distributions, the NBDG Share Class had returned £8.5m through buybacks by the end of the year and £2.1m through an income distribution by way of dividend. The NBDG NAVPS had decreased by 1.0% during the year. On 18 May 2017 the Board cancelled the 12,052,000 NBDG shares held in Treasury, of which 10,210,000 were purchased in prior years, as the share class entered its harvest period. The accretion in NAVPS as a result of the buybacks in the period amounted to 0.297%. Available cash for NBDG totalled $1.7m as at 31 December 2017.

The balance between capital distributions and buybacks is a delicate one and our policy is to try to control the share price discount to NAV in a way that is accretive to those shareholders who do not wish to sell.

Your Board believes that the Investment Manager is continuing to make good progress in restructuring and realising the assets in the Portfolios.

Enhancement of Shareholder Communications

As reported in our Interim Report, we have made further enhancements to our disclosures. Additional clarification in relation to available cash and details of partial realisations are detailed within this report and the quarterly factsheets. The definition of a partial realisation can be found on page 13 within the Investment Manager's Report.

I was pleased to have the opportunity to engage directly with certain shareholders during the past year and will continue to welcome questions and constructive debate.

Annual General Meeting ("AGM") Results

A number of shareholders expressed concerns, through voting at the 2017 AGM, about the composition of the Board and Directors' independence. For the reasons outlined in the "Board Independence and Composition" section on page 45 of this report the Board maintains the view that both Christopher Sherwell and I are independent Directors of the Company. The Board also believes that Michael Holmberg brings a significant amount of experience and expertise to the Board; however as a non-independent Director, Mr Holmberg does not sit on the Audit Committee, Management Engagement Committee or Remuneration Committee and is not involved in any matters discussed by the Board concerning the evaluation of the performance of the Investment Manager.

Both I and our brokers have discussed the perceived and alleged lack of independence of Christopher Sherwell and myself with a number of major shareholders who have confirmed their support for our view. It is my intention that such consultation will continue.

At last year's AGM the Board also observed notable proxy votes cast against or withheld in connection with the re-appointment of the Company's auditors, KPMG Channel Islands Limited. For the reasons outlined in the "Appointment and Independence" section of the Audit Committee Report on page 54, the Board, on the advice of the Audit Committee, is satisfied with the auditor's independence. I would further note that the Company has voluntarily amended its policy on non-audit services to comply with certain provisions of the Financial Reporting Council's ("FRC") Revised Ethical Standards 2016 (the "Ethical Standard") as it relates to E.U. Public Interest Entities ("PIEs"). This provides, amongst other things, that non-audit fees will be subject to a cap of 70% of the average of the audit fees in the last three consecutive financial years. This policy was applied from the Company's financial year ended 31 December 2017 and therefore the threshold will be calculated on a three year look back from the financial year ending 31 December 2020 in accordance with the Ethical Standard.

Board Composition

In terms of composition, the Board was refreshed in 2015 and early 2016 with the addition of Sarah Evans and Stephen Vakil respectively. As the Portfolios have entered into their harvest periods and the long-term outlook for the Company (as an umbrella structure) is unknown, the Board believes it is in the best interests of shareholders at this point in time for the Company to retain its current composition in respect of the long standing directors. Whilst we acknowledge that some market participants believe that directors should not be considered independent after nine years of service, we do not, at this current time, plan to replenish the Board save for appointing directors, as required, to fill a vacant position. It is very sad that Sarah Evans had to step down as a director and Chairman of the Audit Committee on 18 January 2018 for health reasons. I would like to take this opportunity to thank her for her outstanding contribution to the Company and wish her well for the future. In the intervening period, Christopher Sherwell kindly stepped in and was appointed the Audit Committee Chairman on an interim basis while I temporarily re-joined the Audit Committee following my departure from that committee and Stephen Vakil was appointed the Chairman of the Remuneration Committee. We were delighted to announce on 12 April 2018 that Christopher Legge was appointed a director of the Company and, following a period of induction and immediately after the approval of this Annual Report, Christopher will take over as Chairman of the Audit Committee and be appointed to the Remuneration Committee, Inside Information Committee and Management Engagement Committee. Whilst this means that we currently have no female members on our board we maintain our belief in the value and importance of diversity in the boardroom. The Board considered during the recruitment process that the balance of business skills and experience was an important aspect of diversity given that the candidate appointed would fill the role of Chairman of the Audit Committee.

Chairman's Statement (continued)

Outlook

Now that the Portfolios have completed their respective investment periods, the Investment Manager's main objective is to maximise the value of the Portfolios and return capital to shareholders. In that context, I am pleased to report that the company has been advised that one of its significant debt investments owned across all funds will be repaid in the near future resulting in the receipt of cash substantially equal to the current fair market value of that asset. It represents approximately 11% of the current NBDD portfolio and 5% for both NBDX and NBDG. Upon receipt your board will consider what distributions should be made. I would like to thank all our longstanding shareholders for your confidence in our Company and I look forward to updating you further in the Interim Report that will be issued at the end of the summer as the Investment Manager continues to make progress in restructuring and realising the assets in the Portfolios.

John Hallam

Chairman

17 April 2018

Investment Manager's Report

Enhancement of Shareholder Information

During the year, the Investment Manager disclosed to investors the range of gross realisable value achievable from the existing investments at 31 December 2017, based on scenario analysis encompassing economic, industry and issuer specific data. The Investment Manager estimated a range of gross realisable values under a low, base and upside scenarios for each investment and calculated a range for the value of the portfolio as well as an estimate of distributions over the remaining life of each share class.

As reported in the Interim Report, to aid investors' understanding of the Portfolios' development and underlying value, if any of the Portfolio's investments experience a partial realisation it is reported in the factsheet section entitled "Partial Realisations". A partial realisation will have occurred, among other reasons, if (i) a distribution is received that represents 75% of the cost basis of the investment at the time of the distribution; (ii) cumulative distributions received are greater than the original cost basis of the investment; (iii) a sale of the underlying asset has occurred or (iv) a debt tranche has been refinanced. These partial realisations will not be full investment exits because residual value remains unrealised and/or undistributed due to various escrows or holdbacks on the sales proceeds or remaining tranches of debt/equity remain. Internal Rate of Return ("IRRs") and Rate of Return ("ROR") are likely to be different at the time of the final exit.

Additionally, there is more detail presented on "Notable Corporate Events" in the quarterly factsheets. Notable corporate events may or may not result in an increase or decrease in the value of an investment or a change in net assets value per share ("NAVPS"). Please note that an investment may experience a change in value (positive or negative) during the quarter whether or not it was subject to a notable corporate event. Not all events involving existing investments are disclosed. In addition, certain corporate events may not have been disclosed due to confidentiality obligations.

Lastly, starting with Q3 2017 factsheets, the Investment Manager has been providing detailed information regarding individual investments in the sectors for each share class, starting with the highest exposure and working our way down the other sectors according to size. NBDD has detailed the lodging & casinos and utility sectors, NBDX and NBDG detailed lodging & casinos and shipping sectors in Q3 2017 and Q4 2017 factsheets to provide detailed information on remaining investments in the Portfolios.

Ordinary Share Class

Summary

The NAVPS, adjusted for the income distribution by way of dividend declared in November 2017, increased 6.2% in 2017 primarily from an increase in value due to a merger between two packaging companies in which NBDD owned private equity interests. The Investment Manager's belief that the underlying value of the fund's investments will be realised via liquidity events (i.e. sale to a strategic buyer, refinancing or Initial Public Offering ("IPO")) was evidenced during the year as detailed in the notable events section below.

NBDD had five exits and four partial realisations in the year. The exits, described in more detail below, had a total return of $5.9m. The total return for the 2017 partial realisations, also described in more detail below, was $10.4m as at 31 December 2017. Net cash generated from portfolio activities during the year was $5.2m with $3.1m generated from distributions from exits, $3.3m from repayments on bank debt investments and a dividend, and ($1.2m) from a follow-on investment in the second lien convertible debt of an auto components company to protect against dilution. Capital distributions of $9.5m were paid to investors by way of share redemption during 2017 and an income distribution by way of dividend of $0.4m was declared in November 2017 and paid in January 2018. This brings total distributions (capital and an income distribution by way of dividend) paid and approved since inception, $121.1m or 97% of investors' original capital, since the realisation phase for this share class. The ratio of total value (capital distributions, an income distribution by way of dividend and current NAV) to original capital was steady at 121%.

$121.1m
NBDD TOTAL APPROVED DISTRIBUTIONS TO DATE

6.2%
NBDD ADJ. NAVPS INCREASE

Investment Manager's Report (continued)

Ordinary Share Class (continued)

Portfolio Update

CASH ANALYSIS

Balance Sheet – Cash	$1.6m
Cash held in wholly-owned subsidiary accounts	($0.8m)
Cash held for capital distribution payable	($0.4m)
Other payables	($0.1m)
Total available cash	**$0.3m**

NBDD ended 2017 with NAVPS of $1.1236 (after adjusting for an income distribution by way of dividend) of $0.3m or $0.014 per share compared with $1.0583 at the end of December 2016. At 31 December 2017, 6% of NAV ($1.6m) was held in cash and cash equivalents on the balance sheet. 3% of NAV ($0.8m) was held in wholly-owned subsidiary accounts which cannot be distributed at this time and 1% of NAV ($0.3m) is available cash net of payables (see table above).

Unrealised gains in the private equity of two packaging companies, the secured debt of an Australian utility company, and private notes of an auto components company were offset by unrealised losses in the now public equity of Five Point Holdings, a California ("CA") land bank developer of master planned communities, as compared to the beginning of 2017 pre IPO market value and private equity of a power plant company. The portfolio consists of 17 issuers across 11 sectors. The largest sector concentrations were in the lodging & casinos, utilities, building & development, and surface transportation sectors.

Notable events below describe activity in the investments during 2017:

- A packaging and container company announced that it was purchasing another complementary packaging and container company and was completing a recapitalisation to refinance existing debt, provide cash for the acquisition and pay a dividend to shareholders. NBDD owned private equity in both the purchaser and target companies. For NBDD's interest in the target company, NBDD received cash and newly created shares in the combined company. The transaction closed in early July. Combined year to date ("YTD") total return on the two investments was $3.8m. Cash received from this transaction of $2.6m was used to fund distributions to shareholders.
- Five Point Holdings, a building and development company announced and completed an IPO during the year. The IPO priced at $14.00 per share and ended the year at $14.10 per share. The IPO allowed the company to raise capital for growth and development in its highly desirable land portfolio and gave investors more liquidity in its shares. The company also raised debt financing in the fourth quarter to fund capital expenditures related to developing three master planned communities in California. The company is making progress with environmental issues at Newhall Ranch and the company broke ground at that development this year.
- NBDD participated in an add-on financing to a second lien convertible debt position in an auto components company to protect against post-conversion equity dilution. Proceeds from the transaction will be used to increase capacity and improve operational efficiency at certain plants. The company's financial and operational performance has been improving since it emerged from bankruptcy protection in 2015 and continues to perform well. We believe it is well positioned to take market share from its two primary competitors with this additional capital.
- A lodging & casinos investment, which comprises a potential development site, received an offer during the year; but the buyer was unable to transfer cash from China to complete the transaction. The owners recently received an unsolicited bid for the land at approximately the same price and negotiations have commenced to close the sale.
- The price of the secured debt of an Australian wind farm company rose during the first half of 2017 as local power prices and the company's operating performance improved. The company also raised additional equity to fund new projects and increase balance sheet flexibility, potentially to facilitate a global refinancing of its debt facilities.

Significant Price Movement (approximately 1% of NBDD NAV or $300,000)

INDUSTRY	INSTRUMENT	TOTAL RETURN[1] (US DOLLARS MILLIONS)	COMMENT
Containers & Packaging	Private Equity	3.1	Purchased company, completed recapitalisation and paid dividend
Utilities	Bank debt	0.8	Company's performance improving
Containers & Packaging	Private Equity	0.7	Purchased by competitor
Auto Components	Private Notes	0.4	Operations improving with capex
Building & Development	Public Equity	(0.5)	Lack of float and long lead time for development
Utilities	Private Equity	(0.8)	Plant outages affected performance

1 For the period 1 January 2017 to 31 December 2017

Exits

During the year, we saw five exits, which generated a total return of $5.9m. This brings the total number of exits since inception in NBDD to 39, with total return of $37.9m. Detailed descriptions of the exits are at the end of the report.

Partial Realisations

As reported in the Chairman's Statement, partial realisations are reported on an ongoing basis. These partial realisations generated a total return of $10.4m. Detailed descriptions of the partial realisations are at the end of the report.

Distributions

Capital distributions of $9.5m were paid to investors by way of share redemption during 2017 and an income distribution by way of dividend of $0.4m was declared in November 2017 and paid in January 2018. This brings total distributions (capital and an income distribution by way of dividend) paid and approved to date to $121.1m, or 97% of investors' original capital, since the realisation phase for this share class.

Extended Life Share Class

Summary

The NAVPS adjusted for the income distribution by way of dividend declared in November 2017 increased 5.9% in 2017 primarily from an increase in value due to a merger between the two packaging companies referred to earlier in which NBDX also owned private equity interests. As with NBDD, the Investment Manager's belief that the underlying value of the fund's investments will be realised via liquidity events (i.e. sale to a strategic buyer, refinancing or IPO) was evidenced during the year as detailed in the notable events section below.

$194m
NBDX TOTAL APPROVED DISTRIBUTIONS TO DATE

5.9%
NBDX NAVPS INCREASE

NBDX had six exits and five partial realisations in the period. The exits, described in more detail below, had a total return of $17.4m. The total return for the 2017 partial realisations, also described in more detail below, was $34.5m. Net cash generated from portfolio activity during the year was $31.7m. NBDX received $8.9m cash from exit investments, $18.1m cash from partial realisations and $6.8m from repayments on secured bank debt and dividends, ($2.1m) from follow-on investments in the second lien convertible debt of an auto components company to protect against dilution and senior bank debt to fund litigation in a Spanish surface transportation investment. Capital distributions of $41.8m were paid to investors by way of share redemption during the year 2017 and an income distribution by way of dividend of $4.25m was declared in November 2017 and paid in January 2018. This brings total distributions (capital and an income distribution by way of dividend) paid and approved since inception to $194m or 54% of original capital. The ratio of total value (capital distributions, an income distribution by way of dividend, buy-backs, and current NAV) to original capital increased to 106% based on an increase in NAV and cash generated during the year.

Investment Manager's Report (continued)

Extended Life Share Class (continued)

Portfolio Update

CASH ANALYSIS

Balance Sheet – Cash	$10.5m
Cash held in wholly-owned subsidiary accounts	($1.9m)
Cash held for capital distribution payable	($4.2m)
Other payables	($0.7m)
Total available cash	**$3.7m**

NBDX ended 31 December 2017 with NAVPS of $1.0632 compared to $1.0035 at the end of December 2016, after adjusting for an income distribution by way of dividend of $4.3m or $0.0245 per share). At 31 December 2017, 6% of NAV ($10.5m) was held in cash and cash equivalents on the balance sheet. 1% of NAV ($1.9m) was held in wholly-owned subsidiary accounts which cannot be distributed at this time, 2% of NAV ($4.2m) was held for the capital distribution payable and 2% of NAV ($3.7m) is available cash net of payables (see table above).

Unrealised gains in the private equity of two packaging companies, secured debt/private equity of a shipping company, private notes of an auto components company, and secured bank debt of an Australian utility were offset by a decline in secured debt and private equity of a domestic power producer. At the year end the portfolio consisted of 33 issuers across 14 sectors. The largest sector concentrations were in the lodging & casinos, shipping, utilities, and oil & gas sectors.

Notable events below describe activity in the investments during 2017:

- A packaging and container company announced that it was purchasing another complementary packaging and container company and was completing a recapitalisation to refinance existing debt, provide cash for the acquisition and pay a dividend to shareholders. NBDX owned private equity interests in both the purchaser and target company. For NBDX's interest in the target company, NBDX received cash and newly created shares in the combined company. The transaction closed in early July. YTD total return on the two investments was $9.6m. Cash from this transaction of $6.7m was used to fund distributions to shareholders.
- Five Point Holdings, a building and development company, announced and completed an IPO during the year. The IPO priced at $14.00 per share (lower than the beginning 2017 pre-IPO market value) and the share price ended the year at $14.10. The IPO allowed the company to raise capital for growth and development in its highly desirable land portfolio and gave investors more liquidity in its shares. The company also raised debt financing in the fourth quarter to fund capital expenditures related to developing three master planned communities in California. The company is making progress with environmental issues at Newhall Ranch and the company broke ground at that development this year.
- NBDX participated in an add-on financing to a second lien convertible debt position in an auto components company to protect against post-conversion equity dilution. Proceeds from the transaction will be used to increase capacity and improve operational efficiency at certain plants. The company's financial and operational performance has been improving since it emerged from bankruptcy protection in 2015 and continues to perform well. We believe it is well positioned to take market share from its two primary competitors with this additional capital.
- A lodging & casinos investment, which comprises a potential development site, received an offer during the year, but the buyer was unable to transfer cash from China to complete the transaction. The owners recently received an unsolicited bid for the land at approximately the same price and negotiations have commenced to close the sale.
- The price of the secured debt of an Australian wind farm company rose during the year as local power prices and the company's operating performance improved. The company also raised additional equity to fund new projects and increase balance sheet flexibility, potentially to facilitate a global refinancing of its debt facilities.
- Our investment in the secured debt of a mixed-use residential/retail property in receivership was repaid when the receiver presiding over the estate sold the retail portion of the property, which concluded the sale of the remaining real estate securing the loan. More detail is provided in the Partial Realisation section. The estate made a distribution to pay down the secured debt holders upon execution of the sale and NBDX's share was $11.1m.

Portfolio Update

- A power plant investment experienced operating issues resulting in a shut-down of the plant for 45 days during the year. These issues have been resolved and the plant has returned to operating as planned. Due to low energy prices, projected cash flow has not materialised as expected. The company is planning to file insurance claims to recoup losses from the shut-down.
- Eagle Bulk Shipping – The company completed a capital structure refinancing and corporate restructuring. The deal refinanced a credit facility put in place as part of the company emergence from bankruptcy in 2014 as well as a high cost second lien payment-in-kind ("PIK") loan. The deal will lower interest expense and facilitate management's strategy of selectively adding new assets at attractive prices.
- Vistra – The company announced it was acquiring Dynegy. The deal allows the company to diversify into new markets, generate substantial synergies, and utilise its under-levered balance sheet.
- Nonferrous Metals/Minerals investment – The company's sale to a Chinese buyer was mutually terminated by both parties due to concerns raised by the Committee on Foreign Investment in the United States (CFIUS). The price of the private equity declined after the announcement. However, since the termination of the sale to the Chinese buyer, multiple parties have indicated an interest in purchasing the company.

Significant Price Movements (approximately 1% of NBDX NAV or $1,800,000)

INDUSTRY	INSTRUMENT	TOTAL RETURN[1] (US DOLLARS MILLIONS)	COMMENT
Containers & Packaging	Private Equity	7.9	Purchased company completed recapitalisation and paid dividend
Shipping	Bank Debt Investments	3.0	Charter rates increasing and vessel values rising
Auto Components	Private Notes	2.7	Operations improving with capex
Utilities	Bank Debt Investments	2.1	Company's performance improving
Utilities	Private Notes and Equity	(2.0)	Plant outage affected performance

1 For the period 1 January 2017 to 31 December 2017.

Exits

During the year, we saw six exits for NBDX which generated a total return of $17.6m. This brings the total number of exits since inception in NBDX to 47 with total return of $104.1m. Detailed descriptions of the exits are at the end of the report.

Partial Realisations

The partial realisations generated a net gain of $34.6m over the life of the fund. Detailed descriptions of the partial realisations are at the end of the report.

Distributions

During the year, the Board approved capital distributions of $41.8m paid by way of redemption. The Board declared an income distribution by way of dividend of $4.25m or $0.0245 per share which was paid in January 2018, bringing the amount approved/distributed to shareholders (capital and an income distribution by way of dividend) since inception to $194m (or 54% of original capital). The ratio of total value (capital distributions approved and paid an income distribution by way of dividend, buybacks, and current NAV) to original capital increased to 106% based on gains in NAV and cash generated during the period.

Share Buybacks

During the year ended 31 December 2017, NBDX purchased 1.9m of its own shares under the buyback programme at a cost of $1.8m and weighted average discount to NAVPS of 10.9%. The shares have been cancelled. Buybacks have continued in 2018 and full details are set out in Note 5.

Investment Manager's Report (continued)

New Global Share Class

Summary

On 31 March 2017 the portfolio entered its harvest period. We believe value in portfolio will be realised upon exiting each investment after a liquidity event (i.e. sale, refinancing, IPO) and we are committed to returning capital to investors as we exit investments. The NAVPS adjusted for an income distribution by way of dividend of £1.0m or £0.0106 per share – declined 1.0% in the year with a majority of the decline due to adverse movement in foreign exchange ("FX") rates. US Dollar denominated investments currently represent 74% of NAV. There were four exits during the period described in more detail below with a total return of £3.4m.

No net cash was generated from portfolio activities during the year as NBDG was in the investment period during part of the year. NBDG received £3.8m cash from exits, £4.2m repayments on secured bank debt and a dividend which was offset by NBDG purchase of £8.0m investments. These comprised secured bank debt in a Spanish hotel for £5.4m a follow-on investment of £0.3m in the second lien convertible debt of an auto components company to protect against dilution and a follow-on investment of £0.3m for a surface transportation investment to fund litigation. NBDG declared an income distribution by way of dividend in November 2017 of £1.0m which was paid in January 2018. This brings total income distribution by way of dividend to £2.1m.

NBDG ended the year with NAVPS of 93.16p after adjustment for an income distribution by way of dividend compared to 94.17p at 2016 year end, a decline of 1.1%. The majority of the decline was due to the appreciation of Sterling against the US Dollar, which has continued in 2018. Other contributing factors include an increase in the value of private equity of an eastern US lodging & casinos investment offset by a decline in Eagle Bulk Shipping public equity, and a decline in the now public equity of Five Point Holdings as compared to beginning 2017 pre-IPO market value.

CASH ANALYSIS

Balance Sheet – Cash	$11.7m
Cash held in wholly-owned subsidiary accounts	($0.6m)
Trade payables on unsettled purchases	($7.5m)
Other payables	($1.8m)
Total available cash	**$1.8m**

At 31 December 2017 10% of NAV ($11.7m) was held in cash on the balance sheet. 0.5% of NAV ($0.6m) was held in wholly-owned subsidiaries which cannot be distributed at this time and 6% of NAV ($7.5m) recorded for trade payables on unsettled purchases. 1% of NAV ($1.8m) is available cash net of payables (see table above).

The portfolio at year end consisted of 25 issuers across 11 sectors. The largest sector concentrations include lodging & casinos, shipping, utilities, oil & gas, and nonferrous metals/minerals.

Notable events involving NBDG's investments during 2017 are below:

- The bid price of the private equity of a lodging & casinos investment rose 31% during the year on conjecture of a corporate transaction for the property.
- Five Point Holdings announced and completed an IPO during the year. The IPO priced at $14.00 per share and the share price ended the year at $14.10. The IPO allowed the company to raise capital for growth and development in its highly desirable land portfolio and gives investors more liquidity in its shares. The company also raised debt financing in the fourth quarter to fund capital expenditures related to developing three master planned communities in California. The company is making progress with environmental issues at Newhall Ranch and the company broke ground at that development this year.
- NBDG participated in an add-on financing to a second lien convertible debt position in an auto components company to protect against post-conversion equity dilution. Proceeds from the transaction will be used to increase capacity and improve operational efficiency at certain plants. The company's financial and operational performance has been improving since it emerged from bankruptcy protection in 2015 and continues to perform well. We believe it is well positioned to take market share from its two primary competitors with this additional capital.

- A lodging & casinos investment, which comprises a potential development site, received an offer during the year, but the buyer was unable to transfer cash from China to complete the transaction. The owners recently received an unsolicited bid for the land at approximately the same price and negotiations have commenced to close the sale.
- The price of the secured debt of an Australian wind farm company rose during the year as local power prices and the company's operating performance improved. The company also raised additional equity to fund new projects and increase balance sheet flexibility, potentially to facilitate a global refinancing of its debt facilities.
- Eagle Bulk Shipping – The company completed a capital structure refinancing and corporate restructuring. The deal refinanced a credit facility put in place as part of the company emergence from bankruptcy in 2014 as well as a high cost second lien PIK loan. The deal will lower interest expense and facilitate management's strategy of selectively adding new assets at attractive prices.
- Nonferrous Metals/Minerals investment – The company's sale to a Chinese buyer was terminated by both parties due to concerns raised by the Committee on Foreign Investment in the United States (CFIUS). The price of the private equity declined after the announcement. However, since the termination of the sale to the Chinese buyer, multiple parties have indicated an interest in purchasing the company.
- The bid price of the private equity of a lodging & casinos investment rose 31% during the year on conjecture of a corporate transaction for the property.

Significant Price Movements (approximately 1% of NBDG NAV or £900,000)

INDUSTRY	INSTRUMENT	TOTAL RETURN[1] (GBP MILLIONS)	COMMENT
Lodging & Casinos	Private Equity	1.7	Rumours of corporate transaction
Lodging & Casinos	Bank Debt Investments	0.9	Operational improvements at properties
Nonferrous Metals	Private Equity	(1.1)	Sale of company mutually terminated due to regulatory issues
Shipping	Public Equity	(1.2)	Operations improving, with low float and lack of interest in equity
Building & Development	Public Equity	(1.2)	Lack of float and long lead time for development

1 For the period 1 January 2017 to 31 December 2017.

Exits

During the year, we saw four exits which generated a total return of £3.4m. This brought the total number of exits since inception to 12 with a total return of £5.8m. Detailed descriptions of the 2017 exits are at the end of the report.

Partial Realisations

There were no partial realisations for NBDG as at 31 December 2017.

Distributions

NBDG declared an income distribution by way of dividend in November 2017 of £1.0m and was paid in January 2018. This brings a total income distribution by way of dividend to £2.1m.

Share Buybacks

During the year ended 31 December 2017, NBDG purchased 1.84m shares under the buyback programme at a cost of £1.4m and weighted average discount of (16.67%). The shares have been cancelled. Buybacks have continued in 2018 and full details are set out in Note 5.

Investment Manager's Report (continued)

Summary of Exits across all Share

The total exits during the year can be summarised as follows:

- NBDD – Five exits
- NBDX – Six exits
- NBDG – Four exits

The annualised internal rate of return ("IRR") is computed based on the actual dates of the cash flows of the security (purchases, sales, interest and principal pay downs), calculated in the base currency of each portfolio. The Rate of Return ("ROR") represents the change in value of the security (capital appreciation, depreciation and income) as a percentage of the purchase amount. The purchase amount can include multiple purchases.

Summary Table of Exits across all Share Classes

2017 EXITS	NBDD EXIT NUMBER	NBDX EXIT NUMBER	NBDG EXIT NUMBER	INDUSTRY	INSTRUMENT	CASH INVESTED (US DOLLARS MILLIONS)	CASH RECEIVED (US DOLLARS MILLIONS)
A	–	–	9	Oil & Gas	Bank Debt Investments	3.1	3.5
B	35	42	–	Real Estate Development	Private Equity	5.4	7.2
C	36	43	10	Utilities	Private Equity	22.8	23.6
D	37	44	11	Utilities	Private Equity	25.5	33.4
E	–	45	12	Air Transport	Private Equity	2.4	4.1
F	38	46	–	Real Estate Development	Private Equity	23.5	33.1
G	39	47	–	Commercial Mortgage	Bank Debt Investments	4.3	6.7

Exit A (Exit 9 for NBDG)

NBDG invested £2.1m in the bank debt of one of the world's leading suppliers of marine fuels and related bunkering services, secured by accounts receivable and cash in collection accounts. At the time of NBDG's purchase, the company was in bankruptcy. Full collection of receivables was uncertain as certain customers were not paying invoices due to the bankruptcy. Resolution of various lawsuits in favour of the company/secured lenders led to an increase in the value of the estate and future distributions. NBDG sold the position in the secondary market for £2.8m resulting in a total return of £0.7m. IRR was 31% and ROR was 33% over the 19-month holding period.

EXIT A	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDG	9	£2.10	£2.80	£0.70	31%	33%	19

Exit B (Exit 35 for NBDD and Exit 42 for NBDX)

NBDD and NBDX invested $5.4m to purchase a senior construction loan secured by 99 condominium units located just south of Downtown Chicago, Illinois. The lender group executed a deed-in-lieu with the borrower and took possession of the underlying collateral. The group engaged a nationally recognised real estate firm to act as asset manager and broker for the remaining units, invested additional capital to complete the units and common areas, and rebranded the property. The remaining units were sold with proceeds being used to return capital and profits to the lenders. Cash received on this investment was $7.2m with total return on the investment of $1.8m over 68 months. IRR was 10% and ROR was 34%.

Exit B	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	35	$1.50	$2.00	$0.50	10%	34%	68
NBDX	42	$3.90	$5.20	$1.30	10%	34%	68

Exit C (Exit 36 for NBDD, 43 for NBDX and 10 for NBDG)

All Portfolios invested in the secured bank debt of a US independent power producer with assets across the US and NBDX and NBDG purchased private reorganised equity. Due to historically low natural gas prices, the company experienced depressed cash flows that forced it to file a pre-packaged plan of reorganisation, which exchanged secured bank debt into private equity. Eighteen months after the filing, the company announced a sale of substantially all of its assets to a US energy retailer. The transaction ultimately closed in February 2017 when the final disbursements from escrow were paid to equity holders. Continued low natural gas prices and resulting low power prices impacted the sale price for the company. Each fund had different investment returns over the life of the investment due to different acquisition costs and dates.

Exit C	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	36	$4.20	$4.10	$(0.10)	(1%)	(2%)	69
NBDX	43	$15.30	$16.60	$1.30	3%	9%	69
NBDG	10	£2.00	£2.10	£0.10	1%	4%	36

Exit D (Exit 37 for NBDD, Exit 44 for NBDX and Exit 11 for NBDG)

All Portfolios invested in the post-reorganised private equity of an eastern US combined cycle gas turbine power plant. At the time of the purchase, we believed that power prices in the market would improve and the plant would be sold at an attractive valuation above our purchase price. In August 2016, it was announced that the plant was being sold to a large, public, US independent power producer. The bulk of the transaction proceeds were paid in early 2016 while the final escrow release was received in Q1 2017. NBDG invested at a different date with a different investment period.

EXIT D	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	37	$5.60	$7.70	$2.10	8%	37%	75
NBDX	44	$14.60	$19.90	$5.30	8%	37%	75
NBDG	11	£3.50	£5.40	£1.90	22%	52%	36

Exit E (Exit 45 for NBDX and Exit 12 for NBDG)

NBDX, NBDG and other Neuberger Berman distressed debt funds collectively purchased a 50% interest of an existing joint venture in an aircraft financing company. Total invested capital across all Portfolios was $11.875m including $2.4m combined for NBDX and NBDG. We purchased the interest from a fund that sought to provide liquidity to its investors who needed to exit the investment. Our JV partner was one of the largest independent providers of aviation services globally and they acted as the servicer of the entity. At the time of our investment the joint venture owned eight 737-400s (vintage 1992-97). Six of the aircraft were sold on instalment sale to an independent Mid-Eastern airline and two were leased to airlines in South Eastern Asia. The planes on instalment sale were exited at various dates in accordance with the terms of the sale agreements. One of the leased aircraft was sold to the lessee. The remaining aircraft was sold following a lease termination due to payment default and repossession by the servicer.

Investment Manager's Report (continued)

Exit E (Exit 45 for NBDX and Exit 12 for NBDG) (continued)

EXIT E	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDX	45	$1.30	$2.20	$0.90	31%	75%	24
NBDG	12	£0.70	£1.40	£0.70	34%	106%	24

Exit F (Exit 38 for NBDD and Exit 46 for NBDX)

NBDD and NBDX purchased a senior construction loan secured by 237 condominium units and related parking spaces located south of Downtown Chicago, Illinois. The lender group executed a deed-in-lieu with the borrower and took possession of the underlying collateral. The group engaged a nationally recognised real estate firm to act as asset manager and broker for the remaining units, invested additional capital to complete the units and common areas, and rebranded the property. The remaining units were sold and the proceeds used to return capital and profits to the owners.

EXIT F	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	38	$6.30	$9.00	$2.70	10%	42%	80
NBDX	46	$17.20	$24.10	$6.90	10%	40%	80

Exit G (Exit 39 for NBDD and Exit 47 for NBDX)

NBDD and NBDX purchased $7.3m face value of a construction loan at 74.2% of par. The loan was secured by 225,000 square feet of retail space near Seattle, WA and had a personal guarantee by a trust controlled by the owner of the property. The borrower filed for Chapter 11 protection after lenders declared an event of default and elected to begin charging default interest. New terms were negotiated on the loan and we started receiving monthly contractual principal and interest payment post-restructuring. Eventually, leasing activity and occupancy at the property improved which enabled the borrower to secure new debt financing on the property. Ultimately, our loan was repaid at par one year prior to maturity through a combination of new debt and equity financing.

EXIT A	EXIT	CASH INVESTED (MILLIONS)	CASH RECEIVED (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	39	$1.20	$1.90	$0.70	11%	55%	55
NBDX	47	$3.10	$4.80	$1.70	11%	55%	55

Summary of Partial Realisations across all Share Classes

Partial realisations ("PR") is a new category for reporting purposes. All partial realisations currently in the portfolio are reported as at 31 December 2017 and it should be noted that their IRR and ROR are likely to be different at the time of the final exit. These were the following partial realisations:

- NBDD – Two pre-2017 partial realisations and two 2017 partial realisations.
- NBDX – Two pre-2017 partial realisations and three 2017 partial realisations.
- NBDG – No partial realisation.

TIMING	PR	NBDD PR NUMBER	NBDX PR NUMBER	NBDG PR NUMBER	INDUSTRY	INSTRUMENT	CASH INVESTED (US DOLLAR MILLIONS)	CASH RECEIVED (US DOLLAR MILLIONS)	VALUE OF RESIDUAL INVESTMENT (US DOLLAR MILLIONS)
Pre-2017	A	1	1	–	Real Estate Development	Private Equity	11.1	14.7	0.6
Pre-2017	B	2	2	–	Aircraft	Bank Debt Investments	4.7	8.1	0.6
2017	C	–	3	–	Commercial Mortgage	Private Equity	23.1	29.8	0.8
2017	D	3	4	–	Container & Packaging	Private Equity	7.1	9.6	1.5
2017	E	4	5	–	Container & Packaging	Private Equity	9.2	23.2	11.3

Partial Realisation A: (Partial Realisation 1 for NBDD and 1 for NBDX)

39% ROR as at 31 December 2017

11% IRR at 31 December 2017

NBDD and NBDX invested $10.0m to purchase a senior construction loan secured by 168 condominium units and related parking spaces located south of Downtown Chicago, Illinois. The lender group executed a deed-in-lieu with the borrower and took possession of the underlying collateral. The group engaged a nationally recognised real estate firm to act as asset manager and broker for the remaining units, invested $1.1m additional capital to complete the units and common areas, and rebranded the property. The remaining units were sold with proceeds being used to return capital and profits to the owners. Cash received to date is $14.7m and the current value of the remaining investment is $0.6m as at 31 December 2017. We expect to complete an exit once certain claims against the estate are resolved. The IRR was 11% and ROR was 39% as at 31 December 2017.

A	PR	EFFECTIVE PERIOD	CASH INVESTED (MILLIONS)	CASH RECEIVED TO DATE (MILLIONS)	VALUE OF RESIDUAL INVESTMENT (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	1	Pre-2017	$3.1	$4.1	$0.2	$1.2	11%	39%	84
NBDX	1	Pre-2017	$8.0	$10.6	$0.4	$3.1	11%	39%	84

Partial Realisation B: (Partial Realisation 2 for NBDD and 2 for NBDX)

82% ROR as at 31 December 2017

22% IRR as at 31 December 2017

NBDD and NBDX purchased $7.9m par value of senior notes, secured by a portfolio of nine aircraft leased to various operators. Eight of the nine aircraft were sold during 2016 with proceeds used to repay the notes. The remaining aircraft is currently leased and will be sold at the end of the lease period. Cash invested is $4.7m and cash received to date from coupon and principal repayments is $8.1m. The current value of the remaining interest in the final aircraft is $0.6m. To date, the total return on the investment is $3.9m over 55 months. The IRR was 22% and ROR was 82% as at 31 December 2017.

Investment Manager's Report (continued)

Partial Realisation B: (Partial Realisation 2 for NBDD and 2 for NBDX) (continued)

B	PR	EFFECTIVE PERIOD	CASH INVESTED (MILLIONS)	CASH RECEIVED TO DATE (MILLIONS)	VALUE OF RESIDUAL INVESTMENT (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	2	Pre-2017	$1.3	$2.3	$0.2	$1.1	22%	82%	55
NBDX	2	Pre-2017	$3.4	$5.8	$0.4	$2.8	22%	82%	55

Partial Realisation C: (Partial Realisation 3 for NBDX)

32% ROR as at 31 December 2017

10% IRR as at 31 December 2017

NBDX purchased a 32.5% interest in a holding company formed with a partner to purchase a senior construction loan that was secured by 107 residential condominiums and a 140,000 square feet mixed-use retail space in Greenwood Village, Colorado. The lenders successfully petitioned the court to install a nationally recognised real estate company to act as receiver, refurbish and complete the remaining condominiums for sale, rebrand and lead marketing of the residential units, and lead leasing efforts for the retail space. All of the condominiums and retail space were sold as at 30 June 2017. Certain reserves remain relating to warranties and other miscellaneous potential claims. Cash invested in the project is $23.1m and repayments on the loan to date are $29.8m over 53 months. The current value of the remaining investment is $0.8m. To date, the total return is $7.5m. Once certain reserves expire and any potential claims are resolved, we expect to exit this investment in full. The IRR was 10% and ROR was 32% as at 31 December 2017.

C	PR	EFFECTIVE PERIOD	CASH INVESTED (MILLIONS)	CASH RECEIVED TO DATE (MILLIONS)	VALUE OF RESIDUAL INVESTMENT (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDX	3	H12017	$23.1	$29.8	$0.8	$7.5	10%	33%	53

Partial Realisation D: (Partial Realisation 3 for NBDD and 4 for NBDX)

57% ROR as at 31 December 2017

30% IRR as at 31 December 2017

NBDD and NBDX invested $7.1m to purchase first lien secured bank debt with attached private equity of an international packaging company. The debt was repaid in full shortly after the purchase with the receipt of $5.8m and the fund retained the equity, receiving dividends of $1.3m during the holding period. During the second quarter the company's sale to a complementary packaging company was announced. NBDX and NBDD elected to receive sale proceeds in cash and newly created shares in the acquirer for a combined value of $4.0m. In the third quarter, the funds received $1.5m cash as part of the sale proceeds from the disposal completed at the end of Q2 2017 and $1.0m for partial redemption of new shares received in the acquirer. Also during the third quarter, the value of the private equity increased based on sales transactions. The current value of the private equity position is $1.5m generating total return $4.0m as of 31 December 2017. IRR was 30% and ROR was 57% with a holding period of 60 months at period-end.

D	PR	EFFECTIVE PERIOD	CASH INVESTED (MILLIONS)	CASH RECEIVED TO DATE (MILLIONS)	VALUE OF RESIDUAL INVESTMENT (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	3	H12017	$2.0	$2.7	$0.4	$1.1	30%	57%	60
NBDX	4	H12017	$5.1	$6.9	$1.1	$2.9	30%	57%	60

Partial Realisation E: (Partial Realisation 4 for NBDD and 5 for NBDX)

275%	ROR as at 31 December 2017	61%	IRR as at 31 December 2017

NBDD and NBDX invested $9.2m in preferred equity certificates ("PECs") and private equity of a European packaging company. The PECs were retired in full in 2015 and the company paid dividends on the equity during the holding period. Cash received to date is $23.2m. In the second quarter, the company announced it was purchasing another complementary packaging company (Partial Realisation D, above) and completing a recapitalisation to refinance existing debt, provide cash for the acquisition and pay a dividend to shareholders. The current value of the private equity position is $11.3m, generating a total return of $14.0m as at 31 December 2017. IRR was 61% and ROR was 275% with a holding period of 63 months at 31 December 2017.

E	PR	EFFECTIVE REPORTED	CASH INVESTED (MILLIONS)	CASH RECEIVED TO DATE (MILLIONS)	VALUE OF RESIDUAL INVESTMENT (MILLIONS)	TOTAL RETURN (MILLIONS)	IRR	ROR	MONTHS HELD
NBDD	4	H12017	$2.6	$6.5	$3.2	$3.9	61%	275%	63
NBDX	5	H12017	$6.6	$16.7	$8.1	$10.10	61%	275%	63

Neuberger Berman Investment Advisers LLC

17 April 2018

Neuberger Berman Europe Limited

17 April 2018

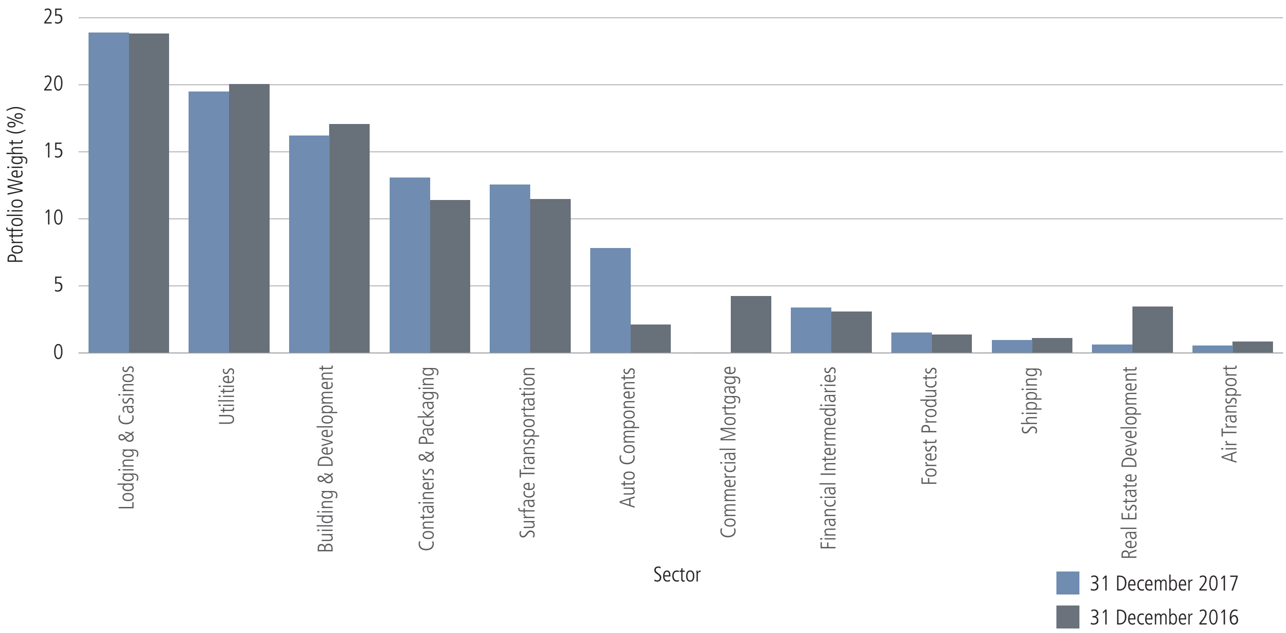
Portfolio Information

Ordinary Share Class

TOP 10 HOLDINGS AT 31 DECEMBER 2017

HOLDING	SECTOR	PURCHASED INSTRUMENT	STATUS	COUNTRY	% OF NAV	PRIMARY ASSET
1	Lodging & Casinos	Bank Debt Investments	Post-Reorg	US	22%	Hotel / lodging real estate
2	Building & Development	Post-Reorg Equity	Post-Reorg	US	15%	Residential real estate
3	Surface Transportation	Trade Claim	Defaulted	Brazil	12%	Municipal claim
4	Utilities	Bank Debt Investments	Current	Australia	11%	Power plants
5	Containers & Packaging	Post-Reorg Equity	Post-Reorg	Luxembourg	10%	Manufacturing/distribution/real estate
6	Auto Components	Secured Notes	Post-Reorg	US	7%	Manufacturing plant
7	Utilities	Bank Debt Investments	Post-Reorg	US	7%	Power plants
8	Financial Intermediaries	Secured Notes	Defaulted	US	3%	Cash & securities
9	Containers & Packaging	Post-Reorg Equity	Post-Reorg	UK	1%	Manufacturing/distribution/real estate
10	Forest Products	Secured Notes	Post-Reorg	Germany	1%	Manufacturing plant
Total					**89%**	

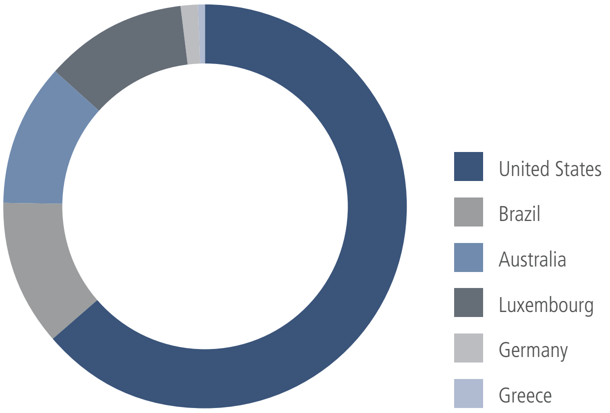
Sector Breakdown[1]



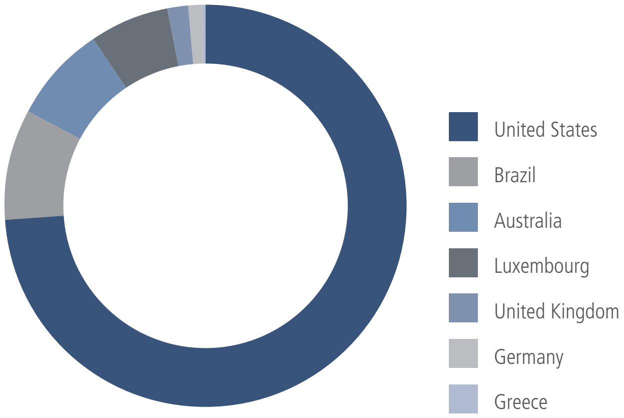
1 Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited/Quintillion Limited as Administrator/Sub-Administrator to the Company. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDD's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

Country Breakdown[2]

31 DECEMBER 2017



31 DECEMBER 2016



2 Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market values at 31 December 2017 and 31 December 2016.

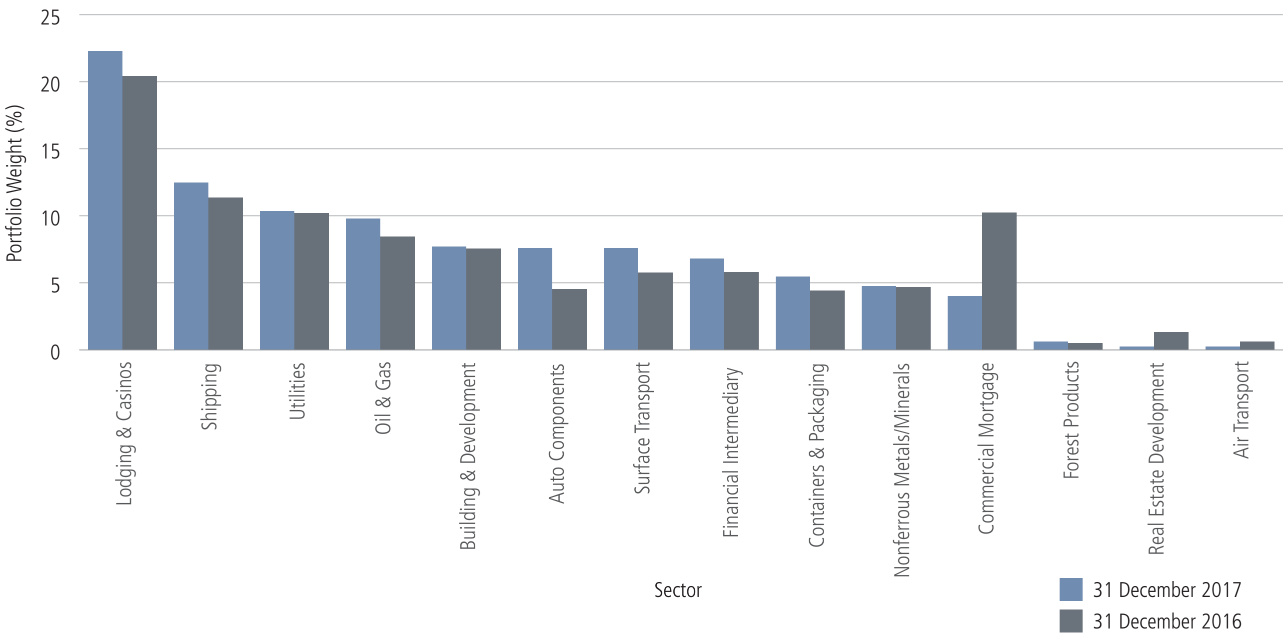
Portfolio Information (continued)

Extended Life Share Class

TOP 10 HOLDINGS AT 31 DECEMBER 2017

HOLDING	SECTOR	PURCHASED INSTRUMENT	STATUS	COUNTRY	% OF NAV	PRIMARY ASSET
1	Lodging & Casinos	Bank Debt Investments	Post-Reorg	US	9%	Hotel/lodging real estate
2	Auto components	Secured Notes	Post-Reorg	US	7%	Manufacturing plant and equipment
3	Building & Development	Post-Reorg Equity	Post-Reorg	US	7%	Residential real estate
4	Shipping	Bank Debt Investments	Post-Reorg	Marshall Islands	7%	Maritime vessels
5	Financial Intermediary	Secured Notes	Defaulted	US	6%	Cash & securities
6	Oil & Gas	Post-Reorg Equity	Post-Reorg	US	6%	Bio-fuel plant
7	Lodging & Casinos	Bank Debt Investments	Current	US	5%	Hotel/casino
8	Surface Transport	Trade Claim	Defaulted	Brazil	5%	Municipal claim
9	Utilities	Bank Debt Investments	Current	Australia	5%	Power plants
10	Utilities	Bank Debt Investments	Post-Reorg	US	5%	Power plants
Total					**62%**	

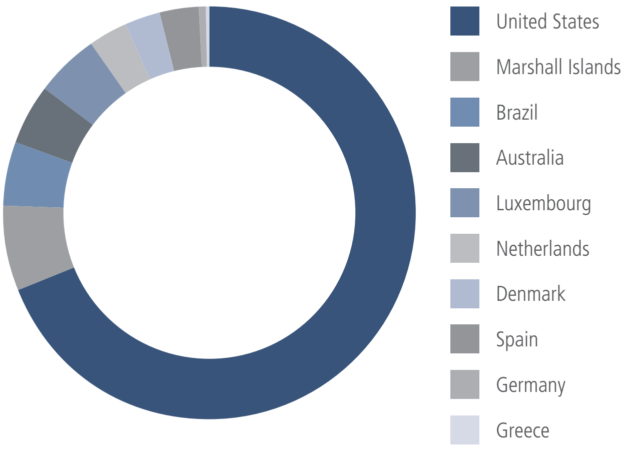
Sector Breakdown[1]



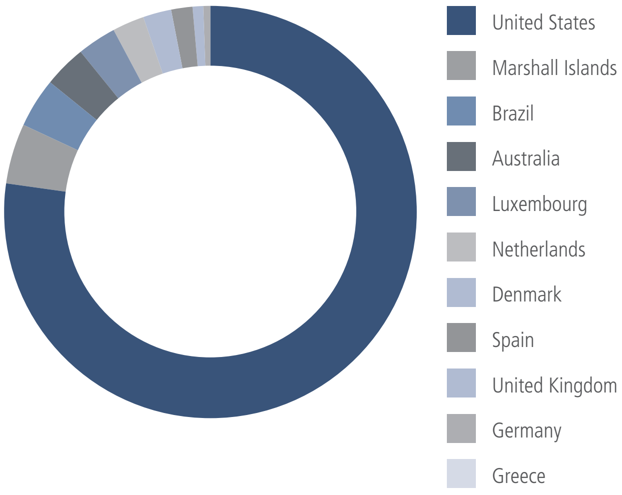
1 Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited as Administrator / Sub-Administrator to the Company. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDX's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

Country Breakdown[2]

31 DECEMBER 2017



31 DECEMBER 2016



2 Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market values at 31 December 2017 and 31 December 2016.

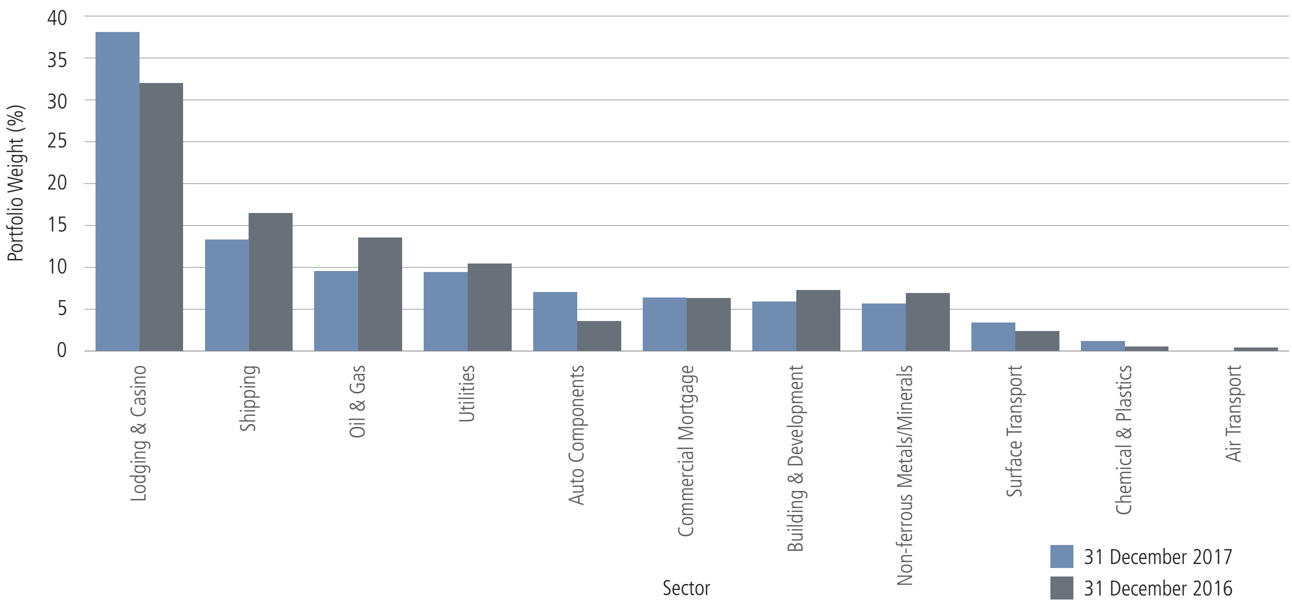
Portfolio Information (continued)

New Global Share Class

TOP 10 HOLDINGS AT 31 DECEMBER 2017

HOLDING	SECTOR	PURCHASED INSTRUMENT	STATUS	COUNTRY	% OF NAV	PRIMARY ASSET
1	Lodging & Casinos	Post-Reorg Equity	Post-Reorg	US	13%	Hotel/casino
2	Lodging & Casinos	Bank Debt Investments	Post-Reorg	US	7%	Hotel/lodging real estate
3	Auto Components	Bank Debt Investments	Post-Reorg	US	7%	Manufacturing plant and equipment
4	Lodging & Casinos	Bank Debt Investments	Defaulted	Spain	6%	Hotels
5	Commercial Mortgage	Bank Debt Investments	Current	Netherlands	6%	Commercial real estate
6	Lodging & Casinos	Bank Debt Investments	Defaulted	Spain	6%	Hotel
7	Building & Development	Post-Reorg Equity	Post-Reorg	US	6%	Residential real estate
8	Nonferrous Metals/Minerals	Post-Reorg Equity	Post-Reorg	US	5%	Manufacturing/distribution real estate
9	Utilities	Bank Debt Investments	Current	Australia	5%	Power plants
10	Shipping	Bank Debt Investments	Post-Reorg	US	5%	Maritime vessels
Total					**66%**	

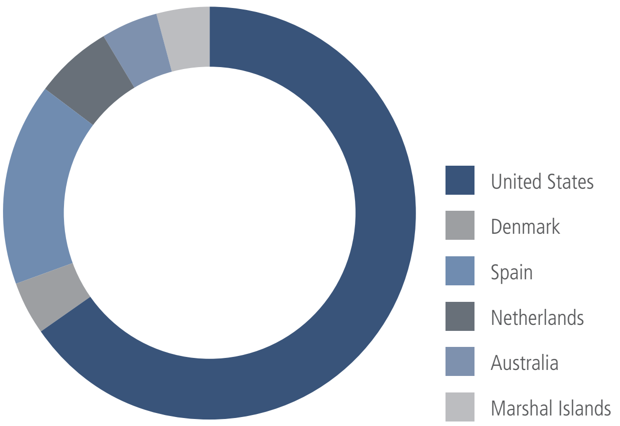
Sector Breakdown[1]



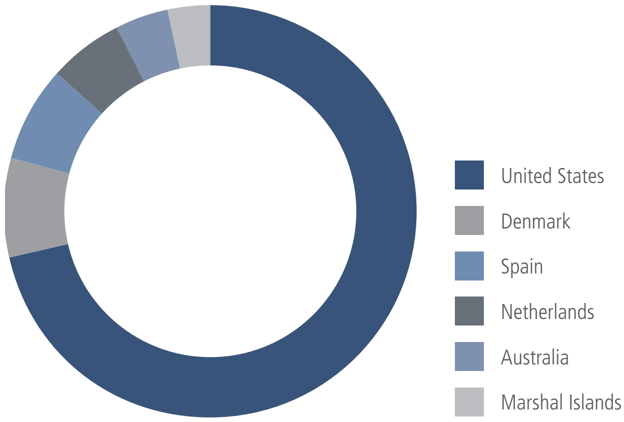
1 Categorisations determined by Neuberger Berman; percentages determined by Neuberger Berman and U.S. Bancorp Fund Services (Guernsey) Limited / Quintillion Limited as Administrator / Sub-Administrator to the Company. Please note that irrespective of the "sector" in which an investment is made, the underlying assets constituting the collateral for the investment comprise real estate assets in a majority of cases. As a result, NBDG's overall exposure to the real estate sector may be more than its actual direct exposure to that sector.

Country Breakdown[2]

31 DECEMBER 2017



31 DECEMBER 2016



2 Categorisations determined by Neuberger Berman and percentages determined by the Administrator, based on market values at 31 December 2017 and 31 December 2016.

Strategic Report

Principal Risks and Risk Management

The Board has overall accountability for ensuring that risk is effectively managed within the Company and on behalf of the Board, the Audit Committee has undertaken an exercise for identifying, assessing and managing the risks within the Company. The Company's principal risks are outlined below together with the commentary on how they are managed and/or mitigated.

Shareholders are reminded that the NBDD and NBDX portfolios are U.S. Dollar denominated and any non-U.S. exposure is hedged back to the U.S. Dollar. Therefore the Board does not consider that the outcome of Brexit will have a material direct impact on these Portfolios.

NBDG is a Pound Sterling denominated but unhedged share class with a broader geographic remit than the other two share classes. Whilst the full impact of Brexit is unknown your Board does expect continued volatility in the currency markets which in turn will translate into volatility in the value of NBDG's non U.S. Dollar assets.

RISK	MITIGATION
Investment Activity and Performance	
An unsuccessful investment strategy may result in underperformance against the Company's objectives. This might be due to the skills of the Investment Manager falling short in its selection of sectors or issues in which to invest and its management of the restructurings/reorganisations which can ensure their success.	The Board has managed these risks by ensuring a diversification of investments, although the level of diversification will diminish as the respective Portfolios liquidate their positions during their harvest periods. Please see "Principal Risks Specific to Harvest Periods" below. The Investment Manager operates in accordance with the investment limits and restrictions policy set out in the Company's Investment Policy and Objectives and as further 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 Portfolios. Investment strategy is reviewed at each meeting.
Principal Risks Associated with Harvest Periods	
There can be a significant period between the date the Company makes an investment and the date that any gain or loss on such investment is realised. Further, towards the end of the Portfolios' respective harvest periods, a residual amount is required to be retained for each share class in accordance with regulatory requirements until such time that all assets can be liquidated and returned to shareholders.	The Board has ensured that the Investment Manager has operated in accordance with the investment limits and restrictions policy set out in the Company's Investment Policy and Objectives, although it acknowledges that the diversification of Portfolio investments will diminish as the Portfolios liquidate their positions and return capital to shareholders. The Board also receives regular updates on the status of the Portfolios' investments and anticipated realisation dates.
As capital is returned through compulsory partial redemptions, the number of assets and shares in a Portfolio will diminish which in turn may lead to an increased TER and reduced liquidity in a Portfolio's shares.	The Board monitors the Company's expenses on a regular basis and ensures that contracts with the Investment Manager and other service providers are at competitive rates. The Board also notes that the Company's key expenses, such as the management fee, will diminish in line with a reduction of assets. The Company retains the services of its brokers, Stifel Nicolaus Europe Limited and Winterflood Securities Limited to, amongst other things; enhance liquidity in the underlying shares.

RISK	MITIGATION
Level of Premium or Discount	
A discount or premium to NAV can occur for a variety of reasons; including market conditions and the extent to which investors undervalue the management activities of the Investment Manager or discount its valuation methodology and judgement.	While the Directors may seek to mitigate any discount or premium to NAV per share through discount management mechanisms, such as buybacks or share issuance, 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	
Market price risk is the potential for changes in the value of an investment or Portfolio. The market value of investments 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. Further details on market price risk are provided in Note 4 on page 91.	The Board has, over the Investment Periods of the various share classes, ensured that the Investment Manager has operated in accordance with the Company's investment guidelines. The Directors monitor the status of the Portfolio investments with the Investment Manager at each quarterly Board meeting and monitor risk factors in respect of the Portfolios.
Fair Valuation of Illiquid Assets	
With respect to investments that do not have a readily ascertainable market quotation in an active market, the Investment Manager will value such investments at fair value and such valuations will be inherently uncertain. Because of the inherent uncertainty and subjectivity of determining the fair value of investments that do not have a readily ascertainable market quotation in an active market, the fair value of the Company's investments as determined in good faith by the Investment Manager may differ significantly from the values that would have been used had a ready market existed for such investments. The reliability of the NAV calculations published by the Company will be impacted accordingly.	With respect to investments comprised in the Company's Portfolios that do not have a readily available market quotation, such as unquoted investments or investments which are listed but deemed to be illiquid, the Investment Manager values such investments at fair value on each NAV calculation date in accordance with its customary valuation methods, policies and procedures. Further information on the Company's valuation process can be found in Note 2g under "Investment Transactions, investment income/expenses and valuation", and Note 2f, "Fair Value of Financial Instruments", of the Audited Consolidated Financial Statements (the "Financial Statements"). The Board monitors, reviews and challenges the Company's fair valued assets on a regular basis to ensure compliance with the agreed methodology.
Accounting, Legal and Regulatory	
The Company must comply with the provisions of the Law, and since its shares trade on the SFS, the Company is required to comply with the FCA's Disclosure Guidance 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 SFS.	The Board relies on the Company Secretary and the Company's advisers to ensure adherence to the Guernsey legislation 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.
Operational	
Disruption to, or the failure of, either the Investment Manager's or the Administrator's accounting, dealings or payment systems, or the records of the custodian could lead to a loss of assets and 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 controls are explained further in the internal controls section of the Corporate Governance Report which is set out on pages 43 to 50.

Strategic Report (continued)

Going Concern

The Company's principal activities are set out on page 4. The financial position of the Company is set out on page 67. In addition, Note 4 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 twelve months from the date these accounts are signed and 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 Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks, published by the FRC.

The going concern statement required by the 2016 AIC Code of Corporate Governance (the "AIC Code") is set out in the "Directors' Responsibilities Statement" on page 62.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in April 2016 (the "Code"), the Directors have assessed the prospects of the Company over the three year period to 31 December 2020. Taking into account the Company's status as an investment entity, its investment objectives, the risks it faces, its current position and the time period over which its assets are likely to be realised, the Directors consider that three years is an appropriate period to assess the viability of the Company. In particular the Directors noted that NBDG has now entered into its harvest period with an approximate duration of three years. The Directors further noted that the mid- to long-term prospects for the Company, which has an indefinite life, are subject to change should the Company add new share classes to its structure before the existing Portfolios' assets are fully realised.

The three year review considers the Company's cash flow, cash distributions and other key financial ratios over the period. The three year review also makes certain assumptions about the normal level of expenditure likely to occur as well as the timing of asset realisations during the harvest periods.

In its assessment of the viability of the Company, the Directors have carried out a robust assessment of the Company's principal risks and uncertainties detailed on pages 32 to 33 including the risks specific to the Portfolios' harvest periods. The Directors have also considered the Company's income and expenditure projections and the expected cash flows arising from Portfolio realisations, noting that future capital distributions to shareholders may be restricted if the interest and dividend income generated in the Portfolios is not sufficient to meet operational expenses. As part of this review, the Directors carried out a series of stress test scenarios which assumed a significant fall in income and asset levels and a corresponding increase in expenses, and were satisfied with the results of this analysis.

Based on the Company's processes for monitoring operating costs, the Investment Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2020.

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 – At each meeting the Board reviews and compares against peer group companies and various indices the performance of the Portfolios as well as the NAV, income and share price of each share class. To assist in this review the Board considers 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 also provides an in-depth analysis of the holdings within the Portfolios;
- Discount/premium to NAV - At each Board meeting, the Board monitors the level of the Company's discount or premium to NAV per share class 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. In the year to 31 December 2017 the Company's Ordinary Shares traded between a discount of 2.1% and a discount of 9.5% with an average discount of 5.3%. The Company's Extended Life Shares traded between a discount of 5.4% and 19% with an average discount of 2.1%. The Company's New Global Shares traded between a discount of 12.3% and 19.2% with an average discount of 15.7%;

- Ongoing Charges - In the year to 31 December 2017, the Company's Ongoing Charges were 2.01%. This figure is based on an annual expense figure for the year of $7,136,270. This figure, which has been prepared in accordance with AIC guidance, and may therefore differ from that disclosed in the Key Information Document, represents the Company's management fees and all other operating expenses, excluding finance costs payable, expressed as a percentage of average net assets. No performance fees were payable as at 31 December 2017. The Ongoing Charges by share class are disclosed on page 8.
- Total Expense Ratio ("TER") - In the year to 31 December 2017, the Company's TER was 2.01%. This figure is based on an annual expense figure for the year of $7,144,867. This figure which has been prepared in accordance with the US Generally Accepted Accounting Principles ("US GAAP") methodology and represents the annual percentage reduction in shareholder returns as a result of recurring operational expenses including any performance fee. No performance fees were payable as at 31 December 2017. The TERs by share class are disclosed on page 8.

Management Arrangements

Investment Management Agreement

On 17 July 2014, the Company, the Manager and the AIFM made certain classificatory amendments to their contractual arrangements for the purposes of the European Commission's Directive on Alternative Investment Fund Managers (the "AIFM Directive"). The Sub-Investment Management Agreement was terminated on 17 July 2014 and Neuberger Berman Investment Advisers LLC, which was the Sub-Investment Manager, was appointed as the AIFM per the amended and restated Investment Management Agreement ("IMA") dated 17 July 2014. Under this agreement, the AIFM is responsible for risk management and day-to-day discretionary management of the Company's Portfolios (including uninvested cash). The risk management and discretionary portfolio management functions are performed independently of each other within the AIFM structure. The AIFM is not required to, and generally will not, submit individual investment decisions for approval by the Board. The Manager, Neuberger Berman Europe Limited, was appointed under the same IMA to provide, amongst other things, certain administrative services to the Company. Please refer to Note 6 on page 94 for details of fee entitlement.

On 31 December 2017, the Company approved an Amendment Agreement to the Amended and Restated IMA dated 17 July 2014, in respect of the manufacture of the Company's Key Information Document by the AIFM, MiFID II, anti-money laundering and bribery, cyber security and data protection.

The IMA can be terminated either by the Company on one hand or the Investment Manager on the other, but in certain circumstances, the Company would be required to pay compensation to the Investment Manager of six months' management charges. No compensation is payable if notice of termination of more than six months is given.

Administration and Custody Agreement

Effective 1 March 2015, the Company entered into an Administration and Sub-Administration Agreement with U.S. Bancorp Fund Services (Guernsey) Limited ("U.S. Bancorp") and Quintillion Limited, a wholly-owned subsidiary of U.S. Bancorp. Under the terms of the agreement, Sub-Administration services are delegated to Quintillion Limited (the "Sub-Administrator"). US Bank National Association (the "Custodian") was appointed custodian to the Company effective 1 March 2015. See Note 6 on page 94 for details of fee entitlement.

Company Secretarial and Registrar Arrangements

Effective 20 June 2017, company secretarial services were provided by Carey Commercial Limited in place of C.L. Secretaries Limited. Registrar services are provided by Link Market Services (Guernsey) Limited.

See Note 6 on page 95 for details of fee entitlement.

Strategic Report (continued)

Related Party Transactions

The contracts with the Investment Manager and Directors 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.

For information on performance fees and Directors' fees please refer to Note 6 on pages 94 and 95.

For and on behalf of the Board

John Hallam
Chairman

17 April 2018

Christopher Sherwell
Director

17 April 2018

Directors

John Hallam (Chairman)

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, Real Estate Credit Investment Limited and a number of other financial services companies, some of which are listed on the LSE. Mr Hallam served for many years as a member and latterly chairman of the GFSC, from which he retired in 2006.

Christopher Sherwell (Interim Chairman of the Audit Committee and Senior Independent Director)

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 an M. Phil. from the University of Oxford in 1973.

Michael J. Holmberg

Michael J. Holmberg, Managing Director of Neuberger Berman, joined the NB Group in 2009. Mr Holmberg is the head of distressed portfolio management. Prior to joining NB Group, Mr Holmberg founded Newberry Capital Management LLC in 2006 and before that he 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. Mr Holmberg received a BA in economics from Kenyon College and an MBA from the University of Chicago.

Stephen Vakil (Chairman of the Management Engagement Committee and Chairman of the Remuneration Committee)

After graduating with a BSc in economics from Bath University in 1983, Stephen Vakil joined L Messel & Co and moved to Chase Manhattan in 1987 to focus on private client portfolio management. In 1989, he left to join Foster & Braithwaite where he established the research function and subsequently became a director. Following Foster & Braithwaite's merger with Quilter Goodison to form Quilter & Co in 1996, Mr Vakil was given responsibility for the London investment teams, the research department and marketing function. He was made a managing director in 2001. Having played a key role in a number of corporate transactions, Mr Vakil left Quilter Cheviot in 2013. He is an Associate of the Society of Investment Professionals.

Christopher Legge

Chris Legge aged 62 is a Guernsey resident and worked for Ernst & Young in Guernsey from 1983 to 2003. Having joined the firm as an audit manager in 1983, he was appointed a partner in 1986 and managing partner in 1998. From 1990 to 1998, he was head of Audit and Accountancy and was responsible for the audits of a number of banking, insurance, investment fund, property fund and other financial services clients. He also had responsibility for the firm's training, quality control and compliance functions. He was appointed managing partner for the Channel Islands region in 2000 and merged the business with Ernst & Young LLP in the United Kingdom. He retired from Ernst & Young in 2003. Chris currently holds a number of non-executive directorships in the financial services sector including several Guernsey investment companies which are listed in the UK and where he also chairs the Audit Committee. He is an FCA and holds a BA (Hons) in Economics from the University of Manchester.

Sarah Evans resigned with effect from 18 January 2018. Further details of her resignation can be found in the Chairman's statement on page 11.

Directors' Report

The Directors present their report and Financial Statements of the Company and their report for the year ended 31 December 2017.

Share Capital

The number of shares in issue at 31 December 2017 was as follows:

Class A Shares	2
Ordinary Shares	26,714,397
Extended Life Shares	173,302,953
New Global Shares	98,733,585

Share Buybacks

At the Annual General Meeting ("AGM") of the Company held on 6 June 2017, the Directors were granted the general authority to purchase in the market up to 14.99% of the Ordinary Shares, 14.99% of the Extended Life Shares and 14.99% of the New Global Shares in issue (as at 6 June 2017). The latest authority will expire at the AGM to be held on 19 June 2018. Pursuant to this authority, and subject to the Law and the discretion of the Directors, the Company may purchase shares of any of its classes in the market on an ongoing basis with a view to addressing any imbalance between the supply of and demand for such shares, thereby increasing the NAV per share of the shares and assisting in controlling the share price discount to NAV per share.

During the year 1,907,868 Extended Life Shares were repurchased for cancellation for gross consideration of $1,736,310. In addition, 1,842,200 New Global Shares were repurchased by the Company for gross consideration of £1,440,865. On 18 May 2017, the New Global Shares that were repurchased to be held in treasury were cancelled. All subsequent share repurchases were for immediate cancellation.

The Directors intend to seek annual renewal of this authority from Shareholders.

Distributions

The Company will pay out an income distribution by way of dividend, in respect of each share class, all net income received on investments of the Company attributable to such share class, as appropriate. In addition, any capital proceeds attributable to a 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. Further information on the Company's income and capital distribution policies can be found on page 7.

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

Income distributions by way of dividend

DATE	ORDINARY SHARE CLASS PER SHARE AMOUNT	EXTENDED LIFE SHARE CLASS PER SHARE AMOUNT	NEW GLOBAL SHARE CLASS PER SHARE AMOUNT
20 November 2017	$0.0140	$0.0245	£0.0106

Capital distributions by way of a compulsory partial redemption

	ORDINARY SHARE CLASS			EXTENDED LIFE SHARE CLASS			NEW GLOBAL SHARE CLASS		
DATE	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT
22 February 2017	–	–	–	$10,491,943	10,427,294	$1.0062	–	–	–
23 June 2017	–	–	–	$16,491,940	16,232,224	$1.0160	–	–	–
4 September 2017	$6,491,959	5,861,814	$1.1075	$10,491,946	10,030,541	$1.0460	–	–	–
13 November 2017	$2,991,962	2,642,376	$1.1323	$4,241,944	3,972,974	$1.0677	–	–	–

Substantial Share Interests

Based upon information deemed to be reliable as provided by the Company's registrar, as at 16 April 2018, the following shareholders owned 5% 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 (%)
Harewood Nominees Limited 4046320 Acct	21,147,256	–	–	79.16
Prudential Client HSBC GIS Nominee (UK) Limited PAC Acct	–	–	27,379,750	27.73
Prudential Client HSBC GIS Nominee (UK) Limited PAC Acct	–	28,672,129	–	16.54
State Street Nominee Limited OM04 Acct	–	–	12,500,000	12.66
BNY (OCS Nominees) Limited	–	18,955,636	–	10.94
Nortrust Nominees Limited	–	–	10,082,524	10.21
Citibank Nominees (Ireland) Designated Activity Company CLRLUX Acct	–	15,246,647	–	8.80
State Street Nominee Limited OM04 Acct	–	14,003,650	–	8.08
Lynchwood Nominees Limited 2006420 Acct	–	13,058,602	–	7.54
BNY (OCS) Nominees Limited UKREITS Acct	–	–	6,197,836	6.28
State Street Nominee Limited OM02 Acct	–	–	5,107,688	5.17

Note: shareholdings may be greater than 5% in the share class but may not be 5% in aggregate of the Company's issued share capital.

Directors' Report (continued)

Notifications of Shareholdings

In the year to 31 December 2017 the Company has been notified in accordance with Chapter 5 of the 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%. Notifications received by the Company below 5% are included here for completeness only. Class A shares do not hold voting rights.

SHAREHOLDER[1]	NUMBER OF SHARES	PERCENTAGE OF TOTAL VOTING RIGHTS (%)
Prudential plc	58,769,812	19.22%
BlackRock, Inc.	Not disclosed	<5%
Weiss Asset Management LP	16,258,471	5.05%
Witan Investment Trust plc	16,242,822	5.03%

Since the year end at the date of this report, 2 notifications were received by the Company:

SHAREHOLDER[1]	NUMBER OF SHARES	PERCENTAGE OF TOTAL VOTING RIGHTS (%)
Weiss Asset Management LP	30,578,382	9.33%
Prudential plc	60,199,312	20.15%

1 Most recent TR-1 notification received during the relevant year is listed above

Directorship Disclosures in Public Companies (as at 31 December 2017)

COMPANY NAMES	EXCHANGE(S)
Mr John Hallam	
BH Global Limited	London, Bermuda and Dubai
Investec Premier Funds PCC Limited	The International Stock Exchange ("TISE")
NB Distressed Debt Investment Fund Limited	SFS, London
Partners Group Global Opportunities Limited	Ireland
Real Estate Credit Investments Limited	London
Ruffer Illiquid Strategies Fund 2011 Limited	TISE, Guernsey
Ruffer Illiquid Multi Strategies Fund 2015 Limited	TISE, Guernsey
Ruffer Multi Strategies Fund Limited	TISE, Guernsey
Mr Christopher Sherwell	
Baker Steel Resources Trust Limited	London
NB Distressed Debt Investment Fund Limited	SFS, London
Raven Russia Limited	London
Mr Michael J. Holmberg	
NB Distressed Debt Investment Fund Limited	SFS, London
Mr Stephen Vakil	
NB Distressed Debt Investment Fund Limited	SFS, London

COMPANY NAMES	EXCHANGE(S)
Mr Christopher Legge	
Ashmore Global Opportunities Limited	London
John Laing Environmental Assets Group Limited	London
NB Distressed Debt Investment Fund Limited	SFS, London
Sherborne Investors (Guernsey) B Limited	SFS, London
Sherborne Investors (Guernsey) C Limited	SFS, London
Third Point Offshore Investors Limited	London
Twenty Four Select Monthly Income Fund Limited	London

Certain of the Directors maintain additional directorships in public companies. Details may be obtained from the Company Secretary.

Anti-Bribery and Corruption Policy

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 them 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 and continues to refine its process in this regard. The Company's policy is available on its website at www.nbddif.com/corporate_governance.html

Criminal Facilitation of Tax Evasion Policy

The Board of the Company is committed to zero tolerance towards the criminal facilitation of tax evasion. The Board insists on strict observance with these same standards by its service providers and continues to refine its process in this regard. The Company's policy is available on its website at www.nbddif.com/corporate_governance.html.

Employees and Socially Responsible Investment

The Company has a management contract with the Investment Manager. It has no employees and all of its Directors are non-executive, with day-to-day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Company's main activities are carried out by Neuberger Berman, which is a signatory of the Principles of Responsible Investment and has an ongoing commitment to strengthening and refining its environmental, social and governance approach. An overview of Neuberger Berman's Principles for Responsible Investment is detailed on its website at www.nb.com/pages/public/en-gb/principles-for-responsible-investment.aspx.

Global Greenhouse Gas Emissions

The Company has no significant greenhouse gas emissions to report from its operations for the year to 31 December 2017 (2016 – none), nor does it have responsibility for any other emissions producing sources.

Gender Metrics

The current Board members are male. More information on the Board's consideration of diversity is given in the Corporate Governance Report on page 46.

Directors' Report (continued)

The Modern Slavery Act 2015 ("MSA")

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods or services, the MSA does not directly apply to it. The MSA requirements more appropriately relate to the Investment Manager which is a signatory of the Principles of Responsible Investment (please see "Employees and Socially Responsible Investment" above) which include social factors such as working conditions, including slavery and child labour.

Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving this report are listed on pages 37 and 44. 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.

For and on behalf of the Board

John Hallam
Chairman

17 April 2018

Christopher Sherwell
Director

17 April 2018

Corporate Governance Report

Applicable Corporate Governance Codes

As the Company is listed on the SFS it is only required to follow the GFSC code of corporate governance (the "Code"), applicable to Guernsey companies. However, the Board has chosen to comply with the AIC Code of Corporate Governance (the "AIC Code") published in February 2013 and last amended in July 2016. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

On 1 January 2012, the GFSC's "Finance Sector Code of Corporate Governance" came into effect and was amended in February 2016. The GFSC has stated in its Code that companies which report against the UK Corporate Governance Code (the "UK 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").

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 more relevant information to shareholders. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk.

Corporate Governance Statement

Throughout the year ended 31 December 2017 the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except where explanations have been provided.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that certain provisions of the UK Code 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 the following provisions:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

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.

The Company complies with the corporate governance statement requirements pursuant to the FCA's DTRs by virtue of the information included in the Corporate Governance section of the Annual Report together with information contained in the Strategic Review and the Directors' Report.

Our Governance Framework

Chairman: John Hallam

Responsibilities:

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

More details are provided on pages 44 to 50.

Corporate Governance Report (continued)

Our Governance Framework (continued)

The Board members of NB Distressed Debt Investment Fund Limited

John Hallam (Chairman) – independent non-executive Director

Sarah Evans (resigned on 18 January 2018), Christopher Legge (appointed on 12 April 2018), Christopher Sherwell and Stephen Vakil – independent non-executive Directors

Michael Holmberg – non-executive Director

Responsibilities:

Overall conduct of the Company's business and setting the Company's strategy.
More details are provided below.

AUDIT COMMITTEE

Members:
Christopher Sherwell (interim Chairman)
Sarah Evans (resigned as a member on 18 January 2018)
John Hallam (resigned as a member on 31 December 2017 and re-joined effective 18 January 2018)
Stephen Vakil

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 are provided on pages 51 to 54.

MANAGEMENT ENGAGEMENT COMMITTEE

Members:
Stephen Vakil (Chairman)
Sarah Evans (resigned as a member on 18 January 2018)
John Hallam
Christopher Sherwell

Responsibilities:
To review the performance of all service providers (including the Investment Manager)

More details are provided on pages 55 and 56.

REMUNERATION COMMITTEE

Members:
Stephen Vakil (Chairman)
Sarah Evans (resigned as a member on 18 January 2018)
John Hallam
Christopher Sherwell

Responsibilities:
To review the on-going appropriateness and relevance of the remuneration policy.

More details are provided on page 58.

INSIDE INFORMATION COMMITTEE

Members:
Stephen Vakil
Sarah Evans (resigned as a member on 18 January 2018)
John Hallam
Michael Holmberg
Christopher Sherwell

Responsibilities:
To identify inside information and monitor the disclosure and control of inside information.

More details are provided on page 57.

Board Independence and Composition

The biographical details of the Directors holding office at the date of this report are listed on page 37 and demonstrate a breadth of investment, accounting and professional experience.

John Hallam, Christopher Legge, Christopher Sherwell and Stephen Vakil are considered independent from the Investment Manager. Michael Holmberg is deemed not independent as he is employed by a Neuberger Berman group company.

Mr Sherwell stepped down as a director of NB Private Equity Partners Limited ("NBPE"), an entity managed by NB Alternative Advisers LLC, a Neuberger Berman Group entity based in Dallas on 24 April 2017. The Board believes that Mr Sherwell was independent during his tenure at NBPE and continues to be independent as NBPE is managed by NB Alternative Advisers LLC, a Neuberger Berman Group entity based in Dallas, whereas the Company is managed by Neuberger Berman Investment Advisers LLC based in Chicago. The Board unanimously considers that there was no conflict of interest between the Company and NBPE during his tenure as a director of NBPE.

The Board believes that Mr Holmberg brings a significant amount of experience and expertise to the Board; however as a non-independent Director, Mr Holmberg does not sit on the Audit Committee or the Management Engagement Committee and is not involved in any matters discussed by the Board concerning the evaluation of the performance of the Investment Manager.

The Directors review their independence annually.

The Company Secretary 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;
- will organise 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 2018 AGM. The length of service of each Director is shown in the Directors' Remuneration Report on pages 61. Any Director may resign in writing to the Board at any time.

Mr Legge was appointed a non-executive Director of the Board on 12 April 2018. The Board believes that this appointment strengthens the Board and that he has the necessary skills and experience to fill the vacant position left by Sarah Evans.

The Board has formal, rigorous and transparent procedures for the appointment of additional directors. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board, including gender. The Board undertakes a broad search which includes obtaining lists of potential candidates from a variety of sources leading to agreed short-lists. Interviews are then held with potential candidates. The skills, experience and time availability of each candidate is considered by the Board with due regard to the skills and experience necessary to replace those lost by retirements or otherwise considered desirable to strengthen the Board. Short-listed candidates are invited to meet the Chairman and the Investment Manager and feedback is provided to the Board prior to selection. In this instance the Board affirms that the decision to appoint Mr Legge was based on merit, skills and experience and was considered fair and non-discriminatory.

In accordance with the AIC Code and the Company's Articles, all Directors offered themselves for re-election at the first AGM of the Company; the Company subsequently adopted a policy of requiring all Directors to stand for annual re-election. John Hallam, Michael Holmberg and Christopher Sherwell were re-elected as Directors and Sarah Evans and Stephen Vakil were elected (being their first AGM since appointment) at the AGM on 6 June 2017. The names and biographies of the Directors holding office at the date of this report are listed on page 37.

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. The Board has sought to appoint Directors with past and current experience of various areas relevant to the Company's business. The Board agreed to adopt an amended tenure and succession policy in February 2018 which is reflective of the Board's belief that it is not in the best interests of shareholders to replenish the Board at the current time when the long-term outlook of the umbrella of the Company is unknown save for the appointment of directors to fill a vacant position with due regard to the skills and experience necessary to replace those lost by Directors' retirements.

Directors are expected to devote such time as is necessary to enable them to discharge their duties. Other business relationships, including those that conflict or may potentially conflict with the interests of the Company, are taken into account when appointing Board members and are monitored on a regular basis.

Re-election of Directors

All of the Directors have outlined their intention to submit themselves for re-election, or in the case of Chris Legge election, at the AGM to be held on 19 June 2018.

As outlined on page 10 of the Chairman's Statement, the Board recognises that the Portfolios are now in their harvest periods and, as such, it believes that it is in the best interests of shareholders and the Company to maintain the current Board composition in respect of the long standing directors for the time being in order to benefit from the Directors' technical knowledge and experience of managing the Company's affairs as the assets continue to wind down. The Board confirmed that the contributions made by the Directors offering themselves for re-election at the AGM on 19 June 2018 continue to be effective and that the Company should support their re-election.

The dates of appointment of all Directors are provided in the Directors' Remuneration Committee Report.

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, Hampton-Alexander Review and the Parker Review, 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, ethnicity, nationality or any other criterion of representation on the Board. At 31 December 2017 the Board had a 20% female representation but since the year end this has fallen to zero. Whilst due regard to gender, ethnicity and nationality was given during the selection process to appoint Christopher Legge, it was the Board's belief that it was necessary, first and foremost, to focus on the skills and experience necessary to fill the vacant position left by Sarah Evans. The Board continues to focus on encouraging diversity of business skills and experience, recognising that directors with diverse skills sets, capabilities and experience gained from different backgrounds enhances the Board.

Board Responsibilities

The Board reviews all aspects of the Company's affairs including the setting and monitoring of investment strategy and the review of investment performance. With the Portfolios now in their harvest periods, the Investment Manager takes decisions as to the sale of individual investments, in line with the investment policy and strategy set by the Board. The Investment Manager together with the Company Secretary and Administrator 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 the 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 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 2017, except Michael Holmberg, an employee of the Neuberger Berman Group of which the Investment Manager is a part.

The Directors' Remuneration Report on pages 59 to 61 provides information on the remuneration and interests of the Directors.

Performance Evaluation

The performance of the Board, its Committees and the Directors, including the Chairman, was reviewed by the Board in November 2017, 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 and by the Remuneration Committee. The Chairman reviewed each individual Director's contribution.

The 2017 evaluation concluded that:

- the performance of the Board, its committees, the Chairman and each of the Directors continues to be effective;
- Mr Hallam, Mrs Evans, Mr Sherwell and Mr Vakil are unanimously considered independent;
- all Directors should be proposed for re-appointment at the 2018 AGM; and
- the Board was considered to have an appropriate mix of skills, experience and gender.

The Board intends to conduct another internal board evaluation in November 2018, 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 by, 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 continually to 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. The Chairman confirmed that all directors actively kept up to date with industry developments and issues.

When Mr Legge was appointed to the Board, he was provided with all relevant information regarding the Company and his duties and responsibilities as a Director. In addition, Mr Legge will also spend time with representatives of the Investment Manager and Company Secretary over the coming months 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.

Corporate Governance Report (continued)

Indemnities

To the extent permitted by the Law, the Company's Articles 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. Each Director has an Instrument of Indemnity with the Company.

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

Relationship with the Investment Manager, Company Secretary, Administrator and Sub-Administrator

All of the Company's management and administration functions are delegated to external parties including the management of the investment Portfolios, 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 Management Engagement Committee is responsible for the oversight of service providers.

The Board receives and considers reports regularly from the Investment Manager and ad hoc reports and information are supplied to the Board as required. With the Portfolios now in their harvest periods, the Investment Manager takes decisions as to the sale of individual investments. The Investment Manager, Company Secretary, Administrator and Sub-Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager, Administrator and Sub-Administrator attend each Board meeting enabling the Directors to probe further into 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, the Administrator and Sub-Administrator operate in a supportive, co-operative and open environment.

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 two Corporate Brokers ("Brokers") and the Investment Manager, and shareholders are welcome to contact the Directors at any time via the Company Secretary by email at: NB.Distressed@careygroup.eu.

The Directors believe that the AGM provides an appropriate forum for shareholders to communicate with the Board and encourages participation. There is an opportunity for individual shareholders to question the Chairman of the Board, the Audit Committee, Management Engagement Committee, Remuneration Committee and Inside Information Committee at the AGM. The Board also welcomes the opportunity to meet with investors on a one-to-one basis, upon request.

The Board assesses the results of AGMs 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 not been lodged in favour of a resolution, an immediate announcement would be made and further disclosures will be made in the Annual Report. The Brokers and the Investment Manager will seek feedback from investors. In addition to this the Brokers and the Investment Manager will provide the Board with feedback that has been received from investors about the performance of the Company and the Investment Manager.

At the AGM held on 6 June 2017 the Company received notable votes against or withheld on the following resolutions:

RESOLUTION	FOR	AGAINST	WITHHELD
To receive and consider the Audited Annual Financial Report and Financial Statements for the year ended 31 December 2016, together with the Reports of the Directors and Auditors thereon	174,720,887	35,640,200	–
To re-elect Mr John Hallam as a Director of the Company	164,670,940	36,457,945	9,232,202
To re-elect Mr Christopher Sherwell as a Director of the Company	165,488,685	44,872,402	–
To reappoint KPMG Channel Islands Limited as the independent auditors of the Company to hold office until the conclusion of the next AGM of the Company	163,898,720	10,822,167	35,640,200

The votes against or withheld in respect of these resolutions ranged between 4.39% and 21.33% of those entitled to be cast.

Shortly after the AGM, the Board, in conjunction with the Company's Brokers, sought feedback from shareholders and shareholder voting guideline agencies to understand better the principal reasons for the notable votes against or withheld. Following these discussions the Board had concluded that the notable votes against or withheld were cast primarily on grounds of perceived non-independence. Both the Chairman and the Company's Brokers have discussed the matter with a number of major shareholders who have confirmed their support for the Board's view that both John Hallam and Christopher Sherwell are independent directors. It is the Board's intention that such consultation will continue.

John Hallam resigned as a director of Neuberger Berman Private Equity Partners Limited in 2015 and no longer has any connections to the company and as such the Board considers that he continues to be independent. Similarly Mr Sherwell stepped down as a director of Neuberger Berman Private Equity Partners Limited in 2017 and continues to be considered independent by the Board.

For the reasons outlined in the "Board Independence and Composition" section of this Corporate Governance Report on page 45 the Board maintains the view that Christopher Sherwell was, and remains, an independent Director of the Company.

The Annual and Interim Reports, Key Information Documents and quarterly fact sheets 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 via a Regulatory Information Service of the net asset value of the Company's Ordinary Shares, Extended Life Shares and New Global Shares. All documents issued by the Company can be viewed on the Company's website at www.nbddif.com.

2018 AGM

The 2018 AGM will be held in Guernsey on 19 June 2018. The notice for the AGM sets out the ordinary and special resolutions to be proposed at the meeting. Separate resolutions are proposed for each substantive issue. 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 98.

Voting on all resolutions at the 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 the Company's website and announced via a Regulatory Information Service. Where a significant number of votes have been lodged against a proposed resolution (being greater than 20%), the Board intends to identify those shareholders and further understand their views to address the concerns of the Company's shareholders. The Board notes that any resolution which receives a high vote against it will be included in the Investment Association's Public Register. The Public Register is an aggregated list of publicly available information regarding meetings of companies in the FTSE All-Share who have received significant shareholder opposition to proposed resolutions or have withdrawn a resolution prior to the shareholder vote.

Corporate Governance Report (continued)

Board Meetings

The Board meets at least four times a year. Certain matters are considered at all Board meetings including Portfolio composition and asset realisation strategy, capital repayments and income distributions by way of dividend, 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.

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

Attendance at scheduled meetings of the Board and its committees in the 2017 financial year

	BOARD	AUDIT COMMITTEE	MANAGEMENT ENGAGEMENT COMMITTEE	REMUNERATION COMMITTEE
Number of meetings during the year	**4**	**5**	**1**	**2**
John Hallam	4	5	1	2
Sarah Evans	4	5	1	2
Michael Holmberg	4	n/a	n/a	n/a
Christopher Sherwell	4	5	1	2
Stephen Vakil	4	5	1	2

In addition to these meetings, 6 ad-hoc board and board committee meetings were held during the year for various matters, primarily of an administrative nature including, but not limited to, distributions. These meetings were attended by those Directors available at the time.

Board Committees

The Board has established an Audit Committee, Management Engagement Committee, Remuneration Committee and an Inside Information Committee with defined terms of reference and duties. Further details of these committees can be found in their reports on pages 51 to 58. The terms of reference for each committee can be found on the Company's website at www.nbddif.com.

The Board feels that due to the size and structure of the Company, establishing a Nomination Committee is unnecessary and that the Board as a whole will consider matters relating to appointment of Directors.

For and on behalf of the Board

John Hallam
Chairman

17 April 2018

Christopher Sherwell
Director

17 April 2018

Audit Committee Report

Membership

Christopher Sherwell – Interim Chairman	(Senior Independent non-executive Director)
Sarah Evans[1]	(Independent non-executive Director)
John Hallam[2]	(Chairman of the Company and Independent non-executive Director)
Stephen Vakil	(Independent non-executive Director)

1 Mrs Evans resigned as a director of the Company on 18 January 2018.

2 Mr Hallam had stepped down from the Audit Committee on 31 December but in light of Mrs Evans' resignation the Board considered that Mr Hallam should re-join the Audit Committee effective 18 January 2018. The Board believes it is appropriate for the Company Chairman to be a member of the Audit Committee due to his experience and as he is an independent non-executive director of the Company.

Key Objectives

The Committee aims to ensure 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 Audit Committee believes the Annual Report and Financial Statements, 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 of the independence of the auditors arising from any non-audit services to be provided by the auditor;
- reviewing the effectiveness of the Company's risk management framework, taking into account the reports on the internal controls of the Company's service providers;
- considering the nature and extent of the significant risks the Company faces in achieving its strategic objectives; and
- compiling a report on the Audit Committee's activities to be included in the Company's Annual Report.

Audit Committee Meetings

The Audit Committee meets at least three times a year with only its members and the Committee Secretary having the right to attend. However, other Directors and representatives of the Investment Manager and Administrator will be invited to attend such 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 Audit Committee determines, in conjunction with KPMG, whether it is necessary for it to meet the auditors without the Investment Manager or other service providers being present.

Audit Committee Report (continued)

Main Activities during the Year

The Audit Committee assisted 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 Audit Committee reports to the Board as part of a separate agenda item on its activities and matters of particular relevance to Board members in the conduct of their work.

The Board requested that the Audit Committee advise them on whether it believes the Annual Report, 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 Audit Committee's terms of reference were updated during the year and can be found on the Company's website www.nbddif.com.

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

Financial Reporting

The primary role of the Audit Committee in relation to financial reporting is to review with the Investment Manager, Administrator and the external auditor the appropriateness of the Interim 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;
- the viability of the Company, taking into account the principal risks it faces;
- whether the Annual Report and Financial Statements, 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 financial reporting.

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

The members of the Audit Committee had meetings with KPMG, where their findings in respect of both the Interim Review and the Annual Audit were reported.

Significant Issues

In relation to the Annual Report and Financial Statements for the year ended 31 December 2017, the significant issue considered by the Audit Committee was the valuation of the Company's investments.

The Committee received a report from the Investment Manager on the valuation of the Portfolios and on the assumptions used in valuing the Portfolios. It analysed the investment Portfolios of the Company in terms of investment mix, fair value hierarchy and valuation and held detailed discussions with the Investment Manager regarding the methodology and procedures used in valuing the Portfolios.

The Committee discussed in depth with KPMG their approach to testing the appropriateness and robustness of the valuation methodology applied by the Investment Manager to the Company's Portfolios. KPMG did not report any significant differences between the valuations used by the Company and the results of the work performed during their testing process. Based on their above review and analysis the Audit Committee confirmed that it is satisfied with the valuation of the investments.

Internal Controls and Risk Management

The Audit 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 Audit Committee has overall responsibility 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.

The Board has undertaken a full review of the Company's business risks, which have been analysed and recorded in a risk matrix, which is updated regularly and is formally reviewed at each quarterly Board meeting. The Board receives, each quarter, a formal report from the Investment Manager which details the steps taken to monitor and manage 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.

The Company itself does not have an internal audit function, but instead relies on the internal audit functions and departments of the Investment Manager. The Committee was satisfied that this function provided significant control to help mitigate the risks to the Company.

In addition, the Audit Committee annually receives and reviews Internal Controls reports from independent sources, in respect of the Administrator, Sub-Administrator, Registrar, Custodian and Investment Manager.

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 is set out on pages 32 to 33.

By means of the procedures set out above, the Audit Committee confirms that it has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 December 2017 and to the date of approval of this Annual Report and that no concerns have been noted.

External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Audit Committee received a detailed audit plan from KPMG, identifying their assessment of these significant risks. For the 2017 financial year the significant risk identified was in relation to the valuation of investments. This risk is tracked through the year and the Committee has considered the work done by the auditors to challenge management's assumptions and estimates around these areas. The Committee has assessed the effectiveness of the audit process in addressing these matters through the reports received from KPMG at both the half-year and year end. In addition, the Committee has sought feedback from the Investment Manager, the Administrator and Sub-administrator on the effectiveness of the audit process. For the 2017 financial year the Committee is 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 appropriate.

The Audit Committee considers the re-appointment 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 current audit partner, Dermot A. Dempsey, took over the role as lead audit engagement partner in 2014.

KPMG has been the Company's external auditor since its stock exchange listing in 2010 (7 years). The Company has not formally tendered the audit since then. The Audit Committee will put the Company's audit out to tender at least every ten years and the maximum duration of a continuous audit engagement will be twenty years.

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

The Audit Committee approved the fees for audit services for 2017 after a review of the level and nature of work to be performed. The Board was satisfied that the fees were appropriate for the scope of the work required.

Non-Audit Services

To safeguard the objectivity and independence of the external auditor from becoming compromised, the Audit Committee has a policy governing the engagement of the external auditor to provide non-audit services. The Committee made amendments to this policy in April 2017 in order to voluntarily adopt certain provisions of the FRC's Revised Ethical Standard 2016 relating to non-audit services as it applies to E.U. public interest entities. The Audit Committee has pre-approved the categories of non-audit services that may be performed by the Company's external auditors. The Audit Committee must be advised by the commissioning entity/person, and by the audit firm, of all assignments undertaken by the external auditors that fall within the pre-approved categories as soon as practicable.

Audit Committee Report (continued)

Main Activities during the Year (continued)

Non-Audit Services (continued)

Fees for non-audit services provided by the statutory audit firm, other than those required by law or regulation, are subject to a cap of 70% of the average of the audit fees in the last three years. In line with the FRC Revised Ethical Standard 2016 this policy is applied prospectively from the Company's year ended 31 December 2017 and therefore the threshold will be calculated on a three year look back from the financial year ended 31 December 2020.

All other non-audit services require prior approval by the Audit Committee. In respect of each calendar year the Audit Committee monitors the provision of non-audit services by receiving at least half yearly a list of the non-audit services provided (and expected to be provided) by the external auditor in that calendar year, and the fees involved, so that the Audit Committee can consider the impact on auditors' objectivity. The Audit Committee's policy on the Independence of External Auditor (including the provision of non-audit services) is available on its website at www.nbddif.com.

Auditor's Remuneration

	31 DECEMBER 2017 £	31 DECEMBER 2016 £
Audit	181,345	181,345
Taxation compliance & consulting services	39,404	232,598
Non audit services (review of interim report)	26,750	26,100
Total	**247,499**	**440,043**

Appointment and Independence

The Committee noted that for the year ended 31 December 2017 non-audit fees did not exceed audit fees.

In light of the growing focus on non-audit fees the Committee has enhanced its scrutiny to ensure that it is comfortable, on an ongoing basis that the nature of the non-audit work commissioned does not impinge on audit independence. The Committee did not consider that tax compliance and tax consultancy services presented a conflict as the services provided were all assessed as permissible prior to the commencement of the work and did not impact the audit work performed by the audit team.

The Investment Manager has responsibility for preparing and approving all tax calculations and tax returns. The output is not relied upon by the audit team and the performance of these services is led by a tax partner who is independent of the audit team. Those tax services are subject to separate terms of engagement to that of the audit engagement.

The Audit Committee has therefore recommended to the Board that KPMG be reappointed as external auditor for the year ending 31 December 2018, 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 2018 AGM.

There are no contractual obligations restricting the Committee's choice of external auditor and the Company does not indemnify the external auditor.

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 47.

Christopher Sherwell
On behalf of the Audit Committee

17 April 2018

Management Engagement Committee Report

Membership

Stephen Vakil – Chairman	(Independent non-executive Director)
John Hallam	(Chairman of the Company and Independent non-executive Director)
Sarah Evans[1]	(Independent non-executive Director)
Christopher Sherwell	(Senior Independent non-executive Director)

1 Mrs Evans resigned as director of the Company on 18 January 2018.

Key Objectives

To review performance of all service providers (including the Investment Manager).

Responsibilities

- To review annually the performance, relationships and contractual terms of all service providers (including the Investment Manager);
- Review and make recommendations on any proposed amendment to the Investment Manager Agreement ("IMA");
- To review the performance of, and contractual arrangements with the Investment Manager including:
  - Monitor and evaluate the Investment Manager's performance and, if necessary, provide appropriate guidance;
  - To consider whether an independent appraisal of the Investment Manager's services should be made;
  - To review the level and method of remuneration and notice period, using peer group comparisons (where available); and
  - To ensure that the Investment Manager has a sound system of risk management and internal controls and that these are maintained to safeguard shareholders' investment and the Company's assets.

Committee Meetings

Only members of the Management Engagement Committee and the Secretary have the right to attend Committee meetings. However, representatives of the Investment Manager and Administrator may be invited by the Committee to attend meetings as and when appropriate.

Main Activities during the year

The Management Engagement Committee met once during the year and reviewed performance, standard and value for money of the Company's service providers and the Investment Manager. The Management Engagement Committee reviewed the contractual terms, disaster recovery and business continuity arrangements, information security arrangements, details of anti-bribery and corruption policies and the level of Professional Indemnity Insurance of all service providers as at 14 November 2017, including the Investment Manager.

The Management Engagement Committee recommended to the Board that the Company approve an Amendment Agreement to the Amended and Restated IMA dated 17 July 2014, in respect of the manufacture of the Company's Key Information Document by the AIFM, MiFID II, anti-money laundering and bribery, cyber security and data protection.

The Management Engagement Committee reviewed the Terms of Reference for the Committee and considered that they remained appropriate.

Continued Appointment of the Investment Manager and Other Service Providers

The Board reviews investment performance at each Board meeting and the performance of the Company's service providers are reviewed annually as part of the Management Engagement Committee's annual review.

Management Engagement Committee Report (continued)

Continued Appointment of the Investment Manager and Other Service Providers (continued)

As a result of the 2017 annual review it is the opinion of the Directors that the continued appointment of the current service providers, including the Investment Manager, on the terms agreed is in the best interests of the Company's shareholders as a whole. The Investment Manager has extensive investment management resources and wide experience in managing investment companies.

Stephen Vakil

On behalf of the Management Engagement Committee

17 April 2018

Inside Information Committee Report

Membership

John Hallam	(Chairman of the Company and Independent non-executive Director)
Sarah Evans[1]	(Independent non-executive Director)
Michael Holmberg	(non-executive Director)
Christopher Sherwell	(Independent non-executive Director)
Stephen Vakil	(Independent non-executive Director)

1 Mrs Evans resigned as director of the Company on 18 January 2018.

Key Objectives

To identify inside information and monitor the disclosure and control of inside information.

Responsibilities

- Identify inside information as it arises;
- Review and prepare project insider lists as required; and
- Consider the need to announce or to delay the announcement of inside information.

Committee Meetings

Only members of the Inside Information Committee and the Secretary have the right to attend Inside Information Committee meetings. However, representatives of the Investment Manager and Administrator may be invited by the Inside Information Committee to attend meetings as and when appropriate.

Main Activities During the year

Under the Terms of Reference the Inside Information Committee is only required to meet when there is a requirement to identify and consider the delay to the disclosure of inside information. There were no delays to the disclosure of information during the year.

John Hallam
On behalf of the Inside Information Committee

17 April 2018

Remuneration Committee Report

Membership

Stephen Vakil – Chairman	(Independent non-executive Director)
John Hallam	(Chairman of the Company and Independent non-executive Director)
Sarah Evans[1]	(Independent non-executive Director)
Christopher Sherwell	(Senior Independent non-executive Director)

1 Mrs Evans resigned as director of the Company on 18 January 2018.

Key Objectives

To review the ongoing appropriateness and relevance of the Company's remuneration policy.

Responsibilities

- Determine the remuneration of the Directors;
- Prepare an annual report on Directors' remuneration;
- Consider the need to appoint external remuneration consultants; and
- Oversee the performance evaluation of the Board; its committees and individual directors.

Committee Meetings

Only members of the Remuneration Committee and the Secretary have the right to attend Remuneration Committee meetings. However, representatives of the Investment Manager and Administrator may be invited by the Remuneration Committee to attend meetings as and when appropriate.

Main Activities During the year

The Remuneration Committee met twice during the year and reviewed the Director's remuneration and results of the 2017 Board evaluation. The Remuneration Committee reviewed the Terms of Reference and considered that they remained appropriate.

The Remuneration Committee considered the Directors' Remuneration and the Board accepted its recommendation to amend the current policy such that an allocation is given for each share class, as follows:

	COMPANY FEE (USD)	NBDD FEE (USD)	NBDX FEE (USD)	NBDG FEE (GBP)	TOTAL (USD)	TOTAL (GBP)
Chairman	40,000	10,000	10,000	10,000	60,000	10,000
Audit Committee Chairman	30,000	10,000	10,000	10,000	50,000	10,000
Other Directors	25,000	10,000	10,000	10,000	45,000	10,000

A detailed Directors' Remuneration report to shareholders from the Remuneration Committee is contained on pages 59 to 61.

Stephen Vakil

On behalf of the Remuneration Committee

17 April 2018

Directors' Remuneration Report

Annual Statement

The following 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 AGM to be held on 19 June 2018.

Directors' Fees

The Company paid the following fees to the Directors for the year ended 31 December 2017:

	ROLE	TOTAL BOARD FEES ($)	TOTAL BOARD FEES (£)
John Hallam	Chairman	60,000	10,000
Michael Holmberg	non-executive Director	-	-
Christopher Sherwell	non-executive Director	45,000	10,000
Sarah Evans	non-executive Director and Chairman of Audit Committee and Remuneration Committee	50,000	10,000
Stephen Vakil	non-executive Director and Chairman of Management Engagement Committee	45,000	10,000
Total		**200,000**	**40,000**

The Company paid the following fees to the Directors for the year ended 31 December 2016:

	ROLE	TOTAL BOARD FEES ($)	TOTAL BOARD FEES (£)
John Hallam	Chairman	60,000	10,000
Michael Holmberg	non-executive Director	-	-
Talmai Morgan[1]	non-executive Director	4,821	1,071
Christopher Sherwell	non-executive Director	45,000	10,000
Sarah Evans	non-executive Director and Chairman of Audit Committee and Remuneration Committee	50,000	10,000
Stephen Vakil[2]	non-executive Director and Chairman of Management Engagement Committee	40,179	8,929
Total		**200,000**	**40,000**

1 Talmai Morgan resigned as a Director on 8 February 2016

2 Mr Vakil was appointed as a Director on 5 February 2016

No other remuneration was paid or payable by the Company during the year to any of the Directors, other than travel expenses of $3,637 (2016: $36,328).

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 reviewed the fees paid to the boards of similar investment companies. No Director is involved in decisions relating to his or her own remuneration. During the year, on the recommendation of the Remuneration Committee, the Board approved an amendment to the remuneration policy to allocate a base fee alongside a fee allocation for each share class (excluding the Class A Shares). The revised model allows for flexibility in fees to reflect the number share classes and the associated complexity and time commitment involved. The fee allocations are shown on page 58.

Directors' Remuneration Report (continued)

Remuneration Policy (continued)

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. It should be noted that he higher level of travel expenses in 2016 was a consequence of the Board conducting a due diligence visit to the Investment Manager in Chicago.

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 additional time spent performing their duties. The Board may amend the level of remuneration paid within the limits of the Company's Articles. The Board recognised that its remuneration policy needed to be reviewed to reflect the changing status of the Company as the existing Portfolios realise their assets and are liquidated as detailed on page 58.

Directors' Fees Policy

OBJECTIVE	OPERATION	MAXIMUM POTENTIAL VALUE	PERFORMANCE METRICS USED
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 November 2017. 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. 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.

As detailed on page 45, all of the independent non-executive Directors are re-elected at the first AGM after their appointment and are then subject to annual re-election. The names and biographies of the Directors holding offices at the date of this report are listed on page 37.

Copies of the Directors' letters of appointment are available for inspection by shareholders at the Company's Registered Office, and will be available at the AGM. The dates of their letter of appointments are shown below.

Dates of Directors' Letters of Appointment

	DATE OF LETTER OF APPOINTMENT
John Hallam	20 April 2010
Michael Holmberg	21 April 2010
Christopher Sherwell	20 April 2010
Stephen Vakil	5 February 2016
Christopher Legge	12 April 2018

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 at 15 April 2018 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
John Hallam	–	47,831	110,000	157,831
Michael Holmberg	–	65,569	115,000	180,569
Christopher Legge	–	–	–	–
Christopher Sherwell	–	22,833	65,000	87,833
Stephen Vakil	–	–	60,000	60,000

Advisors to the Remuneration Committee

The Remuneration Committee has not sought the paid advice or professional services by any outside person in respect of its consideration of the Directors' remuneration. The Remuneration Committee sought input from NBEL and the Brokers during its deliberations of the remuneration policy.

Stephen Vakil
On behalf of the Remuneration Committee

17 April 2018

Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' Report and financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and the US Generally Accepted Accounting Principles ("US GAAP"), of the state of affairs of the Company and of the profit or loss for the year. 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless liquidation is imminent.

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 Law. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent an detect fraud and other irregularities.

The Directors of the Company have elected to prepare consolidated Financial Statements for the Company for the year ended 31 December 2017 as the parent of the Group in accordance with Section 244(5) of the Law.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors confirm to the best of their knowledge that:

- The Financial Statements which have been prepared in conformity with US GAAP give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole as required by DTR 4.1.12R are in compliance with the requirements set out in the Law; 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 Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from regulation in other jurisdictions.

By order of the Board

John Hallam	**Christopher Sherwell**
Chairman	Director
17 April 2018	17 April 2018

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NB DISTRESSED DEBT INVESTMENTS FUND LIMITED

Our opinion is unmodified

We have audited the consolidated financial statements (the "Financial Statements") of NB Distressed Debt Investment Fund Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of assets and liabilities including the consolidated condensed schedule of investments as at 31 December 2017, the consolidated statement of operations, the consolidated statement of changes in net assets, the consolidated statement of cash flows for the year then ended and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Financial Statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017, and of the Group's financial performance and the Group's cash flows for the year then ended;
- are prepared in conformity with U.S. generally accepted accounting principles ("US GAAP"); and
- comply with the Companies (Guernsey) Law, 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter, was as follows:

Independent Auditor's Report (continued)

VALUATION OF INVESTMENTS AT FAIR VALUE ("INVESTMENTS")

$314,800,289 (2016: $330,728,123)

Refer to page 51 of the Audit Committee Report, page 71 Consolidated Condensed Schedule of Investments, Note 2 Summary of Accounting Policies and Note 2(f) Fair Value of Financial Instruments.

THE RISK

Basis:

The Group's investment portfolio is carried at fair value in conformity with US GAAP. It represents a significant proportion (95% (2016: 87%)), and is the principal driver, of the Group's net asset value.

The Group's holdings in quoted equities and debt investments, representing 21% of the fair value of Investments, are valued according to their bid price at the close of the relevant reporting period. The Group's holdings in unquoted equities and debt investments, representing 38% of the fair value of Investments, are valued at the bid price using a pricing service for private loans (together the "Price Quotes").

Where no Price Quotes are available or not deemed to be representative of fair value, the Group will utilise the resources of the Investment Manager to augment its own fair value analysis to determine the most appropriate fair value for such investments ("Internally Generated Valuations"). 41% of the fair value of Investments were valued using Internally Generated Valuations.

Risk:

The valuation of the Group's Investments is considered a significant area of our audit, given that it represents the majority of the net assets of the Group.

The valuation risk incorporates both a risk of fraud and error given the significance of estimates and judgements that may be involved in the determination of fair value.

OUR RESPONSE

Our audit procedures included:

Control evaluation:

We documented and assessed the adequacy of the design and implementation of the management review control in relation to the valuation of investments.

Challenging managements' assumptions and inputs including use of KPMG Specialists:

For Investments where market quotes were available, with the support of our KPMG valuation specialist, we obtained prices from third party data sources and pricing vendors. We assessed their reliability through checking the frequency of the pricing, the number of independent quotes available and the range of the quoted prices, in order to derive an independent reference price.

For a selection of the remaining population of Investments, chosen on the basis of their fair value, we performed, as applicable, the following procedures with the support of our KPMG valuation specialists:

- We considered the fair valuation memorandums prepared by the Investment Manager;
- We challenged the fair value of the holding by comparing it to market information for comparable instruments or assets with similar terms and risk profile;
- We considered market transactions for similar holdings in close proximity to the year end and assessed their appropriateness as being representative of fair value;
- We assessed the reliability of market information provided by pricing vendors.

Assessing disclosures:

We also considered the Group's disclosures (Note 2(b)) in relation to the use of estimates, the Group's valuation of investments policies (Note 2(f)) and fair value of financial instruments (Note 2(f)) for compliance with US GAAP.

Our application of materiality and an overview of the scope of our audit

Materiality for the Financial Statements as a whole was set at $6,6 million, determined with reference to a benchmark of Group Net Assets of $332,658,475, of which it approximately represents 2% (2016: 2%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding $331,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group net investment income and gains/losses from investment transactions and foreign exchange, and total Group assets and liabilities.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

We have nothing to report on the other Information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report on other 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.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 62, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless liquidation is imminent.

Independent Auditor's Report (continued)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

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.

Dermot A. Dempsey
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Glategny Court
St Peter Port
Guernsey GY1 1WR
Channel Islands

17 April 2018

Consolidated Statement of Assets and Liabilities

(EXPRESSED IN US DOLLARS EXCEPT WHERE STATED OTHERWISE)	31 DECEMBER 2017	31 DECEMBER 2016
Assets		
Investments at fair value	314,800,289	330,728,123
(2017: cost of $370,742,695; 2016: cost of $389,791,409)		
Forward currency contracts	257,290	1,766,317
Warrants (2017: cost of $752,955; 2016: cost of $752,955)	287,087	440,230
Cash and cash equivalents	23,824,956	38,615,044
	339,169,622	371,549,714
Other assets		
Interest receivables	1,466,010	1,002,567
Receivables for investments sold	2,293,513	4,693,490
Other receivables and prepayments	1,453,086	1,161,989
Deferred tax asset	–	2,987,074
Federal tax receivable	3,086,623	–
Total assets	**347,468,854**	**381,394,834**
Liabilities		
Payables for investments purchased	7,760,428	9,507,381
Credit default swap (2017: cost of $Nil; 2016: cost of $45,648)	–	28,813
Forward currency contracts	98,264	6,813
Accrued expenses and other liabilities	501,135	455,438
Income distribution payable	6,038,502	–
Payables to Investment Manager and affiliates	412,050	461,858
Total liabilities	**14,810,379**	**10,460,303**
Net assets	**332,658,475**	**370,934,531**
Net assets attributable to Ordinary Shares (shares 2017: 26,714,397; 2016: 35,218,587)	**29,641,938**	**37,271,106**
Net asset value per Ordinary Share	**1.1096**	**1.0583**
Net assets attributable to Extended Life Shares (shares 2017: 173,302,953; 2016: 215,873,854)	**180,009,723**	**216,628,260**
Net asset value per Extended Life Share	**1.0387**	**1.0035**
Net assets attributable to New Global Shares (shares 2017: 98,733,585; 2016: 100,575,785)	**£90,930,929**	**£94,715,465**
Net asset value per New Global Share	**£0.9210**	**£0.9417**
Net assets attributable to New Global Shares (USD equivalent)	**123,006,814**	**117,035,165**
Net asset value per New Global Share (USD equivalent)	**1.2458**	**1.1637**

The Financial Statements were approved and authorised for issue by the Board of Directors on 17 April 2018, and signed on its behalf by:

John Hallam	**Christopher Sherwell**
Chairman	Director

The accompanying notes are an integral part of the Financial Statements.

Consolidated Statement of Operations

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2017	31 DECEMBER 2016
Income		
Interest income	9,960,630	13,114,532
Dividend income net of withholding tax (2017: nil; 2016: $506,473)	82,546	3,394,883
	10,043,176	**16,509,415**
Expenses		
Investment management fee	5,301,564	5,837,063
Professional and other expenses	1,054,931	2,313,235
Administration fee	322,796	357,463
Loan administration and custody fees	216,042	183,060
Directors' fees and expenses	249,534	289,955
	7,144,867	**8,980,776**
Net investment income	**2,898,309**	**7,528,639**
Realised and unrealised gain/(loss) from investments and foreign exchange		
Net realised gain /(loss) on investments, credit default swap, warrants and forward currency transactions	18,614,764	(11,233,015)
Non cash loss on investment restructuring transactions	(233,473)	(45,501,723)
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	1,049,843	65,205,964
Income taxes from net realised/unrealised gain/(loss) on investments	221,390	(832,659)
Realised and unrealised gain from investments and foreign exchange	**19,652,524**	**7,638,567**
Net increase in net assets resulting from operations	**22,550,833**	**15,167,206**

The accompanying notes are an integral part of the Financial Statements.

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	**31 DECEMBER 2017 ORDINARY SHARES**	**31 DECEMBER 2017 EXTENDED LIFE SHARES**	**31 DECEMBER 2017 NEW GLOBAL SHARES**	**31 DECEMBER 2017 AGGREGATED**
Net assets at the beginning of the year	**37,271,106**	**216,628,260**	**117,035,165**	**370,934,531**
Net investment income	(206,679)	2,274,990	829,998	2,898,309
Net realised gain on investments, credit default swap and forward currency transactions	2,269,917	14,522,802	1,822,045	18,614,764
Non cash gain/(loss) on investment restructuring transactions	291,086	180,502	(705,061)	(233,473)
Net change in unrealised gain/ (loss) on investments, credit default swap, warrants and forward currency transactions	(178,688)	(6,032,183)	7,260,714	1,049,843
Income taxes from net realised/unrealised gains on investments	53,119	136,951	31,320	221,390
Dividends	(374,002)	(4,247,515)	(1,415,706)	(6,037,223)
Net cost of share buybacks	–	(1,736,311)	(1,851,661)	(3,587,972)
Shares redeemed during the year	(9,483,921)	(41,717,773)	–	(51,201,694)
Net assets at the end of the year	**29,641,938**	**180,009,723**	**123,006,814**	**332,658,475**

FOR THE YEAR ENDED 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	**31 DECEMBER 2016 ORDINARY SHARES**	**31 DECEMBER 2016 EXTENDED LIFE SHARES**	**31 DECEMBER 2016 NEW GLOBAL SHARES**	**31 DECEMBER 2016 AGGREGATED**
Net assets at the beginning of the year	**54,610,406**	**270,818,231**	**115,471,327**	**440,899,964**
Net investment income	586,847	5,175,762	1,766,030	7,528,639
Net realised gain on investments, credit default swap and forward currency transactions	(272,874)	(7,361,874)	(3,598,267)	(11,233,015)
Non cash loss on investment restructuring transactions	(2,502,542)	(29,790,961)	(13,208,220)	(45,501,723)
Net change in unrealised loss on investments, credit default swap, warrants and forward currency transactions	2,774,411	38,401,344	24,030,209	65,205,964
Income taxes from net realised/unrealised gains on investments	(156,437)	(298,783)	(377,439)	(832,659)
Dividends	(2,792,834)	(7,576,079)	(1,302,596)	(11,671,509)
Net cost of share buybacks	–	(2,771,595)	(5,745,879)	(8,517,474)
Shares redeemed during the year	(14,975,871)	(49,967,785)	–	(64,943,656)
Net assets at the end of the year	**37,271,106**	**216,628,260**	**117,035,165**	**370,934,531**

The accompanying notes are an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	31 DECEMBER 2017	31 DECEMBER 2016
Cash flows from operating activities:		
Net increase in net assets resulting from operations	22,550,833	15,167,206
Adjustment to reconcile net increase in net assets resulting from operations to net cash flow provided by operations:		
Net realised (gain) /loss on investments, credit default swap, warrants and forward currency transactions	(18,614,764)	11,233,015
Non cash loss on investment restructuring transactions	233,473	45,501,723
Non cash interest received on investments	(122,239)	–
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	(1,049,843)	(65,205,964)
Accretion of discount on loans and bonds	(703,393)	(2,079,112)
Changes in interest receivable	(463,443)	906,134
Changes in receivables for investments sold	2,399,977	(64,460)
Changes in other receivables and prepayments	(291,097)	(806,787)
Change in deferred taxes	(99,549)	(6,207,861)
Changes in payables for investments purchased	(1,746,953)	9,337,708
Changes in payables, accrued expenses and other liabilities	(4,111)	(88,392)
Cash paid on settled forward currency contracts and spot currency contracts	(3,351,275)	(3,350,032)
Purchase of investments	(18,023,084)	(41,848,593)
Sale of investments	51,510,975	108,320,709
Net sale of short term investments	8,050,317	35,909,126
Net cash provided by operating activities	**40,275,824**	**106,724,420**
Cash flows from financing activities:		
Net cost of share buybacks	(3,587,972)	(8,517,474)
Shares redeemed during the year	(51,201,694)	(64,943,656)
Dividends	–	(11,671,509)
Net cash used in financing activities	**(54,789,666)**	**(85,132,639)**
Net (decrease)/increase in cash and cash equivalents	**(14,513,842)**	**21,591,781**
Cash and cash equivalents at the beginning of the year	38,615,044	17,168,855
Effect of exchange rate changes on cash and cash equivalents	(276,246)	(145,592)
Cash and cash equivalents at the end of the year	**23,824,956**	**38,615,044**

Supplemental cash flow information

$24,020,641 (31 December 2016: $27,933,872) related to the value of non-cash investment transactions, including reorganisations and exchanges and is excluded from purchases of and proceeds from sales of investments. Net tax paid during the year was $121,840 (31 December 2016: $7,040,520).

The accompanying notes are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by financial instrument)

AT 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	**COST**	**FAIR VALUE**	**ORDINARY SHARES (%)**[1]	**EXTENDED LIFE SHARES (%)**[1]	**NEW GLOBAL SHARES (%)**[1]	**TOTAL COMPANY (%)**[1]
Portfolio of Distressed Investments						
Bank Debt Investments	118,293,825	83,508,629	13.37	24.44	28.90	25.10
Private Equity	111,913,489	108,691,513	34.78	30.46	35.40	32.67
Private Equity: Real Estate Development	–	620,287	0.58	0.25	–	0.19
Private Note	59,431,556	41,271,822	10.59	15.62	8.15	12.41
Public Bond	3,053,000	2,272,000	–	0.91	0.52	0.68
Public Equity	65,018,736	66,075,191	21.84	17.73	22.52	19.85
Trade Claim[2]	13,032,089	12,360,847	11.66	4.95	–	3.72
	370,742,695	**314,800,289**	**92.82**	**94.36**	**95.49**	**94.62**
Total Investments	**370,742,695**	**314,800,289**	**92.82**	**94.36**	**95.49**	**94.62**
Ordinary Shares	31,036,493	27,509,333	92.82	–	–	–
Extended Life Shares	209,442,596	169,843,585	–	94.36	–	–
New Global Shares	130,263,606	117,447,371	–	–	95.49	–
	370,742,695	**314,800,289**	**92.82**	**94.36**	**95.49**	**94.62**
Forward Currency Contracts						
Ordinary Shares	–	77,176	0.26	–	–	0.02
Extended Life Shares	–	81,850	–	0.05	–	0.03
	–	**159,026**	**0.26**	**0.05**	**–**	**0.05**
Warrants						
Extended Life Shares	478,733	197,638	–	0.11	–	0.06
New Global Shares	274,222	89,449	–	–	0.07	0.03
	752,955	**287,087**	**–**	**0.11**	**0.07**	**0.09**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

The accompanying notes are an integral part of the Financial Statements.

Condensed Schedule of Investments (by financial instrument)

AT 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%)[1]	EXTENDED LIFE SHARES (%)[1]	NEW GLOBAL SHARES (%)[1]	TOTAL COMPANY (%)[1]
Portfolio of Distressed Investments						
Bank Debt Investments	131,743,761	89,462,184	13.09	21.72	32.07	24.12
Private Bond	19,285,351	13,661,412	2.06	4.20	3.24	3.68
Private Equity	138,122,077	142,382,636	44.24	38.19	36.89	38.39
Private Equity: Real Estate Development	2,585,916	3,600,871	2.70	1.20	–	0.97
Private Note	33,484,723	18,451,483	2.41	7.13	1.79	4.97
Public Bond	7,990,556	6,505,825	–	1.30	3.16	1.75
Public Equity	35,553,686	36,692,442	4.86	8.26	14.51	9.89
Trade Claim[2]	13,032,089	11,979,270	8.98	3.98	–	3.23
	381,798,159	**322,736,123**	**78.34**	**85.98**	**91.66**	**87.00**
Temporary Investments						
US Treasury Bills	7,993,250	7,992,000	–	3.69	–	2.15
	7,993,250	**7,992,000**	**–**	**3.69**	**–**	**2.15**
Total Investments	**389,791,409**	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**
Ordinary Shares	32,765,089	29,204,266	78.34	–	–	–
Extended Life Shares	229,387,485	194,247,898	–	89.67	–	–
New Global Shares	127,638,835	107,275,959	–	–	91.66	–
	389,791,409	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**
Credit Default Swap						
Ordinary Shares	(12,722)	(8,030)	(0.02)	–	–	–
Extended Life Shares	(32,926)	(20,783)	–	(0.01)	–	(0.01)
	(45,648)	**(28,813)**	**(0.02)**	**(0.01)**	**–**	**(0.01)**
Forward Currency Contracts						
Ordinary Shares	–	315,578	0.85	–	–	0.09
Extended Life Shares	–	1,443,926	–	0.67	–	0.39
	–	**1,759,504**	**0.85**	**0.67**	**–**	**0.48**
Warrants						
Extended Life Shares	478,733	305,746	–	0.14	–	0.08
New Global Shares	274,222	134,484	–	–	0.11	0.04
	752,955	**440,230**	**–**	**0.14**	**0.11**	**0.12**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

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

The accompanying notes are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments

Investments with the following issuers comprised greater than 5% of Total Company NAV

31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	COUNTRY	INDUSTRY	NOMINAL	COST	FAIR VALUE	ORDINARY SHARES (%)[1]	EXTENDED LIFE SHARES (%)[1]	NEW GLOBAL SHARES (%)[1]	TOTAL COMPANY (%)[1]
Securities									
Harko LLC	United States	Lodging & Casinos	2,517,756	34,067,954	32,076,211	22.16	9.41	6.97	9.66
Five Point Holdings LLC (formally known as Newhall Holding Company, LLC)	United States	Building & Development	1,720,599	23,945,425	24,277,652	14.78	7.18	5.67	7.30
Twin Rivers Worldwide Holdings	United States	Lodging & Casinos	211,702	6,777,499	22,202,247	-	-	12.64	6.67
Exide Technologies 11% 30/04/22	United States	Auto Components	8,316,371	7,290,956	7,484,734	0.16	2.95	1.73	2.24
Exide Technologies 7.000% 30/04/25 SR:AI CVT	United States	Auto Components	14,667,341	12,427,684	9,020,415	2.40	3.13	2.17	2.70
Exide Technologies 7.25% 30/04/25 SR:AI	United States	Auto Components	6,557,610	5,963,964	6,688,762	4.65	1.04	2.80	2.01
				90,473,482	**101,750,021**	**44.15**	**23.71**	**31.98**	**30.58**

31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COUNTRY	INDUSTRY	NOMINAL	COST	FAIR VALUE	ORDINARY SHARES (%)[1]	EXTENDED LIFE SHARES (%)[1]	NEW GLOBAL SHARES (%)[1]	TOTAL COMPANY (%)[1]
Securities									
Five Point Holdings LLC (formally known as Newhall Holding Company, LLC)	United States	Building & Development	10,891,404	23,945,425	27,228,510	13.18	6.69	6.69	7.34
Harko LLC	United States	Lodging & Casinos	2,517,756	35,195,155	33,989,706	18.67	8.28	7.76	9.16
				59,140,580	**61,218,216**	**31.85**	**14.97**	**14.45**	**16.50**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

The accompanying notes are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by geography)

AT 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	**COST**	**FAIR VALUE**	**ORDINARY SHARES (%)[1]**	**EXTENDED LIFE SHARES (%)[1]**	**NEW GLOBAL SHARES (%)[1]**	**TOTAL COMPANY (%)[1]**
Geographic diversity of Portfolio						
Portfolio of Distressed Investments						
Australia	18,554,191	17,652,774	11.21	4.76	4.68	5.31
Brazil	13,032,089	12,360,847	11.66	4.95	–	3.72
Denmark	14,207,442	9,899,862	–	2.58	4.27	2.98
Germany	–	1,476,112	1.39	0.59	–	0.44
Greece	357,242	280,404	0.26	0.11	–	0.08
Luxembourg	1,893,980	12,858,961	12.12	5.15	–	3.87
Marshall Islands	15,997,340	16,493,553	–	6.53	3.85	4.96
Netherlands	13,646,547	13,470,497	–	3.32	6.10	4.05
Spain	35,993,209	24,920,519	–	3.10	15.72	7.50
United States	257,060,655	205,386,760	56.18	63.27	60.87	61.71
	370,742,695	**314,800,289**	**92.82**	**94.36**	**95.49**	**94.62**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

The accompanying notes are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by geography)

AT 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%)[1]	EXTENDED LIFE SHARES (%)[1]	NEW GLOBAL SHARES (%)[1]	TOTAL COMPANY (%)[1]
Geographic diversity of Portfolio						
Portfolio of Distressed Investments						
Australia	19,227,424	15,203,066	7.69	3.41	4.23	4.10
Brazil	13,032,089	11,979,270	8.98	3.98	–	3.23
Denmark	17,263,111	13,993,794	–	2.28	7.73	3.77
Germany	–	1,413,480	1.06	0.47	–	0.38
Greece	357,242	122,108	0.09	0.04	–	0.03
Luxembourg	–	9,865,066	7.40	3.28	–	2.66
Marshall Islands	13,729,243	13,764,140	–	4.53	3.37	3.71
Netherlands	14,428,683	12,169,351	–	2.49	5.79	3.28
Spain	28,335,085	12,242,942	–	1.74	7.24	3.30
United Kingdom	852,354	2,060,319	1.54	0.69	–	0.56
United States	274,572,928	229,922,587	51.58	63.07	63.30	61.98
Temporary Investments						
United States	7,993,250	7,992,000	–	3.69	–	2.15
	389,791,409	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

The accompanying notes are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by sector)

AT 31 DECEMBER 2017 (EXPRESSED IN US DOLLARS)	**COST**	**FAIR VALUE**	**ORDINARY SHARES (%)[1]**	**EXTENDED LIFE SHARES (%)[1]**	**NEW GLOBAL SHARES (%)[1]**	**TOTAL COMPANY (%)[1]**
Industry diversity of Portfolios						
Portfolio of Distressed Investments						
Air Transport	631,151	541,827	0.51	0.22	–	0.16
Auto Components	27,367,990	23,360,850	7.27	7.18	6.73	7.02
Building & Development	25,893,453	24,548,897	15.03	7.29	5.67	7.38
Chemicals & Plastics	1,525,664	1,450,002	–	–	1.18	0.44
Commercial Mortgage	13,646,548	14,284,947	–	3.77	6.10	4.29
Containers & Packaging	1,893,980	12,858,961	12.12	5.15	–	3.87
Financial Intermediaries	21,464,317	12,484,917	3.12	6.42	–	3.75
Forest Products	–	1,476,112	1.39	0.59	–	0.44
Lodging & Casinos	82,358,287	89,201,164	22.18	21.03	36.43	26.79
Nonferrous Metals/Minerals	20,100,461	14,740,275	–	4.50	5.39	4.43
Oil & Gas	28,121,742	27,869,619	–	9.25	9.11	8.38
Real Estate Development	–	620,287	0.58	0.25	–	0.19
Shipping	38,144,150	36,992,077	0.87	11.76	12.65	11.13
Surface Transportation	32,525,287	20,321,759	11.66	7.16	3.23	6.11
Utilities	77,069,665	34,048,595	18.09	9.79	9.00	10.24
	370,742,695	**314,800,289**	**92.82**	**94.36**	**95.49**	**94.62**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

The accompanying notes are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by sector)

AT 31 DECEMBER 2016 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%)[1]	EXTENDED LIFE SHARES (%)[1]	NEW GLOBAL SHARES (%)[1]	TOTAL COMPANY (%)[1]
Industry diversity of Portfolios						
Portfolio of Distressed Investments						
Air Transport	820,337	1,913,688	0.66	0.55	0.41	0.52
Auto Components	20,369,766	13,247,128	1.66	4.05	3.29	3.57
Building & Development	27,555,817	27,499,755	13.38	6.78	6.69	7.41
Chemicals & Plastics	1,525,664	568,746	–	–	0.49	0.15
Commercial Mortgage	23,801,120	27,898,917	3.32	9.18	5.79	7.52
Containers & Packaging	852,354	11,925,384	8.94	3.97	–	3.21
Financial Intermediaries	21,464,320	12,147,487	2.41	5.19	–	3.27
Forest Products	–	1,413,480	1.06	0.47	–	0.38
Lodging & Casinos	81,951,854	80,953,291	18.66	18.31	29.33	21.84
Nonferrous Metals/Minerals	20,099,773	16,509,108	–	4.19	6.35	4.45
Oil & Gas	32,144,372	30,937,890	–	7.57	12.43	8.34
Real Estate Development	2,585,916	3,600,871	2.70	1.20	–	0.97
Shipping	37,104,844	40,060,791	0.86	10.19	15.09	10.80
Surface Transportation	32,564,456	17,108,599	8.98	5.17	2.18	4.61
Utilities	78,957,566	36,950,988	15.71	9.16	9.61	9.96
Temporary Investments						
US Treasury Bills	7,993,250	7,992,000	–	3.69	–	2.15
	389,791,409	**330,728,123**	**78.34**	**89.67**	**91.66**	**89.15**

1 This is the Fair Value expressed as a percentage of total Company NAV, Ordinary Share NAV, Extended Life Share NAV and New Global Share NAV.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Consolidated Financial Statements

NOTE 1 – ORGANISATION AND DESCRIPTION OF BUSINESS

The Company is a closed-ended investment company registered and incorporated in Guernsey under the provisions of the Companies (Guernsey) Law, 2008 (as amended) (the "Companies Law") with registration number 51774. The Company's shares are traded on the Specialist Fund Segment ("SFS") of the London Stock Exchange ("LSE"). All share classes are in the harvest period.

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

The Company's share capital is denominated in US Dollars for Ordinary Shares and Extended Life Shares and Pounds Sterling for New Global Shares.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

There were no recent standards and pronouncement relevant to the company

(a) Basis of Preparation

The accompanying Consolidated Financial Statements ("Financial Statements") give a true and fair view of the assets, liabilities, financial position and return and have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") and Companies Law and are expressed in US Dollars. All adjustments considered necessary for the fair presentation of the financial statements, for the period presented, have been included.

The Company is regarded as an Investment Company and follows the accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. Accordingly, the Company reflects its investments on the Consolidated Statement of Assets and Liabilities at their estimated fair values, with unrealized gains and losses resulting from changes in fair value reflected in net change in unrealised gain/(loss) on investments, credit default swap, warrants and forward currency transactions in the Consolidated Statement of Operations.

The Financial Statements include the results of the Company and its wholly-owned subsidiaries.

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

Wholly-owned subsidiaries, London Lake Michigan LP, London Lake Michigan (Global) LP, London Lake Erie LP and London Lake Erie (Global) LP are incorporated in the Cayman Islands.

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. are incorporated in Luxembourg.

Partially owned indirect subsidiaries NB Distressed Debt Aggregating Inc. and Chicago Aircraft Fund LLC are incorporated in Delaware and operate in the United States.

During the year ended 31 December 2017, London American Homes LP, London Adams LLC London Tides LLC, London Dearborn LLC, London Randolph LLC, London Wacker LLC and London (Lux) PropCo 2 S.a.r.l. were dissolved.

(b) Use of Estimates

The preparation of these Financial Statements in accordance with U.S.GAAP requires that the Directors make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period.

Actual results could differ significantly from these estimates.

(c) Cash and Cash Equivalents

The Company holds cash and cash equivalents in U.S. and non-U.S. denominated currencies 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 an insignificant risk of change in value to be cash equivalents. As of 31 December 2017, the Company has cash balances in foreign currencies equating to $23,824,956 (31 December 2016: $38,615,044). These balances consisted of Pound Sterling: $3,429,128 (31 December 2016: $9,719,133), Euro: $875,586 (31 December 2016: $658,690), US Dollar: $19,165,424 (31 December 2016: $28,029,403), and Australian Dollar: $354,818 (31 December 2016: $207,818).

(d) Payables/Receivables on Investments Purchased/Sold

At 31 December 2017, the amount payable/receivable on investments purchased/sold represents amounts due for investments purchased/sold that have been contracted for but not settled on the Consolidated Statement of Assets and Liabilities date.

(e) Foreign Currency Translation

Assets and liabilities denominated in foreign currency are translated into US Dollars at the currency exchange rates on the date of valuation. 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, warrants and forward currency transactions in the Consolidated Statements of Operations.

(f) Fair Value of Financial Instruments

The fair value of the Company's assets and liabilities that qualify as financial instruments under FASB ASC 825, Financial Instruments, approximate the carrying amounts presented in the Consolidated Statement of Assets and Liabilities.

Fair value prices are estimates are made at a discrete point in time, based on relevant market data, information about the financial instruments, and other factors.

Fair value is 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 2017 and 31 December 2016 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 it reflects the value at which investments are sold to a willing buyer and the settlement period on their balances is short term.
- Interest receivables and other receivables and prepayments – The carrying value reasonably approximates fair value.
- Quoted investments are valued according to their bid price 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.
- Warrants are priced using the bid price provided by third party broker / dealer market quotes.
- 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. Further information on valuations is provided in Note 2 (g), "Investment transactions, investment income/expenses and valuation", on page 86.
- 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 the 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 forward exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.

The Company follows guidance in ASC 820, Fair Value Measurement ("ASC 820"), where fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are determined within a framework that establishes a three-tier hierarchy which maximizes the use of observable market data and minimizes the use of unobservable inputs to establish a classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, such as the risk inherent in a particular valuation technique used to measure fair value using a pricing model and/or the risk inherent in the inputs for the valuation technique. Inputs may be observable or unobservable.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the information available. The inputs or methodology used for valuing assets or liabilities may not be an indication of the risks associated with investing in those assets or liabilities.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (continued)

(f) Fair Value of Financial Instruments (continued)

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies

Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. – The inputs used in the determination of the fair value require significant management judgment or estimation

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

The following is a summary of the levels within the fair value hierarchy in which the Company invests:

FAIR VALUE OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2017

(EXPRESSED IN US DOLLARS)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bank Debt Investments	–	34,205,399	49,303,230	83,508,629
Private Equity	–	39,264,153	69,427,360	108,691,513
Private Equity: Real Estate Development	–	–	620,287	620,287
Private Note	–	34,310,812	6,961,010	41,271,822
Public Bond	–	2,272,000	–	2,272,000
Public Equity	66,075,191	–	–	66,075,191
Trade Claim	–	–	12,360,847	12,360,847
Warrants	–	195,070	92,017	287,087
Forward currency contracts	–	159,026	–	159,026
Total investments that are accounted for at fair value	**66,075,191**	**110,406,460**	**138,764,751**	**315,246,402**

FAIR VALUE OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2016

(EXPRESSED IN US DOLLARS)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bank Debt Investments	–	39,692,993	49,769,191	89,462,184
Private Bond	–	13,060,440	600,972	13,661,412
Private Equity	–	49,286,688	93,095,948	142,382,636
Private Equity: Real Estate Development	–	–	3,600,871	3,600,871
Private Note	–	6,303,996	12,147,487	18,451,483
Public Bond	–	6,505,825	–	6,505,825
Public Equity	12,807,661	23,884,781	–	36,692,442
Trade Claim	–	–	11,979,270	11,979,270
US Treasury Bills	–	7,992,000	–	7,992,000
Warrants	–	157,100	283,130	440,230
Credit Default Swap	–	(28,813)	–	(28,813)
Forward currency contracts	–	1,759,504	–	1,759,504
Total investments that are accounted for at fair value	**12,807,661**	**148,614,514**	**171,476,869**	**332,899,044**

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 at 31 December 2017. 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	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE INPUT	WEIGHTED AVERAGE
Bank Debt Investments	Air Transport	537,748	Market Information	Value of remaining Aircraft	$12.3m	N/A
Bank Debt Investments	Building & Development	271,244	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	13,470,496	Discount Rate	15% discount rate on loan payments	N/A	N/A
Bank Debt Investments	Forest Products	1,476,111	Market Comparables	10% liquidity discount	N/A	N/A
Bank Debt Investments	Lodging & Casinos	9,480,319	Market Comparables	EBITDA Multiple	13.5	N/A
Bank Debt Investments	Shipping	15,206,399	Market Information	Value of Shipping Vessels	$9.5m per vessel	N/A
Bank Debt Investments	Surface Transport	7,960,913	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	900,000	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Air Transport	4,079	Discounted Cash Flow (DCF)	Residual Value/ Cash Receivable	N/A	N/A
Private Equity	Auto Components	166,939	Discounted Cash Flow (DCF)	Residual Value/ Cash Receivable	N/A	N/A
Private Equity	Commercial Mortgage	814,450	Residual Value	Litigation Reserves	71% recovery value	N/A
Private Equity	Containers & Packaging	12,858,962	Discount Rate	5% liquidity discount	N/A	N/A
Private Equity	Lodging & Casinos	7,479,289	Market Comparables	EBITDA Multiple	8.0x	N/A
Private Equity	Lodging & Casinos	32,076,211	Market Comparables	Land value per acre	$2.1m per acre	N/A
Private Equity	Nonferrous Metals/Minerals	14,740,276	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Shipping	1,287,154	Market Information	Value of Shipping Vessels	$9.5m per vessel	N/A
Private Equity: Real Estate Development	Real Estate Development	620,287	Market Comparables	Price per square foot	$324 per sq. foot	N/A
Private Note	Auto Components	6,688,762	Purchase Price	Weighted Average Valuation	N/A	N/A
Private Note	Utilities	272,248	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transport	12,360,847	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Oil & Gas	45,367	Market Comparables	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	46,650	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		**138,764,751**				

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (continued)

(f) 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 at 31 December 2016. 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	SIGNIFICANT UNOBSERVABLE INPUTS	RANGE INPUT	WEIGHTED AVERAGE
Bank Debt Investments	Air Transport	876,185	Market Information	Value of remaining Aircraft	$12.4m per plane	N/A
Bank Debt Investments	Building & Development	271,244	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Commercial Mortgage	4,423,540	Discounted Cash Flow (DCF)	WACC	24% discount rate on loan payments	N/A
Bank Debt Investments	Commercial Mortgage	12,169,352	Discounted Cash Flow (DCF)	WACC	15% discount rate on loan payments	N/A
Bank Debt Investments	Forest Products	1,413,480	Market Comparables	EBITDA Multiple	7.1	N/A
Bank Debt Investments	Lodging & Casinos	7,113,613	Market Comparables	EBITDA Multiple	13.5	N/A
Bank Debt Investments	Shipping	12,765,944	Market Information	Value of Shipping Vessels	$8.5m per vessel	N/A
Bank Debt Investments	Shipping	3,062,792	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Surface Transportation	5,129,328	Market Information	Unadjusted Broker Quote	N/A	N/A
Bank Debt Investments	Utilities	2,543,713	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Bond	Utilities	600,972	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Air Transport	1,037,503	Discounted Cash Flow (DCF)	WACC Value of remaining Aircraft	20% $1.25m	N/A
Private Equity	Commercial Mortgage	11,306,026	Discounted Cash Flow (DCF)	WACC Price per square foot	10% $452 per sq. foot	N/A
Private Equity	Containers & Packaging	9,865,065	Market Comparables	Enterprise Value Multiple	7.75	N/A
Private Equity	Containers & Packaging	2,060,319	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging & Casinos	328,950	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Lodging & Casinos	33,989,705	Market Comparables	Land value per acre	$2.3m per acre	N/A
Private Equity	Nonferrous Metals/Minerals	16,509,108	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Oil & Gas	15,475,501	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Equity	Real Estate Development	3,600,871	Market Comparables	Price per square foot	$355 per sq. foot	N/A
Private Equity	Shipping	998,207	Market Information	Value of Shipping Vessels	$7.3m per vessel	N/A
Private Equity	Utilities	1,525,564	Market Information	Unadjusted Broker Quote	N/A	N/A
Private Note	Financial Intermediaries	12,147,487	Market Information	Unadjusted Broker Quote	N/A	N/A
Trade Claim	Surface Transportation	11,979,270	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Oil & Gas	228,422	Market Information	Unadjusted Broker Quote	N/A	N/A
Warrants	Shipping	54,708	Market Information	Unadjusted Broker Quote	N/A	N/A
Total		**171,476,869**				

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.

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.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (continued)

(f) 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 2017 (EXPRESSED IN US DOLLARS)	BANK DEBT INVESTMENTS	PRIVATE BOND	PRIVATE EQUITY	PRIVATE EQUITY: REAL ESTATE DEVELOPMENT	TRADE CLAIM	WARRANTS	PRIVATE NOTE	TOTAL
Balance, 31 December 2016	**49,769,191**	**600,972**	**93,095,948**	**3,600,871**	**11,979,270**	**283,130**	**12,147,487**	**171,476,869**
Purchases	3,705,632	–	7,514,142	–	–	–	5,969,791	17,189,565
Sales and distributions	(7,514,023)	–	(42,332,636)	(2,987,227)	–	–	–	(52,833,886)
Restructuring transactions	3,822,012	–	2,104,422	–	–	–	–	5,926,434
Gain on non–cash investment transactions	–	–	1,041,626	–	–	–	–	1,041,626
Realised gain/(loss) on sale of investments	46,367	–	33,023,319	401,310	–	–	–	33,470,996
Unrealised (loss)/gain on investments	3,971,074	–	(9,263,813)	(394,667)	381,577	(42,713)	724,565	(4,623,977)
Reclassification within level 3 categories	–	(600,972)	–	–	–	–	600,972	–
Transfers into or (out of) Level 3	(4,497,023)	–	(15,755,648)	–	–	(148,400)	(12,481,805)	(32,882,876)
Balance, 31 December 2017	**49,303,230**	**–**	**69,427,360**	**620,287**	**12,360,847**	**92,017**	**6,961,010**	**138,764,751**
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2017	**4,935,830**	**–**	**3,007,216**	**(85,737)**	**381,577**	**(119,791)**	**387,135**	**8,506,230**

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. During the year the Company had seven transfers between Level 1 and Level 2 of the fair value hierarchy.

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 2016 (EXPRESSED IN US DOLLARS)	BANK DEBT INVESTMENTS	PRIVATE BOND	PRIVATE EQUITY	PRIVATE EQUITY: REAL ESTATE DEVELOPMENT	TRADE CLAIM	WARRANTS	PRIVATE NOTE	TOTAL
Balance, 31 December 2015	**72,644,678**	**–**	**105,127,348**	**4,787,223**	**9,267,308**	**210,523**	**–**	**192,037,080**
Purchases	2,241,773	600,972	9,149,890	–	–	–	–	**11,992,635**
Sales and distributions	(15,090,781)	–	(50,749,233)	(207,133)	–	–	–	**(66,047,147)**
Restructuring transactions	(364,656)	–	1,494,794	–	–	318,384	–	**1,448,522**
Loss on non–cash investment transactions	(10,694,561)	–	–	–	–	–	–	**(10,694,561)**
Realised gain/(loss) on sale of investments	2,742,065	–	14,812,130	–	–	–	–	**17,554,195**
Unrealised (loss)/gain on investments	(1,603,181)	–	(2,707,131)	(979,219)	2,711,962	(245,777)	–	**(2,823,346)**
Transfers into or (out of) Level 3	(106,146)	–	15,968,150	–	–	–	12,147,487	**28,009,491**
Balance, 31 December 2016	**49,769,191**	**600,972**	**93,095,948**	**3,600,871**	**11,979,270**	**283,130**	**12,147,487**	**171,476,869**
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2016	**(10,839,234)**	**–**	**(239,033)**	**(979,223)**	**2,711,963**	**(245,777)**	**–**	**(9,591,304)**

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. During the year the Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (continued)

(g) Investment transactions, investment income/expenses and valuation

Investment transactions are accounted for 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 restructuring of current investments are recorded at the date of such restructuring. The difference between the fair value of the new consideration received and the cost of the original investment is recognised as a realised gain or loss. Unrealised gains and losses on an investment are the difference between the cost if purchased during the period or fair value at the previous year end and the fair value at the current period end. Unrealised gains and losses are included in the Consolidated Statement of Operations.

Operating expenses are recognised on an accruals basis. Operating expenses include amounts directly or indirectly incurred by the Company as part of its operations. Each share class will bear its respective pro-rata share based on its 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. Any costs incurred by a share buyback are charged to that share class.

For the year ended 31 December 2017, $703,393 (31 December 2016: $2,079,112) was recorded to reflect accretion of discount on loans and bonds during the year.

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 is repaid 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. Dividend income is recognised on the ex-dividend date net of withholding tax.

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. The amount of interest income recorded, plus initial costs of underlying PIK interest is reviewed periodically to ensure that these do not exceed fair value of those assets.

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 in the Consolidated Statement of Operations in each reporting period. Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Quoted investments are valued according to their bid price 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.

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 Administrator will value such investments with the input of the Investment Manager who will determine the valuation based on its fair valuation policy. As part of the investment fair valuation policy, the Investment Manager prepares a fair valuation memorandum for each such investment presenting the methodology and assumptions used to derive the price. This analysis is presented to the Investment Manager's Valuation Committee for approval.

The following criteria are considered when applicable:

- The valuation of other securities by the same issuer for which market quotations are available;
- The 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;
- Any recent sales prices and/or bid and ask quotations for the security;
- The value of similar securities of issuers in the same or similar industries for which market quotations are available;
- The economic outlook of the industry;
- The issuer's position in the industry;
- The financial statements of the issuer; and
- The nature and duration of any restriction on disposition of the security.

(i) Derivative Contracts

The Company may, from time to time, hold derivative financial instruments for the purposes of managing foreign currency exposure. These derivatives are measured at fair value in accordance with US GAAP with changes in fair value recognised in 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 may include forward currency contracts, credit default swap and warrants.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies on the reporting date and the value recorded in the financial statements represents net unrealised gain and loss on forwards as at 31 December. Forward contracts are generally categorised in Level 2 of the fair value hierarchy.

The credit default swap at 31 December 2016 had been entered into on the OTC market. The fair value of the credit default swap contract is derived using a pricing service provided by Markit Partners. Markit Partners use a pricing model that is widely accepted by marketplace participants. Their 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 mainly 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.

The Company also holds five warrants (2016: six warrants) which it prices based on the bid price provided by a third party broker/dealer quote.

(j) Taxation

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. US GAAP 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 at 31 December 2017 or 31 December 2016. The Company is subject to examination for US Federal and state tax returns for calendar years 2014–2017.

During the year ended 31 December 2017, the Company recorded current income tax benefit from realised gain/loss on investments of \$3,208,466 (31 December 2016: \$7,040,520 current income tax expense). 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 benefit/expense for the year ended 31 December 2017 is equal to \$2,987,074 (31 December 2016: \$6,207,861 deferred income tax benefit). The net total income tax benefit from realised/unrealised gains/(losses) on investments for the year ended 31 December 2017 was \$221,390 (31 December 2016 income tax expense: \$832,659).

NOTE 3 – DERIVATIVES

In the normal course of business, the Company uses derivative contracts in connection with its proprietary trading activities. Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of the derivative investment. The Company's derivative activities and exposure to derivative contracts are classified by the following primary underlying risks: foreign currency exchange rate, credit, and equity price. In addition to its primary underlying risks, the Company is also subject to additional counterparty risk due to inability of its counterparties to meet the terms of their contracts.

Forward Contracts

The Company enters into forwards for the purposes of managing foreign currency exposure.

Credit Default Swap

The Company uses 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) from time to time. As at 31 December 2017 this facility was not utilised.

There was no credit default swap held as at 31 December 2017.

Derivative activity

For the year ended 31 December 2017 and 31 December 2016 the volume of the Company's derivative activities based on their notional amounts and number of contracts, categorised by primary underlying risk, are as follows:

31 DECEMBER 2017	LONG EXPOSURE		SHORT EXPOSURE	
PRIMARY UNDERLYING RISK	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS
Foreign currency exchange rate				
Forward currency contracts	$61,249,519	9	$5,643,647	12
Total	**$61,249,519**	**9**	**$5,643,647**	**12**
Equity price				
Warrants	$239,443	5	–	–

31 DECEMBER 2016	LONG EXPOSURE		SHORT EXPOSURE	
PRIMARY UNDERLYING RISK	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS
Foreign currency exchange rate				
Forward currency contracts	$49,356,116	9	$632,447	4
Credit				
Purchased protection				
Credit default swap	$12,200,000	1	–	–
Total	**$61,556,116**	**10**	**$632,447**	**4**
Equity price				
Warrants	265,347	6	–	–

The following tables show, at 31 December 2017 and 31 December 2016, the fair value amounts of derivative contracts included in the Consolidated Statement of Assets and Liabilities, categorised by primary underlying risk. Balances are presented on a gross basis prior to application of the impact of counterparty and collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into account the effects of master netting arrangements and, where applicable, have been adjusted by the application of cash collateral receivables and payables with its counterparties. The tables also identify, at 31 December 2017 and 31 December 2016, the realised and unrealised gain and loss amounts included in the Consolidated Statement of Operations, categorised by primary underlying risk:

31 DECEMBER 2017 PRIMARY UNDERLYING RISK	DERIVATIVE ASSETS ($)	DERIVATIVE LIABILITIES ($)	REALISED GAIN (LOSS) ($)	UNREALISED GAIN (LOSS) ($)
Foreign currency exchange rate				
Forward currency contracts	257,290	(98,264)	(3,585,616)	(1,600,477)
Credit				
Purchased protection				
Credit default swap	–	–	(78,385)	(13,753)
Equity price				
Warrants	287,087	–	–	(192,893)
Total	**544,377**	**(98,264)**	**(3,585,616)**	**(1,807,123)**

31 DECEMBER 2016 PRIMARY UNDERLYING RISK	DERIVATIVE ASSETS ($)	DERIVATIVE LIABILITIES ($)	REALISED GAIN (LOSS) ($)	UNREALISED GAIN (LOSS) ($)
Foreign currency exchange rate				
Forward currency contracts	1,766,317	(6,813)	(3,133,593)	1,306,327
Credit				
Purchased protection				
Credit default swap	–	(28,813)	(24,884)	(17,174)
Equity price				
Warrants	440,230	–	–	(151,739)
Total	**$2,216,372**	**$(45,451)**	**$(3,158,477)**	**$(1,137,414)**

Offsetting assets and liabilities

Amounts due from and to brokers are presented on a net basis, by counterparty, to the extent the Company has the legal right to offset the recognised amounts and intends to settle on a net basis.

The Company presents on a net basis the fair value amounts recognised for OTC derivatives executed with the same counterparty under the same master netting agreement.

The Company is required to disclose the impact of offsetting assets and liabilities presented in the Consolidated Statement of Assets and Liabilities to enable users of the Financial Statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognised assets and liabilities.

These recognised assets and liabilities include financial instruments and derivative contracts that are either subject to an enforceable master netting arrangement or similar agreement or meet the following right of set-off criteria:

- each of the two parties owes the other determinable amounts;
- the Company has the right to set-off the amounts owed with the amounts owed by the other party;
- the Company intends to set-off; and
- the Company's right of set-off is enforceable at law.

NOTE 3 – DERIVATIVES (continued)

Derivative activity (continued)

The Company is subject to enforceable master netting agreements with its counterparties of credit default swap with Bank of America Merrill Lynch of $Nil (31 December 2016: ($28,813)), and foreign currency exchange contracts with Royal Bank of Canada of ($98,264) (31 December 2016: ($1,746,284)), Societe Generale of $80,919, (31 December 2016: ($6,813)) and UBS AG of $176,371 (31 December 2016: ($20,033)). 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 pre-arranged exposure levels. There were no collateral arrangements during the year.

The following tables, at 31 December 2017 and 31 December 2016, show the gross and net derivatives assets and liabilities by contract type and amount for those derivatives contracts for which netting is permissible.

31 DECEMBER 2017

(EXPRESSED IN US DOLLARS) DESCRIPTION	GROSS AMOUNTS OF RECOGNISED ASSETS	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward Currency Contracts	261,024	(3,734)	257,290
Warrant	287,087	-	287,087
Total	**548,111**	**(3,734)**	**544,377**

DESCRIPTION	GROSS AMOUNTS OF RECOGNISED LIABILITIES	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward Currency Contracts	(101,998)	3,734	(98,264)
Total	**(101,998)**	**3,734**	**(98,264)**

31 DECEMBER 2016

(EXPRESSED IN US DOLLARS) DESCRIPTION	GROSS AMOUNTS OF RECOGNISED ASSETS	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward Currency Contracts	1,776,142	(9,825)	1,766,317
Warrant	440,230	-	440,230
Total	**2,216,372**	**(9,825)**	**2,206,547**

DESCRIPTION	GROSS AMOUNTS OF RECOGNISED LIABILITIES	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward Currency Contracts	(16,638)	9,825	(6,813)
Credit Default Swaps	(28,813)	-	(28,813)
Total	**(45,451)**	**9,825**	**(35,626)**

NOTE 4 – RISK FACTORS

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 only to 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 2017 and 31 December 2016 are disclosed in the Consolidated Condensed 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 Company maintains positions in a variety of securities, derivative financial instruments and cash and cash equivalents in accordance with its investment strategy and guidelines. The Company's trading activities expose the Company to counterparty credit risk from brokers, dealers and other financial institutions (collectively, "counterparties") with which it transacts business. "Counterparty credit risk" is the risk that a counterparty to a trade will fail to meet an obligation that it has entered into with the Company, resulting in a financial loss to the Company. The Company's policy with respect to counterparty credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out by the Investment Manager.

All the Company's cash and investment assets other than derivative financial instruments are held by the Custodian. The Custodian segregates the assets of the Company from the Custodian's assets and other Custodian clients. Management believes the risk is low with respect to any losses as a result of this concentration. The Company conducts its trading activities with respect to non-derivative positions with a number of counterparties. Counterparty credit risk borne by these transactions is mitigated by trading with multiple counterparties.

In addition the Company may trade in OTC derivative instruments and in derivative instruments which trade on exchanges with generally a limited number of counterparties. The Company is subject to counterparty credit risk related to the potential inability of counterparties to these derivative transactions to perform their obligations to the Company. The Company's exposure to counterparty credit risk associated with counterparty non-performance is generally limited to the fair value (derivative assets and liabilities) of OTC derivatives reported as net assets, net of collateral received or paid, pursuant to agreements with each counterparty. The Investment Manager attempts to reduce the counterparty credit risk of the Company by establishing certain credit terms in its ISDA Master Agreements (with netting terms) with counterparties, and through credit policies and monitoring procedures. Under ISDA Master Agreements in certain circumstances (e.g. when a credit event such as a default occurs) all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions. The Company receives and gives collateral in the form of cash and marketable securities and it is subject to the ISDA Master Agreement Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction. The terms also give each party the right to terminate the related transactions on the other party's failure to post collateral. Exchange-traded derivatives generally involve less counterparty exposure because of the margin requirements of the individual exchanges.

Generally, these contracts can be closed out at the discretion of the Investment Manager and are governed by the futures and options clearing agreements signed with the future commission merchants ("FCMs"). FCMs have capital requirements intended to assure that they have sufficient capital to protect their customers in the event of any inadequacy in customer funds arising from the default of one or more customers, adverse market conditions, or for any other reason.

The credit risk relating to derivatives is detailed further in Note 3.

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.

NOTE 5 – SHARE CAPITAL

The Company's authorised share capital consists of:

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

The issued share capital of the Company, which is denominated in US Dollars, consists of Ordinary Shares, Class A Shares and Extended Life Shares and in Pounds Sterling consists of New Global Shares. Shareholders of Ordinary Shares, Extended Life Shares and New Global Shares 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 in 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 right to receive notice of general meetings of the Company but the Trustee shall only have the right to attend and vote at general meetings of the Company when there are no other Shares of the Company in issue.

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 class, the Extended Life Shares, was created and the Extended Life Shares were issued to 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 existing investment period.

The New Global Share Class was created in March 2014 and its investment period ended on 31 March 2017.

At 31 December 2017, the Company had the following number of shares in issue:

	31 DECEMBER 2017	31 DECEMBER 2016
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Share Class of no par value (Nil in treasury)	26,714,397	35,218,587
Extended Life Share Class of no par value (Nil in treasury)	173,302,953	215,873,854
New Global Share Class of no par value (Nil in treasury; 2016: 10,210,000)	98,733,585	110,785,785

Reconciliation of the number of shares in issue in each class at 31 December 2017:

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	NEW GLOBAL TREASURY SHARES	TOTAL
Balance at 31 December 2016	35,218,587	215,873,854	100,575,785	10,210,000	361,878,226
Shares redeemed during the year	(8,504,190)	(40,663,033)	–	–	(49,167,223)
Buybacks (Shares repurchased)	–	(1,907,868)	(1,842,200)	1,842,200	(1,907,868)
Treasury shares cancelled during the year	–	–	–	(12,052,200)	(12,052,200)
Balance at 31 December 2017	**26,714,397**	**173,302,953**	**98,733,585**	**–**	**298,750,935**

Reconciliation of the number of shares in issue in each class at 31 December 2016:

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	NEW GLOBAL TREASURY SHARES	TOTAL
Balance at 31 December 2015	48,830,771	270,733,913	106,720,785	4,065,000	430,350,469
Shares redeemed during the year	(13,612,184)	(51,890,380)	–	–	(65,502,564)
Buybacks (Shares repurchased)	–	(2,969,679)	(6,145,000)	6,145,000	(2,969,679)
Balance at 31 December 2016[1]	35,218,587	215,873,854	100,575,785	10,210,000	361,878,226

1 Balance of issued shares (less Treasury shares) used to calculate NAV.

Distributions

Set out below are details of the capital returns by way of compulsory partial redemptions approved during the year ended 31 December 2017 and 31 December 2016.

2017	ORDINARY SHARE CLASS			EXTENDED LIFE SHARE CLASS			NEW GLOBAL SHARE CLASS		
	DISTRI-BUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRI-BUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRI-BUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT
22 February 2017	–	–	–	$10,491,943	10,427,294	$1.0062	–	–	–
23 June 2017	–	–	–	$16,491,940	16,232,224	$1.0160	–	–	–
4 September 2017	$6,491,959	5,861,814	1.1075	$10,491,946	10,030,541	$1.0460	–	–	–
13 November 2017	$2,991,962	2,642,376	1.1323	$4,241,944	3,972,974	$1.0677	–	–	–
	$9,483,921	**8,504,190**	**–**	**$41,717,773**	**40,663,033**	**–**	**–**	**–**	**–**

2016	ORDINARY SHARE CLASS			EXTENDED LIFE SHARE CLASS			NEW GLOBAL SHARE CLASS		
	DISTRI-BUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRI-BUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRI-BUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT
29 February 2016	$6,991,959	6,484,844	$1.0782	$19,991,948	21,162,219	$0.9447	–	–	–
28 April 2016	$4,491,953	4,080,255	$1.1009	$10,991,949	11,628,001	$0.9453	–	–	–
16 June 2016	$3,491,959	3,047,085	$1.1460	$7,991,945	8,130,158	$0.9830	–	–	–
06 December 2016	–	–	–	$10,991,943	10,970,002	$1.0020	–	–	–
	$14,975,871	**13,612,184**	**–**	**$49,967,785**	**51,890,380**	**–**	**–**	**–**	**–**

Buybacks

Under the authority granted to the Directors at the 2016 and 2017 AGMs, between 1 January 2017 and 31 December 2017, 1,842,200 New Global Shares were repurchased by the Company for gross consideration of $1,851,661 and were subsequently cancelled. In addition, 1,907,868 Extended Life Shares were repurchased during the year for gross consideration of $1,736,310 and were cancelled immediately. The Company did not repurchase any Ordinary Shares during the year.

Treasury Shares

On 18 May 2017 the company cancelled 12,052,200 New Global Shares held in treasury, of which 10,210,000 were repurchased in prior years.

NOTE 6 – MATERIAL AGREEMENTS AND RELATED PARTY TRANSACTIONS

Investment Management Agreement ("IMA")

The Board is responsible for managing the business affairs of the Company but delegates certain functions to the Investment Manager under an IMA dated 9 June 2010 (as amended).

On 17 July 2014, the Company, the Manager and the AIFM made certain classificatory amendments to their contractual arrangements for the purposes of the AIFM Directive. The Sub-Investment Management Agreement was terminated on 17 July 2014 and Neuberger Berman Investment Advisers LLC (formerly Neuberger Berman Fixed Income LLC), which was the Sub-Investment Manager, was appointed as the AIFM per the amended and restated IMA dated 17 July 2014. Under this agreement, the AIFM is responsible for risk management and day-to-day discretionary management of the Company's Portfolios (including un-invested cash). The risk management and discretionary portfolio management functions are performed independently of each other within the AIFM structure. The AIFM is not required to, and generally will not, submit individual investment decisions for approval by the Board. The Manager, Neuberger Berman Europe Limited, was appointed under the same IMA to provide, amongst other things, certain administrative services to the Company. On 31 December 2017 the Company entered into an Amendment Agreement amending the IMA in respect of the manufacture of the Company's Key Information Document by the AIFM, MiFID II, anti-money laundering and bribery, cyber security and data protection.

Per the IMA and in relation to the Ordinary Shares and Extended Life Shares, the Manager is entitled to a management fee, which shall accrue daily, and be payable monthly in arrears, at a rate of 0.125% per month of the respective NAVs of the Ordinary Share and Extended Life Share classes. Soft commissions are not used.

Per the IMA and in relation to the New Global Shares, the Manager is entitled to a management fee, which accrues daily, and is payable monthly in arrears, at a rate of 0.125% per month of the NAV of the New Global Share Class (excluding, until such time as the New Global Share Class is 85% invested, any cash balances (or cash equivalents)). The 85% threshold was crossed on 16 June 2015 and the Company is charged 0.125% per month on the NAV of the New Global Share Class.

For the year ended 31 December 2017, the management fee expense was $5,301,564 (31 December 2016: $5,837,063). At 31 December 2017, the management fee payable was $412,050 (31 December 2016: $461,858).

The Manager pays a fee to the AIFM out of the management fee received from the Company. The Company does not pay any fees directly to the AIFM.

Performance Fee

In addition, the Manager is entitled to a performance fee. The performance fee for Ordinary Shares, Extended Life Shares and New Global Shares (collectively the "Shares") will only become payable once the Company has made aggregate distributions in cash to the shareholders of the Shares (which shall include the aggregate price of all Shares repurchased or redeemed by the Company) equal to the aggregate gross proceeds from 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% catch up payable to the Manager until the Manager has received 20% of all amounts in excess of Contributed Capital distributed to the shareholders and paid to the Manager as a performance fee with, thereafter, all amounts distributed by the Company 20:80 between the Manager's performance fee and the cash distributed to shareholders.

The preferred rate of return for Ordinary Shares is an annualised 6%, for Extended Life Shares was an annualised 6% from 2010 to April 2013 and is 8% from April 2013 to date and for New Global Shares is an annualised 8%. For the purposes of financial reporting, the performance fee is recognised on an accruals basis.

No performance fees were paid or payable in respect of any of the classes for either of the years ending 31 December 2017 or 31 December 2016, nor would any be paid if the company were to realise all its assets at the year end.

Soft commissions are not used to pay for services used by the Investment Manager.

Administration, Company Secretarial and Custody Agreements

Effective 1 March 2015, the Company entered into an Administration and Sub-Administration Agreement with U.S. Bancorp Fund Services (Guernsey) Limited and Quintillion Limited, a wholly-owned subsidiary of U.S. Bancorp (the "Administration Agreement"). Under the terms of the Administration Agreement, Sub-Administration services are delegated to Quintillion Limited (the "Sub-Administrator").

The Sub-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 NAV).

Under the terms of the Administration Agreement, the Sub-Administrator is entitled to a fee of 0.09% for the first $500m of net asset value, 0.08% for the next $500m and 0.07% for any remaining balance, accrued daily and paid monthly in arrears and subject to an annual minimum of $100,000.

Effective 1 March 2015, the Company entered into a Custody Agreement with U.S. Bank National Association (the "Custodian") to provide loan administration and custody services to the Company. Under the terms of the Custody Agreement the Custodian is entitled to an annual fee of 0.025% of net asset value with a minimum annual fee of $25,000.

Effective 20 June 2017, Carey Commercial Limited was appointed the Company Secretary in replacement of C.L. Secretaries Limited, a wholly-owned subsidiary of Carey Commercial Limited. The Company Secretary is entitled to an annual fee of £65,800 plus fees for ad-hoc board meetings and additional services.

For the year ended 31 December 2017, the administration fee expense was $322,796 (31 December 2016: $357,463), the secretarial fee was $192,383[1] of which $36,017 was in relation to the administration of the ongoing buyback programme, (31 December 2016: $180,252) and the loan administration and custody fee expense was $216,042 (31 December 2016: $183,060). At 31 December 2017, the administration fee payable is $24,688[2] (31 December 2016: $27,186), the secretarial fee payable is $66,5862 (31 December 2016: $2,160) and the loan administration and custody fee payable is $54,8442 (31 December 2016: $111,321).

Directors' Remuneration and Other Interests

The Directors are related parties and are remunerated for their services at a fee of $45,000 plus £10,000 each per annum ($60,000 plus £10,000 for the Chairman, $50,000 plus £10,000 for the Chairman of the Audit Committee). In addition, the Chairman of the Audit Committee receives an additional $5,000 for his/her services in this role. For the year ended 31 December 2017, the Directors fees and travel expenses amounted to $249,534 (31 December 2016: $259,955). Michael J. Holmberg, the non-independent Director, has waived the fees for his services as a Director. There were no other related interests for the year ended 31 December 2017.

1 Amount is included under Professional and other expenses in the Statement of Operations.

2 Amounts are included under Accrued expenses and other liabilities in the Statement of Assets and Liabilities.

NOTE 7 – FINANCIAL HIGHLIGHTS

	ORDINARY SHARES ($)	EXTENDED LIFE SHARES ($)	NEW GLOBAL SHARES £	ORDINARY SHARES ($)	EXTENDED LIFE SHARES ($)	NEW GLOBAL SHARES £
PER SHARE OPERATING PERFORMANCE	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2016**	**YEAR ENDED 31 DECEMBER 2016**	**YEAR ENDED 31 DECEMBER 2016**
Net asset value per share at beginning of the year	**1.0583**	**1.0035**	**0.9417**	**1.1184**	**1.0003**	**0.7341**
Impact of share buybacks	–	0.0012	0.0029	–	0.0008	0.0058
Distributions	(0.0140)	(0.0245)	(0.0106)	(0.0793)	(0.0332)	(0.0102)
Income/(loss) from investment operations[1]						
Net investment (loss)/ income	(0.0063)	0.0118	0.0081	0.0151	0.0217	0.0232
Net realised and unrealised (loss)/gain from investments and foreign exchange	0.0716	0.0467	(0.0211)	0.0041	0.0139	0.1888
Total income/(loss) from investment operations	**0.0653**	**0.0585**	**(0.0130)**	**0.0192**	**0.0356**	**0.2120**
Net asset value per share at end of the year	**1.1096**	**1.0387**	**0.9210**	**1.0583**	**1.0035**	**0.9417**

1 Weighted average number of shares outstanding was used for calculation.

NOTE 7 – FINANCIAL HIGHLIGHTS (continued)

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES
NAV TOTAL RETURN[1,2]	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2016**	**YEAR ENDED 31 DECEMBER 2016**	**YEAR ENDED 31 DECEMBER 2016**
NAV Total Return before performance fee	6.17%	5.95%	(1.07%)	1.72%	3.64%	29.67%
Performance fee	–	–	–	–	–	–
NAV Total Return after performance fee including an income distribution by way of dividend	**6.17%**	**5.95%**	**(1.07%)**	**1.72%**	**3.64%**	**29.67%**

1 NAV Total Return is calculated for the Ordinary Shares, Extended Life Shares and New Global Shares only and is calculated based on movement in the NAV, and does not reflect any movement in the market value of the shares. A shareholder's return may vary from these returns based on participation in new issues, the timing of capital transactions etc. It assumes that all income distributions of the Company, paid by way of dividend, were reinvested, without transaction costs. Class A shares are not presented as they are not profit participating shares.

2 An individual shareholder's return may vary from these returns based on the timing of the shareholder's subscriptions.

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES
RATIOS TO AVERAGE NET ASSETS	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2017**	**YEAR ENDED 31 DECEMBER 2016**	**YEAR ENDED 31 DECEMBER 2016**	**YEAR ENDED 31 DECEMBER 2016**
Net investment income before and after performance fee	(0.58%)	1.14%	0.70%	1.35%	2.19%	1.59%
Total expenses after performance fee	**(2.06%)**	**(2.03%)**	**(1.96%)**	**(2.10%)**	**(2.22%)**	**(2.55%)**

NOTE 8 – RECONCILIATION OF NET ASSET VALUE TO PUBLISHED NAV

In preparing the Financial Statements, there were post year end adjustments relating to investment valuations. 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 2017	29,411,826	1.1010	179,277,706	1.0345	90,854,307	0.9202
Valuation adjustments	230,112	0.0086	732,017	0.0042	76,622	0.0008
Net assets per consolidated Financial Statements	**29,641,938**	**1.1096**	**180,009,723**	**1.0387**	**90,930,929**	**0.9210**

	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 2016	36,902,214	1.0478	215,306,914	0.9974	94,573,591	0.9403
Valuation adjustments	368,892	0.0105	1,321,346	0.0061	141,874	0.0014
Net assets per consolidated Financial Statements	**37,271,106**	**1.0583**	**216,628,260**	**1.0035**	**94,715,465**	**0.9417**

NOTE 9 – SUBSEQUENT EVENTS

On 12 April 2018, Christopher Legge was appointed a Director of the Company.

Contact Details

Directors

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

All c/o the Company's registered office.

Registered Office

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

Alternative Investment Fund Manager

Neuberger Berman Investment Advisers LLC
190 South LaSalle Street
Chicago, IL 60603
United States of America

Manager

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

Designated Administrator

U.S. Bancorp Fund Services (Guernsey) Limited
1st Floor, Tudor House
Le Bordage
St Peter Port
Guernsey
GY1 1DB

Sub-Administrator

Quintillion Limited
24/26 City Quay
Dublin
Ireland

Custodian and Principal Bankers

U.S. Bank National Association
214 North Tryon Street
26th Floor, Charlotte
North Carolina 28202
United States of America

Company Secretary

Carey Commercial Limited
(C.L. Secretaries Limited until 20th June 2017)
1st & 2nd Floors, Elizabeth House
Les Ruettes Brayes
St Peter Port
Guernsey
GY1 1EW

Joint Financial Adviser and Joint Corporate Broker

Stifel Nicolaus Europe 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 US 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

Independent Auditors

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

Registrar

Link Market Services (Guernsey) Limited
(Previously known as Capita Registrars (Guernsey) Limited)
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey
GY2 4LH