

NB DISTRESSED DEBT INVESTMENT FUND LIMITED
2020 ANNUAL REPORT

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors and Shareholders
NB Distressed Debt Investment Fund Limited:

We have audited the accompanying consolidated financial statements of NB Distressed Debt Investment Fund Limited, which comprise the consolidated statements of assets and liabilities, including the consolidated condensed schedules of investments, as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NB Distressed Debt Investment Fund Limited as of December 31, 2020 and 2019, and the results of its operations, changes in its net assets and its cash flows for each of the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
April 14, 2021

Consolidated Statement of Assets and Liabilities

(EXPRESSED IN US DOLLARS EXCEPT WHERE STATED OTHERWISE)	31 DECEMBER 2020	31 DECEMBER 2019
Assets		
Investments at fair value (2020: cost of \$130,252,550; 2019: cost of \$248,770,370)	96,283,120	192,864,208
Forward currency contracts	653,125	-
Warrants (2020: cost of \$Nil; 2019: cost of \$752,955)	-	153
Cash and cash equivalents	2,035,320	5,379,726
Restricted Cash:		
Forward currency contracts Collateral	630,000	430,000
Total return swap Collateral	10,970,000	-
	110,571,565	198,674,087
Other assets		
Interest receivables	258,913	707,187
Receivables for investments sold	783,764	895,182
Other receivables and prepayments	33,872	643,658
Withholding tax receivable	421,788	-
Total assets	112,069,902	200,920,114
Liabilities		
Credit default swap (2020: cost of \$67,076; 2019: cost of \$99,945)	54,306	77,983
Total return swap (2020: cost of \$Nil)	1,222,546	-
Forward currency contracts	1,979,765	890,781
Accrued expenses and other liabilities	249,238	406,717
Payables to Investment Manager and affiliates	134,188	493,060
Total liabilities	3,640,043	1,868,541
Net assets	108,429,859	199,051,573
Net assets attributable to Ordinary Shares (shares 2020: 15,382,770; 2019: 15,382,770)	12,952,965	13,976,415
Net asset value per Ordinary Share	0.8420	0.9086
Net assets attributable to Extended Life Shares (shares 2020: 80,545,074; 2019: 114,146,794)	63,540,650	105,771,674
Net asset value per Extended Life Share	0.7889	0.9266
Net assets attributable to New Global Shares (shares 2020: 41,116,617; 2019: 71,787,915)	£23,363,139	£59,862,782
Net asset value per New Global Share	£0.5682	£0.8339
Net assets attributable to New Global Shares (USD equivalent)	31,936,244	79,303,484
Net asset value per New Global Share (USD equivalent)	0.7767	1.1047

The Financial Statements were approved and authorised for issue by the Board of Directors on 14 April 2021, and signed on its behalf by:

John Hallam
Chairman

Christopher Legge
Director

The accompanying notes on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Statement of Operations

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2020	31 DECEMBER 2019
Income		
Interest income	4,826,798	7,775,446
Dividend income net of withholding tax (2020:3,372; 2019:278,886)	271,866	662,028
Other income	-	85,026
	5,098,664	8,522,500
Expenses		
Investment management fee	1,952,064	3,428,612
Professional and other expenses	1,336,429	1,117,163
Administration fee	123,097	211,457
Loan administration and custody fees	55,840	183,623
Directors' fees and expenses	194,960	253,482
	3,662,390	5,194,337
Net investment income	1,436,274	3,328,163
Realised and unrealised gain/(loss) from investments and foreign exchange		
Net realised loss on investments, credit default swap, warrants, total return swap and forward currency transactions	(64,163,138)	(29,423,579)
Net change in unrealised gain on investments, credit default swap, warrants, total return swap and forward currency transactions	21,059,253	15,533,893
Income taxes from net realised/unrealised (loss)/gain on investments	(7,172)	220,197
Realised and unrealised loss from investments and foreign exchange	(43,111,057)	(13,669,489)
Net decrease in net assets resulting from operations	(41,674,783)	(10,341,326)

The accompanying notes on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED 31 DECEMBER 2020

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2020 ORDINARY SHARES	31 DECEMBER 2020 EXTENDED LIFE SHARES	31 DECEMBER 2020 NEW GLOBAL SHARES	31 DECEMBER 2020 AGGREGATED
Net assets at the beginning of the year	13,976,415	105,771,674	79,303,484	199,051,573
Net investment (loss)/income	(299,794)	1,141,393	594,675	1,436,274
Net realised loss on investments, credit default swap, warrants and forward currency transactions	(6,838,452)	(33,800,902)	(23,523,784)	(64,163,138)
Net change in unrealised gain/(loss) on investments, credit default swap, warrants and forward currency transactions	6,114,839	15,257,674	(313,260)	21,059,253
Income taxes from net realised/unrealised loss on investments	(43)	(1,913)	(5,216)	(7,172)
Dividends	Nil	Nil	Nil	Nil
Net cost of share buybacks	-	(1,857,098)	(2,017,495)	(3,874,593)
Distributions during the year	-	(22,970,178)	(22,102,160)	(45,072,338)
Net assets at the end of the year	12,952,965	63,540,650	31,936,244	108,429,859

FOR THE YEAR ENDED 31 DECEMBER 2019

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2019 ORDINARY SHARES	31 DECEMBER 2019 EXTENDED LIFE SHARES	31 DECEMBER 2019 NEW GLOBAL SHARES	31 DECEMBER 2019 AGGREGATED
Net assets at the beginning of the year	22,876,360	148,482,314	97,042,815	268,401,489
Net investment (loss)/income	(110,368)	2,458,755	979,776	3,328,163
Net realised loss on investments, credit default swap, warrants and forward currency transactions	(1,557,957)	(15,765,042)	(12,100,580)	(29,423,579)
Net change in unrealised gain on investments, credit default swap, warrants and forward currency transactions	650,401	8,847,176	6,036,316	15,533,893
Income taxes from net realised/unrealised gain/(loss) on investments	109,954	241,943	(131,700)	220,197
Dividends	-	(991,400)	-	(991,400)
Net cost of share buybacks	-	(2,026,218)	(926,631)	(2,952,849)
Distributions during the year	(7,991,975)	(35,475,854)	(11,596,512)	(55,064,341)
Net assets at the end of the year	13,976,415	105,771,674	79,303,484	199,051,573

The accompanying notes on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019

(EXPRESSED IN US DOLLARS)	31 DECEMBER 2020	31 DECEMBER 2019
Cash flows from operating activities:		
Net decrease in net assets resulting from operations	(41,674,783)	(10,341,326)
<i>Adjustment to reconcile net decrease in net assets resulting from operations to net cash flow provided by operations:</i>		
Net realised loss on investments, credit default swap, warrants, total return swap and forward currency transactions	64,163,138	29,423,579
Net change in unrealised gain on investments, credit default swap, warrants, total return swap and forward currency transactions	(21,059,253)	(15,533,893)
Accretion of discount on loans and bonds	(97,467)	(275,938)
Changes in interest receivable	448,274	(439,476)
Changes in receivables for investments sold	111,418	(114,470)
Changes in other receivables and prepayments	609,786	(266,162)
Change in withholding tax receivable	(421,788)	2,913,342
Change in deferred taxes	-	(355,057)
Changes in payables, accrued expenses and other liabilities	(516,351)	282,269
Cash received on settled forward currency contracts and spot currency contracts	2,173,678	2,665,608
Capitalised payment in kind	(3,940,500)	(2,466,500)
Purchase of investments	(1,707,076)	(10,986,950)
Sale of investments	65,059,170	66,784,769
Purchase of short term investments ¹	(46,129,874)	(4,034,406)
Sale of short term investments ¹	39,950,463	-
Net cash provided by operating activities	56,968,835	57,255,389
Cash flows from financing activities:		
Cost of share buybacks	(3,874,593)	(2,952,849)
Shares redeemed during the year	(45,072,338)	(55,064,341)
Dividends paid	-	(991,400)
Net cash used in financing activities	(48,946,931)	(59,008,590)
Net increase/(decrease) in cash, cash equivalents and restricted cash	8,021,904	(1,753,201)
Cash and cash equivalents at the beginning of the year	5,379,726	7,596,274
Restricted cash at the beginning of the year	430,000	-
Effect of exchange rate changes on cash and cash equivalents	(196,310)	(33,347)
Cash and cash equivalents at the end of the year	2,035,320	5,379,726
Restricted cash at the end of the year	11,600,000	430,000

Supplemental cash flow information

\$3,705,792 is related to non-cash transactions due to the Ex ide restructure. This figure is excluded from purchase of investments and sale of investments above.

¹ Short term investments are typically sold or converted to cash within 3 to 12 months

The accompanying notes on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by financial instrument)

AT 31 DECEMBER 2020 (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	68,103,787	44,348,976	0.58	36.15	66.71	40.90
Private Equity	18,791,896	26,664,758	31.74	27.86	15.19	24.59
Private Note	33,002,300	15,060,365	4.61	19.09	7.30	13.89
Short term Investments						
US Treasury Bills	10,354,567	10,209,021	39.61	4.41	7.12	9.42
Total Investments	130,252,550	96,283,120	76.54	87.51	96.32	88.80
Ordinary Shares	7,905,282	9,913,802	76.54	-	-	9.14
Extended Life Shares	78,752,876	55,603,896	-	87.51	-	51.29
New Global Shares	43,594,392	30,765,422	-	-	96.32	28.37
	130,252,550	96,283,120	76.54	87.51	96.32	88.80
Credit Default Swap						
Ordinary Shares	(18,553)	(15,021)	(0.12)	-	-	(0.01)
Extended Life Shares	(48,523)	(39,285)	-	(0.06)	-	(0.04)
	(67,076)	(54,306)	(0.12)	(0.06)	-	(0.05)
Forward Currency Contracts						
Assets						
Ordinary Shares	-	181,051	1.40	-	-	0.17
Extended Life Shares	-	472,074	-	0.74	-	0.44
	-	653,125	1.40	0.74	-	0.61
Liabilities						
Ordinary Shares	-	(467,425)	(3.61)	-	-	(0.43)
Extended Life Shares	-	(1,512,340)	-	(2.38)	-	(1.39)
	-	(1,979,765)	(3.61)	(2.38)	-	(1.82)
Total return swap²						
Ordinary Shares	-	(341,368)	(2.64)	-	-	(0.31)
Extended Life Shares	-	(881,178)	-	(1.40)	-	(0.81)
	-	(1,222,546)	(2.64)	(1.40)	-	(1.12)

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. See Note 3.

The accompanying notes on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by financial instrument) (continued)

AT 31 DECEMBER 2019 (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	63,993,341	44,839,681	0.54	23.20	25.50	22.53
Private Equity	60,966,636	39,031,269	21.17	19.57	19.39	19.61
Private Note	44,371,898	28,347,559	6.30	20.81	6.88	14.24
Public Equity	62,363,549	64,453,075	33.83	22.64	45.11	32.38
Trade Claim ²	13,032,089	12,149,475	24.31	8.27	-	6.10
Temporary Investments						
US Treasury Bills	4,042,857	4,043,149	8.22	2.74	-	2.03
Total Investments	248,770,370	192,864,208	94.37	97.23	96.88	96.89
Ordinary Shares	17,758,457	13,188,939	94.37	-	-	6.63
Extended Life Shares	141,969,927	102,843,628	-	97.23	-	51.66
New Global Shares	89,041,986	76,831,641	-	-	96.88	38.60
	248,770,370	192,864,208	94.37	97.23	96.88	96.89
Credit Default Swap						
Ordinary Shares	(28,318)	(22,095)	(0.16)	-	-	(0.01)
Extended Life Shares	(71,627)	(55,888)	-	(0.05)	-	(0.03)
	(99,945)	(77,983)	(0.16)	(0.05)	-	(0.04)
Forward Currency Contracts						
Assets						
Ordinary Shares	-	121,184	0.87	-	-	0.06
Extended Life Shares	-	335,899	-	0.32	-	0.17
	-	457,083	0.87	0.32	-	0.23
Liabilities						
Ordinary Shares	-	(280,190)	(2.00)	-	-	(0.14)
Extended Life Shares	-	(1,067,674)	-	(1.01)	-	(0.54)
	-	(1,347,864)	(2.00)	(1.01)	-	(0.68)
Warrants						
Extended Life Shares	478,733	109	-	-	-	-
New Global Shares	274,222	44	-	-	-	-
	752,955	153	-	-	-	-

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 on pages 77 to 94 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 2020 (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									
Dumas Shipping TL B <i>(Bank Debt Investments)</i>	Marshall Islands	Shipping	20,015,014	19,812,305	11,081,139	-	12.44	9.95	10.22
Dumas Shipping TL A <i>(Bank Debt Investments)</i>	Marshall Islands	Shipping	2,373,118	2,373,118	1,313,856	-	1.47	1.18	1.21
Dumas Shipping <i>(Private Equity)</i>	Marshall Islands	Shipping	349	1,003,803	-	-	-	-	-
Package Holdings 1 <i>(Private Note)</i>	Luxembourg	Containers and Packaging	11,108,610	-	12,841,665	27.71	14.56	-	11.84
Package Holdings 6 <i>(Private Note)</i>	Luxembourg	Containers and Packaging	2,948,481	1,893,980	1,780,718	3.84	2.02	-	1.64
AB Zwolle T/L EUR 01/06/2020 <i>(Bank Debt Investments)</i>	Netherlands	Commercial Mortgage	18,526,730	13,646,548	12,329,248	-	8.60	21.49	11.37
US Treasury N/B 1.500% <i>02/15/30 (US Treasury Bills)</i>	United States	United States	9,650,000	10,354,566	10,209,021	39.61	4.41	7.12	9.42
Buffalo Thunder Dev Auth 11.000% 12/09/22 SR: Regs <i>(Private Note)</i>	United States	Lodging & Casinos	14,001,965	11,641,233	7,000,982	-	7.35	7.30	6.46
TP Ferro Concesionaria TL 1L 31/03/2016 <i>(Bank Debt</i> <i>Investments)</i>	Spain	Surface Transport	18,787,735	18,531,522	6,896,320	-	5.45	10.76	6.36
TP Ferro Concesionaria TP Ferro TL-A (First-Lien) <i>(Bank Debt Investments)</i>	Spain	Surface Transport	1,422,129	1,422,129	1,422,129	-	1.12	2.23	1.31
TP Ferro Concesionaria TP Ferro 1L TL-B EUR (First-Lien) <i>EUR (Bank Debt Investments)</i>	Spain	Surface Transport	286,335	329,920	350,345	-	0.28	0.55	0.32
TP Ferro PIK 5A 4/20 <i>(Bank Debt Investments)</i>	Spain	Surface Transport	252,179	252,179	252,179	-	0.20	0.39	0.23
TP Ferro Concesionaria TP Ferro 1L TL-C (First-Lien) <i>(Bank Debt Investments)</i>	Spain	Surface Transport	123,865	123,865	123,865	-	0.10	0.19	0.11
White Energy Holding Company Llc <i>(Private Equity)</i>	United States	Oil & Gas	367	9,174,989	6,239,000	-	7.01	5.59	5.75
Aca Fin Guaranty Corp 12- 31/12/2019 Frn <i>(Private Note)</i>	United States	Financial Intermediaries	69,599,357	11,086,183	4,175,961	4.61	5.63	-	3.85
Aca Fin Gur Sur Non Vt 12- 31/12/2019 Frn <i>(Private Note)</i>	United States	Financial Intermediaries	64,723,682	10,274,884	3,883,421	-	6.11	-	3.58
Hotel Puerta America Pik TL EUR <i>(Bank Debt Investments)</i>	Spain	Lodging & Casinos	3,728,985	4,065,113	4,562,599	-	-	14.29	4.21
Hotel Puerta America <i>(Private Equity)</i>	Spain	Lodging & Casinos	934	3,013,332	1,983,471	-	-	6.21	1.83
Hotel Puerta America Pik Addon EUR <i>(Bank Debt Investments)</i>	Spain	Lodging & Casinos	1,482,704	1,609,295	1,814,163	-	-	5.68	1.68
			120,608,964	88,260,082	88,260,082	75.77	76.75	92.94	81.39

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 on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (continued)

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

31 DECEMBER 2019 (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									
Twin Rivers Worldwide Holdings <i>(Public Equity)</i>	United States	Lodging & Casinos	793,386	6,349,931	20,318,615	-	5.76	17.94	10.21
Dumas Shipping TL B <i>(Bank Debt Investments)</i>	Marshall Islands	Shipping	17,232,859	16,788,999	13,596,726	-	9.17	4.92	6.83
Dumas Shipping TL A <i>(Bank Debt Investments)</i>	Marshall Islands	Shipping	2,043,246	2,043,246	1,612,121	-	1.09	0.58	0.81
Torm plc <i>(Public Equity)</i>	Denmark	Shipping	1,169,202	14,207,442	13,049,678	-	5.80	8.73	6.56
AB Zwole T/L EUR 01/06/2020 <i>(Bank Debt Investments)</i>	Netherlands	Commercial Mortgage	18,526,730	13,646,548	12,810,493	-	5.37	8.99	6.44
Five Point Holdings LLC-CL A <i>(Public Equity)</i>	United States	Building & Development	1,720,599	23,945,425	11,975,369	15.46	6.03	4.34	6.02
Aleris International Inc <i>(Private Equity)</i>	United States	Nonferrous Metals/Minerals	589,611	20,100,668	11,202,609	-	5.82	6.35	5.63
Tratex III <i>(Private Equity)</i>	Brazil	Surface Transport	9	12,015,693	11,092,750	22.18	7.56	-	5.57
Eagle Bulk Shipping Inc <i>(Public Equity)</i>	United States	Shipping	2,303,182	7,582,125	10,571,605	1.32	4.42	7.20	5.31
Exide Private Common <i>(Private Equity)</i>	United States	Auto Components	4,913,258	8,210,824	8,598,201	7.73	4.08	4.04	4.32
Exide Technologies 11.000% 10/31/24 SR:REGS <i>(Private Equity)</i>	United States	Auto Components	6,778,720	6,043,543	6,100,848	0.28	4.09	2.18	3.05
Exide Technologies 11.000% 10/31/24 SR:REGs <i>(Warrant)</i>	United States	Auto Components	2,810,467	2,505,671	2,388,897	0.11	1.60	0.85	1.20
Exide Technologies Common Stock Escrow <i>(Bank Debt Investments)</i>	United States	Auto Components	23,389,000	-	2	-	-	-	-
			133,440,115	123,317,914	123,317,914	47.08	60.79	66.12	61.95

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 on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by geography)

AT 31 DECEMBER 2020 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Geographic diversity of Portfolios						
Portfolio of Distressed Investments						
France	3,705,793	3,819,904	0.19	4.27	3.39	3.52
Luxembourg	1,893,980	14,622,383	31.55	16.58	-	13.49
Marshall Islands	23,189,227	12,394,995	-	13.91	11.13	11.43
Netherlands	13,646,548	12,329,248	-	8.60	21.49	11.37
Spain	29,347,356	17,405,071	-	7.14	40.30	16.05
United States	48,115,080	25,502,497	5.19	32.60	12.89	23.52
Temporary Investments						
United States	10,354,566	10,209,022	39.61	4.41	7.12	9.42
	130,252,550	96,283,120	76.54	87.51	96.32	88.80

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 on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by geography) (continued)

AT 31 DECEMBER 2019 (EXPRESSED IN US DOLLARS)	COST	FAIR VALUE	ORDINARY SHARES (%) ¹	EXTENDED LIFE SHARES (%) ¹	NEW GLOBAL SHARES (%) ¹	TOTAL COMPANY (%) ¹
Geographic diversity of Portfolios						
Portfolio of Distressed Investments						
Brazil	13,032,089	12,149,474	24.31	8.27	-	6.10
Denmark	14,207,442	13,049,678	-	5.80	8.73	6.56
Greece	357,242	293,876	0.59	0.20	-	0.15
Luxembourg	1,893,981	6,115,253	12.23	4.17	-	3.07
Marshall Islands	19,836,048	16,144,863	-	10.88	5.84	8.11
Netherlands	13,646,548	12,810,493	-	5.37	8.99	6.44
Spain	26,822,155	16,158,401	-	3.59	15.58	8.12
United States	154,932,009	112,099,021	49.02	56.21	57.74	56.31
Temporary Investments						
United States	4,042,856	4,043,149	8.22	2.74	-	2.03
	248,770,370	192,864,208	94.37	97.23	96.88	96.89

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 on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by sector)

AT 31 DECEMBER 2020 (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						
Auto Components	3,705,793	3,819,904	0.19	4.27	3.39	3.52
Building & Development	1,934,272	269,330	0.58	0.31	-	0.25
Commercial Mortgage	13,646,548	12,329,248	-	8.60	21.49	11.37
Containers and Packaging	1,893,980	14,622,383	31.55	16.58	-	13.49
Financial Intermediaries	21,361,067	8,059,383	4.61	11.74	-	7.43
Lodging & Casinos	24,332,492	19,295,018	-	13.54	33.48	17.80
Oil & Gas	9,174,989	6,239,000	-	7.01	5.59	5.75
Shipping	23,189,227	12,394,995	-	13.91	11.13	11.43
Surface Transport	20,659,616	9,044,838	-	7.14	14.12	8.34
Temporary Investments						
United States	10,354,566	10,209,021	39.61	4.41	7.12	9.42
	130,252,550	96,283,120	76.54	87.51	96.32	88.80

¹This 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 on pages 77 to 94 are an integral part of the Financial Statements.

Consolidated Condensed Schedule of Investments (by sector) (continued)

AT 31 DECEMBER 2019 (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	20,522	4,079	-	-	-	-
Auto Components	21,125,365	20,189,585	8.38	11.81	8.23	10.14
Building & Development	25,882,044	12,245,025	16.00	6.21	4.34	6.15
Commercial Mortgage	13,646,548	12,810,493	-	5.37	8.99	6.44
Containers and Packaging	1,893,980	6,115,253	12.23	4.17	-	3.07
Financial Intermediaries	21,009,992	10,122,906	5.37	8.86	-	5.09
Lodging & Casinos	28,850,186	39,919,106	-	13.97	31.70	20.05
Nonferrous Metals/Minerals	20,303,171	11,435,364	-	5.94	6.49	5.74
Oil & Gas	14,717,311	7,813,912	-	4.71	3.56	3.93
Shipping	41,982,857	40,060,022	1.91	21.30	21.77	20.13
Surface Transport	33,035,557	19,729,734	24.30	11.88	4.77	9.91
Utilities	22,259,981	8,375,580	17.96	0.27	7.03	4.21
Temporary Investments						
United States	4,042,856	4,043,149	8.22	2.74	-	2.03
	248,770,370	192,864,208	94.37	97.23	96.88	96.89

¹This 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 on pages 77 to 94 are an integral part of the Financial Statements.

NOTE 1 – ORGANISATION AND DESCRIPTION OF BUSINESS

NB Distressed Debt Investment Fund Limited (“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

In August 2018, Financial Accounting Standards Board (“FASB”) issued FASB Accounting Standards Update (“ASU”) 2018-13, Fair Value Measurement (Accounting Standards Codification (“ASC”) 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The Company has adopted ASU 2018-13 for the current year. The adoption resulted primarily in the removal of Level 1 and Level 2 transfer disclosures.

(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 year presented, have been included.

The Company is regarded as an Investment Company and follows the accounting and reporting guidance in 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 unrealised gains and losses resulting from changes in fair value reflected in net change in unrealised gain/(loss) on investments, credit default swap, warrants, total return swap and forward currency transactions in the Consolidated Statement of Operations.

The Board recognises that the Portfolios (the Ordinary Share Class; the Extended Life Share Class; and the New Global Share Class) are now in their harvest periods. Having carried out a going concern assessment which considered the impact of COVID-19, 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 prepare the Financial Statements in accordance with U.S. generally accepted accounting principles, as liquidation is not imminent.

The Financial Statements include the results of the Company and its wholly-owned and partially-owned subsidiaries, whose accounting policies are consistent with those of the Company. The Consolidated Financial Statements include full consolidation of any owned subsidiaries, except where the effect on the Company’s financial position and results of operations are immaterial. Transactions between the Company and the subsidiaries have been eliminated on consolidation.

Wholly-owned subsidiaries, London Wabash LLC and London Wabash (Global) LLC are incorporated in Delaware and operate in the United States.

Wholly-owned subsidiaries, London Lake Michigan LP and London Lake Michigan (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.

London Jackson Holdco LLC and London Dearborn (Global) LLC were respectively dissolved on 12 November 2020 and 6 October 2020.

(b) Use of Estimates

The preparation of these Financial Statements in conformity with US GAAP requires that the Directors make estimates and assumptions (as mentioned in detail on note 2 (f) below) 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 year.

Actual results could differ significantly from these estimates.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(c) Cash, Cash Equivalents and Restricted Cash

The Company holds cash and cash equivalents in US Dollar and non-US Dollar 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 at 31 December 2020, the Company has cash balances in various currencies equating to \$13,635,320 (Cost: \$13,785,955) (31 December 2019: \$5,809,726) including cash and cash equivalents of \$2,035,320 (31 December 2019: \$5,379,726) as well as restricted cash of \$11,600,000 (31 December 2019: \$430,000). Restricted cash of \$630,000 and \$10,970,000 are respectively used as collateral for forward currency contracts and the total return swap positions on the Consolidated Statement of Assets and Liabilities and are held by UBS and Bank of America Merrill Lynch. The amount of collateral will vary depending on the current fair value of the forward currency contracts and total return swap.

(d) Payables/Receivables on Investments Purchased/Sold

At 31 December 2020, 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, total return swap 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 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 that will be realised on disposal 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 2020 and 31 December 2019 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 pages 84 and 85.
- 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.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Fair Value of Financial Instruments (continued)

- Forward currency contracts are revalued using the forward exchange rate prevailing at the Consolidated Statement of Assets and Liabilities date.
- Total return swaps and credit default swaps are priced using mark to market prices provided by a third party broker.

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 maximises the use of observable market data and minimises 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.

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 judgement 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 judgement 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 2020

(EXPRESSED IN US DOLLARS)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bank Debt Investments	-	4,203,132	40,145,844	44,348,976
Private Equity	-	6,239,000	20,425,758	26,664,758
Private Notes	-	7,000,983	8,059,382	15,060,365
US Treasury Bills	10,209,021	-	-	10,209,021
Investments at fair value	10,209,021	17,443,115	68,630,984	96,283,120
Credit Default Swap	-	(54,306)	-	(54,306)
Total return swap	-	-	(1,222,546)	(1,222,546)
Forward Currency Contracts	-	(1,326,640)	-	(1,326,640)
Total investments that are accounted for at fair value	10,209,021	16,062,169	67,408,438	93,679,628

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Fair Value of Financial Instruments (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS AT 31 DECEMBER 2019

(EXPRESSED IN US DOLLARS)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Bank Debt Investments	-	11,102,474	33,737,207	44,839,681
Private Equity	-	11,690,747	27,340,522	39,031,269
Private Note	-	17,123,888	11,223,671	28,347,559
Public Equity	64,453,075	-	-	64,453,075
Trade Claim	-	-	12,149,475	12,149,475
US Treasury Bills	4,043,149	-	-	4,043,149
Investments at fair value	68,496,224	39,917,109	84,450,875	192,864,208
Warrants	-	153	-	153
Credit Default Swap	-	(77,983)	-	(77,983)
Forward Currency Contracts	-	(890,781)	-	(890,781)
Total investments that are accounted for at fair value	68,496,224	38,948,498	84,450,875	191,895,597

The following table summarises the significant unobservable inputs the Company used to value its investments categorised within Level 3 at 31 December 2020. 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
Bank Debt Investments	Commercial Mortgage	12,329,248	Market Comparatives	Discount Rate	10%
Bank Debt Investments	Lodging & Casinos	6,376,763	Market Comparatives	Discount Rate	15%
Bank Debt Investments	Shipping	12,394,995	Market Information	Value Per Vessel	\$7.5 million per vessel
Bank Debt Investments	Surface Transport	9,044,838	Market Information	Unadjusted Broker Quote	N/A
Private Equity	Auto Components	3,819,904	Market Information	EBITDA Multiple	4-5X
Private Equity	Containers and Packaging	14,622,383	Market Comparatives	EBITDA Multiple/ Discount Rate	9X/ 20%
Private Equity	Lodging & Casinos	1,983,471	Market Comparatives	Discount Rate	15%
Private Equity	Shipping	-	Market Information	Value Per Vessel	\$7.5 million per vessel
Private Note	Financial Intermediaries	8,059,382	Market Information	Unadjusted Broker Quote	N/A
Total		68,630,984			

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 2019. 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
Bank Debt Investments	Building & Development	269,656	Market Information	Unadjusted Broker Quote	N/A
Bank Debt Investments	Commercial Mortgage	12,810,493	Market Comparatives	Discount Rate	10%
Bank Debt Investments	Lodging & Casinos	3,983,830	Market Comparatives	EBITDA Multiple	13-14x
Bank Debt Investments	Shipping	15,208,846	Market Information	Value Per Vessel	\$9 million per vessel
Bank Debt Investments	Surface Transport	1,464,382	Market Information	Unadjusted Broker Quote	N/A
Private Equity	Air Transport	4,079	Market Information	Residual Value/ Cash Receivable	N/A
Private Equity	Auto Components	9,181,463	Market Information	EBITDA Multiple	6-7x
Private Equity	Containers and Packaging	6,115,253	Market Comparatives	EBITDA Multiple	10x
Private Equity	Lodging & Casinos	4,594,312	Market Comparatives	EBITDA Multiple	13-14x
Private Equity	Oil & Gas	6,509,399	Market Information	Unadjusted Broker Quote	N/A
Private Equity	Shipping	936,016	Market Information	Value Per Vessel	\$9 million per vessel
Private Note	Auto Components	11,008,124	Market Information	EBITDA Multiple	6-7x
Private Note	Utilities	215,547	Market Information	Unadjusted Broker Quote	N/A
Trade Claim	Surface Transport	12,149,475	Market Information	Unadjusted Broker Quote	N/A
Total		84,450,875			

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 at 31 December 2020 and 31 December 2019 are outlined in the tables above.

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 valued 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 2020
(EXPRESSED IN US DOLLARS)

	BANK DEBT INVESTMENTS	PRIVATE EQUITY	TRADE CLAIM	PRIVATE NOTE	TOTAL
Balance, 31 December 2019	33,737,207	27,340,522	12,149,475	11,223,671	84,450,875
Purchases	5,637,229	3,705,792	-	10,346	9,353,367
Sales and distributions	(32,662)	(563,490)	(10,963,563)	(3,900,503)	(15,460,218)
Realised gain/(loss) on sale of investments	30,317	(10,084,280)	(2,068,527)	(7,346,911)	(19,469,401)
Unrealised (loss)/gain on investments	(5,072,795)	6,266,214	(339,931)	(2,050,127)	(1,196,639)
Transfers from level 3 into Level 2	(269,329)	(6,239,000)	-	-	(6,508,329)
Transfers from level 2 into Level 3	6,115,877	-	-	10,122,906	16,238,783
Balance, 31 December 2020	40,145,844	20,425,758	(1,222,546)	8,059,382	67,408,438
Change in unrealised (loss)/gain on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2020	(5,072,795)	6,266,214	(339,931)	(2,050,122)	(1,196,633)

The Company's policy is to recognise transfers into and out of Level 3 as of the actual date of the event or change in circumstances that caused the transfer. During the year the Company had three transfers out of Level 3 into Level 2 of fair value amounting to \$6,508,329 due to quoted prices being observable. The Company also had one transfer out of Level 2 into Level 3 of fair value amounting to \$16,238,783 as no quoted prices were observable.

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 2019
(EXPRESSED IN US DOLLARS)

	BANK DEBT INVESTMENTS	PRIVATE EQUITY	TRADE CLAIM	WARRANTS	PRIVATE NOTE	TOTAL
Balance, 31 December 2018	38,201,360	45,511,526	12,081,316	199,745	7,056,781	103,050,728
Purchases	1,957,203	7,341,874	-	-	4,254,321	13,553,398
Sales and distributions	(2,818,093)	(38,966,767)	-	-	(7,517,824)	(49,302,684)
Realised loss on sale of investments	(22,089,132)	(202,957)	-	-	(13,285,081)	(35,577,170)
Unrealised gain/(loss) on investments	18,485,869	(1,023,154)	68,159	(199,745)	4,946,900	22,278,029
Transfers from level 2 into Level 3	-	14,680,000	-	-	15,768,574	30,448,574
Balance, 31 December 2019	33,737,207	27,340,522	12,149,475	-	11,223,671	84,450,875
Change in unrealised gain/(loss) on investments included in Consolidated Statement of Operation for Level 3 investments held as of 31 December 2019	18,485,869	(1,023,166)	68,159	(199,745)	4,759,549	22,090,666

The Company's policy is to recognise transfers into and out of Level 3 as of the actual date of the event or change in circumstances that caused the transfer. During the year the Company had three transfers out of Level 2 into Level 3 of fair value amounting to \$30,448,574 as prices were unobservable.

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 year or fair value at the previous year end and the fair value at the current year end. Unrealised gains and losses are included in the Consolidated Statement of Operations.

Operating expenses 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 net asset value ("NAV") 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 2020, \$97,467 (31 December 2019: \$275,938) was recorded to reflect accretion of discount on loans and bonds during the period.

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;

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

- 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.

(h) Derivative Contracts

The Company may, from time to time, hold derivative financial instruments for the purposes of managing foreign currency exposure and to provide a measure of protection against defaults of corporate or sovereign issuers. These derivatives are measured at fair value in conformity 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 swaps, total return swaps 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 has 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 total return swap is valued using a mark to market prices provided by a third party broker.

The Company no longer holds warrants (2019: six warrants) which it priced based on the bid price provided by a third party broker/dealer quote in prior year.

(i) 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 2020 or 31 December 2019. The Company is subject to examination for US Federal and state tax returns for calendar years 2017–2020.

During the year ended 31 December 2020, the Company recorded current income tax benefit/expense \$7,172 (31 December 2019 income tax benefit: \$134,860). 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 deferred tax benefit recorded for the year ended 31 December 2020 was \$Nil (31 December 2019 deferred tax benefit: \$355,057). The net total income tax benefit/expense from realised/unrealised gains/(losses) on investments for the year ended 31 December 2020 was \$7,172 (31 December 2019 income tax benefit: \$220,197).

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.

There was one credit default swap position (Brazilian Government) held at 31 December 2020 (31 December 2019: one).

Total Return Swap

The Company entered into two fully funded total return swaps on 2 May 2011 and 18 April 2012. These swaps matured on 25 February 2020 and rolled over into a new swap agreement. New ISDA regulations enacted in 2019 require booking the total return swaps with cash collateral maintained vs fully funded swaps.

As at 31 December 2019 the net value of the swaps was \$12,149,475. From 1 January 2020 until the maturity date of 25 February 2020, there was a decline in the value of the swaps of \$1,185,912 which is included in "Net realised loss on investments, credit default swap, warrants, total return swap and forward currency transactions" and "Net change in unrealised (loss)/gain on investment, credit default swap, warrants, total return swap and forward currency transactions" on pages 66 to 67. Of this amount, \$1,434,274 was an unrealised loss relating to the change in foreign exchange rates during that period which was partially offset by a change in the fair value of the position. When the new swap was booked, cash collateral was required to be deposited with a banking intermediary and is included in restricted cash as of 31 December 2020. The underlying asset of the swaps is denominated in Brazilian Real and the foreign exchange exposure is hedged to offset any change in value in underlying asset due to the FX movements. As of 31 December 2020 the net value of the swap and related cash collateral was \$9,747,454 (comprised of restricted cash collateral of \$10,970,000 and total return swap liability of \$(1,222,546), as reflected in the Consolidated Statement of Assets and Liabilities.

Derivative activity

For the year ended 31 December 2020 and for the year ended 31 December 2019 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 2020		LONG EXPOSURE		SHORT EXPOSURE	
PRIMARY UNDERLYING RISK	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	
Foreign currency exchange rate					
Forward currency contracts	\$197,834,461	5	\$163,940,579		7
Financial assets					
Credit default swap	\$9,400,000	1	-		-
Total return swap	-	-	\$10,960,348		2

31 DECEMBER 2019		LONG EXPOSURE		SHORT EXPOSURE	
PRIMARY UNDERLYING RISK	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	NOTIONAL AMOUNTS	NUMBER OF CONTRACTS	
Foreign currency exchange rate					
Forward currency contracts	\$210,139,227	8	\$210,690,634		9
Financial assets					
Credit default swap	\$12,000,000	1	-		-
Total return swap	-	-	-		-
Equity price					
Warrants	\$752,955	6	-		-

NOTE 3 – DERIVATIVES (CONTINUED)

Derivative activity (continued)

The following tables show, at 31 December 2020 and 31 December 2019, 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 2020 and 31 December 2019, the realised and unrealised gain and loss amounts included in the Consolidated Statement of Operations, categorised by primary underlying risk:

31 DECEMBER 2020 PRIMARY UNDERLYING RISK	DERIVATIVE ASSETS (\$)	DERIVATIVE LIABILITIES (\$)	REALISED GAIN (LOSS) (\$)	NET CHANGE IN UNREALISED GAIN (LOSS) (\$)
Foreign currency exchange rate				
Forward currency contracts	653,125	(1,979,765)	2,173,950	(435,860)
Credit				
Purchased protection				
Credit default swap	-	(54,306)	(76,482)	(143,343)
Total return swap		(1,222,546)	-	(1,222,546)
Equity price				
Warrants	-	-	(211,330)	752,802
31 DECEMBER 2019				
PRIMARY UNDERLYING RISK	DERIVATIVE ASSETS (\$)	DERIVATIVE LIABILITIES (\$)	REALISED GAIN (LOSS) (\$)	NET CHANGE IN UNREALISED GAIN (LOSS) (\$)
Foreign currency exchange rate				
Forward currency contracts	-	(890,781)	2,591,545	(1,474,455)
Credit				
Purchased protection				
Credit default swap	-	(77,983)	(89,643)	(9,220)
Equity price				
Warrants	153	-	-	(200,511)

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)

Offsetting assets and liabilities (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 2019: \$Nil), total return swap with Bank of America Merrill Lynch of \$Nil (31 December 2019: \$Nil) and foreign currency exchange contracts with Royal Bank of Canada of (\$3,694) (31 December 2019: (\$2,979)), Societe Generale of \$4 (31 December 2019: (\$1,861)) and UBSAG of \$1,322,951 (31 December 2019: (\$885,939)). 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 was a new collateral arrangement during the year for the total return swaps of \$10,970,000 with Bank of America Merrill Lynch.

The following tables, at 31 December 2020 and 31 December 2019, 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 2020

(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	653,125	-	653,125
Total	653,125	-	653,125

DESCRIPTION	GROSS AMOUNTS OF RECOGNISED LIABILITIES	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED LIABILITIES PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward currency contracts	(1,979,765)	-	(1,979,765)
Credit default swap	(54,306)	-	(54,306)
Total return swap	(1,222,546)	-	(1,222,546)
Total	(3,256,617)	-	(3,256,617)

31 DECEMBER 2019

(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	457,083	(457,083)	-
Warrant	153	-	153
Total	457,236	(457,083)	153

DESCRIPTION	GROSS AMOUNTS OF RECOGNISED LIABILITIES	GROSS AMOUNTS OFFSET IN THE STATEMENTS OF ASSETS AND LIABILITIES	NET AMOUNTS OF RECOGNISED LIABILITIES PRESENTED IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
Forward currency contracts	(1,347,864)	457,083	(890,781)
Credit default swap	(77,983)	-	(77,983)
Total	(1,425,847)	457,083	(968,764)

NOTE 4 – RISK FACTORS

The Company's investments are subject to various risk factors including market and credit risk, interest rate and foreign exchange risk, and the risks associated with investing in private securities. Investments in private securities and partnerships are illiquid, and there can be no assurances that the Company will be able to realise the value of such investments in a timely manner. Additionally, the Company's investments may be highly concentrated in certain industries. Non-U.S. dollar denominated investments may result in foreign exchange losses caused by devaluations and exchange rate fluctuations. In addition, consequences of political, social, economic, diplomatic changes or public health condition may have disruptive effects on market prices or fair valuations of foreign investments.

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 2020 and 31 December 2019 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 fall 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 may invest a relatively large percentage of its assets in issuers located in a single country, a small number of countries, or a particular geographic region. As a result, the Company's performance may be closely aligned with the market, currency or economic, political or regulatory conditions and developments in those countries or that region, and could be more volatile than the performance of more geographically diversified investments. Refer to the Schedule of Investments on pages 69 to 76 for concentration 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 and as a consequence 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 International Swaps and Derivatives Association (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.

NOTE 4 – RISK FACTORS (CONTINUED)

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.

Coronavirus

The outbreak of the novel coronavirus in many countries, which remains a rapidly evolving situation, has, among other things, disrupted global travel and supply chains, and has adversely impacted global commercial activity, the transportation industry and commodity prices in the energy sector. The impact of this virus has negatively affected and may continue to affect the economies of many nations, individual companies and the global securities and commodities markets, including liquidity and volatility, in ways that cannot necessarily be foreseen at the present time. The rapid development and fluidity of this situation precludes any prediction as to its ultimate impact, which may have a continued adverse effect on economic and market conditions and trigger a period of global economic slowdown. Such conditions (which may be across industries, sectors or geographies) have impacted and may continue to impact the financial performance of the Company.

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 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 Carey Trustees Limited (the "Trustee"), pursuant to a purpose trust established under Guernsey law. Under the terms of the NBDDIF Purpose 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 2020, the Company had the following number of shares in issue:

	31 DECEMBER 2020	31 DECEMBER 2019
Issued and fully paid up:		
Class A Shares	2	2
Ordinary Share Class of no par value (Nil in treasury; 2019: Nil)	15,382,770	15,382,770
Extended Life Share Class of no par value (Nil in treasury; 2019: Nil)	80,545,074	114,146,794
New Global Share Class of no par value (Nil in treasury; 2019: Nil)	41,116,617	71,787,915

NOTE 5 – SHARE CAPITAL (CONTINUED)

Reconciliation of the number of shares in issue in each class (excluding Class A) at 31 December 2020:

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	TOTAL
Balance at 31 December 2019	15,382,770	114,146,794	71,787,915	201,317,479
Distributions during the year	-	(29,939,898)	(27,635,465)	(57,575,363)
Buybacks (Shares repurchased)	-	(3,661,822)	(3,035,833)	(6,697,655)
Balance at 31 December 2020 ¹	15,382,770	80,545,074	41,116,617	137,044,461

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

Reconciliation of the number of shares in issue in each class at 31 December 2019:

	ORDINARY SHARES	EXTENDED LIFE SHARES	NEW GLOBAL SHARES	TOTAL
Balance at 31 December 2018	23,395,578	154,104,598	82,770,361	260,270,537
Distributions during the year	(8,012,808)	(37,527,305)	(10,032,446)	(55,572,559)
Buybacks (Shares repurchased)	-	(2,430,499)	(950,000)	(3,380,499)
Balance at 31 December 2019 ¹	15,382,770	114,146,794	71,787,915	201,317,479

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 2020 and year ended 31 December 2019.

2020	ORDINARY SHARE CLASS			EXTENDED LIFE SHARE CLASS			NEW GLOBAL SHARE CLASS		
	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT
19 March 2020	-	-	-	\$4,986,260	5,434,023	\$0.9176	-	-	-
18 May 2020	-	-	-	\$7,491,958	9,536,606	\$0.7856	\$9,136,423	11,206,038	\$0.8153
30 June 2020	-	-	-	\$10,491,960	14,969,269	\$0.7009	\$12,965,737	16,429,427	\$0.7892
	-	-	-	\$22,970,178	29,939,898	-	\$22,102,160	27,635,465	-

2019	ORDINARY SHARE CLASS			EXTENDED LIFE SHARE CLASS			NEW GLOBAL SHARE CLASS		
	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT	DISTRIBUTION AMOUNT	NUMBER OF SHARES	PER SHARE AMOUNT
1 April 2019	\$7,991,975	8,012,808	\$0.9974	\$19,991,952	20,648,577	\$0.9682	\$8,535,657	7,198,961	\$1.1857
27 August 2019	-	-	-	\$4,991,952	5,418,379	\$0.9213	\$3,060,855	2,833,485	\$1.0802
25 November 2019	-	-	-	\$10,491,950	11,460,349	\$0.9155	-	-	-
	\$7,991,975	8,012,808	-	\$35,475,854	37,527,305	-	\$11,596,512	10,032,446	-

Buybacks

Under the authority granted to the Directors at the 2019 and 2020 AGMs, between 1 January 2020 and 31 December 2020, 3,661,822 Extended Life Shares were repurchased and cancelled by the Company for gross consideration of \$1,857,098 and 3,035,833 New Global Shares were repurchased and cancelled by the Company for gross consideration of \$2,017,495 (£1,578,657).

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.

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.

The Manager waived its entitlement to any base fee calculated in respect to any cash and cash equivalents held by the Company that is solely attributable to the account of the Ordinary Shares, with such a waiver taking effect as at 1 October 2020. Effective 18 March 2021, the Manager waived its entitlement to all fees from the Company. For the year ended 31 December 2020, the management fee expense was \$1,952,064 (31 December 2019: \$3,428,612). At 31 December 2020, the management fee payable was \$134,188 (31 December 2019: \$493,060).

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 the year ended 31 December 2020 or 31 December 2019, nor would any be paid if the Company were to realise all its assets at their carrying values 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. Bank Global Fund Services (Guernsey) Limited and U.S. Bank Global Fund Services (Ireland) 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 U.S. Bank Global Fund Services (Ireland) Limited (the “Sub-Administrator”). The Sub-Administration Service Level Agreement was amended and approved on 21 February 2018.

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).

NOTE 6 – MATERIAL AGREEMENTS AND RELATED PARTY TRANSACTIONS (CONTINUED)

Administration, Company Secretarial and Custody Agreements (continued)

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. 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 2020, the administration fee expense was \$123,097 (31 December 2019: \$211,457), the secretarial fee was \$116,314¹ of which \$24,110¹ was in relation to the administration of the ongoing buyback programme, (31 December 2019: \$164,747) and the loan administration and custody fee expense was \$55,840 (31 December 2019: \$183,623). At 31 December 2020, the administration fee payable is \$6,908² (31 December 2019: \$14,535), the secretarial fee payable is \$49,598² (31 December 2019: \$86,256) and the loan administration and custody fee payable is \$2,311² (31 December 2019: \$11,779).

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). For the year ended 31 December 2020, the Directors’ fees and travel expenses amounted to \$194,960¹ (31 December 2019: \$253,482). 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 2020.

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

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

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 8 March 2021 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	-	73,753	49,450	123,203
Michael Holmberg	-	32,563	51,698	84,261
Christopher Legge	-	-	-	-
Stephen Wakil	-	-	26,974	26,974

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 2020	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2019	YEAR ENDED 31 DECEMBER 2019	YEAR ENDED 31 DECEMBER 2019
	(AUDITED)	(AUDITED)	(AUDITED)	(AUDITED)	(AUDITED)	(AUDITED)
Net asset value per share at beginning of the year	0.9086	0.9266	0.8339	0.9778	0.9635	0.9206
Impact of share buybacks	-	0.0096	0.0063	-	0.0020	0.0015
Impact of share redemptions	-	(0.0029)	(0.0038)	(0.0022)	0.0008	(0.0009)
Income/(loss) from investment operations ³						
Net investment (loss)/income	(0.0195)	0.0121	0.0080	(0.0063)	0.0183	0.0098
Net realised and unrealised loss from investments and foreign exchange	(0.0471)	(0.1565)	(0.2762)	(0.0607)	(0.0580)	(0.0971)
Total loss from investment operations	(0.0666)	(0.1444)	(0.2682)	(0.0670)	(0.0397)	(0.0873)
Net asset value per share at end of the year	0.8420	0.7889	0.5682	0.9086	0.9266	0.8339

³ Weighted average number of shares outstanding was used for calculation.

FINANCIAL STATEMENTS | Notes to the Consolidated Financial Statements

NOTE 7 – FINANCIAL HIGHLIGHTS (CONTINUED)

	ORDINARY SHARES (\$)	EXTENDED LIFE SHARES (\$)	NEW GLOBAL SHARES (£)	ORDINARY SHARES (\$)	EXTENDED LIFE SHARES (\$)	NEW GLOBAL SHARES (£)
	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2019	YEAR ENDED 31 DECEMBER 2019	YEAR ENDED 31 DECEMBER 2019
NAV TOTAL RETURN ^{1,2}						
NAV Total Return before performance fee	(7.33%)	(14.86%)	(31.86%)	(7.08%)	(3.83%)	(9.42%)
Performance fee	-	-	-	-	-	-
NAV Total Return after performance fee including an income distribution by way of dividend	(7.33%)	(14.86%)	(31.86%)	(7.08%)	(3.83%)	(9.42%)

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
	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2020	YEAR ENDED 31 DECEMBER 2019	YEAR ENDED 31 DECEMBER 2019	YEAR ENDED 31 DECEMBER 2019
RATIOS TO AVERAGE NET ASSETS						
Net investment income/(loss) before and after performance fees	(2.55%)	1.52%	1.25%	(0.66%)	1.92%	1.13%
Total expenses after performance fee	(2.89%)	(2.68%)	(2.76%)	(2.15%)	(2.21%)	(2.31%)

NOTE 8 – RECONCILIATION OF NET ASSET VALUE TO PUBLISHED NAV

In preparing the Financial Statements, there were adjustments relating to investment valuations and deferred tax. 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 2020	12,945,021	0.8415	63,589,978	0.7895	22,938,029	0.5579
Deferred Tax adjustment	-	-	-	-	11,412	0.0003
Valuation adjustments	7,944	0.0005	(49,328)	0.0006	413,698	0.0100
Net assets per Consolidated Financial Statements	12,952,965	0.8420	63,540,650	0.7889	23,363,139	0.5682
	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 2019	13,976,415	0.9086	105,771,674	0.9266	59,934,598	0.8349
Deferred Tax adjustment	-	-	-	-	(71,816)	(0.0010)
Valuation adjustments	-	-	-	-	-	-
Net assets per Consolidated Financial Statements	13,976,415	0.9086	105,771,674	0.9266	59,862,782	0.8339

NOTE 9 – SUBSEQUENT EVENTS

On 18 March 2021, the Company announced that, effective immediately, the Investment Manager had waived its entitlement to all fees from the Company. The Directors have evaluated subsequent events up to 14 April 2021, which is the date that the Consolidated Financial Statements were available to be issued, and have concluded there are no further items that require disclosure or adjustment to the Consolidated Financial Statements.

ADDITIONAL INFORMATION | Contact Details

Contact Details

Directors

John Hallam (*Chairman*)
Michael Holmberg
Christopher Legge
Stephen Wakil

All c/o the Company's registered office.

Registered Office

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Les Ruettes Brayes
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GY1 1EW

Company Secretary

Carey Commercial Limited

Alternative Investment Fund Manager

Neuberger Berman Investment Advisers LLC

Manager

Neuberger Berman Europe Limited

Custodian and Principal Bankers

US Bank National Association

Designated Administrator

U.S. Bank Global Fund Services (Guernsey) Limited

Independent Auditor

KPMG Channel Islands Limited

Sub-Administrator

U.S. Bank Global Fund Services (Ireland) Limited

Financial Adviser and Corporate Broker

Stifel Nicolaus Europe Limited *until* 13 September 2020
Jefferies International Limited *after* 13 September 2020

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

Herbert Smith Freehills LLP

Advocates to the Company (as to Guernsey law)

Carey Olsen

Registrar

Link Market Services (Guernsey) Limited

UK Transfer Agent

Link Asset Services
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United Kingdom

Shareholders holding shares directly and not through a broker, saving scheme or ISA and have queries in relation to their shareholdings should contact the Registrar on +44 (0)371 664 0445. (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9 a.m. to 5:30 p.m. (excluding bank holidays)). Shareholders can also access their details via the Registrar's website:
www.signalshares.com.

Full contact details of the Company's advisers and Manager can be found on the Company's website.