NEUBERGER | BERMAN


# 2016 ANNUAL REPORT

**COVER IMAGE**

## OUR NEW GLOBAL HEADQUARTERS—
## **1290 AVENUE OF THE AMERICAS**

In the culmination of a multiyear, multifaceted effort, in late 2016 we began to relocate personnel into our new global headquarters at 1290 Avenue of the Americas in New York City. With work areas designed with input from employees themselves, the new space reflects the firm's independent, entrepreneurial spirit and better facilitates the collaboration that fuels our investment-driven culture.

This is an exciting next step in the history of Neuberger Berman. We look forward to sharing the new space with you.

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NEUBERGER BERMAN

# OUR MISSION IS TO PARTNER WITH CLIENTS TO ACHIEVE THEIR UNIQUE INVESTMENT OBJECTIVES

Neuberger Berman was founded in 1939 to do one thing: deliver compelling investment results for our clients over the long term. This remains our singular purpose today, driven by a culture rooted in deep fundamental research, the pursuit of investment insight, and continuous innovation on behalf of clients, and facilitated by the free exchange of ideas across the organization.

As a private, independent, employee-owned investment manager, Neuberger Berman is structurally aligned with the long-term interests of our clients. We have no external parent or public shareholders to serve, nor other lines of business to distract us from our core mission. And with our employees and their families invested alongside our clients—plus 100% of employee deferred cash compensation directly linked to team and firm strategies—we are truly in this together.

From offices in 28 cities across the globe, Neuberger Berman manages a range of equity, fixed income, private equity and hedge fund strategies on behalf of institutions, advisors and individual investors worldwide. With more than 500 investment professionals and over 1,900 employees in total, Neuberger Berman has built a diverse team of individuals united in their commitment to client outcomes and investment excellence. Our culture has afforded us enviable retention rates among our senior investment staff and has earned us a citation as the top-ranked firm (among those with 1,000 or more employees) in the *Pensions & Investments* 2016 Best Places to Work in Money Management survey, after we had finished in the top three from 2013 – 2015.

### CLIENT ALIGNMENT

**100%** Deferred cash compensation directly linked to team and firm strategies

### EXPERIENCE AND STABILITY

**96%** Annualized retention rate of senior investment professionals* since becoming an independent company in 2009

### PARTNERSHIP AND INNOVATION

**75+** Years of collaborating with our clients to overcome their challenges

### BREADTH OF PERSPECTIVES

**500+** Investment professionals offering different viewpoints on markets, economics and strategies

*Senior Vice Presidents and Managing Directors

| | EQUITY | FIXED INCOME | ALTERNATIVES |
|---|---|---|---|
| AUM $255BN[1] | $95bn | $114bn | $55bn AUM and Committed Capital |
| INVESTMENT PROFESSIONALS | 230 | 145 | 116 |
| FUNDAMENTAL | Global/EAFE<br>U.S. Value/Core/Growth<br>Emerging Markets<br>Regional EM, China<br>Socially Responsive Investing<br>Income Strategies:<br>– MLP<br>– REITs | Global Investment Grade<br>Global Non-Investment Grade<br>Emerging Markets<br>Opportunistic/Unconstrained<br>Municipals<br>Specialty Strategies:<br>– CLO Mezzanine<br>– Currency<br>– Corporate Hybrids | Private Equity:<br>– Primaries<br>– Co-Investments<br>– Secondaries<br>– Specialty Strategies<br>– Minority Stakes in Alternative Firms/Dyal<br>Hedge Funds:<br>– Multi-Manager<br>– Equity Long/Short<br>– Credit Long/Short<br>– Event Driven<br>Alternative Credit:<br>– Private Credit<br>– Residential Loans<br>– Special Situations |
| QUANTITATIVE | Global<br>U.S.<br>Emerging Markets<br>Custom Beta | | Risk Premia<br>Options<br>Global Macro<br>Commodities |

## MULTI-ASSET CLASS SOLUTIONS AND STRATEGIC PARTNERSHIPS

| | | | |
|---|---|---|---|
| FUNDAMENTAL | Global Relative and Absolute Return<br>Income Focused<br>Inflation Management<br>Liability Aware | QUANTITATIVE | Risk Parity<br>Global Tactical Asset Allocation |

[1] As of December 31, 2016. Firm assets under management (AUM) includes $95.1 billion in Equity assets, $114.2 billion in Fixed Income assets and $45.9 billion in Alternatives assets under management. Alternatives AUM includes AUM & Committed Capital since inception, which reflects contractual commitments to fund investments advised by NB Alternatives Advisers LLC, including those still in documentation, since inception (the oldest mandate of which was founded in 1981) ("Committed Capital").

**GEORGE H. WALKER**
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

# A MESSAGE FROM OUR CEO

2016 was a year of great change—in geopolitics, in economic policy and expectations, and in financial markets. We witnessed a strain of nationalistic populism migrate from the fringes of political discourse to the mainstream and in the process inspire the emergence of a new investment paradigm. Risk assets of all stripes and geographies finished an up-and-down year overwhelmingly up, some quite impressively. Bond markets also generated gains for many investors, though I believe we have seen the beginning of the end of their 30-year bull run.

As a firm, Neuberger Berman entered 2017 buoyed by strong investment performance consistent with our singular focus on delivering compelling long-term results on behalf of our clients. In the U.S., *Barron's* recognized us as a top-10 fund family for 2016 amongst a long list of competitors we admire. During the year clients entrusted us with an additional $1.4 billion of their irreplaceable assets, which—together with solid investment performance—raised firm assets under management to a record-high $255 billion.

Our operating philosophy remains fundamental to our success:

**Investing for clients and with clients.** Neuberger Berman is a private, independent, employee-owned investment manager, a structure we believe best aligns us—both as an organization and as individuals—with the long-term interests of our clients. With no external parent or public shareholders to serve, we are empowered to run our business with a lasting, client-centric perspective. With no proprietary trading or market-making operations, we are able to concentrate our efforts solely on our core activity of investment management. And with our employees and their families having significant personal capital invested alongside that of our clients—plus 100% of employee deferred cash compensation directly linked to team and firm strategies—we are truly in this together.

**Diversity of viewpoints, unity of intent.** Our portfolio managers are critical, independent thinkers who benefit from being part of a global, diverse investment organization composed of more than 500 investors with different perspectives on markets, economies and strategies—equity and credit, public and private, long and short, large and small. That breadth of perspective helps bolster conviction and often results in portfolios with high active share and the potential for meaningful alpha generation.

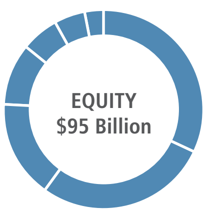
**Yesterday, today and tomorrow.** Neuberger Berman by design attracts individuals who share a passion for investing and who thrive in an environment of rigorous analysis, challenging dialogue, and professional and personal respect. In a testament to the strength of the culture we have built—honed by more than 75 years of markets and countless "once-in-a-lifetime" events—these professionals have tended to stay with the firm, stability that over time drives results and consistency of process. 2016 was another extraordinary year in this regard, with no portfolio managers departing for a competitor yet again.

## ASSETS UNDER MANAGEMENT

# $255 BILLION

AS OF DECEMBER 31, 2016

### BY ASSET CLASS




32% U.S. VALUE
28% U.S. CORE
16% GLOBAL / INTERNATIONAL
10% INCOME
6% U.S. GROWTH
5% SOCIALLY REPONSIVE
3% QUANTITATIVE


44% INVESTMENT GRADE
32% NON-INVESTMENT GRADE
8% MUNICIPALS
8% EMERGING MARKETS DEBT
8% OPPORTUNISTIC / UNCONSTRAINED


29% PRIMARIES
16% MINORITY STAKES IN ALTERNATIVE FIRMS / DYAL
16% SECONDARIES
15% CO-INVESTMENTS
15% HEDGE FUNDS / OPTIONS
5% ALTERNATIVE CREDIT
4% SPECIALTY STRATEGIES

Alignment between clients and employees is fundamental. In that spirit we are proud to note that Neuberger Berman recently was named the #1 firm (amongst those with 1,000 or more employees) in the *Pensions & Investments* 2016 "Best Places to Work in Money Management" survey after ranking in the top five in each of the prior three years. Attracting and retaining the best employees is fundamental to our ability to deliver compelling long-term investment results for clients, and we continue to invest in our team and our culture.

## 2016 IN REVIEW: A BUMPY RIDE HIGHER

As 2016 began against a backdrop of falling markets and eroding investor sentiment, we encouraged clients to look beyond the noise and instead focus on the fundamentals. To quote from my letter introducing our last Annual Report, "At the risk of grossly oversimplifying, in rough seas we believe 'staying the course' is a better approach than 'trust your gut' when waves grow." We noted that the previous five years had delivered annualized market returns of 10.2% (as measured by the S&P 500)—though investors had to withstand intra-year drawdowns averaging 11.0% in order to achieve them.

This trend extended into 2016. Fears of a slowing China and weak oil prices early in the year were followed by the summer Brexit surprise and the U.S. election in the fall. Big waves indeed. But the recoveries that followed were even more impressive. The S&P 500 Index, for example, posted a total return of nearly 12% for 2016 after being down more than 10% at its 2016 trough. History repeats.

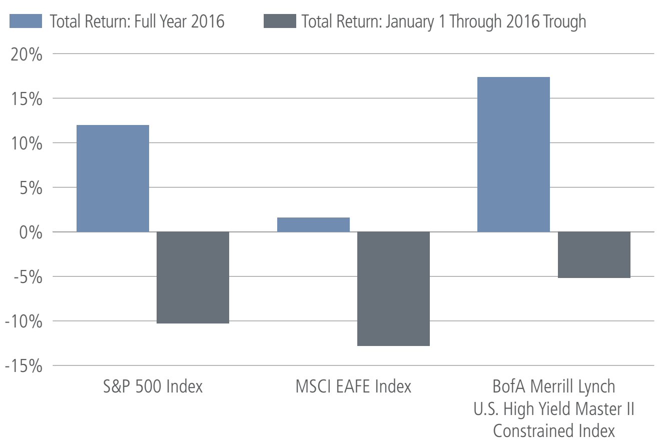
### AUM BY CLIENT REGION

72% | AMERICAS
17% | EUROPE/MIDDLE EAST
11% | ASIA PACIFIC

### AUM BY CLIENT TYPE

65% | PENSION FUNDS, SOVEREIGN WEALTH FUNDS AND OTHER INSTITUTIONS
18% | FINANCIAL INSTITUTIONS, RIAs AND ADVISORS
17% | PRIVATE CLIENTS

## MARKETS REBOUNDED SHARPLY FROM INTRA-YEAR LOWS




Source: Bloomberg.

As shown to the right, our broad predictions for 2016, delivered each December as part of our Solving series, were largely confirmed, though our caution in emerging markets and portions of the commodities complex proved incorrect.

Ultimately, as you can see on page 6, investors who stayed the course in 2016 were able to participate in mostly rising markets, aside from China's A-share equity market and certain currencies. Within fixed income you'll notice the spike in U.S. high yield bonds. With rebounding oil prices and renewed expectations for economic growth, high yield bonds had an outstanding 2016; the BofA Merrill Lynch U.S. High Yield Master II Constrained Index gained more than 17% for the year. Tom O'Reilly, who heads up our non-investment grade bond team, continues to believe the high yield market is compensating investors for default risk and that defaults likely will remain below the historical average given stable U.S. economic growth.

## BROAD PREDICTIONS FOR 2016

✓ GOT IT RIGHT ✗ GOT IT WRONG

### ECONOMY

- ✓ Low-to-moderate global economic growth
- ✓ Low interest rates as central banks, overall, remain accommodative
- ✓ Low inflation
- ✓ Probability of near-term global recession remains low

### EQUITIES

- ✓ U.S. stock market reflects reasonable valuations: muted outlook for 2016 earnings
- ✓ European equities remain supported by ECB stimulus as business conditions improve
- ✓ Japan stocks benefit from weak yen and reallocation of pension fund assets, but are threatened by slowing China and weak sentiment
- ✗ Emerging market equities facing headwinds including a slowing China, a strong U.S. dollar and low commodity prices

### FIXED INCOME

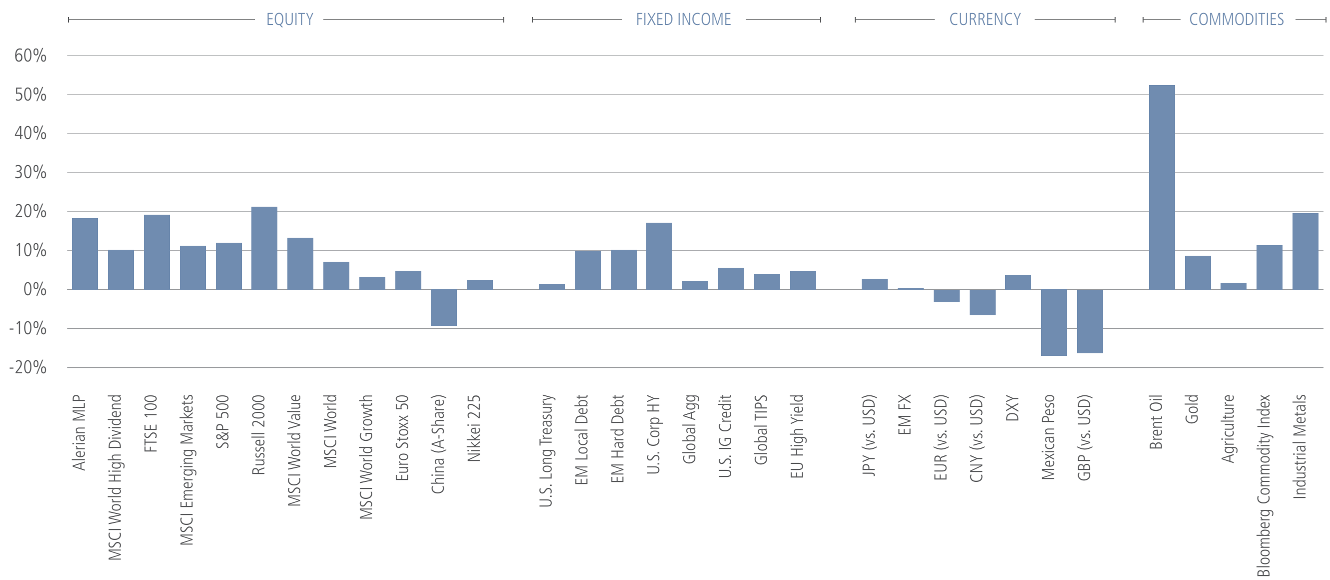
- ✓ Corporate spreads attractive across quality spectrum
- ✓ Underweight view on most developed market government securities, as low yields do not compensate for risk of higher rates
- ✗ Cautious on emerging market debt, with bias toward hard-currency sovereigns

### ALTERNATIVES

- ✗ Neutral view on commodities due to recent significant selloff
- ✓ Hedge funds: Directional and absolute return strategies may benefit from increased volatility and a rising U.S. interest rate environment
- ✓ Private markets: Seek to capture illiquidity premium in private debt; high cash flow; short J-curve

**THE TREND ACROSS MARKETS WAS BROADLY HIGHER IN 2016**

Total Return in U.S. Dollars




Source: Bloomberg.

## 2017: "SEA CHANGE" BRINGS MORE GROWTH, MORE RISK

When considering the investment environment moving forward, we must recognize that:

- Market prices appear expensive based on historical norms as a result of years of extraordinary central bank policies globally.
- The global economy is stronger than widely perceived and is improving, albeit with dispersion among countries.
- The U.S. election set the stage for pro-growth economic policy while also ushering in remarkable uncertainty.

The performance of equity markets over the intermediate term has been stunning. As of March 31, 2017, the S&P 500 Index, for example, stands about 3.5 times higher than it did eight years ago when economies and markets were careening into the abyss of the Great Recession. Perhaps more impressive is the equity market's level relative to previous cyclical peaks; the S&P 500 is more than 50% above its highs in October 2007 and March 2000. In contrast, U.S. home prices remain 6% below their 2006 top. And while the equity bull market has been impressive in length and magnitude, the 30-year run in the bond market was even more extraordinary, though I believe it ended in July 2016 when the 10-year Treasury rate hit 1.36%.

As a result of this nearly eight-year run, equity market valuations in the U.S. have moved to the high end of their historical range; the S&P 500 now trades at around 18 times forward earnings, a level not seen since 2004. These levels imply caution but certainly not alarm given the low rate environment, modest inflation, our upbeat earnings expectations and the potential emergence of a more business-friendly landscape that features lower taxes, reduced regulatory burdens and robust fiscal spending programs. Of course, the path to that benign business landscape runs through a dysfunctional Congress and an unpredictable White House. Expect setbacks, delays and confusion, all of which will likely lead to market volatility. Broad market selloffs are to be expected and—if economic fundamentals remain intact—should represent buying opportunities.

Stocks in the euro zone, on the other hand, remain below pre-recession highs, and the region's forward P/E ratio—just shy of 15—is more attractive given improving fundamentals and the European Central Bank's accommodative stance. Volatility is likely here, too, as near-term headlines will be dominated by a daunting political calendar and the beginnings of Britain's divorce proceedings from the European Union.

After struggling for much of 2016, Japanese stocks spiked following the U.S. elections, driven in part by the prospect of U.S. growth and a weaker yen benefitting Japanese exporters; the Nikkei 225 rose more than 17% in local-currency terms between Election Day and year-end to reclaim pre-recession highs. Japanese corporations continue to improve governance, and regulators there are among the most balanced globally. We think the trends toward corporate and regulatory reform in Japan are real in select cases, and they have enabled us to find more quality firms on the margin than we have historically despite continued tepid economic growth in the country. Recently, Benjamin Segal, senior portfolio manager for global equities, has added to the International Equity Fund Japanese names such as Kao, a consumer product company that continues to improve.

Trade vagaries and the prospects of a stronger dollar weighed on emerging markets in the immediate aftermath of the U.S. election, and the MSCI EM Index's failure to participate in the broad November/December rally took some of the shine off what otherwise was a very successful year. We expect investors to look past these exogenous issues in 2017 and increasingly focus on the fundamental improvements these economies have been delivering of late.

Conditions in the global economy, meanwhile, aren't nearly as dire as political discourse may suggest. The U.S. looks to be in pretty good shape as it continues to expand from the depths of 2009, and we believe the current probability of recession in the near term is remote. Reflation has picked up; 2017 GDP likely will materially exceed the 1.6% expansion of full-year 2016. Europe and Japan are facing political and trade challenges as monetary stimulus ebbs, though recent economic data have been above trend. With GDP growth of 1.7% in 2016, the euro zone last year outpaced the U.S. for the first time since 2008. Inflation in the region, meanwhile, rose 1.8% year-over-year in January, a four-year high. Though the improvement in data has stirred calls for a reduction in European Central Bank support, policymakers are taking a cautious approach; meanwhile, a stacked political calendar looms.

Japan, too, looks better than it has in years, expanding in all four quarters of 2016 for annual growth of 1%.

As for the emerging markets, fundamentals have continued to improve even as the uncertain magnitude and timing of anti-trade action looms large, as does the impact of rising rates and a strong U.S. dollar. Real GDP growth in these economies has been stable, while debt as a percentage of GDP is roughly half that exhibited by developed economies. This is an environment in which our emerging market debt managers continue to distinguish themselves. The team's efforts—led by Rob Drijkoningen and Gorky Urquieta—were recently recognized by *Professional Pensions,* which named Neuberger Berman the 2016 Emerging Market Debt Manager of the Year. The rally in risk assets following the U.S. elections has reflected the anticipation of more expansionary policies from the United States. However, Rob and Gorky believe the strong domestic growth momentum has been even more important. The uptick in global and Chinese growth and stronger commodity prices have benefited emerging market hard-currency spreads, while the lack of U.S. dollar strength has supported foreign exchange. The team currently has an overweight bias on hard-currency sovereigns versus corporates, primarily due to relative valuations. Local-currency bonds are underweight given their vulnerability to reflation dynamics in the United States and within parts of Asia.

Also constructive on growth in emerging economies is Conrad Saldanha, who manages our emerging markets equity strategy. He currently maintains a domestic growth bias, targeting, for example, a diverse set of consumer staples and technology-related companies that cater to local markets. Dispersion among emerging equity markets has been rising of late, belying their reputation as a homogenous asset class.

Unfortunately, economic improvements in recent years mask a growing wealth inequality; as nations as a whole prosper, too many individuals are being left behind, and the implications are profound. A recent study by the Brookings Institution shows that the longevity gap between the wealthiest 10% and poorest 10% of Americans has more than doubled since the 1970s. Another disconcerting trend—and one that seemed to go mostly unnoticed during the U.S. election—is that the population as a whole is massively unprepared for retirement. According to the National Institute on Retirement Savings, people aged 40 to 55 have an average retirement balance of $14,500, which represents only 5 – 10% of what they will need to maintain their standard of living in retirement; 45% of households have no retirement savings at all. Without action, the number of retirees living in or near poverty will explode, with enormous political and social consequences—as well as economic risk. Around the world models exist to address this crisis, but political will is lacking.

The fallout from widening inequality could be seen throughout the developed world in 2016, as the disenfranchised middle and lower classes—feeling squeezed by existential issues like sovereignty, trade, globalization, immigration and even life expectancy—expressed their displeasure with the status quo at the voting booth. While Brexit in the summer and Donald Trump's victory in the fall were the biggest examples of this geopolitical trend, its impact also could be seen to various degrees in Europe, Asia and Latin America. With major elections coming up in Europe during 2017—and with anti-establishment candidates making noise in all of them—it's safe to say that this story hasn't yet fully played out, although we do anticipate it decelerating in 2017 as electorates and victors grapple with the consequences of their decisions and the challenges of governing versus campaigning.

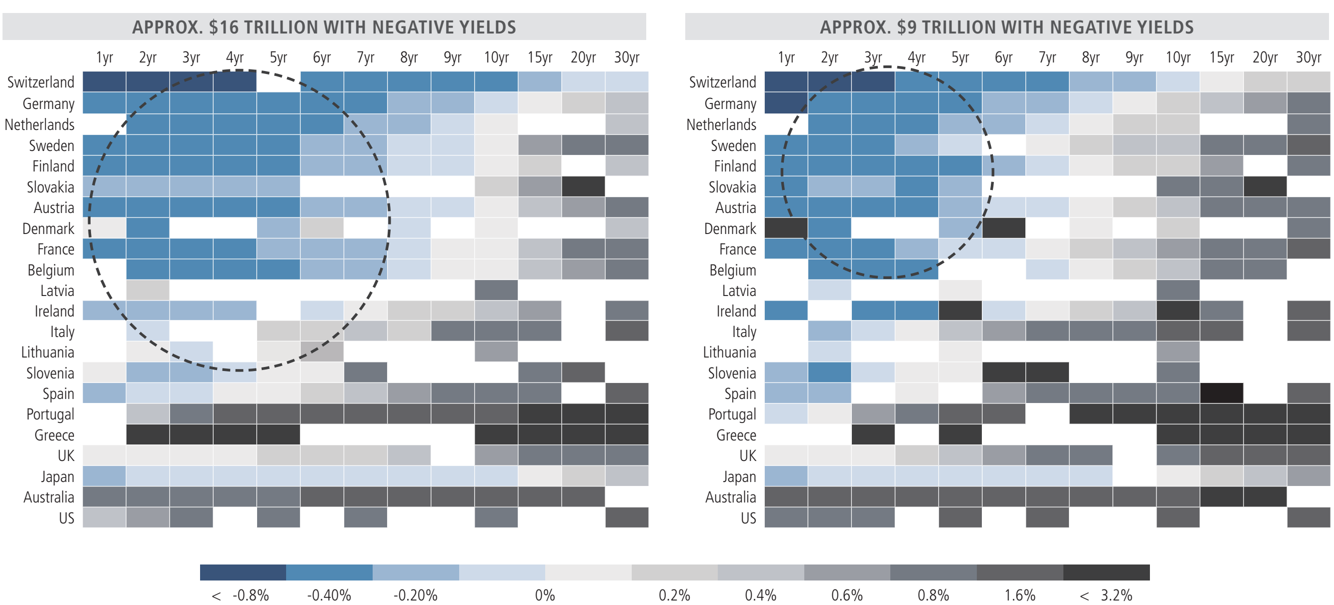
Concurrent with this has been an inflection point in global central bank policy in which central banks going forward likely will be less impactful on financial markets than they have been in recent years. Since the Great Recession, central banks have relied on the use of low to negative interest rates in order to fuel consumption and combat deflation. The economic results have been underwhelming, and as a consequence of these efforts central banks have artificially removed risk from the economy and thus incentivized greater risk-taking by market participants.

Rates, while still low by historical standards, already have begun to moderate, with $16 trillion worth of negative yields as of August 31, 2016, shrinking to $9 trillion by the end of the year on expectations of greater inflation and higher economic growth. We believe the U.S. Federal Reserve likely will hike rates three times in 2017; however, low interest rates globally—particularly in Europe and Japan, where central banks have driven bond yields below zero in their attempts to combat deflationary fears—will continue to exert a gravitational pull on the U.S. rate structure.

**YIELDS GLOBALLY HAVE TRENDED HIGHER POST-ELECTION**

Global Bond Yields as of 8/31/16

Global Bond Yields as of 12/30/16




Source: Bloomberg.

Donald Trump's election in the U.S. and the pro-growth, pro-inflation policies he and a Republican legislature are expected to enact represent a "sea change" for both the global economy and the financial markets. As investors, there is much to like in the broad strokes of President Trump's policy agenda. The repatriation of foreign profits—to the tune of $2.4 trillion—should lead to an increase in corporate buybacks; our expectation would be for a spike of about 30%, similar to what we saw from S&P 500 companies in the two years following the 2004 repatriation tax holiday. A reduction in regulatory burdens is another Trump proposal that could help fuel another leg higher in U.S. equity markets; reasonable estimates are that federal agencies have added annual costs of $112 billion to businesses over the past eight years. Financial services should be a primary beneficiary. There's also fiscal stimulus, which is purported to be massive in scale—infrastructure spending alone has been floated at $1 trillion—but remains undefined.

Tax reform has gotten perhaps the most attention in the months immediately following the election, and the changes currently proposed would have broad implications across countries and industries, influencing relative economic activity, profitability of companies, future issuance trends and demand across sectors. At 39%, the U.S. today has the highest statutory corporate tax rate in the developed world, surpassing even that of France (though the average effective tax rate for U.S. companies is closer to 27%). Among the tax reform proposals that have been discussed publicly by the Trump administration is one that would slash the statutory rate to 15%, moving the United States to second-lowest among major countries, behind only Ireland. The more realistic House proposal, at 20%, puts the U.S. closer to the international norm. The tax savings from these proposals would add $8–11 of earnings per share to the S&P 500.

The proposed corporate tax changes are positive overall for businesses and U.S. economic growth, though the impact will vary greatly across sectors and individual securities, as depicted in Figure 4. (The border-adjustment tax is most likely to be altered from its current form.) Active investment managers have the opportunity to take advantage, dissecting the potential impacts of different proposals and modeling them to specific markets, sectors and issues. Notably, the path toward the passage of any tax reform legislation will be longer and less straightforward than markets currently anticipate.

### IMPACT OF TAX REFORM WILL VARY ACROSS SECTORS

Estimated Impact of House Tax Proposal if Implemented as Written

| | | Impact of: | | | | | |
|---|---|---|---|---|---|---|---|
| | Reported Domestic Revenue | Lower U.S. Corporate Tax Rate | Move to Territorial Taxation | Border-Adjustment Tax* | Capex Expensing Instead of Depreciation | Lost Deductability of Interest Expense | Net Impact on EPS |
| Financials | 78% | ▲▲▲ | ▲ | NM | NM | NM** | 17.9% |
| Telecom | 100% | ▲▲▲ | NM | ▼▼ | ▲▲ | ▼▼ | 13.9% |
| Health Care | 82% | ▲▲ | ▲ | ▼▼ | NM | ▼ | 6.2% |
| Technology | 42% | ▲ | ▲▲ | ▼ | NM | ▼ | 6.1% |
| Industrials | 63% | ▲▲ | ▲ | ▼▼ | ▲ | ▼ | 4.9% |
| Materials | 51% | ▲ | ▲ | ▼ | ▲ | ▼ | 1.6% |
| Consumer Discretionary | 76% | ▲▲▲ | ▲ | ▼▼▼ | ▲ | ▼ | 0.0% |
| Consumer Staples | 73% | ▲▲ | ▲ | ▼▼▼ | NM | ▼ | -3.3% |
| Energy | 58% | ▲ | ▲▲ | ▼▼▼ | ▲▲ | ▼ | -4.0% |
| S&P 500 Index | 71% | ▲▲ | ▲ | ▼▼ | ▲ | ▼ | 6.0% |

* Assumes 75% pass-through of border-adjustment tax, though certain companies (refiners, for example) may be able to pass through a greater percentage.

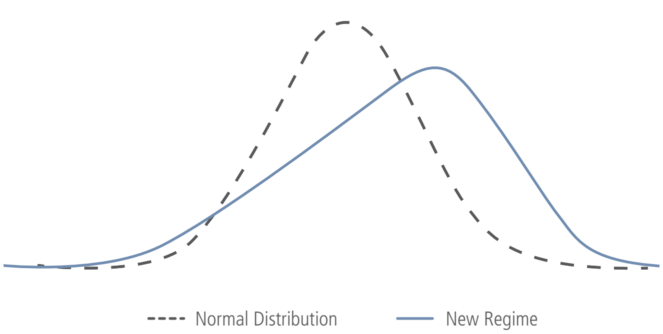
** House "blueprint" mentions separate rules for financial services interest expense; our assumption is that financials retain interest deduction.

Source: J.P. Morgan Research, Copyright 2017.

Unaccounted for in any of the above analysis is the unleashing of so-called "animal spirits," that hard-to-measure Keynesian sense of optimism that can drive economic activity. Anecdotally, we feel these spirits as we meet with company management teams daily; while the improved mood is palpable, optimism must translate into confidence and investment for it to be meaningful. Richard Nackenson—who runs our Multi-Cap Opportunities Fund, an unconstrained, high-conviction all-cap equity portfolio—believes Symantec, the bellwether cybersecurity company with special situation characteristics and free cash flow, is an example of a company that may thrive in this new environment, benefitting from strong industry growth, transformative acquisitions, management change and significant capital return.

The risks posed by the new administration and its expected policies are significant: growing federal deficits, inflation that may lead to more aggressive Fed rate hikes, a strong dollar that stifles trade and global growth—potentially exacerbated by economic nationalist trends we're seeing worldwide. While the risk here is high, it is certainly less dangerous than the potential for conflict with any of Russia, China, Iran or North Korea, with the last today perhaps posing the greatest threat to global stability as it works to project its nuclear capabilities. China's constructive engagement on this front will be critical.

**THE DISTRIBUTION OF RETURN EXPECTATIONS HAS SHIFTED**




Source: Neuberger Berman.

Net net, the abovementioned factors suggest a non-normal distribution of potential economic growth and market outcomes; while the most likely economic outcome has improved from these policy choices, the left tail (downside) risk has also increased substantially, reflecting a higher probability of a substantial correction.

## ASSET MANAGEMENT: THE SEEDS OF AN ACTIVE REBOUND

The environment in the asset management industry remains challenging, as evinced by the valuations of our publicly traded peers. Despite record-level equity markets, to which investment managers are implicitly leveraged, our competitors today are valued 15 – 20% below where they started 2014. The reasons for this are myriad, from regulatory modifications to changing distribution economics to a swing in asset mix to bonds from equities. The primary source of the industry's challenges, however, is the relentless shift, particularly among retail investors, from active to passive strategies and the substantial fee pressures that have accompanied it.

Over the past decade, $2 trillion of net assets has flowed into passive equity funds while $1.5 trillion has flowed out of active equity funds; passive now approaches 40% of the market, according to Morningstar, and its share is growing with remarkable consistency at just under 2% per annum. The biggest reason for the migration to passive is, of course, performance. Simply put, most managers haven't earned their fees.

In fairness, market conditions have been difficult for those looking to generate alpha; one factor weighing on active managers has been the suppression of dispersion as a result of extraordinary central bank intervention. Wide differences between the best and worst performing stocks afford a greater opportunity to distinguish winners from losers. Unprecedented levels of liquidity injected by central banks into the global financial system coming out of the financial crisis drove down interest rates and the cost of borrowing; benefitting most from this were those companies with the worst capital structures and most marginal operating profits—investments we seek to avoid. Bob D'Alelio and Judy Vale, who for nearly two decades have managed our Genesis Fund, are quick to note the prevalence of such poor-quality companies within the small-cap space; 32% of the companies in the Russell 2000 Index were losing money as of year-end 2016, and only 9% of the index by market cap carries an investment grade rating. Throughout their tenures, Bob and Judy have remained committed to high-quality equities, an approach that over time has delivered attractive results.

Average manager alpha has been tightly linked to average annual dispersion over the past 25 years; with dispersion running below historical levels since 2009, active managers have struggled. However, we've been here before—four times over the past 50 years or so, in fact, with particularly tough periods in the mid-1970s and late 1990s. The percentage of funds outperforming the market has varied over time, demonstrating periods of both extreme outperformance and extreme underperformance, neither of which has tended to persist. In the near term this may be helped along by the increase in dispersion that is likely to accompany the slow normalization of central bank policy.

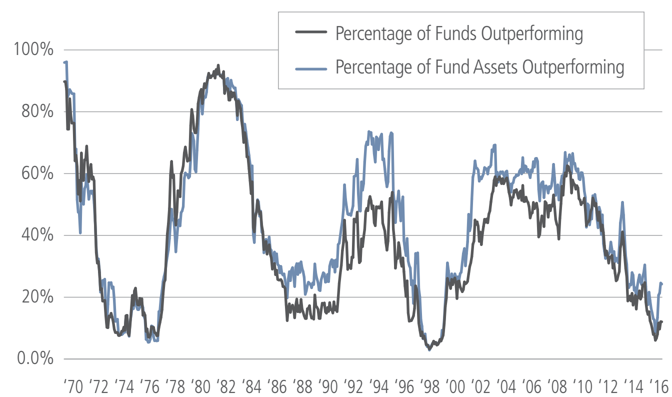
As a market participant, I find the active/passive debate somewhat exasperating given the religious fervor with which some proselytize. The truth, as per usual, is more complex. While there is a large role for passive investments, it's not a panacea. Arguments and strategies applicable to the U.S. mega-cap equity market, for example, do not apply universally, but the distinctions are poorly understood. Leaving aside the cyclical nature of alpha, structurally markets vary massively: in their constituents, stability, liquidity characteristics, role of new issuance, retail/institutional investor composition, presence of "non-economic actors" (like central banks), dispersion characteristics, etc. Passive ETFs will undoubtedly see growth as long-term investment vehicles in places where it is least attractive to be a free rider and/or where index replication is most challenging, such as high yield or emerging market debt. Investors need advice. And active managers ultimately need to deliver outperformance—and should expect clients to vote with their irreplaceable assets if we don't.

**ALPHA GENERATION HAS TRACKED INTEREST RATES HIGHER**


Source: Bloomberg.

**WE'VE BEEN HERE BEFORE...**

Percentage of Funds and Fund Assets Outperforming S&P 500 on a Five-Year Basis




Source: Nomura/Instinet Quantitative Investment Strategy, Joseph Mezrich.

## CLIENT PARTNERSHIP AT NEUBERGER BERMAN

Active managers need to evolve, to improve, to do more for our clients. Neuberger Berman has long prided itself on evolution with a purpose; not merely innovation for its own sake, but rather the development of transformative concepts rooted in practical client applications. Since 1939 we have been on the forefront of a number of industry trends now considered commonplace—from the launch of one of the first no-load funds to the early adoption of socially responsive investment techniques—as we looked to collaborate with clients to overcome a variety of challenges, and that spirit of focused innovation continues today.

**Capitalizing on data.** 90% of the data in existence today has been created in the past two years alone; there is opportunity in this trove—which is expanding at 2.5 quintillion bytes per day—and we must do more to leverage it on behalf of our clients. To this end, we recently hired Michael Recce as our Chief Data Scientist, a first for the organization. Charged with integrating "big data" into our investment research process, Michael joins us after leading these efforts at both one of the largest hedge funds as well as sovereign wealth funds, giving him a range of perspectives and horizons.

**Investing in ESG.** The inclusion of environmental, social and governance factors in investing decisions has been a part of Neuberger Berman since the early 1940s. Most visibly today, Ingrid Dyott and our Socially Responsive Investing team (profiled on page 16) have made a clarion call that companies with proactive ESG leadership strategies are more likely to outperform. Our commitment to ESG extends well beyond that team. Notably, our emerging markets debt portfolio managers Rob Drijkoningen and Gorky Urquieta integrate ESG factors into their fundamental research process and have been doing so since the 1990s, as has our Global Non-Investment Grade Credit team under the leadership of Tom O'Reilly. In addition, we recently hired Jonathan Bailey as Head of ESG Investing. Jonathan previously served as director of research for Focusing Capital on the Long Term, a not-for-profit think tank he helped launch while at McKinsey & Company, where he also advised pension funds, sovereign wealth funds and asset managers on a range of topics. Jonathan will lead our ESG effort across investment teams and work closely with research on our proprietary approach to ESG integration.

**Partnering with leading alternatives managers.** In 2016 we closed on a new Dyal fund, which seeks to acquire minority equity interests in established alternative asset managers; Dyal owns a piece of the management company rather than investing as a client/limited partner. Dyal Capital Partners III raised $5.3 billion and is focused on private equity firms; as of year-end 2016, the fund was over 60% committed and generating meaningful cash flow through its investment in a number of leading players, including EnCap Investments, H.I.G. Capital, KPS Capital Partners, Silver Lake Technology Management and Starwood Capital Group. In turn, many Dyal clients have become important limited partners of these managers, who in our judgment are some of the finest in the industry.

**Pursuing corporate engagement.** Related to our focus on corporate governance is an increased engagement with the management teams of the companies in which we invest. We search for companies with great management teams and engage through standard channels like proxy voting and regular meetings with company managements. On occasions when these methods fail to produce acceptable results, we take more significant action. Typically, this is done behind the scenes. In more extreme cases, we may engage in shareholder activism, as was the case with long-time technology holding Ultratech. Frustrated by the company's refusal to address its long history of stock and operational underperformance, as well as excessive executive compensation and other governance failures, Ben Nahum, portfolio manager of our Intrinsic Value Fund, launched a proxy contest seeking to replace two directors with more suitable candidates. These candidates were elected to the board, and the firm was subsequently sold—a positive outcome for shareholders, including our clients.

**Finding new opportunities.** Hedge funds play an important role in client portfolios but haven't delivered in recent years. In 2016 we launched our alternative risk premia strategy, managed by Wai Lee and Ajay Jain. In an environment with low return outlooks and thus a greater focus on fees and other expenses, alternative risk premia can provide exposure to characteristics that are similar to hedge funds—such as absolute return and low correlation to traditional betas—in a cost-effective, transparent and more liquid structure. We partnered with clients to develop and launch this strategy, just as we partnered with independent firms in 2012 to deliver low-fee multi-manager capabilities under the leadership of David Kupperman and Jeff Majit.

Elevated equity market valuations and low fixed income yields have led many investors to consider new ways of pursuing returns and mitigating market volatility, driving interest in our options strategy. Led by Derek Devens, our Option Group harvests premiums from selling puts on equity indexes in combination with the income potential generated by a conservatively managed collateral portfolio. In doing so, the strategy offers investors lower-volatility exposure relative to the broader equity markets while promoting return consistency in disparate market environments. Investors have expressed strong interest in the concept; introduced in early 2016, our options strategy grew to more than $1.3 billion in assets under management by the end of the year. And I suspect this year we'll see solid activity in put-writing strategies.

**Expanding the opportunity set.** We continue to expand our private equity and credit capabilities, where today we manage over $45 billion of commitments.[1] Constraints on financial institution balance sheets have expanded the investment opportunity set for investors like us, for example in secondary private equity and private credit. While easing regulatory policy under the Trump administration may re-open the door for certain bank competitors, we expect the supply of opportunities in these areas to remain ample.

Over time, the private equity universe has grown, presenting us opportunities to look beyond public market equities for attractive deals. Our Alternatives team has relationships with hundreds of private equity general partners and over the past three years has committed an average of $5 billion annually across primaries, secondaries, co-investments, private credit and our specialty strategies. We are a limited partner in more than 400 funds and sit on 120 advisory boards, a real competitive advantage for our platform.

Our broad base of relationships enabled our co-investment team to generate approximately 190 investment opportunities during 2016, a volume necessary to uncover a few gems in a tough environment marked by elevated valuations and high leverage. As an example, we invested in Duff & Phelps in partnership with Carlyle Global Financial Services Partners and management.

Our secondary team also saw robust deal flow, reviewing over 200 opportunities over the course of the year. We maintained our focus on privately negotiated small- to mid-sized transactions, avoiding the hypercompetitive large auctions, an approach that translated into 33 transactions with a median size under $20 million.

Our private credit team seeks to capitalize on inefficiencies that arise from illiquidity, complexity and volatile markets, again taking advantage of the connectivity of our private equity platform. One example is TFS, a leading national provider of facilities services of material handling equipment owned by CI Capital, a general partner with whom we have worked on a primary, co-investment and debt basis. Our private credit team led the $78.5 million second lien loan priced at L+10.5%, 1% floor, supporting acquisitions by the company over the last two years.

Renaissance, our Italian mid-market team, partnered with our co-investment team and Apax Partners to take private Engineering Ingegneria Informatica S.p.A., Italy's largest information technology consulting company, which operates across system integration, outsourcing and software applications.

We continued to bring to market innovative capabilities to our clients. On the intermediary side, we joined with a select group of distribution partners to launch our first registered '40 Act private equity fund. This fund enables participation by a broader set of investors who had previously been precluded from exposure to private equity because of investment minimums and/or net-worth limitations. I believe the "democratization" of alternatives will be an area of significant focus in the decade ahead.

During the course of 2016 we also augmented our offerings in more traditional asset classes. We launched an international small-cap capability as an extension of our Global Equity platform.

**Enhancing the engagement model.** Engagement, of course, entails more than just new products; it also means providing the infrastructure—people, facilities, systems, etc.—necessary to support our client base. Our Asia Pacific business continues to grow at an impressive pace bolstered by additional leadership hires, including Jovi Chen as General Manager of Taiwan and Patrick Liu as Head of our China Business. East Asia, too, remains a growth engine for the organization, and we continue to be focused on the needs of these clients, enhancing our regional product development, client reporting and client portfolio management functions along with the Japan desks in New York and Chicago.

To meet the needs of insurance companies worldwide, we significantly expanded our Insurance Solutions group under the leadership of Matt Malloy. In 2016 alone we added to the team three senior professionals who joined us from Goldman Sachs, BlackRock and JPMorgan.

[1] As of January 2017. Includes commitments since inception.

We also took steps to sharpen our business focus during the year, selling our only non-investment management business unit—our private equity fund administration business Capital Analytics—to MUFG Investor Services. We admire MUFG, an industry leader, and we believe this is a great home for Capital Analytics, its people and its clients.

**Celebrating milestones.** Sometimes staying the course can be just as fruitful as creating something new and different. A powerful byproduct of our long-tenured stable of investors and lengthy organizational history is the product milestones we reach each year. The Neuberger Berman Equity Income Fund, managed by Sandy Pomeroy and Rich Levine, marked its 10-year anniversary in November, while the Neuberger Berman Long Short Fund, managed by Charles Kantor, reached its five-year anniversary in December. Across their histories these strategies and their investment teams have shown a deep commitment to delivering on client expectations.

At the end of the day, those investment management firms best able to deliver for clients will have great people doing rigorous work together over extended periods of time in a supportive environment and with aligned incentives. They will innovate and evolve. We work hard on each element of this framework: attracting and retaining, engaging and enabling, learning and improving. We must always strive to do better. We will—by staying true to our mission and culture, investing in continuous improvement and building stronger partnerships both with our clients and within the firm.

On the pages that follow you'll hear from a broad cross-section of the professionals here at Neuberger Berman. I hope you find this information useful. And I hope that some of the passion and dedication that I have the privilege of experiencing every day comes across in print.

As always, thank you for your support.

George H. Walker

## | BUSINESS REVIEW: EQUITY |

"The slow pullback of the Fed's quantitative easing policies and the return to some semblance of rate normalization bodes well, in our view, for active manager returns."

**JOSEPH V. AMATO**
PRESIDENT AND CHIEF INVESTMENT OFFICER—EQUITIES

# A TALE OF TWO HALVES

While equity markets in general moved higher in 2016, the broadly positive returns do not tell the full story. Last year truly was a tale of two halves; while the first half of 2016 saw a continuation of the performance trends that have dominated markets over the past few years, the second half delivered a significant shift toward assets that had fallen out of favor. Significant fundamental issues in early 2016—from plummeting oil prices to signs of weakness in China—had investors concerned about the prospects for the global economy, sending equity markets sharply lower. As the year progressed, however, events like Brexit and ultimately the U.S. elections changed the attitude of market participants, ushering in what we believe to be a paradigm shift characterized by a bias toward economic risk-taking, fiscal stimulus, inflation and higher interest rates.

The net of this shift is a more constructive mindset toward the equity asset class, though we expect 2017 to be a transitional year and thus a choppy one for equity markets, especially in the U.S. While expectations are high given the pro-business stance of the Trump administration and the Republican-controlled Congress, campaign promises will take time to enact. Moreover, meaningfully higher market volatility is likely given the unpredictable nature of the new president and persistent geopolitical risks, especially with regard to trade.

Meanwhile, the equity market and its persistently low volatility have continued to present challenges for active investment managers. The most significant driver of this, in our view, is the distortions in asset prices caused by the unprecedented bond-buying and interest rate suppression from essentially all major central banks. In this environment, companies that in the past would tend to lose market share due to competitive dynamics—and therefore fail to attract new capital (thus, companies we would typically avoid investing in)—are now better positioned to sustain themselves due to their cost of capital being essentially zero. The slow pullback of the Fed's quantitative easing policies and the return to some semblance of rate normalization bodes well, in our view, for active manager returns. In fact, we've already seen evidence of a nascent rebound in active management beginning in the second half of 2016 as the dispersion of stock returns picked up.

There are several other trends we expect to impact the dynamics of the asset management industry in the coming years, and we are focused on positioning our platform to harness their benefits on behalf of our clients. To deliver lower-cost solutions we have introduced a select number of "factor investing" or "smart beta" strategies. In addition, strategies that incorporate environmental, social and governance (ESG) considerations into their investment process represent an opportunity for active investors to further differentiate themselves from passive solutions. Finally, data proliferation—both in terms of volume and the emergence of new types of quantifiable information—presents significant opportunity for managers who can leverage this "big data" in conjunction with their fundamental investment process (a so-called "quantamental" approach) to deliver attractive active returns.

Our equity investment capabilities are broad and are meant to capture the wide range of alpha sources for our clients. Depending on one's risk tolerance and time horizon, we believe our firm is well positioned to deliver value to our clients and to thrive in this dynamic environment.

## INTERNATIONAL EQUITY

Benjamin E. Segal, CFA

Our International Equity team seeks to identify best-of-breed non-U.S. companies across sectors, countries and market caps. Despite headwinds from political events, we remained steadfast in our bottom-up investment approach. For example, in the aftermath of the U.K.'s Brexit vote in June, we maintained positions in 15 of our 17 U.K.-based holdings, as we believe our longer-term investment theses remained intact and the initial selloff in stocks and sterling looked overdone. Our portfolio positioning was relatively conservative as we entered 2017, and we were not tempted to add exposure to cyclical names that had performed strongly over the previous few months. We continue to focus on companies that can perform in an uncertain geopolitical and macroeconomic environment, and remain of the view that companies with attractive end markets, a differentiated offering to customers and a proven management team can offer investors an attractive risk/return profile.

## EMERGING MARKETS EQUITY

Conrad A. Saldanha, CFA

Our Emerging Markets Equity team emphasizes companies that stand to benefit from domestic growth and seeks these opportunities up and down the market-cap spectrum. As of year-end 2016, we maintained a 27% allocation to small/mid-cap names, versus 17% in the MSCI Emerging Markets Index. We believe many of these companies are under-researched and offer the potential for attractive returns, diversification and domestic growth exposure. Therefore, our investment process begins with a universe of more than 12,000 companies compared to only 831 in the index, which is predominantly large-cap focused. For 2016, emerging markets experienced a rebound, delivering double-digit returns on the heels of a rally in commodities, which are typically driven by global supply and demand forces. Despite this run-up, we believe domestically driven names have the potential to deliver strong risk-adjusted returns going forward and maintain our focus in this area.

## SRI

Ingrid S. Dyott

Sajjad S. Ladiwala, CFA

The SRI strategy, which we launched in 1989, incorporates business, financial and environmental, social and governance (ESG) factors to identify 30–40 high-quality companies that we believe have the potential to deliver attractive returns over a three- to five-year period. Volatility during 2016 gave us multiple opportunities to add best-in-class companies that meet our quality criteria while exiting certain positions, generally based on valuation considerations. We look at a wide range of ESG factors in the businesses we own and track their aggregate impact on our portfolio; as one example, as of September 30, 2016, our portfolio is 55% less carbon-intensive than the S&P 500. Responsibility continues to be a hallmark of quality, and we believe that in a slow-growth world the operating characteristics inherent in the businesses we currently own can translate top-line growth in the low- to mid-single digits into stronger, advantaged bottom-line growth.

## MULTI-CAP OPPORTUNITIES: THE NACKENSON GROUP

Richard S. Nackenson

The Nackenson Group manages the Multi-Cap Opportunities strategy, which is designed to serve as a core equity portfolio for clients. We invest across market capitalizations, sectors and styles with an emphasis on free cash flow generation and capital allocation. Our portfolio consists of 30 to 40 core holdings across three distinct categories of stocks—Special Situation, Opportunistic and Classic investments—that provide unique sources of alpha. When company specific drivers are in focus, high-conviction active managers have the potential to add value for their clients through stock selection. We captured this opportunity in 2016, as correlations declined significantly within the U.S. equity market. We believe the current environment remains attractive for free cash flow oriented investing. Company balance sheets are healthy, and free cash flow generation remains strong. As a result, management teams have a significant opportunity to create value for shareholders by allocating capital effectively. Dividend increases, share repurchase programs, cash accumulation, debt retirement, organic growth initiatives, selective and highly accretive acquisitions—all can accrue to the benefit of equity holders. We believe deep fundamental analysis centered on free cash flow and capital structure efficiency may be an important driver of performance going forward.

## EQUITY INCOME: THE MESSINGER GROUP


Richard S. Levine


Sandy M. Pomeroy


David S. Portny

The Messinger Group has been serving clients' unique needs for nearly four decades, delivering customized investment solutions for individuals, families and institutions based on well-defined goals spanning multiple generations. Being an investment manager means understanding transitions such as retirement, the sale of a business, divorce, death of a spouse or even a new addition to a family. The broader Messinger Group embraces a flexible approach when constructing strategies for our clients and offers solutions ranging from income-generation to growth-oriented equity portfolios. In retrospect, 2016 was favorable for our "value" style of investing, focused on bottom-up, fundamental research, and we feel this can continue over the upcoming business cycle. The group's rigorous discounted free cash flow analysis is designed to identify companies we believe are attractively priced and poised to benefit from significant and underappreciated secular trends. While many defensive corners of the market lagged in the second half of 2016, exposure to cyclicals—namely financials, technology and industrials—drove returns, offsetting securities impacted by rising interest rates. Early in 2017 there remain pockets of value across markets, especially for long-term investors seeking to arbitrage time horizons. As always, we remain dedicated in our search for companies we believe exhibit attractive business models in both strong and weak economic environments.

## LARGE CAP VALUE


Eli M. Salzmann


David Levine, CFA

The Large Cap Value team utilizes a value investing discipline with a patient, conviction-based approach, conducting independent, bottom-up fundamental and quantitative research to identify nuances of each company that cannot be captured solely by financial characteristics. The top 10 contributors to the strategy's 2016 returns accounted for a 37.6% average portfolio weighting, while the Russell 1000 Value Index had a 7.5% average weighting to the same stocks, demonstrating the potential benefits of this active approach. For 2017 we believe a continuation of accommodative monetary policy in areas such as Europe and Japan could lend some degree of support to equities going forward. We will continue evaluating all market dislocations for investment opportunities.

## SMALL CAP VALUE


Robert W. D'Alelio


Judith M. Vale, CFA

The Small Cap Value team seeks high-quality businesses with above-average, sustainable growth prospects selling at below-average valuations. We focus on less volatile, less economically sensitive businesses and avoid speculative names that are dependent on economic growth and require healthy capital markets. Our 2016 performance was in line with our expectation for participating in the up markets and mitigating market downturns. We captured over 85% of the Russell 2000 Index's rally for the year, as speculative and economically sensitive companies outperformed. Over $28 billion flowed into small-cap ETFs during the year, in turn boosting the performance of micro caps and lower-quality names, areas we typically avoid. Looking ahead, we believe there are a number of uncertainties that could impact the market and lead to increased volatility. Against this backdrop, we believe our high-quality bias has the potential to be rewarded in 2017. In addition, we believe our companies with below-average leverage or net cash balance sheets could be relative winners in a rising-rate environment.

## SMALL CAP INTRINSIC VALUE

Benjamin H. Nahum

Amit Solomon, PhD

James F. McAree

The Small Cap Intrinsic Value strategy seeks to invest in companies that trade at a meaningful discount to the team's estimate of intrinsic value where a strategic event can potentially unlock value. As a testament to our team's research capabilities, nine portfolio companies were acquired in 2016. While relative performance was challenging this year, we believe that many stocks in the portfolio are well positioned to benefit from the priorities of the Trump administration. As of December 31, 2016, over 12% of the portfolio was positioned to benefit from an increase in defense spending, 9% was levered toward infrastructure spending and industrial growth, and 9% was invested in regional banks, which can benefit most from lower taxes and regulatory reform. In our view, the issue for investors in 2017 is how much of the new administration's legislative agenda will be enacted and what will be the specific details. This is where investor optimism may collide with reality, which could result in a turbulent year.

## MID CAP INTRINSIC VALUE

Michael C. Greene

The Mid Cap Intrinsic Value strategy seeks to invest in high-quality companies that trade at a meaningful discount to the team's estimate of intrinsic value and where a strategic event could potentially unlock value. In 2016 a healthy level of company-specific events enhanced portfolio returns—12 holdings were acquired, disposed of significant assets or made large acquisitions. The portfolio also benefitted from its holdings in the energy sector as oil prices rebounded from very depressed levels. Post-election, many of the portfolio's technology names came under pressure due to large foreign exposures. In anticipation of the adoption of the new administration's economic policies, we began to reposition the portfolio toward the end of the year. We are especially concerned about a potential border tax; hence, we started to reduce or eliminate a number of our holdings in the retail sector. In 2017 we anticipate additional opportunities to arise in the health care sector, as many of these stocks have come under unrelenting selling pressure due to uncertainty about the future of the Affordable Care Act. While relative performance was challenging in 2016, we believe that 2017 should become more conducive to stock picking, as a reduction in monetary stimulus could lead to lower stock market correlations.

## SMALL AND MID CAP GROWTH

Kenneth J. Turek, CFA

Our team seeks to identify small- and mid-cap companies trading at what we believe are compelling prices based on a strong competitive position, a healthy financial state and an identifiable—and ideally unappreciated—catalyst for growth. Both of our strategies actively challenge their benchmarks and peer groups through high conviction out-of-index positions and reasonable over- and under-weight allocations at both the sector and industry levels, while still maintaining the appropriate aggregate-level style and market capitalization expectations for mid-cap and small-cap growth mandates. We have the flexibility to undertake upward of one-third out-of-index exposure as we look to identify under-owned and under-followed companies offering potentially underappreciated catalysts. In what could be an increasingly unpredictable investment environment ahead, that flexibility to pursue intriguing opportunities could prove to be key.

## MASTER LIMITED PARTNERSHIPS: THE RACHLIN GROUP

Douglas A. Rachlin

Yves C. Siegel, CFA

The Rachlin Group manages income-oriented equity strategies focused on master limited partnerships (MLPs) that have the potential to generate attractive dividend yields with a growth component. The group seeks investments with strong, recurring cash flows anchored by long-term fee-based contracts. Only certain MLPs meet the team's criteria for long-term appreciation potential; the companies identified have favorable debt metrics and generate sustainable cash flow that enables each company to maintain and grow distributions through market cycles. After falling 25% within the first six weeks of the year, the Alerian MLP Index recovered to finish 2016 up 18%. Once crude oil prices bottomed, MLP unit prices began to recover and decouple from commodity prices. The market dislocation for MLPs brought on by the steep fall in energy prices enabled the group to selectively increase and/or add new names with strong balance sheets, competitively positioned assets and greater potential for future growth.

## U.S. AND GLOBAL REITs

Steve S. Shigekawa

Anton Kwang, CFA

Brian C. Jones, CFA

Gillian Tiltman

The Global REITs team seeks total return through investment in real estate securities, emphasizing both income and capital appreciation. Throughout 2016 the team maintained our quality bias, investing in companies with high-quality assets, strong balance sheets, lower leverage than other REITs and lower, but sustainable and growing, dividend yields. We adjusted our portfolio toward the end of 2016, increasing exposure to property sectors and geographic regions we found attractively valued and likely to prosper post-election. For instance, we increased our exposure to Washington, DC, office space, as DC has been out of favor for several years and fundamentals appear to be bottoming there. We like the prospects for DC post-election, as potential fiscal stimulus for infrastructure and defense spending could be positives for growth and for real estate investments in that region. We remain focused on companies with management teams that can capitalize on pricing differences between the public and private real estate markets.

## EQUITY RESEARCH

Timothy F. Creedon, CFA

The Equity Research team is an autonomous group of research professionals singularly focused on uncovering investment opportunities in support of Neuberger Berman's portfolio management teams and, thus, in pursuit of our clients' goals. Driven by a strong culture of accountability and teamwork, our 40-member research department subjects companies to rigorous, disciplined analysis to generate stock recommendations with a long-term perspective. We now cover more than 1,000 companies, representing 95% of the Russell 1000 Index by market cap and approximately 70% of the MSCI ACWI by market cap. We share our knowledge on stocks and sectors across the organization in a spirit of true collaboration. In addition, our analysts' best ideas are aggregated in the Research Opportunity strategy, a portfolio consisting of all buy-rated names in research weighted by conviction and a key driver of analyst compensation.




## CIO WEEKLY PERSPECTIVES

Each week, our *CIO Weekly Perspectives* blog delivers timely insights from the leaders of our Equity, Fixed Income and Multi-Asset Class platforms. Offering interpretation of the factors driving financial markets in an approachable format, *CIO Weekly Perspectives* seeks to prepare investors for the risks and opportunities that lie ahead.

To subscribe to *CIO Weekly Perspectives,* please contact us at CIOweekly@nb.com.

**INGRID S. DYOTT**
PORTFOLIO MANAGER/CO-HEAD, SRI TEAM

**CÉLINE S. DUFÉTEL**
HEAD OF MARKETING AND CLIENT SERVICE

## OUR COMMITMENT TO ESG

"We take seriously our engagement across economic and ESG matters with the companies whose securities we own."

Since our first application of "avoidance screens" in the 1940s to the launch of our Socially Responsive Investment team, Neuberger Berman has long been on the forefront of integrating environmental, social and governance (ESG) criteria into the investment process. We have continued to build upon this legacy, driven by our belief that companies with proactive leadership strategies in place to manage ESG-related risks and opportunities have the potential to be industry leaders with sustainable competitive advantages and thus offer the potential for long-term investment performance. As of December 31, 2016, more than 30% of our assets under management have explicit ESG criteria.

To drive continued improvement in the ESG space, in 2012 we became signatories to the UN-sponsored Principles for Responsible Investment and also established an in-house ESG Committee. The committee is responsible for setting goals, measuring our performance and furthering our ESG expertise. We take seriously our engagement across economic and ESG matters, be it in direct meetings with management, engagement with boards of directors or as part of the proxy-voting process with the companies whose securities we own.

In early 2017 we hired Jonathan Bailey as Head of ESG Investing. Formerly director of research for Focusing Capital on the Long Term, a not-for-profit think tank he helped launch while at McKinsey & Company, Jonathan will lead our ESG effort across investment teams and work closely with research on our proprietary approach to ESG integration.

## BUSINESS REVIEW: FIXED INCOME

"Despite the changes underway in markets, the desire for income—and its relative scarcity—persists, suggesting an ongoing need to be tactical around market opportunities and to capture additional sources of return as they emerge."

**BRAD C. TANK**
CHIEF INVESTMENT OFFICER—FIXED INCOME

# THE END OF AN ERA

Though most fixed income markets delivered positive returns in 2016, it was a turbulent year, with investors battered periodically by a variety of macroeconomic and geopolitical concerns, from China and the energy complex to Brexit and the U.S. elections. After drifting lower in the first half of 2016, yield on the 10-year Treasury changed direction midyear and accelerated its ascent following the U.S. elections, a move that coincided with a much more optimistic re-pricing of risk assets in the U.S., namely stocks and credit spreads. We believe this reflects a dramatic shift in the markets' views with respect to growth and inflation, and an end to the era of zero interest rate policy in the U.S. For a long-term investor who has spent years struggling to find real income in the higher-quality bond markets, this era is ending none too soon.

Thus we find ourselves in the early stages of a new investment paradigm in which we believe investment performance across asset classes will likely be driven more by self-sustaining economic growth supported by structural reform and aggressive fiscal policy and less by extraordinary levels of central bank accommodation. Despite these changes underway in markets, however, the desire for income—and its relative scarcity—persists, suggesting an ongoing need to be tactical around market opportunities and to capture additional sources of return as they emerge.

The fixed income markets have had a rolling top in place for the past few years, and the broad bull market that has characterized the space for the past 30 years is largely over. With fixed income markets somewhat out of phase, the lack of synchronization among its components should provide an opportunity for investors able to diversify effectively across the spectrum. In this environment, we have more clients coming to us for multi-asset class solutions in fixed income, and we expect to continue to partner with them in mandates that provide flexibility across markets globally.

As always, we looked to be strategic with our resources in 2016. We added headcount to work with financial institutions, specifically banks and insurance companies, and we continued to build out our credit research staff, as corporate credit remains central to what we do here at Neuberger Berman.

We've clearly entered a new investment environment, with the year ahead holding the potential for a variety of pro-growth initiatives—from tax reform to eased regulations across industries—and a fair bit of risk. Moreover, we find ourselves in a situation in which the signal-to-noise ratio is skewed heavily to the latter, making it all the more crucial—and challenging—to distinguish between important, impactful information and useless speculation.

# FIXED INCOME

## GLOBAL INVESTMENT GRADE FIXED INCOME


Andrew A. Johnson

The 44-person Global Investment Grade Fixed Income team manages more than $56 billion in assets for clients worldwide as of December 31, 2016. The team's investment platform is structured to navigate the broad global fixed income universe, utilizing a proprietary multi-sector framework (State-Space Analysis) to evaluate investment opportunities across sectors including credit, global sovereigns, securitized, emerging markets debt and multiple others.

With global rates falling sharply and corporate spreads deteriorating at the beginning of 2016, we saw an opportunity to underweight sovereign debt and overweight those spread sectors impacted beyond what fundamentals would imply. Due to repressively low interest rates across the developed world, we were underweight rates in the U.S., Germany and Japan. Rates began to trend higher midyear, but it was not until after the November U.S. elections and a sharp selloff in U.S. Treasuries that we moved to neutral interest rate exposure in the U.S. Though global rates followed, we remained underweight interest rate exposure in Germany and Japan. We retained an exposure to New Zealand and Australia bonds throughout the year.

Within investment grade credit, portfolios benefitted from strong security selection as well as the team's decision to overweight sectors offering higher yields, like BBB-rated industrial issuers. Underweights in underperforming sectors such as non-corporates and European banks also were beneficial to portfolios.

Investors for the last few years have had little concern for inflation; in fact, the risk of deflation has been a focus for central banks. While core inflation in the U.S. had been running over target, headline inflation dipped under 1% with the help of early-year declines in oil prices. The market's inflation expectations for the next 10 years fell to 1.2% before rising to close out the year at 2%, benefitting our exposure to U.S. Treasury inflation-protected securities.

Currencies fluctuated significantly in 2016, as the search for yield early in the year was overwhelmed by politics, including the U.K.'s referendum to leave the European Union and the U.S. presidential election. While the dollar weakened early in the year, that trend reversed strongly throughout the second half; notably, the British pound declined nearly 16% versus the dollar in 2016. Currencies of commodity-centric economies like Canada, Australia, Norway and New Zealand all strengthened.

Turning to securitized assets, we began the year with a neutral position in U.S. agency MBS relative to the benchmark. During the course of the year we increased our weighting to higher-coupon mortgages within the sector in the belief that prepayment fears were overdone. We were a bit early but were rewarded as rates sold off following the U.S. elections. Exposure to non-agency MBS benefitted portfolios, as deleveraging consumers, stable housing prices and attractive supply-demand dynamics helped the sector.

We anticipate 2017 will be an eventful year, as the focus shifts from central bank policy to fiscal and political influences. As the market determines policy paths and the impact across sectors, countries and industries, having a broad tool kit and the ability to navigate tactically should be quite useful.

## INTEREST RATES AND INFLATION


Thanos Bardas, PhD

## CORPORATE CREDIT


David M. Brown, CFA


Julian H. Marks, CFA

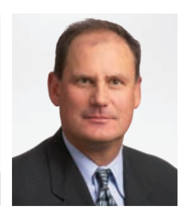
## GLOBAL AND CURRENCY


Jon B. Jonsson


Ugo Lancioni

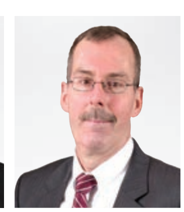
## STRUCTURED PRODUCTS


Terrence J. Glomski


Thomas A. Sontag

## MULTI-SECTOR


Ronit M. Walny, CFA


Thomas J. Marthaler, CFA

## GLOBAL NON-INVESTMENT GRADE CREDIT


Thomas P. O'Reilly, CFA


Vivek Bommi, CFA


Russ Covode


Daniel J. Doyle, CFA


Patrick H. Flynn, CFA


Andrew Wilmont, CFA

Driven by our 40-plus person dedicated global credit research team, our Global Non-Investment Grade Credit platform employs a disciplined process that seeks downside risk mitigation with upside potential. We began 2016 with an underweight to commodity-related sectors, which represented approximately 15% of the high yield market, as we were plagued by two years of falling oil prices and a number of headline defaults. The prolonged selloff in commodities provided investment opportunities in fallen angels and other higher-quality names, and we rotated into these sectors during the first quarter as oil prices doubled. This rotation enabled our portfolios to participate in the returns subsequently delivered by the commodity-related sectors, which led the high yield market to double-digit performance for 2016. We maintain our belief that the U.S. high yield market is compensating investors for default risk and that defaults are likely to remain below historical averages (approximately 3.5%) in 2017 as U.S. economic growth improves. Volatility could increase as the year progresses, possibly driven by uncertainties regarding future fiscal and monetary policy, global economic growth and geopolitical issues. Within European high yield we expect coupon-driven returns after a strong performance in 2016 driven by capital appreciation. Despite political uncertainties, we view the health of European corporate bonds favorably and envision stable income-driven returns.

## SENIOR FLOATING RATE LOANS


Stephen J. Casey, CFA


Joseph P. Lynch


Martin J. Rotheram


Pim M. van Schie

Our Senior Floating Rate Loan team seeks attractive risk-adjusted returns through the disciplined management of credit quality and industry analysis. Our approach typically leads to a portfolio of larger and more liquid loans from issuers with stronger fundamentals than the market as a whole. At year-end 2016, more than 90% of the loans in our portfolio were from issuances greater than $500 million and were rated B or higher. In 2016, distressed and lower-quality loans significantly outperformed the BB and B parts of the senior floating rate loan market, as investors added risk to their portfolios by overweighting these portions of the market. Across our U.S. and global loan portfolios we maintained our focus on quality, underweighting stressed industries such as energy and metals and mining. This negatively impacted 2016 performance, but we believe it has the potential to provide investors with better risk-adjusted returns in 2017, as the majority of the leveraged loan market enters the year trading at or near par and total returns during the year should be driven mostly by coupons. The market today is pricing in approximately a 2.7% implied default rate, which is slightly higher than our 2017 expectations of 1.5 – 2.0%. We believe that moderate U.S. economic growth will likely lead to several interest rate hikes this year, which should be constructive for senior floating rate loans. The CLO market should provide a steady underlying bid for loans as many managers have raised equity capital to address the new risk-retention rules. In addition, we believe CLO debt tranches remain attractive given their floating rate coupon and our expectation for low loan defaults.

## EMERGING MARKETS DEBT


Rob J. Drijkoningen


Gorky R. Urquieta

Our multisite Emerging Markets Debt team offers clients a full range of EMD capabilities with 28 dedicated specialists focused on hard currency, local currency and corporate investment strategies, all of which incorporate environmental, social and governance factors as part of the fundamental research process. The past year saw a meaningful turnaround in both performance and flows into the asset class. Strategic investors continued to invest even when EMD was under pressure over the past few years, but the real turnaround for the asset class has been from retail mutual fund investors, who came back significantly after withdrawing money for some years. J.P. Morgan reports that nearly $43 billion flowed into the asset class in 2016. Total returns were 10.2% for hard currency sovereigns, 9.9% for local currency sovereigns and 10.4% for hard-currency corporate bonds (as represented by the J.P. Morgan EMBI Global Diversified, GBI-EM Global Diversified and CEMBI Diversified indexes, respectively). Our Emerging Markets Debt strategies reached their three-year anniversaries this year as the team topped $10 billion in assets under management. Our near-term outlook for the asset class is clouded by the themes of a stronger dollar, rising Fed hike expectations and potential negative trade developments. However, we believe the adverse global environment likely will be balanced by stronger fundamentals, amid higher commodity prices and the sharp EM FX depreciation of the past years having resulted in improved current account balances in EM countries.

## SPECIAL SITUATIONS


Michael J. Holmberg


Brendan McDermott, CPA

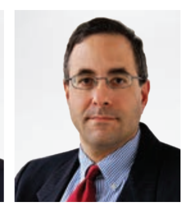

Ravi K. Soni

The Special Situations team invests in companies and assets affected by a lack of liquidity in their sectors. We provide liquidity to unnatural holders or forced sellers by purchasing debt or assets from them that we believe are intrinsically undervalued. We target hard assets to mitigate downside risk and avoid asset-light holdings such as those found in the service and technology sectors. In 2016 we took advantage of volatile markets and a general lack of market liquidity for distressed assets to selectively add exposure in the automotive, energy, metals, real estate and shipping sectors, where we felt certain assets were intrinsically undervalued. The team will actively engage in a holding's restructuring process when necessary to maximize value. For example, in 2016 we completed a debt-for-equity swap on a Chicago infrastructure asset. We stabilized the asset's operations and invested in deferred capital expenditures while placing on its board an industry expert with strong local government relationships.

## MUNICIPAL FIXED INCOME


James L. Iselin


S. Blake Miller, CFA


James A. Lyman

Our 16-person Municipal Fixed Income team comprises 10 portfolio managers and six research analysts who work collaboratively to manage more than $10 billion in municipal assets. Bottom-up fundamental analysis is the cornerstone of our investment process. Our deeply experienced analysts perform extensive research across our investable universe, backed by our proprietary state-of-the-art research system. Security selection and our somewhat barbelled yield curve positioning was additive to returns in 2016 and helped us to deliver a preservation of capital outcome in volatile market conditions. In addition, having ample liquidity in portfolios was helpful in the fourth quarter, as we were able to execute beneficial tax-loss swaps in many client portfolios. Looking ahead, we believe that the debate around President Trump's fiscal and tax proposals may lead to renewed volatility. We will continue to maintain a high degree of issuer diversification and ample liquidity in our municipal strategies, thereby providing us with the ability to take advantage of potential attractive investment opportunities.

## FIXED INCOME RESEARCH

Stephen J. Flaherty, CFA

Christopher J. Kocinski, CFA

Jennifer R. Gorgoll, CFA

Nish V. Popat

With experienced analysts across investment grade, non-investment grade and emerging markets, our Fixed Income Research teams share the belief that market mispricings provide opportunities to add value for those with unique insights and conviction if extracted without exposing portfolios to undue risk. We have the ability to wed these notions thanks to the fundamental research—comprising economic analysis, sector and issuer spread relationships, cash flow analysis and credit assessment—of analysts within each sector, who interact daily with our portfolio managers to ensure we make well-informed decisions for clients. In 2016 our fixed income research resources—119 portfolio managers, research analysts and economists/strategists—conducted approximately 1,000 management meetings worldwide, a reflection of our commitment to proactive, bottom-up research. In addition, we continued to host research training programs for personnel from key institutional clients so they could better understand our process.

| INSIGHTS |


## FIXED INCOME INVESTMENT OUTLOOK

The Fixed Income Investment Strategy Committee, comprising senior portfolio managers from across our Fixed Income platform, meets monthly to share opinions and insights and thus shape the asset allocation of our multi-sector strategies. The committee publishes a quarterly report detailing its market outlook and analyzing in depth the topics driving financial markets today.

To subscribe to *Fixed Income Investment Outlook*, please contact us at FIoutlook@nb.com.

**HEATHER P. ZUCKERMAN**
CHIEF ADMINISTRATIVE OFFICER

## OUR COMMITMENT TO OUR CULTURE

*My co-workers are good people who care about doing the right thing. There is a legitimate 'client first' culture that makes me proud.*

*The freedom to be creative in the role, while maintaining the same goals, is what I consider a large facet of success.*

"We start with a need for data, and we combine that with a workforce who feels respected and heard; the end result is that we make well-informed decisions that benefit our clients."

This is how a couple of our colleagues described our firm in the *Pensions & Investments* 2016 Best Places to Work in Money Management survey. Why should our clients, counterparties and potential new hires care?

These cultural traits meaningfully translate into higher retention rates for senior investment professionals, stronger client alignment and resourcing, and, finally, employees who feel comfortable weighing in about how we can continue to be a best place to work.

We are often asked how we achieved these results, especially because—reflecting the diversity of views we so highly cherish—each employee assigns a different value to our firm's attributes and initiatives. While it would be impressive to say that we had a multi-year strategic plan, it was far more basic than that. This award is about our people—and their passion and commitment to our clients.

We ask a lot of questions, knowing it helps us make better decisions. We share our feedback on everything, from workplace design to strategic direction. We believe deeply in accountability and transparency; in fact, to reinforce our "open door" philosophy, our senior leadership team in our New York headquarters is on the same floor as our cafeteria (aptly named "The Exchange"—an acknowledgment of markets, but also a reflection of the ideas and feedback exchanged in the space). We start with a need for data, and we combine that with a workforce who feels respected; the end result is that we make well-informed decisions that benefit our clients.

To make those well-informed decisions, our people care deeply about *being* clients. Our retirement benefits and Employee Investment Solutions program helps our employees, at all levels, think like clients—they asset allocate, they benchmark performance, and they expect best-in-class service. This alignment serves all of us well.

Importantly, we always seek to improve and do better. This year, our custom-designed employee survey will elicit even more honest, constructive feedback, and we look forward to seeing the next set of innovative ideas from our people.

"We believe that 2017 will bring increased opportunity for alternatives, building on the momentum from last year."

**ANTHONY D. TUTRONE**
GLOBAL HEAD OF ALTERNATIVES

# A CONTINUED SOURCE OF COMPELLING OPPORTUNITIES

The alternatives market continued to be robust in 2016, as investors sought differentiated and uncorrelated returns to public markets through private investment structures. We believe that 2017 will bring increased opportunity for alternatives, building on the momentum from last year, when alternatives overall provided compelling investment opportunities and generated attractive returns (as evidenced by the performance of the HFRI and the Cambridge Associates indexes) despite the volatility in public markets and the highly charged political environment with Brexit and the U.S. elections.

For the upcoming year, we expect corporate fundamentals to be the key driver of stock prices once again, providing hedge fund managers the opportunity to generate alpha on both the long and short side. Within the hedge fund space, we also favor directional hedged strategies like CTAs and macro hedge funds that stand to benefit from potential increases in commodity prices and interest rates. In addition, we also believe that rising interest rates in the U.S. will make for a more challenging environment for highly leveraged, lower-quality companies. This, in turn, should create opportunities for hedge fund and private equity distressed debt managers.

We remain bullish on private equity relative to other asset classes. We think that private equity will benefit from robust financing markets and reduced regulations. However, like most asset classes, valuations are high, so investors should be cautious of private equity strategies that rely on buying cheap or exiting at higher valuation multiples. Instead, we believe investors would be better served focusing on private equity strategies predicated on making significant strategic and operational improvements in companies that will accelerate earnings growth.

We remain bullish on private credit, which, like other areas of private equity, captures alternative sources of risk premia, in this case illiquidity and complexity. In addition, private credit is somewhat insulated from high valuations and can provide an attractive cash yield. While the Volcker Rule limiting banks' proprietary trading activities could be repealed, we believe it is very unlikely that banks will be able to rebuild their presence in this market over the next 12 months, if at all. Increased M&A activity, should the new administration take a less interventionist approach to deals, will likely bolster this supply of private debt as well.

Throughout 2016, Neuberger Berman Alternatives continued to be an active investor and innovator in alternatives investments. The team launched its '40 Act-registered private equity business and also a strategy focused on capitalizing on dislocations in the credit market by investing in less liquid, misunderstood and mispriced debt of private equity-backed companies. Furthermore, we increased activity in our existing businesses, holding final closes for our latest funds across diversified private equity, secondaries, private debt and private equity minority stakes businesses.

## PRIVATE INVESTMENT PORTFOLIOS


Peter J. von Lehe


Jonathan D. Shofet


John P. Buser


Brien P. Smith


Patricia Miller Zollar

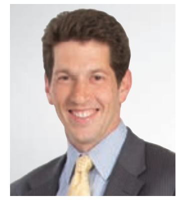

Paul D.S. Daggett

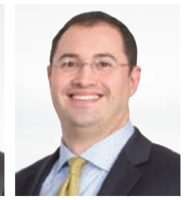
Our Private Investment Portfolios team constructs diversified private equity portfolios investing in primary and secondary fund commitments and direct co-investments in private equity backed companies across asset classes, industries and geographies. The team reviewed over 640 opportunities in 2016 seeking out the best value-creation opportunities, resulting in an overweight to small- and mid-cap buyout, operational turnarounds and growth equity investments compared to the private equity market. In 2017, with public and private equity markets fully (or nearly fully) priced, we expect private equity sponsors to continue the trend of the past several years of aggressively seeking realizations in their portfolios. Even in a slow-growth economy, private equity has the potential to produce strong returns by identifying established but under-managed companies and implementing improvements in strategy and operations. For private equity investors, as in all asset classes, risks abound around the globe and investors will face difficult decisions in identifying and measuring risks and potential upsides.

## SECONDARY INVESTMENTS


Brian G. Talbot


Tristram C. Perkins


Ethan A. Falkove


Benjamin B. Perl

Our Secondary investment team is focused on acquiring high-quality private equity assets from all types of sellers, including traditional limited partnership interests as well as opportunistically direct co-investments from investors seeking early liquidity, pursuing portfolios of directs or "synthetic secondaries," and investing in structured secondary solutions, royalties, hedge fund side pockets and credit-related opportunities. The team was particularly active in 2016, having reviewed approximately 200 opportunities. Looking to 2017, we are optimistic that attractive opportunities will again present themselves as the growth drivers of recent years—the expanding universe of sellers, changing regulations, more active portfolio management and the growth in private equity generally—are, in our opinion, sustainable long-term trends. Finally, we note that a secondary strategy can benefit from broader market volatility in terms of increased deal flow and more favorable pricing. In addition, we have seen general partners begin to embrace the secondary market as a way to solve complex issues and help generate liquidity for their existing limited partners, a trend that we expect to continue.

## RENAISSANCE PARTNERS


Fabio C. Cane


Marco Cerrina Feroni


Stefano Bontempelli

Renaissance Partners focuses on private equity investments in Italian companies across industries and capitalizations, with an emphasis on leading growth-oriented, export-driven multinationals. Our outlook for 2017 continues to be positive. As the fourth-largest economy and the second-largest producer and exporter of industrial goods in Europe, Italy provides an abundant supply of family-owned mid-cap companies, which are in large part affected by family succession issues and the need of capital to grow in the international markets. Furthermore, Italian private and public market valuations have been trading at a discount compared to the rest of Europe and the U.S., further increasing the attractiveness of the opportunity set for the Renaissance team.

## CO-INVESTMENTS


David S. Stonberg


David H. Morse


Michael S. Kramer


Jacquelyn A. Wang


Joana Rocha Scaff

2016 was a busy year for our Co-Investment team, which reviewed approximately 190 investment opportunities. Our team seeks to select the best deals available from high-quality private equity firms in their core areas of expertise. The team navigated the 2016 market of elevated valuations and high leverage by sourcing "off-market" opportunities, which presented relatively more attractive pricing and offered greater protection of the downside while also retaining significant upside. As an example, we were able to invest in Duff & Phelps in partnership with Carlyle Global Financial Services Partners and management. We expect to continue this strategy in 2017.

## MARQUEE BRANDS

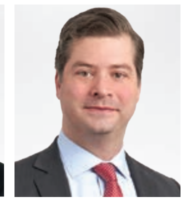

Samuel N. Porat


Zachary P. Sigel

Marquee Brands acquires, licenses and develops high-quality consumer brands across various segments with the goal of expanding their reach across channels, geographies and product categories. In 2016, we continued to see a divergent trend in growth between traditional brick-and-mortar stores and e-commerce. While the brick-and-mortar retail environment is challenged, it has created a significant opportunity to acquire strong brand names that have traditionally been thought of as retailers and has caused traditional retailers to need to further differentiate themselves by offering the customer a unique brand experience. We feel that we can take advantage of this dislocation and believe we are well positioned to continue to build our portfolio as distressed operating companies with strong brands become available.

## DYAL CAPITAL


Michael D. Rees


Sean J. Ward

Dyal Capital seeks to acquire minority equity interests in institutional alternative asset management firms. In 2016, the Dyal team completed five transactions, acquiring minority stakes in four private equity funds and one hedge fund. The year ended on a high note for both private equity and hedge funds, as performance proved resilient through a variety of significant and unexpected market events, including Brexit and Donald Trump's election as president of the United States. We anticipate that increased asset price volatility will provide significant opportunities for managers whose fund structures allow them to take the long view and, for hedge funds, to invest both long and short. For 2017, we expect our segment of the alternative asset management space to remain attractive as managers' demand for permanent capital to facilitate platform development, generational transfer, new product launches and other strategic initiatives continues to grow.

## PRIVATE CREDIT


Susan B. Kasser, CFA


David J. Lyon

Our Private Credit team invests in the debt of private equity-owned companies, seeking to capitalize on inefficiencies arising from illiquidity and complexity. Over the last several years, volatility has become the "new normal," driven by technical imbalances, regulatory uncertainty, and macroeconomic and geopolitical instability. We believe that continued volatility may present compelling investment opportunities in both primary and secondary markets, as issuers seek greater flexibility and certainty with trusted partners, and as certain credit market participants are forced to sell down exposures in the face of unexpected liquidity shocks. Recently, expectations of rising interest rates and the perception of a pro-business macroeconomic backdrop have led to strong loan inflows and a borrower-friendly environment, generally characterized by higher leverage and lower pricing. Structural imbalances in the second-lien market, highlighted by increased fund flows, increase the likelihood of future market volatility. We believe that any reversal of investor sentiment will drive significant opportunities in private credit. In 2016 alone, the team reviewed approximately 170 investment opportunities, and we expect deal flow to continue to be robust.

## LONG SHORT EQUITY


Charles C. Kantor


Marc A. Regenbaum

With the ability to invest long and short as well as in fixed income, our Long Short Equity strategy seeks capital appreciation with a secondary objective of principal preservation. During 2016, which marked the five-year anniversary for our '40 Act mutual fund, we maintained our net long-bias holding portfolio exposure between 40% and 55% net long. At the end of 2016 we remain positioned for a modest recovery driven by solid recent economic data and a regime change from monetary to fiscal policy in the U.S. The timing as well as the actual policies enacted will have a divergent effect on the various sectors and sub-sectors of the market, creating opportunities on both the long and the short side. Thus the policy details will matter a great deal in 2017 and beyond.

## GLOBAL LONG SHORT CREDIT


Norman Milner


D. Richard Dowdle


Itai Baron


Darren L. Carter

Our Global Long Short Credit strategy seeks to offer an approach to credit investing that serves as a complement to "long only" traditional fixed income management, delivering a return profile unavailable in an index. We construct a balanced, nimble portfolio of long and short holdings across a wide array of corporate and sovereign debt. During 2016 the high yield market recovered and posted double-digit returns, and we saw a powerful rally in cyclical material and energy credits. We were able to take advantage of this rally and benefit from significant selloffs in investment grade and emerging markets debt. We expect to see similar opportunities in 2017, on both the long as well as the short side.

## PRINCIPAL STRATEGIES GROUP


Joseph Rotter


Judd M. Arnold


Sean M. Badcock


Gabe Cahill

The Principal Strategies Group employs a market-neutral, style factor minimized approach to event-driven investing. We employ two principal sub-strategies: risk arbitrage and market-neutral catalyst. Our team seeks to generate absolute returns with minimal correlation to market indexes. We began managing investor assets in fourth quarter 2016. We see a robust opportunity set in 2017 driven by industry consolidation, regulatory and political change, and potential disruption from changes in monetary policy. Our team's process-driven approach and market-neutral hedging construct are well suited for the current environment.

## HEDGE FUND SOLUTIONS GROUP


David G. Kupperman, PhD   Jeff A. Majit, CFA

Driven by focused and disciplined due diligence and decision-making processes, the Hedge Fund Solutions team seeks investment opportunities with an emphasis on absolute returns, low volatility and low sensitivity to broader market movements. Over the course of the last 12 months, we believe we have seen the emergence of an increasingly attractive environment for many hedge fund strategies.  More specifically, intra-stock correlations have dropped to pre-crisis levels, volatility has picked up across many markets and interest rates have begun to rise in the U.S.  As such, we believe it may be an optimal time to be investing in hedge fund strategies following a tough period, driven largely by quantitative easing.  With easing seemingly over in the U.S., we believe the wind is now at the back of many strategies. As rates tick up, shorting both equity and credit should become easier, as companies whose problems have been masked by the ability to borrow cheaply become more exposed. Similarly, deregulation is leading to significant sector dispersion and presenting both long and short opportunities. This is particularly true in the health care, energy, and financial sectors. For macro and CTA strategies, the trends we have seen emerging in currencies, fixed income and commodities have made for a plethora of opportunities. Furthermore, as rates go up, we anticipate defaults increasing, which should make for a more fertile field for credit/distressed managers.

## | INSIGHTS |


## HEDGE FUND PERSPECTIVES

The hedge fund marketplace comprises a diverse array of strategies in which both the dispersion of performance and degree of opportunity are sizable. Our Hedge Fund Solutions Group publishes its annual *Hedge Fund Perspectives* to explore this dynamic landscape, analyzing the trends and themes that may hold potential moving forward.

To subscribe to *Hedge Fund Perspectives,* please contact us at HFperspectives@nb.com.

**ALAN H. DORSEY**
CHIEF RISK OFFICER

## OUR COMMITMENT TO RISK MANAGEMENT

"A focus on collaboration across Neuberger Berman fosters an environment of open discussion and problem solving, and it promotes an alignment of our investment platform with the best interests of clients."

Risk management is central to Neuberger Berman's culture. As an employee-owned manager, Neuberger Berman is devoted to identifying and managing risk—risk to our clients, risk to our portfolios, risk to our reputation.

We believe that fostering an environment of strong internal controls is vital. To this end, we have established a rigorous risk management framework that features dedicated investment and operational risk teams who work to protect client assets and our enterprise as a whole.

Internal risk guidelines are just a starting point. Our risk professionals—many of whom have backgrounds in investment research and portfolio management—act as an independent oversight for each portfolio management team's investment exposures and process, supporting risk reviews with our chief investment officers and portfolio managers. Risk personnel also act in collaboration with other control units of the firm, such as legal and compliance, asset management guideline oversight and internal audit. A focus on collaboration across Neuberger Berman fosters an environment of open discussion and problem solving, and it promotes an alignment of our investment platform with the best interests of clients. With a direct reporting line to Neuberger Berman's Chief Executive Officer, our risk management structure is enhanced by an ability to escalate issues as necessary to firm leadership as well as to our commingled fund boards and board of directors.

Throughout 2016, we improved our capabilities on both the investment and operational risk fronts, from the introduction of enhanced oversight and review processes to the establishment of new factor and stress tests. We expect more of the same in 2017, as we continuously evolve in order to manage risks to our clients and franchise.

"Investors are seeking solutions that provide not only the potential for attractive returns but also with better transparency into the underlying return drivers and daily liquidity."

**ERIK L. KNUTZEN, CFA, CAIA**
CHIEF INVESTMENT OFFICER—
MULTI-ASSET CLASS INVESTMENTS

**J. DOUGLAS KRAMER**
CO-HEAD OF QUANTITATIVE AND
MULTI-ASSET CLASS INVESTMENTS

# DELIVERING TAILORED SOLUTIONS

Investors continue to be laser-focused on improved outcomes in an environment of lower return outlooks and more complex risks. The Quantitative and Multi-Asset Class (QMAC) team seeks to address these needs by delivering solutions tailored to specific investment objectives and strategies that seek to capture compensated factor exposures transparently, efficiently and with a high degree of liquidity. In fact, QMAC has had these themes as guiding principles since its launch more than 12 years ago and since then has steadily built a platform dedicated to meeting client needs across a variety of these capabilities.

The team's Multi-Asset Class (MAC) capabilities include both bespoke and commingled solutions for a wide range of investors, from some of the world's largest institutions to individuals and families. Spanning both strategic and tactical asset allocation, these solutions incorporate a blend of fundamental and quantitative insights leveraging the broader Neuberger Berman investment platform. One theme that has been particularly prominent with investors has been the need for consistent income, and to that end we have developed income-oriented commingled offerings for investors, including both UCITS and U.S. mutual funds.

Another key area of focus has been factor investing, which has been in the spotlight of late given heightened investor awareness of the separation of alpha and beta and a greater focus on the systematic drivers of portfolio return. From long-only "smart beta" to long/short absolute return-oriented alternative risk premia strategies, investors are seeking solutions that provide not only the potential for attractive returns but also with better transparency into the underlying return drivers and daily liquidity.

Our team's capabilities, built upon more than a decade of research and practical experience in these areas, expanded in 2016 with new offerings that package familiar sources of return. For example, we were awarded a $1 billion-plus mandate in a customized emerging equity portfolio by an Australian superannuation fund to systematically harvest non-market risk premia, including value and quality. In alternatives, we saw a variety of institutional investors move into our alternative risk premia strategies as a way to improve the efficiency and cost-effectiveness of their absolute return allocations. Finally, our Option Group—which joined the firm in early 2016—continued to expand its footprint with both institutional and individual investors, delivering solutions that provide equity exposure with less volatility. A large U.S. public pension hired us to manage a $400 million put-write strategy, and we also made the strategy available to individual investors through the launch of a U.S. mutual fund and a UCITS fund.

We expect these themes to remain prominent into 2017 and beyond. We are excited to build our capabilities further in these areas while continuing to deliver solid investment results.

# QUANTITATIVE AND MULTI-ASSET CLASS

## MULTI-ASSET CLASS

Erik L. Knutzen, CFA, CAIA

Lori L. Holland

Tokufumi Kato, PhD

Leveraging insights and expertise from across Neuberger Berman, our Multi-Asset Class team offers a range of portfolio solutions tailored to the unique needs of clients. Whether the objective is to generate absolute returns or produce a steady income stream, our multi-asset class solutions team will work to design the most efficiently constructed portfolio to pursue the client's objectives. 2016 was a challenging year for investing, as macro events—such as China-driven growth concerns early in the year, followed by the Brexit vote in the summer and the unexpected outcome of the U.S. election in the fall—caused significant volatility. To address this shifting environment, the MAC team carefully managed portfolio risk levels, adding to beaten-down risky assets such as high yield bonds and emerging markets stocks early in the year, reducing risk in advance of both the Brexit referendum and the U.S. election, and then adding risk to portfolios soon after these events. In this challenging environment, the team sought to take advantage of strategies positioned to earn positive returns with less correlation to traditional stock and bond markets, including long/short, alternative risk premia and options-writing strategies.

## OPTIONS

Derek R. Devens, CFA

Rory Ewing

Eric Zhou

Our Option Group builds portfolios that seek long-term profits by consistently collecting option premiums in a liquid, risk-managed framework. Through customizable solutions that monetize equity market volatility and generate income in a cost-effective manner, our collateralized option strategies offer investors a source of differentiated return distributions that may serve as lower-volatility equity investment solutions, a source of diversifying income and/or a supplement to more expensive hedge fund exposures. In 2016, equity market volatility generally trended lower with the exception of a few noteworthy spikes. In this environment our put-write strategies performed in line with expectations, achieving attractive risk-adjusted returns relative to both the underlying indices on which options are written and their corresponding CBOE put-write benchmarks.

## QUANTITATIVE EQUITY

Wai Lee, PhD

Alexandre Da Silva

Ping Zhou, PhD

Our Quantitative Equity strategies use systematic processes to construct portfolios that provide investors exposure to factors that historically have provided attractive long-term returns. Our flagship systematic strategies employ a combination of three main styles—value, momentum and quality—and have delivered attractive returns since inception, and we also build customized factor portfolios that provide exposure to one or more of these or other factors as dictated by client-specific needs. Investor interest in factor-based investment strategies continued to expand in 2016. This is likely due to the challenging environment that calls for rigorous risk management and time-tested approaches to portfolio construction, as well as the realization that many traditional active investment strategies can be replicated through lower-cost systematic investment processes. We anticipate this trend will gain further momentum in the coming year.

## ALTERNATIVE RISK PREMIA

Ajay Singh Jain, CFA, FCCA

Natalia Groysberg

Hakan Kaya, PhD

David Wan

The Alternative Risk Premia team uses a systematic process to build portfolios offering exposure to return sources that compensate investors for bearing risks that are different from "traditional" investment risks. Using long/short investment strategies, these alternative risk premia are extracted from multiple asset classes and from such factors as value, momentum, carry and others in pursuit of absolute return in varied market conditions. Our Multi-Asset Risk Premia approach is also now reflected in an index that Credit Suisse began publishing in 2016 after extensive collaboration with us, enhancing both the transparency and accessibility of our approach. We also designed a customized risk premia portfolio for a large corporate defined benefit plan. We anticipate continued interest in this growing area of investor focus.

| INSIGHTS |


## ASSET ALLOCATION COMMITTEE OUTLOOK

Composed of senior investment professionals across platforms, our Asset Allocation Committee assembles each quarter to establish its 12-month views for an array of asset classes, refined through vigorous debate and discussion. The quarterly *Asset Allocation Committee Outlook* captures these views and the market, macroeconomic and geopolitical context driving them.

To subscribe to *Asset Allocation Committee Outlook,* please contact us at AACoutlook@nb.com.

**KENNETH G. RENDE**
HEAD OF WEALTH MANAGEMENT

# OUR COMMITMENT TO CLIENT ENGAGEMENT

Neuberger Berman's ability to deliver for clients is based not only on the expertise and experience of our portfolio managers, but also on the depth, breadth and quality of our engagement with clients. Over our more than 75-year history, we have worked with many of the same families across generations to achieve their goals.

Our investment teams and wealth advisors work closely with each client to design customized portfolios in a tax-sensitive framework that reflects income needs, growth targets and risk tolerance, accessing a full platform of tailored, multifaceted investment solutions managed by Neuberger Berman portfolio managers and complemented by the Neuberger Berman Trust Company, Investment Strategy Group (ISG) and financial planning analysis team.

The Neuberger Berman Trust Company offers comprehensive and personalized fiduciary and investment services for individuals and institutions, taking a holistic approach that integrates the unique needs of each client with appropriate investment solutions. With $12 billion in assets under management and administration, the Trust Company offers services nationwide and also is able to provide access to the favorable trust laws of the state of Delaware. The Trust Company can help review, construct or execute a gift or estate plan, as well as provide discretionary asset management services and solutions.

ISG provides a wealth of global investment insights, research and analysis, and helps design customized asset allocations and portfolio manager proposals across all asset classes to create tailored investment solutions for clients. ISG leverages the quarterly tactical views of the firm's Asset Allocation Committee as well as its own strategic analysis and manager research. The group works closely with our wealth advisors, portfolio managers and clients to gain a deep understanding of each client's situation and goals in designing investment solutions.

As a complement to ISG and the Trust Company, our financial planning analysis team considers the entirety of a client's financial resources to assess progress toward personal goals and to explore ways that can help improve upon existing approaches. This task extends across disciplines, including cash flow management and taxation planning, and explores many challenges faced by individuals, including retirement, long-term care needs, education funding for family members and more.

"Private clients can count on a true partnership with Neuberger Berman, one that leverages the full range of the firm's resources."

**JOSEPH V. AMATO**
PRESIDENT AND CHIEF INVESTMENT OFFICER—EQUITIES

## A REFLECTION OF OUR HERITAGE

An integral component of Neuberger Berman since our founding in 1939, our private client investment managers deliver unique, tailored solutions to individuals, families and their related organizations, with an emphasis on customization and commitment to service that has fostered deep, longstanding relationships, often spanning generations. The qualities that have long defined our firm—tailored solutions, personalized service and a passion for investing—continue to resonate with our clients today.

Private clients can count on a true partnership with Neuberger Berman, one that leverages the full range of the firm's resources. Our portfolio managers are seasoned investors, with teams that have worked together across market cycles and through a variety of investment environments. Our teams' focus has always been and will always be on delivering attractive, risk-adjusted long-term returns. This experience could be key in 2017, as expectations of increased market volatility as well as increased dispersion among the performance of individual securities may call for nimble practitioners able to capture opportunities as they arise.

Our private client business reflects our heritage and affirms our commitment to provide solutions to our clients' needs. To reflect the dynamic investment environment, we continue to expand our platform, our services and the ways in which we engage with our clients. In recent years the firm has added a range of investment solutions and augmented our internal research capabilities as investors continued to look beyond traditional equity and fixed income investments to incorporate a broader range of risk and return opportunities. We will continue to add resources as appropriate to meet the evolving needs of our clients.

## THE GREENE GROUP


Michael C. Greene


Benjamin H. Nahum

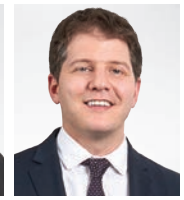

Stanley G. Lee

The Greene Group manages small-cap, mid-cap and all-cap strategies using a private equity-style, research-driven approach to identify out-of-favor companies trading at a significant discount to their intrinsic value with an identifiable catalyst to help that narrow the price gap over time. The team looks for disconnects between reality and market perception—something that occurs regularly in particular types of companies, such as those with complex corporate structures. Heading into 2017 we believe that technology and health care companies have the most attractive risk/reward profiles in the current market environment. Many of these stocks lagged in 2016; however, we see excellent value and long-term growth potential in technology companies and expect more ideas to emerge from the health care sector as uncertainty about the future of the Affordable Care Act will create short-term disruptions for many service providers. We will endeavor to use market uncertainty to our benefit when shares of well-managed and competitively advantaged companies are priced at attractive levels.

## THE KAMEN GROUP


Michael W. Kamen, CFA


Lee J. Tawil, CFA


Stuart J. Pollak

The Kamen Group seeks to deliver solid long-term investment performance through a disciplined investment process focused equally on the quality of companies and the price that is paid for them. The team favors businesses characterized by sustainable competitive advantages, strong management, high returns on capital and superior balance sheets. With elevated valuation levels in the overall equity market and a subdued macroeconomic environment, we have targeted companies that can provide sustained above-average organic growth. One such example in our portfolio is a mid-sized manufacturer of medical devices whose launch of multiple new, innovative products has the potential to accelerate top-line growth while also improving profit margins. In an economy with only moderate growth, we believe companies like these can provide differentiated performance.

## THE STRAUS GROUP


Marvin C. Schwartz


Richard J. Glasebrook, CFA


David I. Weiner


Henry Ramallo


Stephanie J. Stiefel, CPA


Charlie W. Schwartz


Taylor L. Glasebrook

The Straus Group is a team of active portfolio managers dedicated to building client wealth through investments in undervalued mid- and large-cap U.S. equities capable of compounding capital over the medium and longer term in a tax-friendly manner. An example in 2016 was a domestic oil and gas producer with outsized land ownership purchased decades ago (i.e., not at today's prices) in the Permian Basin in Texas. We believe the entity can grow production at 15–20% per year for at least five years while earning a return on incremental capital in excess of 15% after tax. The company has an investment-grade balance sheet. In 2017, we are cautiously optimistic on the domestic growth outlook and remain focused on enhancing our portfolios, replacing investments with subdued potential with new opportunities.

## TEAM KAMINSKY


Gerald P. Kaminsky


Michael J. Kaminsky


Richard M. Werman


Mindy Schwartzapfel


David G. Mizrachi


James J. Gartland

Team Kaminsky creates quality-focused, custom portfolios for individuals, families and institutions, utilizing both growth and income styles. Managers of "core" equity, balanced and fixed income portfolios, the team leverages their broad expertise and deep understanding of businesses to invest across the capital structure in order to meet individual client needs. The team's mission—to add value in all asset categories, give highly personalized service and to do so in a highly efficient manner—underscores this vision. 2016 was a positive year, led by our domestic-centric exposure to financials and technology stocks as well as by having "dry powder" to take advantage of dislocations such as Brexit and the volatility immediately after the presidential election. Our portfolios were positioned conservatively heading into 2017, as we believe the marketplace could be increasingly volatile as the year progresses and interest rates trend higher. We will continue to strive for strong risk-adjusted returns.

## THE FRAENKEL GROUP


Francis L. Fraenkel


Robert H. Pearlman


David M. Ross


Kenneth Y. Amano, CFA

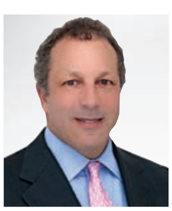

Ann Marie Foss, CFA


Lida Greenberg, CFA

The Fraenkel Group seeks to provide its clients with solid, long-term performance utilizing a portfolio strategy that emphasizes sound judgment and conservative growth. We invest in core growth companies that are characterized by exceptional management teams, industry leadership and stable growth models. Moreover, we look for opportunistic growth companies with catalysts that could lead to enhanced growth, as well as companies that distribute above-average dividends and provide organic growth. This disciplined low-turnover investment approach has the potential to produce solid performance while maintaining a lower risk profile than the overall market. Prior to the election, we believed that a new president would enact policies that differed from the previous eight years, benefitting some industries and companies while impairing others. In this environment, we found several companies we believe possess the flexibility to prosper under a new administration.

## THE LARGE CAP DISCIPLINED GROWTH GROUP


John J. Barker


Richard N. Bradt


Jason Tauber, CFA

The Large Cap Disciplined Growth Group leads with acceleration of operating performance as the stock selection metric of transcendent relevance. Our process includes factoring in multiple additional inputs, including free cash flow generation, quality of management, identifiable catalysts and optionality. The use of acceleration as the key metric enables a differentiated definition of "growth," yielding a broader pool of large-cap ideas. Indeed, in 2016 technological innovation and leadership enabled earnings acceleration for certain portfolio holdings, such as a semiconductor company that benefitted from the global growth of PC gaming while simultaneously positioning itself to take advantage of huge opportunities within the artificial intelligence space. We will continue to apply our discipline as we enter 2017, and we look to capitalize on individual opportunities regardless of the market or economic backdrop.

## THE PADUANO GROUP

Daniel P. Paduano, CFA

Sherrell J. Aston

Jason H. Vintiadis

The Paduano Group believes major long-term demographic, societal, technological and political developments around the world create a robust array of investment opportunities. The team follows a disciplined and consistent research process in an effort to translate these secular global themes into compelling, multiyear investments, agnostic to corporate size and geography. 2016 was a productive year, with a healthy contribution from a number of our themes, notably Alternatives, Renewables and Conservation, The Rising Value of Water, and Smart Systems. Most encouraging were early signs of a more normal correlation between price performance and business fundamentals—a dynamic that in our opinion has been lacking for quite some time. As highlighted by many market observers, growth and incremental profits are increasingly difficult to achieve. It is this exact environment in which our themes can serve us particularly well as we direct our investments to businesses out in front of secular growth and improving profitability.

## THE KSE VALUE GROUP

Michael N. Emmerman

Michelle B. Stein

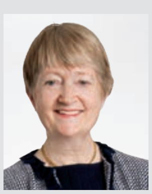
Brooke Johnson

Richard Wesolowski

The KSE Value Group is a classic value investor, using a time-tested investment process rooted in rigorous research to identify undervalued companies across the capitalization spectrum that are poised for significant positive change thanks to a clearly defined catalyst. These catalysts can be internal (such as management changes or shifts in the company strategy) or external (such as regulatory, political or macro-economic trends). Once we initiate a position, our investment horizon is two to four years. We believe that company-specific catalysts will be a key driver of performance in 2017, as they have been in previous years.

## THE KOPLIN LLOYD GROUP

Cary A. Koplin



Melinda L. Lloyd

## THE SCHUPF GROUP

H. Axel Schupf

Marshall W. Jaffe

Elisabeth S. Lonsdale

## THE ANDERSON GROUP

Bradley M. Anderson

John E. Terzis, CFA

## THE BOLTON GROUP


David R. Pedowitz


F. Christian Reynolds, CFA


Darren M. Fogel


John D. DeStefano


James C. Baker, CFA

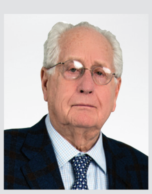

Maria D. Pappas


Linda J. Ludwig

[NOT PICTURED: Leo D. Bretter; Mark Daniel Sullivan, CPA; Brian Case, CFA; Miles Price; John A. Kauffmann]

The Bolton Group is an experienced steward to high-net-worth individuals, families and tax-exempt entities, partnering with our clients and their trusted advisors to create customized, multidimensional investment solutions. Our team utilizes a variety of equity and fixed income disciplines to craft solutions for various client objectives, including capital appreciation in the context of risk tolerance as well as current income when requested. We seek to add value by investigating and analyzing uncertainties—financial complexities, cyclical challenges, operating disappointments, management changes, acquisitions and divestitures—that cause high-quality, otherwise attractive companies to trade at opportunistically low prices. Our team utilizes primary research with disciplined fundamental and financial analyses to estimate risk and reward. A sharp focus on free and discretionary cash flows contributes to an analytical consistency that permits us to compare investment opportunities and risks in our portfolio construction. Performance in 2016 was led by consumer staples and information technology investments, offset by macro and other challenges for our health care sector investments. Given outstanding demographics, the environment for most health care stocks may improve in 2017 and boost returns. We continue to identify and invest in leading companies across several attractive industries while gathering insights and seeking opportunities as they arise out of political and economic shifts in the U.S. and elsewhere.

## THE EISMAN GROUP


Elliott H. Eisman


Lillian Eisman


Michael E. Cohen


Dana Eisman Cohen


Steven Eisman

## THE SLOATE GROUP


Laura J. Sloate, CFA

## THE CAPITAL GROUP


Yolanda R. Turocy

ELIZABETH R. CRIBBS, CPA
HEAD OF CORPORATE SOCIAL RESPONSIBILITY

# OUR COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY

"We believe our impact is greatest at the intersection of leadership, expertise, funding and engagement."

Coordinated by our Corporate Social Responsibility team, Neuberger Berman seeks to positively affect our community, employees and clients. Community engagement is embedded in the culture here at Neuberger Berman, a culture that earned us the top ranking (among firms with 1,000 or more employees) in the *Pensions & Investments* 2016 "Best Places to Work in Money Management" survey.

We believe our impact is greatest at the intersection of leadership, expertise, funding and engagement. Driven and led by our employees, our philanthropic efforts leverage a broad range of the firm's resources, from the financial (including the Neuberger Berman Foundation and corporate grants) to the personal (employee expertise, volunteerism and nonprofit board service). In 2016, more than 85% of Neuberger Berman Foundation grants were made to organizations recommended by employees, and we volunteer with over 80% of these organizations annually. Employees in 2016 contributed more than 5,500 hours in service to the community through 160-plus volunteer projects in 17 cities and 10 countries around the world; 62% of our employees participated in our corporate volunteer programs last year—well above most of our peers.

Our volunteer efforts culminate annually in May with our "Celebration With Service." In honor of our reemergence as an independent company we embark upon a week of volunteer projects in which we use our individual talents to benefit our communities worldwide, from Los Angeles to London, Hong Kong to Houston. Activities range from tutoring children to freshening up public parks to preparing and delivering meals to people in need. Over the past seven years, more than 6,000 volunteers—employees, their family members and friends—have participated in these projects.

"Our culture is a durable draw within the asset management industry, enabling us to hire and retain professionals naturally biased toward collaboration in support of client objectives."

**ANDREW S. KOMAROFF**
CHIEF OPERATING OFFICER AND HEAD OF GLOBAL CLIENT COVERAGE

# PROVIDING PERSONALIZED SERVICE FOR AN ARRAY OF CLIENTS

At Neuberger Berman we seek to develop strong, lasting relationships with our clients and platform partners that position us to deliver solutions tailored to their specific goals and requirements, and to share new, innovative ideas that can make a difference in long-term investment results. While our mission is relatively straightforward, its success is predicated on meticulous execution and coordination across functions throughout the firm, from the portfolio management teams responsible for investing client assets to the multidisciplinary groups that provide personalized service to our clients.

Our culture is a durable draw within the asset management industry, enabling us to hire and retain professionals naturally biased toward collaboration in support of client objectives. In 2016 we continued to attract talent to our 500-plus person global Client Coverage team. The team includes those focused on relationship management, client service, marketing, analytics, developing strategic insights and promoting innovation. Last year, we made the decision to bring together our North American Institutional business under the leadership of Matt Malloy and our North American Intermediary business under Scott Kilgallen. We made this adjustment in order to more effectively share insights and respond to client issues that are common within each of those segments.

We added 85 new institutional relationships worldwide in 2016, bringing our total to nearly 1,100, up more than 50% from end-2012. Equally important, our clients are entrusting us with their capital across a broader range of capabilities—the number of clients invested in multiple Neuberger Berman strategies has more than doubled since 2012, a trend we expect to continue as a natural byproduct of our consultative approach to relationships. Similarly, we are pleased with our progress in developing partnerships with intermediary platforms; we now have significant relationships with about 50 firms globally, which provides a strong foundation both for introducing new strategies as well as extending relationships across a broader range of capabilities.

Within our wealth management business serving individuals, families and their related foundations (primarily in the U.S.), we remained focused on tailoring portfolios to meet the unique needs of each client while navigating the dynamic markets experienced last year. We are pleased to see that more of our wealth management clients are incorporating private equity into their portfolios.

We continued to innovate within our investment platform during the year, maintaining a disciplined approach to strategy introductions that focuses on the intersection of client needs and our ability to add value. In 2016, these included fixed income opportunities in both private and public markets, a small-cap EAFE strategy, an event-driven hedge fund, multi-asset portfolios, an options-writing strategy and a registered private equity fund—all of which we believe are well suited for the current environment.

At the end of the day, we manage our business according to the drivers of client demand. While these drivers naturally diverge across channels and geographies, a number of common themes have emerged from our discussions with clients, many of whom have been looking for guidance on how to navigate the investment landscape given significant uncertainty around interest rates, trade policy, divergent growth prospects and general geopolitical anxiety.

## CLIENT COVERAGE

**DIK VAN LOMWEL**
HEAD OF EMEA AND LATIN AMERICA


# EMEA AND LATIN AMERICA

2016 was an eventful year on many levels. If the market roller coaster early in the year was not challenging enough, a summer Brexit followed by the autumn U.S. presidential election brought new distractions to our industry as it continued to address significant ongoing regulatory change and uncertainty.

Despite this, our footprint across the EMEALA region continued to grow, driven largely by demand for higher-yielding and private market strategies. As clients faced the challenges of a continued low-growth/low-returns environment, we saw particular traction across our emerging markets debt platform, while institutional appetite for alternative credit strategies remained high. Many pension fund clients initiated or increased allocations to private equity, which was reflected in successful capital raises for our secondaries and Dyal strategies as well as a growing number of client partnerships in the asset class. We were pleased to see a positive client response to our corporate hybrids capabilities, as well as to new strategies from our Multi-Asset Class platform.

In 2016 we welcomed Vivek Bommi, who joined us from our Chicago office, as Senior Portfolio Manager in Global and European High Yield. In addition, a credit portfolio manager and two analysts have joined the local fixed income teams, and three professionals joined our private equity group.

Teamwork across all functions plays a key role in ensuring our continued success, and we are delighted that several experienced professionals have joined the team this year to help drive the business forward, including David Rowe as Head of Marketing—EMEA, Nicholas Styman as Chief Compliance Officer—EMEA, and James Harvey as Head of Finance—EMEA.

As we look forward to 2017, we are excited about the innovative products we are making available to clients, providing access to more of our expertise in areas such as options investing, risk premia and risk parity, multi-asset class solutions and liquid alternatives.

Tom W. Douie
EMEA INTERMEDIARIES
(LONDON)

Edward J.M. Jones
U.K. INSTITUTIONAL
(LONDON)

Cas A.H. Peters
BENELUX
(THE HAGUE)

Mark Oestergaard
SCANDINAVIA
(LONDON)

Christian Puschmann
GERMANY AND AUSTRIA
(FRANKFURT)

Fabio L. Castrovillari
SWITZERLAND
(ZURICH)

Charles Soullard
FRANCE
(PARIS)

Javier Nunez
de Villavicencio
IBERIA (MADRID)

Marco Avanzo-Barbieri
ITALY
(MILAN)

Jahangir Aka
MIDDLE EAST & AFRICA
(DUBAI)

Maximiliano Rohm
LATIN AMERICA
(BUENOS AIRES)

Jenna Lawrence
EMEA CLIENT SERVICE
(LONDON)

**RYO OHIRA**
HEAD OF EAST ASIA


# EAST ASIA

In 2016 assets under management in the East Asia region grew by more than 50% for the third consecutive year, as we continued to expand our organization and capabilities, and further deepen our relationships with clients both in Japan and Korea.

The introduction of new investment ideas and fresh insights into the East Asia market led to steady growth in both AUM and client coverage in the region. We held approximately 50 seminars in 2016, both in and out of our offices, and hosted numerous client meetings featuring our U.S.-based portfolio managers traveling through the region.

In Korea, we won mandates from both institutional and retail clients, with the biggest wins coming in private equity strategies, including Dyal, Athyrium and our private debt fund. We also attracted inflows to our diversified asset classes in Japan. Our overall fixed income presence expanded due to significant growth in such strategies as global investment grade, bank loans, short duration high yield, U.S. municipals and corporate hybrid securities. In the private asset space, Japanese clients entrusted with us a record $1.2 billion of capital in 2016 across Dyal, secondaries, private debt and private equity separate accounts. In equity, we experienced positive flows into strategies involving master limited partnerships in 2016, and we expect increasingly strong demand for this asset class following the Trump election in the U.S. and the recent decline of the REITs market.

We believe our flexibility and speed, our wide range of strategies and our ability to customize will be of particular benefit to clients in the ongoing volatile environment. For example, to meet the specific needs of Japanese clients—such as containing rising hedging costs, thematic equity investment ideas, ESG investing, knowledge transfer and others—we enhanced our regional product development, client reporting and client portfolio management functions as well as the Japan desks in New York and Chicago. We aim to continue to provide such high-quality service throughout the East Asia region, with "clients first" at the very heart of our team's mindset.

Komei Asaba
INSTITUTIONAL & INTERMEDIARIES (TOKYO)

Yutaro Nishihara
INSTITUTIONAL (TOKYO)

Tomomi Hiratsuka
INTERMEDIARIES (TOKYO)

Takashi Ikushima
CLIENT PORTFOLIO MANAGEMENT (TOKYO)

Michi Suzuki
CLIENT PORTFOLIO MANAGEMENT – FIXED INCOME (TOKYO)

Mitsuhiro Shimura
CLIENT REPORTING (TOKYO)

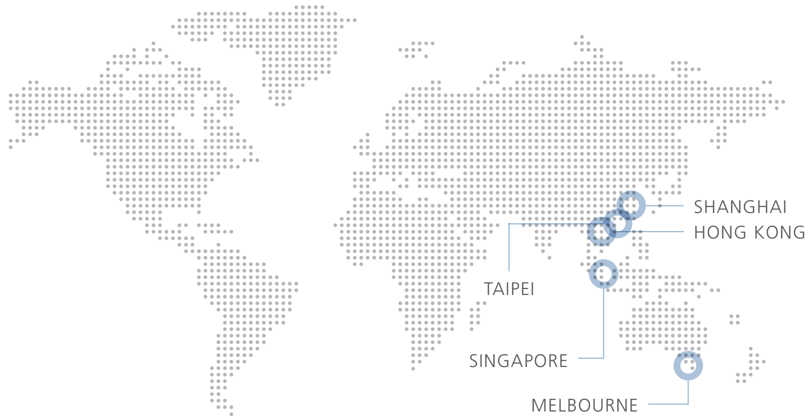
DaeYeon Kim
INSTITUTIONAL & INTERMEDIARIES (SEOUL)

YoungSun Na
INTERMEDIARIES (SEOUL)

Yoshiyuki Yagisawa
PRIVATE EQUITY (NEW YORK)

Hiroyasu Tamura
CLIENT SERVICE (CHICAGO)

**NICK J. HOAR**
HEAD OF ASIA PACIFIC




# ASIA PACIFIC

In 2016, we continued to deepen our client engagement and expand our local presence in the Asia Pacific region. Our business continued to grow at an impressive pace last year, as we secured mandates from multiple institutions in the major markets of China, Hong Kong, Taiwan, Singapore and Australia. We continued to offer our clients tailored investment solutions in a part of the world that demands customization. In Australia, our smart beta emerging market equity strategy was the key contributor to growth, with inflows coming from one of the largest superannuation fund clients in that market. As clients continued to seek stable and uncorrelated returns to public markets, we saw increasing demand for our private equity strategies, especially in mainland China and Hong Kong.

For our intermediary distribution business we remained committed to deepening client relationships and have launched important initiatives to position the firm for future growth. For the private bank channel, our UCITS products that focus on generating income and mitigating interest-rate risk continued to gain traction. On the retail front, we expanded our client franchise by signing new partnerships with some of Asia Pacific's largest consumer banks and insurance companies. In Taiwan, we have successfully obtained a Securities Investment Trust Enterprise (SITE) license, which will allow us to manage and distribute onshore funds, a strategic move to building a competitive advantage in this key market.

We continued to invest in our infrastructure and people. Key appointments in 2016 included Jovi Chen, who joined us as the General Manager of Taiwan, and Patrick Liu, who joined us to be the head of our China Business. Given the continued expansion of our business in the region, we moved to larger offices in Taipei, opened up an office in Sydney and expanded our office space in Hong Kong.

Patrick Liu
COUNTRY HEAD, CHINA
(SHANGHAI)

Marco Tang
FINANCIAL INSTITUTIONS
(SHANGHAI)

William Hui
INSTITUTIONAL
(SHANGHAI)

Jovi Chen
COUNTRY HEAD, TAIWAN
(TAIPEI)

Tony Huang
FINANCIAL INSTITUTIONS
TAIWAN (TAIPEI)

Thomas Holzherr
INSTITUTIONAL
(SINGAPORE)

Vincent Lim
FINANCIAL INSTITUTIONS
(SINGAPORE)

Pauline Cheng
FINANCIAL INSTITUTIONS
(HONG KONG)

Paul D. O'Halloran
AUSTRALIA
(MELBOURNE)

Lucas J. Rooney
AUSTRALIA
(MELBOURNE)

Linda Lam
CLIENT SERVICE
(HONG KONG)

Angela Verco
CLIENT SERVICE
(MELBOURNE)

**MATTHEW H. MALLOY**
HEAD OF NORTH AMERICAN INSTITUTIONAL AND GLOBAL HEAD OF INSURANCE SOLUTIONS

**SCOTT E. KILGALLEN**
HEAD OF NORTH AMERICAN INTERMEDIARY DISTRIBUTION

## NORTH AMERICAN INSTITUTIONAL

Institutional client dynamics continue to evolve, driving divergence across client types in terms of both asset allocation and the underlying investment strategies used to execute it—whether it be corporate defined benefit plans increasing their focus on risk-reduction measures in the face of funding and regulatory changes, or public defined benefit plans allocating more to alternatives in the face of funding shortfalls. Union and multi-employer plans too are turning to more complex asset allocation against similar funding shortfalls and high return targets, while non-profit organizations turn to ESG to align their investment goals and mission. These big industry changes also are accentuating the role of consultants, who are increasingly required to provide capabilities and insights beyond the traditional evaluation of investment managers. Many are asked to expand their coverage to a broader range of traditional and alternative asset classes, increase resources and enhance the breadth of solutions they offer.

Amid such rapidly evolving client dynamics, our team of more than 40 professionals continues to develop a more focused and tailored approach to how we engage with our 725 institutional clients. In 2016, we worked to deepen our understanding of institutional client issues, strengthen our relationships with global, regional and boutique consultants, and serve as a thought partner to all our clients, with segment-specific insights as well as broad asset class and market views. We will remain focused on these priorities in 2017, in particular developing strategies and providing solutions specific to institutional investors, and enhancing the quality of our interactions with clients and consultants.

## NORTH AMERICAN INTERMEDIARY

Challenging and uncertain market dynamics in recent years have accentuated the value that can be brought to bear by skilled financial advisors. Neuberger Berman seeks to partner with these professionals. We offer a broad range of flexible, strategic investment solutions across product types, fee structures and liquidity profiles. At year-end 2016, we had $55 billion of assets under management and administration in the Intermediary channel within North America and were represented on more than 50 intermediary platforms.

Throughout the year we continued to focus on bringing to market new and innovative solutions for intermediaries and their clients. For example, we joined with a select group of distribution partners to launch our first registered private equity fund, enabling participation in this attractive asset class by a broader cross-section of investors. We also expanded our collateralized put-write strategy offerings to include comingled fund vehicles. The strategy is designed to provide individual investors with exposure to equity market returns with less volatility.

Our deep commitment to providing clients with access to the best thinking of the firm was apparent in 2016, as market-moving geopolitical events like the U.K. Brexit vote and the U.S. elections highlighted the value of timely insights. Through our webcasts, blogs and other thought leadership vehicles—not to mention a variety of investment forums, due-diligence meetings, conference speaking engagements and value-add training events—we were able to help guide thousands of intermediaries through another turbulent year in the markets.

"We have been managing a range of traditional and alternative assets on behalf of insurance clients for more than 20 years."

**MATTHEW H. MALLOY**
HEAD OF NORTH AMERICAN INSTITUTIONAL AND GLOBAL HEAD OF INSURANCE SOLUTIONS

# GLOBAL INSURANCE

Insurance companies, broadly speaking, remain well capitalized, with strong liquidity and capital positions and asset leverage at or below historical levels. That said, challenges persist. The ever-changing regulatory landscape is always top of mind for insurers, of course. Meanwhile, attractive investment opportunities remain difficult to source in a world of still-low interest rates, challenging supply and liquidity dynamics in fixed income markets, and equity markets at or near all-time highs amid expectations for increased volatility. These conditions have continued to drive insurers to diversify their portfolios and evaluate new asset classes and markets. As long-term investors, insurers continue to focus on allocations to risk assets—both traditional and alternatives such as non-investment grade fixed income and private equity—in an effort to enhance yield profiles and return potential, partnering with third-party asset managers for guidance and support when doing so. Given their longer investment horizons, many insurers are well suited to monetize liquidity and seek the extended return potential offered by many private market strategies.

With approximately $25 billion of insurance assets under management and committed capital as of December 31, 2016, Neuberger Berman has been managing a range of traditional and alternative assets on behalf of insurance clients for more than 20 years. In our continuing efforts to enhance the services and solutions we provide to insurers globally, in 2016 we added several new resources to the effort. J.P. Sursock joined as a dedicated insurance Client Advisor focusing on U.S. insurers. Jason Pratt joined the firm as a Portfolio Manager and Head of Insurance Fixed Income; he partners closely with our client coverage teams to deliver the firm's broad fixed income platform to insurance companies worldwide. In 2016, Steve Smith also joined the firm as our Head of Insurance Analytics, providing a range of analytical capabilities, advice and portfolio solutions for insurers.

We expect change to remain a constant in 2017 for investors of all types. We stand ready to help insurers address the challenges these changes may present with creative investment solutions and unparalleled client service.

**WILLIAM A. ARNOLD**
CHIEF FINANCIAL OFFICER

# OUR COMMITMENT TO FINANCIAL RISK MANAGEMENT

Consistent with our colleagues across the firm, a client-centric mindset drives our approach to financial risk management. Protecting the firm is one of our guiding principles. We take a long-term view, thinking in years, not months—and purposely keep our balance sheet liquid and our capital structure conservative with longer-dated maturities.

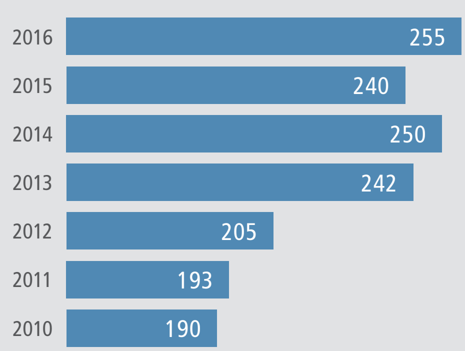
This dedication to stewardship, in turn, has enabled us to invest prudently in our business, in our platform and in our people. We have broadened our capabilities, increased our resources, improved technology and built a more diversified and stable investment platform. More concretely for our clients, we have introduced new strategies with existing investment teams, added new investment teams and continued to invest in our global client coverage franchise. We have made these investments not to improve our quarterly results but because we believe it will drive greater long-term stability across the firm and provide opportunities for deeper relationships with our clients.

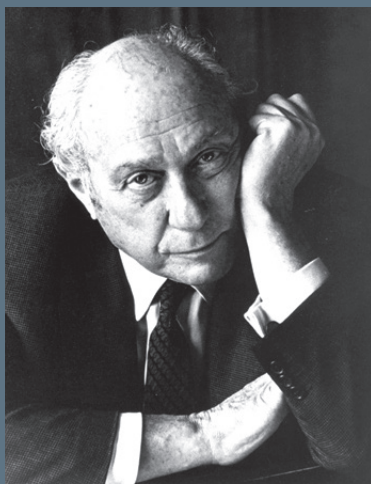
Importantly, as we focus on protecting the firm and investing for the future, we do so in close partnership with our colleagues across the business. By understanding the objectives and long-term strategy of our investment and client coverage teams, we are able to ensure we are properly allocating our resources and capital to initiatives that will ultimately serve our clients well.

SUMMARY FINANCIAL INFORMATION

| ($ in millions) | Dec 2016 |
|---|---|
| Cash and Cash Equivalents | 740 |
| Investments | 380 |
| Receivables | 227 |
| Goodwill and Other Intangibles | 583 |
| Other Assets | 201 |
| **Total Assets** | **2,131** |
| Senior Notes Payable | 763 |
| Accrued Compensation and Benefits | 482 |
| Payables and Other Liabilities | 359 |
| **Total Liabilities** | **1,604** |
| Common Equity | 527 |
| **Total Liabilities and Equity** | **2,131** |
| **Adjusted Net Revenues for 2016** | **$1,469** |

ASSETS UNDER MANAGEMENT ($ in billions)





OUR FOUNDER—ROY NEUBERGER

# The Art of Investment

When Roy Neuberger started collecting art in 1939, he bought pieces that spoke to him. "I buy because I love the work," he said. The fact that many of his favorite artists—like Jackson Pollock, Edward Hopper and especially Milton Avery—went on to become household names is a testament to his unique insight. In art, as in investment, Roy didn't follow the market—the market followed him.

At the firm he founded in that same year of 1939, we try to live up to those principles. We value experience but have an eye for innovation. Our culture is strong; our teams are independent. Company fundamentals and client objectives are what drive us, not the noise of the markets. That is the art of investing, the art of partnership, the art of service.



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Chairman and Chief Executive Officer, Neuberger Berman

**JOSEPH V. AMATO**

President, Neuberger Berman; Chief Investment Officer—Equities

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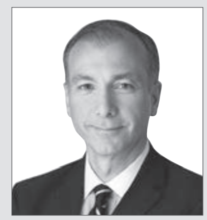
Portfolio Manager, Small Cap Value



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Chairman, President and CEO, MetLife; Formerly CIO, MetLife

Formerly Executive Director, Pension Benefit Guaranty Corporation (PBGC)

**RICHARD B. WORLEY**

Formerly CEO and CIO, Morgan Stanley Investment Management

Formerly Chairman, Miller Anderson and Sherrerd

**LAWRENCE ZICKLIN**

Clinical Professor, New York University Stern School of Business

Chairman, Rand Center for Corporate Ethics and Governance

Formerly Managing Partner and Chairman, Neuberger Berman

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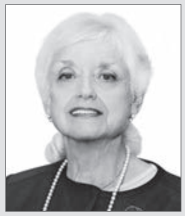
President, Mutual Funds



**FAITH COLISH***

Securities Regulatory Attorney

Trustee of the Year (2001, 2008), Mutual Fund Industry Awards

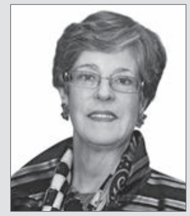
**MICHAEL J. COSGROVE**

President, Carragh Consulting USA

Formerly Executive, General Electric Company and Trustee, GE's Pension and Benefits Plan

**MARC GARY**

Formerly Executive Vice President and General Counsel, Fidelity Investments



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Formerly Corporate Treasurer and Enterprise Risk Officer, The Prudential Insurance Company of America

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President and CEO, University of Wisconsin Foundation

Formerly Dean, School of Business, University of Wisconsin

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Adjunct Professor, Columbia University School of International and Public Affairs

Formerly Executive Vice President and CFO, People's Bank, CT

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Formerly Admiral, United States Navy

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General Counsel of EMEA and Latin America, Neuberger Berman

**ANDY OLDING**

Head of EMEA Mutual Fund Administration, Neuberger Berman

NOT PICTURED:

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Independent Non-Executive Director of the Board

Formerly Bank of Ireland Asset Management (the Fund Management division of the Bank of Ireland Group)

Formerly a Barrister by profession

**PAUL SULLIVAN**

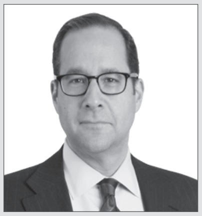
Independent Non-Executive Director of the Board

Formerly Executive Director, the Irish Sovereign Debt Management Office, the National Treasury Management Agency

Formerly a Vice President, Chase Manhattan Bank (now JP Morgan)

*Member closed-end funds Board of Directors only. Retired from Board of open-end fund, effective 12/31/2016.

## PARTNERSHIP COMMITTEE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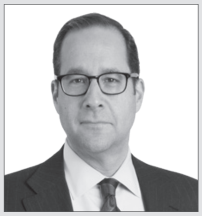

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Michael C. Greene
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Christian Puschmann

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Michael Recce
Lisa H. Reed
Matthew D. Rees
Michael D. Rees
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Christian F. Reynolds
J. Blake Rice
Joana Rocha Scaff
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Patrick C. Ru

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Jean-Paul Sursock
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Kenneth J. Turek
Yolanda R. Turocy
Anthony D. Tutrone

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Gorky R. Urquieta

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Dik van Lomwel
Pim M. van Schie
Peter J. von Lehe

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Ronit M. Walny
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David I. Weiner
Eric D. Weinstein
Richard M. Werman
Obadiah J. Wilford
Andrew Wilmont

**Z**

Patricia Miller Zollar
Heather P. Zuckerman

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Firm data, including employee and assets under management figures, reflect collective data for the various affiliated investment advisers that are subsidiaries of Neuberger Berman Group LLC (the "firm"). Firm history and timelines includes the history and business expansions of all firm subsidiaries, including predecessor entities and acquisition entities. Investment professionals referenced include portfolio managers, research analysts/associates, traders, and product specialists and team dedicated economists/strategists.

**Mutual funds are not available to investors outside of the U.S.** Neuberger Berman BD LLC is the distributor of the Neuberger Berman mutual funds. Member FINRA.

**An investor should consider the investment objectives, risks and fees and expenses of any fund carefully before investing. This and other important information can be found in each fund's prospectus, and if available summary prospectus, which you can obtain by calling 877.628.2583. Please read the prospectus, and if available the summary prospectus, carefully before making an investment.**

**Important Information about Risk**
All stocks are subject to investment risk, including the risk that they may lose value. Small- and mid-capitalization stocks may have limited operating histories and resources and may trade less frequently and in lower volume than larger company stocks, which may make them more volatile and vulnerable to financial and other risks. Compared with smaller companies, large-cap companies may be less responsive to changes and opportunities and may lag other types of stock in performance.

Foreign securities involve risks in addition to those associated with comparable U.S. securities. Additional risks include exposure to less developed or less efficient trading markets; social, political or economic instability; fluctuations in foreign currencies or currency redenomination; potential for default on sovereign debt; nationalization or expropriation of assets; settlement, custodial or other operational risks; and less stringent auditing and legal standards. As a result, foreign securities may fluctuate more widely in price, and may also be less liquid, than comparable U.S. securities. World markets, or those in a particular region, may all react in similar fashion to important economic or political developments. In addition, foreign markets may perform differently than the U.S. market. Changes in currency exchange rates could adversely impact investment gains or add to investment losses. Currency exchange rates can be affected unpredictably by intervention, or failure to intervene, by U.S. or foreign governments or central banks or by currency controls or political developments in the U.S. or abroad.

Value stocks may remain undervalued during a given period or may not ever realize their full value. This may happen, among other reasons, because of a failure to anticipate which stocks or industries would benefit from changing market or economic conditions. Because the prices of most growth stocks are based on future expectations, these stocks tend to be more sensitive than value stocks to bad economic news and negative earnings surprises. Bad economic news or changing investor perceptions may adversely affect growth stocks across several sectors and industries simultaneously.

**Additional Risk Information for International Equity Fund**
Governments of emerging market countries may be more unstable and more likely to impose capital controls, nationalize a company or an industry, place restrictions on foreign ownership and on withdrawing sales proceeds of securities from the country, and/or impose burdensome taxes that could adversely affect security prices. These countries may also have less developed legal and accounting systems. Securities issued in these countries may be more volatile and less liquid than securities issued in foreign countries with more developed economies or markets. From time to time, the Fund may hedge against some currency risks; however, the hedging instruments may not always perform as the Fund expects and could produce losses. Suitable hedging instruments may not be available for currencies of emerging market countries.

The risks involved in seeking capital appreciation from investments primarily in companies based outside the United States are set forth in the prospectus. From time to time, based on market or economic conditions, the Fund may invest a significant portion of its assets in one country or geographic region. If the Fund does so, there is a greater risk that economic, political, social and environmental conditions in that particular country or geographic region may have a significant impact on the Fund's performance and that the Fund's performance will be more volatile than the performance of more geographically diversified funds.

**Additional Risk Information for Long Short Fund**
Short sales involve selling a security the Fund does not own in anticipation that the security's price will decline. Short sales may help hedge against general market risk to the securities held in the portfolio but theoretically present unlimited risk on an individual stock basis, since the Fund may be required to buy the security sold short at a time when the security has appreciated in value. The Fund may not always be able to close out a short position at a favorable time and price. If the Fund covers its short sale at an unfavorable price, the cover transaction is likely to reduce or eliminate any gain, or cause a loss to the Fund, as a result of the short sale.

Investing in foreign securities may involve greater risks than investing in securities of U.S. issuers, such as currency fluctuations, potential social, political or economic instability, restrictions on foreign investors, less stringent regulation and less market liquidity.

Derivatives contracts on non-U.S. currencies are subject to exchange rate movements. Derivatives may involve risks different from, or greater than, those associated with more traditional investments. Derivatives can be highly complex, can create investment leverage and may be highly volatile, and the Fund could lose more than the amount it invests. The Fund's investments in the futures markets also introduce the risk that its futures commission merchant ("FCM") would default on an obligation set forth in an agreement between the Fund and the FCM, including the FCM's obligation to return margin posted in connection with the Fund's futures contracts. The use of options involves investment strategies and risks different from those associated with ordinary portfolio securities transactions. If the Fund's portfolio manager applies a strategy at an inappropriate time or judges market conditions or trends incorrectly, options may lower the Fund's return. Derivative instruments and short sales may also have an effect similar to that of leverage and can result in losses to the Fund that exceed the amount originally invested in the derivative instruments. Leverage may amplify changes in the Fund's net asset value ("NAV"). ETFs are subject to tracking error and may be unable to sell poorly performing stocks that are included in their index. ETFs may trade in the secondary market at prices below the value of their underlying portfolios and may not be liquid. Through its investment in exchange traded funds, the Fund is subject to the risks of the ETF's investments, as well as to the ETF's expenses. The Fund may engage in active and frequent trading and may have a high portfolio turnover rate, which may increase the Fund's transaction costs and may adversely affect the Fund's performance.

**Additional Risk Information for Multi-Cap Opportunities Fund**
From time to time, based on market or economic conditions, the Fund may have significant positions in one or more sectors of the market. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors. Individual sectors may be more volatile, and may perform differently, than the broader market. The industries that constitute a sector may all react in the same way to economic, political or regulatory events.

Companies that are considered "special situations" include, among others: companies that have unrecognized recovery prospects or new management teams; companies involved in restructurings or spin-offs; companies emerging from, or restructuring as a result of, bankruptcy; companies making initial public offerings that trade below their initial offering prices; and companies with a break-up value above their market price. Investing in special situations carries the risk that certain of such situations may not happen as anticipated or the market may react differently than expected to such situations. Certain special situations carry the additional risks inherent in difficult corporate transitions and the securities of such companies may be more likely to lose value than the securities of more stable companies.

**Additional Risk Information for Equity Income Fund**
There are greater credit risks associated with investments in high-yield bonds. A bond's value may fluctuate based on interest rates, market conditions, credit quality, political events, currency devaluation and other factors. You may have a gain or a loss if you sell your bonds prior to maturity. High Yield Bonds are not suitable for all investors and the risks of these bonds should be weighed against the potential rewards. The properties held by

REITs could fall in value for a variety of reasons, such as declines in rental income, poor property management, environmental liabilities, uninsured damage, increased competition, or changes in real estate tax laws. There is also a risk that REIT stock prices overall will decline over short or even long periods because of rising interest rates. Convertible bonds tend to offer a lower rate of return compared to other bonds in exchange funds for the value of the option to convert the bond into stock. The value of a convertible security typically increases or decreases with the price of the underlying common stock. In general, a convertible security is subject to the risks of stocks when the underlying stock's price is high relative to the conversion price and is subject to the risks of debt securities when the underlying stock's price is low relative to the conversion price. Many convertible securities have credit ratings that are below investment grade and are subject to the same risks as an investment in lower-rated debt securities (commonly known as "junk bonds"). To the extent the Fund invests in convertible securities issued by small- or mid-cap companies, it will be subject to the risks of investing in such companies.

There is no guarantee that the companies in which the Fund invests will declare dividends in the future or that dividends, if declared, will remain at current levels or increase over time.

**Additional Risk Information for Intrinsic Value Fund**
Investing in companies in anticipation of a catalyst carries the risk that the catalyst may not happen as anticipated, possibly due to the actions of other market participants, or the market may react differently than expected to the catalyst. Certain catalysts, such as companies emerging from, or restructuring as a result of, bankruptcy, carry additional risks and the securities of such companies may be more likely to lose value than the securities of more stable companies.

From time to time, based on market or economic conditions, the Fund may have significant positions in one or more sectors of the market. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors. Individual sectors may be more volatile, and may perform differently, than the broader market. The industries that constitute a sector may all react in the same way to economic, political or regulatory events.

*Barron's* "Best Fund Families of 2016" measures one year results of 61 fund families. Neuberger Berman was not ranked in the 5- or 10-year category by *Barron's* because it previously did not have broad enough categories for this survey. To qualify for the *Barron's*/Lipper Fund Survey, a group must have at least (i) three funds in Lipper's general U.S. equity category; (ii) one in world equity, which combines global and international funds; (iii) one mixed-equity fund, which holds stocks and bonds; (iv) two taxable-bond funds; and (v) one-tax-exempt offering. *Barron's* notes that their goal is to measure manager skill, independent of expenses beyond annual management fees. As a result, each fund's returns are calculated before deduction of any sales charge or 12b-1 fee. Each fund's return is measured against those of all funds in its Lipper category (e.g., small-cap value). That leads to a percentile ranking, with 100 being the highest and 1 the lowest, which is then weighted by asset size, relative to the fund family's other assets in its general classification. If a family's biggest funds do well, that boosts its overall ranking. Poor performance in a big fund has a big effect on the ranking. Finally, the score is multiplied by the weighting of its general classification, as determined by the entire Lipper universe of funds. Finally, the score is multiplied by the weighting of its general classification, as determined by the entire Lipper universe of funds. The category weightings for the one-year results in 2016 were general equity, 39.6%; mixed asset, 17.4%; world equity, 17.2%; taxable bond, 22.3%; tax-exempt bond, 3.5%.

<u>Information about Professional Pensions Investment Awards (PPIA) "Emerging Market Debt Manager of the Year" award</u>: The PPIA process is unique within the industry - with the shortlist being drawn up in association with Aon Hewitt, highlighting those asset managers who have demonstrated excellent performance and

relative growth in assets under management over the 12 months ending June 30, 2016 as well as strong performance over the past three years. Shortlisted entrants were then asked to complete a questionnaire detailing how they differentiate themselves from their peers - detailing the product and client service innovations they made over the 12 months ending June 30, 2016. The winners in each category were decided by a distinguished panel of industry judges.

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