

# Neuberger Berman Equity Income Inst NBHIX

A strong, low-risk value option.

## Morningstar's Take NBHIX

**Morningstar Rating** ★★★★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	○	Neutral

### Role In Portfolio

Core

### Fund Performance NBHIX

Year	Total Return (%)	+/- Category
YTD	13.73	1.27
2018	-5.45	3.08
2017	13.23	-2.72
2016	15.26	0.45
2015	-3.14	0.91

Data through 8-31-19

9-12-19 | by Nicholas Goralka

Neuberger Berman Equity Income is an effective value strategy with limited volatility, earning a Morningstar Analyst Rating of Silver.

Lead managers Sandy Pomeroy and Richard Levine have offered steady leadership since the strategy's October 2006 inception. They're joined by associate managers Will Hunter and Shawn Trudeau, both of whom were previously dedicated analysts. Along with Neuberger Berman's 42 central equity analysts, a network of the firm's other dividend-focused managers offers further support here, providing a strong foundation for this strategy.

This unique portfolio is partitioned into four sleeves to generate income while staying diversified. Utilities and REITs each occupy 15%-20% of the strategy's assets while only representing 2%-3% of the S&P 500. Convertible bonds, which the team use for downside protection, have constituted between

3% and 12% of the strategy's assets over the past five years. Other dividend-paying stocks constitute the bulk of this strategy's assets. These sleeve allocations haven't changed dramatically since 2011, but they can change swiftly, as when the convertible stake rose from 10% to 30% during the 2008 global financial crisis. The adjustment contributed to impressive outperformance in the drawdown from October 2007 to March 2009.

The managers' approach is disciplined and well executed. Their value-oriented portfolio targets a 7%-9% annualized return over a full market cycle with significantly less volatility than their S&P 500 benchmark. It's met this goal under Pomeroy and Levine: The strategy has gained 7.6% annualized through August 2019 with significantly muted volatility. The team uses bottom-up analysis to search for stable, financially prudent companies with strong dividend histories. Indeed, this strategy's 12-month yield consistently tops the benchmark and ranked in the 14th percentile of the large-value Morningstar Category in August 2019. To generate additional income, the team also tactically sells a small amount of options. While unusual, this strategy's total-return approach has shown its efficacy.

**Process Pillar** + Positive | Nicholas Goralka 09/12/2019

The disciplined execution of this thoughtful total-return approach merits a Positive Process rating.

This strategy's four-sleeve approach stands out as a unique option for investors looking to mitigate risk. The utilities and REIT sleeves represented 16.5% and 13.5%, respectively, of assets against just 2%-3% of the S&P 500 benchmark as of June 2019; other dividend-paying stocks constituted about half of the assets. Low-delta convertible bonds, which the team use for downside protection, have constituted 3%-12% of the portfolio over the last 10 years. This

defensive posturing causes considerable underweights in growthier sectors such as technology, where the portfolio's 8.1% allocation in July was far less than the benchmark's 21.8%. While the sleeve allocations haven't changed dramatically since 2011, the team has been agile in the past; convertible exposure rose from 10% to 30% during the 2008 financial crisis, contributing to outperformance in the drawdown from October 2007 to March 2009.

The team began monitoring broad risk factor exposures in the portfolio after the 2013 taper tantrum, when the managers were disappointed with their relative inactivity. They consider the US dollar, crude oil prices, credit conditions, and several other macro factors when balancing the portfolio, aiming to keep exposure to those factors as neutral as possible to avoid making top-down bets.

The four managers pursue yield and modest equity upside when constructing a value-oriented portfolio that targets 7%-9% annualized returns with muted volatility. The team prioritizes financial stability to ensure portfolio holdings can pay their dividends and coupon payments, consistently keeping the strategy's 12-month yield above that of the S&P 500 benchmark. The team looks for companies with healthy dividend yields, but they'll also hold a successful stock like Microsoft if price appreciation causes its dividend yield to decline.

The team will sell an equity position if its price target is reached or fundamentals deteriorate, but they also adjust positions for risk control. Because the convertible bond sleeve of the portfolio is used for downside protection, the team will sell any convertible that reaches a negative yield-to-maturity, and distressed and high-delta convertibles are avoided.

The team often finds attractive dividend-payers overseas. Over the last 10 years, the portfolio's foreign allocation has ranged from 6% to 33%, primarily consisting of developed-market multinationals with attractive free cash flow and sturdy dividends such as Siemens AG SIE. The managers will also sell covered calls and puts to provide additional income, but only 1%-2% of the portfolio will have options written against it at any time, minimizing the impact.

**Performance Pillar** + Positive | Nicholas Goralka 09/12/2019

This strategy's stable returns and muted risk profile earn it a Positive Performance rating.

Since its November 2006 inception, this strategy's 7.6% annualized gain through August 2019 placed in the large-value category's top quintile, while producing favorable risk-adjusted metrics on the back of the portfolio's particularly low beta: in August 2019, the strategy's 10-year beta of 0.67 ranked lower than 97% of its peers.

The managers' focus on financially healthy dividend payers has helped limit losses in faltering markets. During the 2008 crisis, the strategy's 22% calendar-year loss beat the S&P 500 by nearly 15 percentage points and placed among the category's top 2%. The strategy also had a top-decile 5% gain amid turbulence in 2011 and performed better than 85% of peers during the Nov. 3, 2015 – Feb. 11, 2016 correction.

However, this strategy's low-beta construction causes it to lag in stronger, growth-oriented markets. The strategy landed in the category's bottom quintile in 2012, 2013, and 2017

The fund's income orientation and convertible bond exposure can also leave it vulnerable to interest-rate spikes as seen in 2013's taper tantrum and the second half of 2016, when the 10-year Treasury's yield increased 120 basis points between July 8 and Dec. 15. The strategy performed poorly during that stretch, lagging more than four fifths of peers.

**People Pillar** + Positive | Nicholas Goralka 09/12/2019

Proven leadership and a veteran analyst team's support earn this strategy a Positive People rating.

Rich Levine and Sandy Pomeroy have successfully comanaged this strategy since its 2006 inception, and each has more than 30 years of industry experience. Levine joined Neuberger in 1989 after spending time as a financial planner, while Pomeroy came to the firm in 2005 following time at J.P. Morgan and Brown Brothers. Associate manager Will Hunter was promoted from an analyst role in 2012 after joining the firm in 2006. Hunter splits his time between this strategy and Neuberger Berman Dividend Growth NRDGX, which he also comanages. Associate manager Shawn Trudeau was also promoted from an analyst role in December 2018, more a reflection of his current contributions than a change in role.

The four managers rely on a broader team of veteran dividend-focused portfolio managers, as well as a centralized pool of 42 analysts as of August 2019. This strategy's dedicated personnel share a collaborative culture with those managing Neuberger Berman's other income strategies and are collectively dubbed The Messinger Group. The group convene weekly to review recent meetings and re-evaluate assumptions used in financial models. While this strategy's dedicated resources seem slim, a strong firm culture and supporting cast offer ample support.

**Parent Pillar** + Positive | Nicholas Goralka 11/08/2017

Neuberger Berman's steady approach to its evolution earns the firm a Positive Parent rating.

The firm, founded in 1939, emerged from the collapse of Lehman Brothers with new capabilities and a new ownership structure. Lehman's fixed-income and private-equity acquisitions became part of Neuberger Berman in the wake of Lehman's 2008 collapse, when chairman and CEO George Walker led employees in taking the more diversified firm private. Over 460 employees now own the business, which manages \$270 billion in assets.

Once known primarily as a U.S. value equities shop, the new Neuberger Berman sees growth opportunities in Europe and Asia. Clients in those regions own 30% of the firm's assets under management. Although solely an investment manager, its retail mutual funds make up only one fifth of business. The rest is institutional and private client money, long bastions of the firm's identity.

The firm has lifted a few teams out of other firms to expand its circle of competence, including a talented emerging-markets-debt team from ING in 2013. While the firm has been selective in its acquisitions, its hands-off approach lets the new teams do what they do best. Meanwhile, the firm's partnership structure allows these new teams to integrate more fully into Neuberger by becoming managing partners over time.

**Price Pillar** ● Neutral | Nicholas Goralka 09/12/2019

Fees across the mutual fund industry have declined, while this strategy's net expense ratios have barely budged. Its Price Pillar remains Neutral because its latest fees were roughly in line with most rivals'.

The Institutional shares, which hold nearly three fourths of the fund's assets, charge 0.69%. That undercuts the median for similarly sold funds by only 3 basis points, far from a bargain.

The fees charged by the A, C, and R3 share classes are similarly uninspiring.

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The Morningstar ratings for Neuberger Equity Income Fund – Institutional Class for the overall, 3-, 5-, and 10-year periods ended September 30, 2019 were 3 stars (out of 1,090 large value funds), 3 stars (out of 1,090 large value funds), 4 stars (out of 944 large value funds), and 3 stars (out of 693 large value funds). For each retail mutual fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a retail mutual fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. Ratings are ©2019 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Morningstar has awarded the fund a silver medal. Fewer than 10% of U.S. open-ended funds have been awarded medalist ratings (effective 10/9/2017). The Morningstar Analyst Rating is the summary expression of Morningstar's forward-looking analysis of a fund. Morningstar analysts assign the ratings on a five-tier scale with three positive ratings of Gold, Silver and Bronze, a Neutral rating and a Negative rating. The Analyst Rating is based on the analyst's conviction in the fund's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over the long term. If a fund receives a positive rating of Gold, Silver or Bronze, it means Morningstar analysts think highly of the fund and expect it to outperform over a full market cycle of at least five years. The Analyst Rating is not a market call, and it is not meant to replace investors' due-diligence process. It cannot assess whether a fund is the right fit for a particular portfolio and risk tolerance. It is intended to supplement investors' and advisors' own work on funds and, along with written analysis, provide forward-looking perspective into a fund's abilities. It picks up where commonly watched measures of the past leave off.

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

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 to the catalyst differently than expected.

In general, a convertible security is subject to the market risks of stocks when the underlying stock's price is high relative to the conversion price and is subject to the market risks of debt securities when the underlying stock's price is low relative to the conversion price.

To the extent that the Fund invests in securities or other instruments denominated in or indexed to foreign currencies, changes in currency exchange rates could adversely impact investment gains or add to investment losses.

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.

Foreign securities involve risks in addition to those associated with comparable U.S. securities.

Investing in emerging market countries involves risks in addition to and greater than those generally associated with investing in more developed foreign countries.

A decline in the Fund's average net assets during the current fiscal year due to market volatility or other factors could cause the Fund's expenses for the current fiscal year to be higher than the expense information presented.

In general, the value of investments with interest rate risk, such as income-oriented equity securities that pay dividends, will move in the direction opposite to movements in interest rates. If interest rates rise, the value of such securities may decline.

An individual security may be more volatile, and may perform differently, than the market as a whole.

To the extent the Fund invests in securities of small-, mid-, or large-cap companies, it takes on the associated risks.

Markets may be volatile and values of individual securities and other investments, including those of a particular type, may decline significantly in response to adverse issuer, political, regulatory, market, economic or other developments that may cause broad changes in market value, public perceptions concerning these developments, and adverse investor sentiment or publicity.

The Fund and its service providers, and your ability to transact with the Fund, may be negatively impacted due to operational matters arising from, among other problems, human errors, systems and technology disruptions or failures, or cybersecurity incidents.

The use of options involves investment strategies and risks different from those associated with ordinary portfolio securities transactions. If a strategy is applied at an inappropriate time or market conditions or trends are judged incorrectly, the use of options may lower the Fund's return. There can be no guarantee that the use of options will increase the Fund's return or income. In addition, there may be an imperfect correlation between the movement in prices of options and the securities underlying them and there may at times not be a liquid secondary market for various options.

Preferred securities are subject to issuer-specific and market risks applicable generally to equity securities, however, unlike common stocks, participation in the growth of an issuer may be limited.

Some countries, including the U.S., are considering the adoption of more protectionist trade policies, moving away from the tighter financial industry regulations that followed the 2008 financial crisis. The U.S. is also said to be considering significant new investments in infrastructure and national defense which, coupled with the prospect of lower federal taxes, could lead to sharply increased government borrowing and higher interest rates.

The Fund may experience periods of heavy redemptions that could cause the Fund to sell assets at inopportune times or at a loss or depressed value.

REIT and other real estate company securities are subject to risks similar to those of direct investments in real estate and the real estate industry in general. The value of REIT common shares may decline when interest rates rise.

Risk is an essential part of investing. No risk management program can eliminate the Fund's exposure to adverse events; at best, it may only reduce the possibility that the Fund will be affected by such events, and especially those risks that are not intrinsic to the Fund's investment program.

To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors.

Utility companies are sensitive to changes in interest rates and other economic conditions, government regulation, uncertainties created by deregulation, environmental protection or energy conservation policies and practices, the level and demand for services, and the cost of technological advances and the possible inability to implement them at opportune times.

The Fund may not be able to sell an investment at the price at which the Fund has valued the investment.

Value stocks may remain undervalued or may decrease in value during a given period or may not ever realize what the portfolio management team believes to be their full value.

#### NB Equity Income Fund - Total Returns

For Periods Ended September 30, 2019

At NAV	Average Annualized							Expense Ratios <sup>3</sup>
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception <sup>^</sup>	Gross
NB Equity Income Fund Institutional Class <sup>1</sup>	1.99	16.53	6.43	9.04	7.53	9.97	7.71	0.69
NB Equity Income Fund Class A <sup>1</sup>	1.83	16.18	5.97	8.63	7.13	9.55	7.35	1.05
NB Equity Income Fund Class C <sup>1</sup>	1.64	15.63	5.20	7.81	6.36	8.75	6.67	1.80
NB Equity Income Fund Class R3 <sup>1</sup>	1.76	16.00	5.69	8.32	6.84	9.30	7.20	1.33
<b>With Sales Charge</b>								
NB Equity Income Fund Class A <sup>1</sup>	-4.01	9.53	-0.11	6.52	5.87	8.90	6.86	
NB Equity Income Fund Class C <sup>1</sup>	0.64	14.63	4.21	7.81	6.36	8.75	6.67	
S&P 500 <sup>®</sup> Index <sup>2</sup>	1.70	20.55	4.25	13.39	10.84	13.24	8.47	
Morningstar US Fund Large Value Average*	1.52	16.43	1.93	9.43	7.30	10.66	N/A	

Performance data quoted represent past performance, which is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Results are shown on a "total return" basis and include investment of all dividends and capital gains distributions. Current Performance may be higher or lower than the performance given. For performance data current to the most recent month-end, please visit [www.nb.com/performance](http://www.nb.com/performance).

Average Annual Total Returns with sales charge reflect deduction of current maximum initial sales charge of 5.75% for Class A shares and applicable contingent deferred sales charges (CDSC) for Class C shares. The maximum CDSC for Class C shares is 1%, which is reduced to 0% after 1 year.

The inception date for Neuberger Berman Equity Income Fund Class A, Class C and Institutional Class is 6/9/08. Performance of the Class A, Class C and Institutional Class prior to that date is that of the Trust Class, which has an inception date of 11/2/2006 and ceased operations on 6/9/08.

1. The S&P 500<sup>®</sup> Index is widely regarded as the standard for measuring large-cap U.S. stock market performance and includes a representative sample of leading companies in leading industries. Please note that indices do not take into account any fees and expenses of investing in the individual securities that they track, and that individuals cannot invest directly in any index. Data about the performance of this index are prepared or obtained by Neuberger Berman Investment Advisers LLC and include reinvestment of all dividends and capital gain distributions. The Portfolio may invest in many securities not included in the above described index.
2. Morningstar Average is the average of all the funds in the Morningstar category. The Morningstar category identifies funds based on their actual investment style as measured by their underlying portfolio holdings (portfolio statistics and compositions over the last three years). This category was chosen for comparison purposes because the portfolio compositions of the funds in this category are similar to the composition of the fund over this period.
3. Gross expense represents the total annual operating expenses that shareholders pay (after the effect of fee waivers and/or expense reimbursement). The Fund's Investment Manager (the "Manager") contractually caps certain direct expenses of the Fund (excluding interest, taxes, brokerage commissions, acquired fund fees and expenses, dividend and interest expenses relating to short sales, and extraordinary expenses, if any; consequently, total (net) expenses may exceed the contractual cap) through 08/31/2022 for Institutional Class at 0.80%, 1.16% for Class A, 1.91% for Class C and 1.41% for Class R3 (each as a % of average net assets). As of the Fund's most recent prospectuses, the Manager was not required to waive or reimburse any expenses pursuant to this arrangement. Absent such arrangements, which cannot be changed without Board approval, the returns may have been lower. Information as of the most recent prospectuses dated 12/6/18, as amended and supplemented.

For the companies cited in this article, the percent of holdings as of 9/30/19 in Neuberger Berman Equity Income Fund are: Microsoft, 1.6%, and Siemens AG SIE, 0.0%.

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