PURPOSE-DRIVEN PORTFOLIOS: BUILDING YOUR PRACTICE WITH SUSTAINABLE INVESTING

In a world of robo-advisors and undifferentiated passive index investing the ability to connect with clients on a personal level has never been more crucial. Sustainable investing, or SRI, could help. SRI is an area that is seeing strong growth, as investors—particularly Millennials and women—have expressed a consistent interest in tying their values to their portfolios. Importantly, research has shown that attention to environmental, social and governance (ESG) criteria has generally helped company performance, supporting the investment rationale for this promising area.

ESG: A GROWING FORCE IN INVESTING

With origins in the 1960s, the surge in SRI/ESG has been building over the past two decades. Between 1995 and year-end 2015, SRI assets under management in the U.S. grew from $639 billion to more than $8.72 trillion, accounting for one out of every five dollars under professional management. Some 1,002 investment funds incorporate ESG criteria into the investment decision-making process, up from 55 in 1995.[1]

MILLENNIALS ON A MISSION

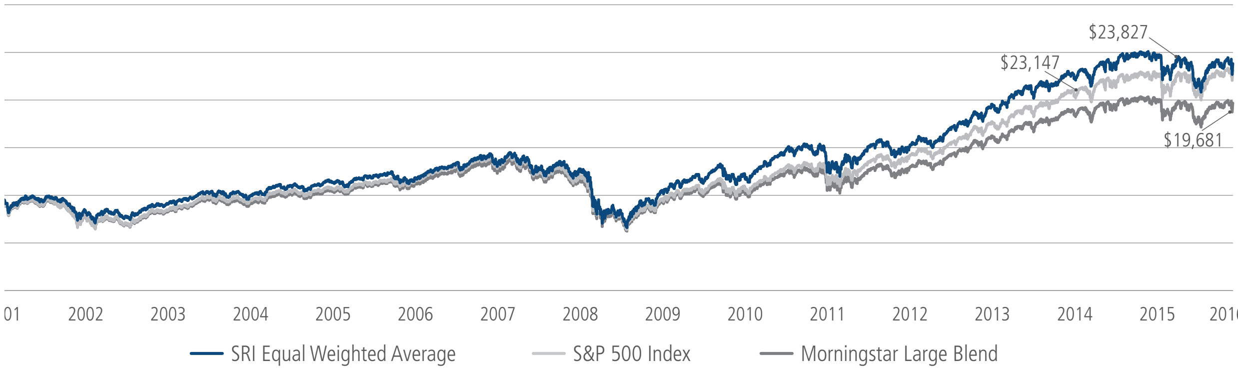
Millennials may have fewer investable assets today than their more mature counterparts, but that is changing as they accumulate wealth through their own efforts and potentially from any inheritance from their parents.[2] Both as consumers and investors, Millennials show particular interest in working for, buying from and investing in companies that score well on sustainability factors. A 2015 survey found that Millennials are almost twice as likely to invest in companies or funds that target social or environmental outcomes, and are more than twice as likely to exit an investment due to objectionable corporate behavior.[3]

WOMEN'S ESG AFFINITY

Women, meanwhile, are also showing strong interest in SRI/ESG. A 2013 high-net-worth survey found that 65% of women feel it is important to consider the positive or negative social, political and/or environmental impact of the companies in which they invest, compared with 42% of men. And 56% of women reported that they would be willing to trade some performance for investing in companies with a greater positive social impact, compared with 44% of men.[4] As women often serve as joint voices or sole decision-makers in the management of household finances, their interest in ESG issues is likely to continue to be a factor in the growth of SRI strategies.

SUSTAINABILITY: A POSITIVE FACTOR IN LONG-TERM RETURNS

Growth of $10K of All U.S. Actively Managed Socially Responsible Equity Funds versus S&P 500 Index and Peer Average



Source: Morningstar, Forum for Sustainable and Responsible Investment. Data Time Period: 7/1/2001 – 6/31/2016. Indices are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

PERFORMANCE POINTS THE WAY

While sustainability factors do not measure financial performance, there is a growing body of evidence that they can positively impact company results:

- Over a 15-year period, actively managed SRI equity funds in the U.S. generally outperformed their peer group and the S&P 500 on an absolute and risk-adjusted basis (see display).

- Research conducted by MSCI on two higher tracking error global strategies constructed using ESG data over an eight-year period also concluded that it was possible to improve returns on both an absolute and risk-adjusted basis by incorporating ESG factors into the investment process.[5]

- A 2012 Harvard Business School study found that high-sustainability companies—those that adopt rigorous sustainability policies such as giving the board of directors responsibility for sustainability, tying executive compensation to ESG metrics and auditing and disclosing this non-financial data—outperformed low-sustainability companies on measures of stock market and accounting performance.[6]

MAKING THE CONNECTION WITH CLIENTS

Exploring client interest in SRI/ESG could open doors for them, and cement your role as a valued advisor. Given Millennials' interest in the segment, it also could help solve the intergenerational puzzle—how to extend that relationship beyond your current clients to the broader family. As the universe of SRI products grows, the available choices are likely to increase. Neuberger Berman long has been on the forefront of incorporating ESG factors into the investment process, going back to our first application of "avoidance screens" in the mid-1960s to the launch of our socially responsive investment team in 1989. In our view, the SRI/ESG segment is one in which active managers can particularly distinguish themselves—not just through investment screens but by employing fundamental search criteria that identify companies differentiated by both business prospects and the relevant social/governance factors.

Neuberger Berman offers a Socially Responsive mutual fund and separately managed account. For more information on Socially Responsive Investing please visit www.nb.com/sri.

[1]U.S. SIF Foundation, "Report on Sustainable and Responsible Investing Trends in the United States," 2016.
[2]Accenture, "The 'Greater' wealth transfer: Capitalizing on the intergenerational shift in wealth," 2012.
[3]Morgan Stanley Institute for Sustainable Investing, "Sustainable Signals: The Individual Investor Perspective," February 2015.
[4]U.S. Trust, "Insights on Wealth and Worth," 2013. Survey of 711 adults nationwide with investable assets of at least $3 million.
[5]MSCI Research, "Can ESG Add Alpha," June 2015.
[6]Robet Eccles, Ionannis Ioannou, George Sefaphim, Harvard Business School, "The Impact of Corporate Sustainability on Organizational Processes and Performance," 2012. Study employed a matched sample of 180 companies.

An investor should consider Neuberger Berman Socially Responsive 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, which can be obtained by calling 877.628.2583. Please read it carefully before making an investment.

The Fund may underperform similar funds that do not have a social policy because the Fund's social policy could cause it to sell or avoid stocks that subsequently perform well.

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SRI Equal Weighted Average: Consists of all U.S. actively managed socially responsible equity funds, as identified by Morningstar and the Forum for Sustainable and Responsible Investment, with a track record dating back to 2001.

Morningstar Large Blend: Large-blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

S&P 500: Consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance. As of September 16, 2005, S&P switched to a float-adjusted format, which weights only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets.

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