

Neuberger Berman Strategic Income I NSTLX

Solid process, bench, and performance.

Morningstar's Take NSTLX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	+	Positive

Role In Portfolio

Core

Fund Performance NSTLX

Year	Total Return (%)	+/- Category
YTD	-0.80	-0.50
2017	6.90	0.83
2016	6.46	-1.07
2015	-1.89	0.28
2014	4.45	0.82

Data through 8-31-18

9-04-18 | by Maciej Kowara

There are personnel changes coming to Neuberger Berman Strategic Income but nothing serious enough to make us rethink its Morningstar Analyst Rating of Silver.

Andy Johnson, the fund's lead manager, who started at the fund in 2009, has decided to retire sometime around December 2018. This is certainly a loss for Neuberger Berman, but, given the firm's collaborative approach to investing, we don't expect things to change all that much. Johnson's longtime colleague and comanager David Brown has taken over as head of Global Investment Grade, which had been Johnson's job, and the rest of the team has remained intact, apart from one addition. Ashok Bhatia, previously at Wells Fargo's Menomonee Falls, Wisconsin, fixed-income unit, joined Neuberger in December 2017 and became a comanager here as well. Of the fund's other four comanagers, three started in 2009 and one, Tom Marthaler, in 2013. The team is helped out by one of

the industry's largest research teams, which can credibly cover the diverse asset classes the fund invests in.

The fund's process is also well thought out and reasonable. It starts with views on the economy, business cycle, and market valuations, which factor into asset-class specialists' formulation of projected market return distributions. These then get fed into a quant model, which returns an efficient frontier based on those inputs, and the management team qualitatively picks a spot on that frontier that best agrees with its read on the markets and how much risk it is willing to take in a given environment. Once these allocations to various sectors have been determined, the ball gets handed over to research analysts for security selection.

The fund's returns strongly suggest the system works well. The fund aims to be slightly more conservative than its average multisector peer--its credit exposure is typically less aggressive--but its returns for the 10 years ended July 31, 2018, beat two thirds of those (unique share-class) offerings.

The fund's low fees add to its appeal.

Process Pillar + Positive | Maciej Kowara

09/04/2018

Both top-down and the bottom-up aspects of the fund's investment process are highly systematic, which helps it earn a Positive Process Pillar rating.

The fund combines top-down and bottom-up considerations but has developed a highly systematic approach to both. On the top-down side, sector heads take macro inputs--economic, business cycle, rates, and political considerations--and build a projected distribution of their sectors' future returns. These may be rough estimates but they force a structured approach. The results then get fed into

an optimizer, which produces an efficient frontier based on those assumptions. The management team then inspects the results and qualitatively picks what it considers the best spot on the frontier, meaning how much risk it is willing to take in a given market environment. Once this asset-allocation decision has been made, the job of filling the sector sleeves goes to specific teams, which, at least on the credit front, follow their own systematic process. Neuberger Berman has developed what it calls its "Credit Best Practices Checklist" under which all potential positions must be evaluated according to a preset slate of questions. These considerations are standard--industry health, business fundamentals, cash flows, liabilities, liquidity, among others--but the fact that all individual-issue decisions follow the same routine makes for a repeatable process.

It is usually a somewhat more conservative member of the multisector-bond Morningstar Category and benchmarks itself off the investment-grade-only Bloomberg Barclays US Aggregate Bond Index, but it is unmistakably not a core investment-grade offering. It can hold a sizable below-investment-grade position; as of June 30, 2018, it amounted to nearly 40%--toward the high end of its historical exposures. Almost half came from corporate high yield (18%); the rest from parts of its nonagency mortgage-backed securities position (9%, including 6% in credit risk transfer securities), bank loans (5%), and emerging markets (13%). These out-of-benchmark exposures share similar rationale with this overweight to BBB rated corporates: According to management, all have underpinnings of good fundamentals. The team expects some mean reversion in global economic growth, with the U.S. poised to slow down and the rest of the world to pick up, but it sees no serious economic concerns on the horizon. Its more traditional exposures--nominal Treasuries (2%), Treasury Inflation-Protected Securities (11%), and agency MBS (24%, mostly via TBA rolls)--provided ballast to the out-of-index portion of the fund. The TIPS allocation is the highest it has ever been in the fund's history. Management justifies that by its anticipation that TIPS should act

as a good diversifier if inflation picks up or the economy disappoints.

Performance Pillar + Positive | Maciej Kowara
09/04/2018

The fund's performance has generally been good and its sources diversified. It thus deserves a Positive Performance Pillar rating.

The fund's more recent--three- and five-year--performance relative to its multisector (unique share-class) peers has been middling, but its 10-year record stands out. As of July 31, 2018, its 6.4% return beat two thirds of its peers while it experienced less volatility than the category norm. Its 10-year Sharpe ratio, which measures volatility-adjusted returns, was the third best in that 43-strong group. Much of this good record stems from management's timely decision to reduce exposure to high yield in the runup to the financial crisis; the fund finished 2008 with a return of 4.03%, one of the best showings in a category that on average declined 11% that year.

But in general the fund pays less attention to its peers and more to beating its--admittedly investment-grade-only--benchmark without incurring unacceptable levels of volatility. Firm-provided performance attribution shows that the biggest contributors to beating the index since 2008 were, from highest to lowest, asset-backed securities and commercial mortgage-backed securities, investment-grade corporates (both sector and security selection), nonagency MBS, and bank loans. The fund showed no big detractors; the biggest negative contributors were emerging markets and duration/yield curve, but they were only marginally problematic.

People Pillar + Positive | Maciej Kowara
09/04/2018

This fund's manager may be leaving, but Neuberger Berman's fixed-income organization is deep and experienced. The fund thus retains a Positive People Pillar rating.

Andy Johnson, a 30-year veteran of Neuberger Berman and this fund's lead manager for the past 10

years, has decided to retire sometime toward the end of 2018. We don't expect his departure to change things much at this already team-managed fund. Johnson had also been head of global investment grade, and that role is now being taken over by David Brown, a comanager of 10 years here, as well. Three other comanagers remain in place: Brad Tank (Neuberger Berman's fixed-income CIO), Thanos Bardas, and Tom Marthaler. In the wake of Johnson's decision to retire, the firm added a senior person to the team: Ashok Bhatia, previously at Wells Fargo's Menomonee Falls fixed-income unit, joined Neuberger in December 2017. Beneath this robust management team, there are more than 100 analysts and managers in Neuberger Berman's fixed-income group. The whole organization is thus extremely well-resourced.

To round it all off, the managers' interests are aligned with shareholders: Apart from newcomer Bhatia, they have substantial amounts of their own money invested in the fund and have stakes in Neuberger Berman itself, a 100% employee-owned firm.

Parent Pillar + Positive | Maciej Kowara
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 + Positive | Maciej Kowara
09/04/2018

In the wake of the fund's December 2016 fee reductions, all share classes apart from the tiny Trust share class are now priced below average relative to their distribution channels. The fund thus earns a Positive Price Pillar rating.

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An investor should consider the 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.

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Shares in the Fund may fluctuate, sometimes significantly, based on interest rates, market conditions, credit quality and other factors. In a rising interest rate environment, the value of an income fund is likely to fall. The market's behavior is unpredictable and there can be no guarantee that the Fund will achieve its goal. 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. The Fund's yield and share price will fluctuate in response to changes in interest rates. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. To the extent the Fund invests more heavily in particular bond market sectors, its performance will be especially sensitive to developments that significantly affect those sectors. Lower rated debt securities (also known as "junk bonds") involve greater risks and may fluctuate more widely in price and yield, and carry a greater risk of default, than investment grade debt securities. They may fall in price during times when the economy is weak or is expected to become weak.

Foreign securities involve risks in addition to those associated with comparable U.S. securities, including exposure to less developed or less efficient trading markets; social, political or economic instability; fluctuations in foreign currencies; nationalization or expropriation of assets; settlement, custodial or other operational risks; and less stringent auditing and legal standards. These risks may be more pronounced for emerging market securities, which involve additional risks and may be more volatile and less liquid than foreign securities tied to more developed economies. The Fund's performance could be affected if borrowers pay back principal on certain debt securities, such as mortgage- or asset-backed securities, before or after the market anticipates, shortening or lengthening their duration and could magnify the effect of rate increases on the security's price. When-issued/delayed-delivery securities can have a leverage-like effect on the Fund, which may increase fluctuations in the Fund's share price and may cause the Fund to liquidate positions when it may not be advantageous to do so.

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. Derivatives may be difficult to value and may at times be highly illiquid, and the Fund may not be able to close out or sell a derivative position at a particular time or at an anticipated price. The Fund's investments in derivatives create counterparty risk.

The Fund may also invest in senior loans, which also may be rated below investment grade. No active trading market may exist for many loans, loans may be difficult to value and many are subject to restrictions on resale, which may result in extended trade settlement periods and may prevent the Fund from obtaining the full value of a loan when sold.

The Fund normally executes an above-average amount of trading and has a high portfolio turnover rate, which may increase the Fund's transaction costs and may adversely affect performance.

NB Strategic Income Fund - Total Returns

For Periods Ended June 30, 2018

At NAV	Average Annualized							Expense Ratios ³	
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception ^A	Gross	Total (Net) Expense
NB Strategic Income Fund Institutional Class ¹	-0.74	-1.71	0.39	2.95	3.35	6.25	6.43	0.63	0.59
NB Strategic Income Fund Class A ¹	-0.84	-1.90	-0.01	2.54	2.94	5.83	6.14	1.02	1.00
NB Strategic Income Fund Class C ¹	-1.01	-2.24	-0.71	1.82	2.23	5.08	5.61	1.76	1.70
NB Strategic Income Fund Class R6 ¹	-0.72	-1.68	0.46	3.02	3.41	6.28	6.45	0.56	0.52
NB Strategic Income Fund Trust Class ¹	-0.83	-1.88	0.13	2.62	2.99	5.89	6.16	1.01	0.95
With Sales Charge									
NB Strategic Income Fund Class A ¹	-5.08	-6.10	-4.23	1.06	2.05	5.37	5.83		
NB Strategic Income Fund Class C ¹	-1.99	-3.21	-1.68	1.82	2.23	5.08	5.61		
Bloomberg Barclays U.S. Aggregate Bond Index ²	-0.16	-1.62	-0.40	1.72	2.27	3.72	3.79		

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 reinvestment 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. Average Annual Total Returns with sales charge reflect deduction of current maximum initial sales charge of 4.25% 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.

^AThe inception dates for Neuberger Berman Strategic Income Fund Institutional Class and Trust Class are 7/11/03 and 4/2/07, respectively. The inception date for the Class A and C shares is 12/20/07. The inception date for Class R6 shares is March 15, 2013. Performance prior to the inception date of the Trust Class, Class A, Class C and Class R6 is that of the Institutional Class, adjusted to reflect applicable sales charges but not class-specific operating expenses. The date used to calculate benchmark performance and 30-day yield is that of the Institutional Class. Because the Fund had a different goal and strategy, which included managing assets by an asset allocation committee, prior to February 28, 2008, its performance during that time might have been different if current policies had been in effect.

²Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Indices do not take into account any fees and expenses of investing in the individual securities that they track and individuals cannot invest directly in any index. Performance data of this index are prepared or obtained by the Manager and include reinvestment of all dividends and capital gain distributions. The Fund may invest in many securities not included in the above-described index.

³Total (net) 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 has contractually undertaken to waive and/or reimburse certain fees and expenses of the Fund so that the total annual operating expenses (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 10/31/2021 for Institutional Class at 0.59%, Class A at 0.99%, Class C at 1.69% and through 10/31/2021 for Trust Class at 0.94% and Class R6 at 0.52% (each of average net assets). Absent such arrangements, which cannot be changed without Board approval, the returns may have been lower. Information as of the most recent prospectus dated February 28, 2018, as amended and supplemented.

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.

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. The Morningstar ratings for Neuberger Berman Strategic Income Fund – Institutional Class for the 3-, 5- and 10-year periods ended June 30, 2018 was 3 stars (out of 267 Multi-Sector Bond funds), 3 stars (out of 208 Multi-Sector Bond funds) and 5 stars (out of 125 Multi-Sector Bond funds), respectively.

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