Climate-related Corporate Strategy

February 2022
Neuberger Berman, founded in 1939, is a private, independent, employee-owned investment manager. The firm manages a range of strategies—including equity, fixed income, quantitative and multi-asset class, private equity, real estate and hedge funds—on behalf of institutions, advisors and individual investors globally. With offices in 25 countries, Neuberger Berman’s diverse team has over 2,400 professionals. For eight consecutive years, the company has been named first or second in Pensions & Investments Best Places to Work in Money Management survey (among those with 1,000 employees or more). In 2020, the PRI named Neuberger Berman a Leader, a designation awarded to fewer than 1% of investment firms for excellence in Environmental, Social and Governance (ESG) practices. The PRI also awarded Neuberger Berman an A+ in every eligible category for our approach to ESG integration across asset classes. The firm manages $460 billion in client assets as of December 31, 2021. For more information, please visit our website at www.nb.com.

*See back cover for disclosure.*
I. INTRODUCTION

Neuberger Berman recognizes the impact of climate change and the urgent need to accelerate the sustainable transition toward global net-zero emissions. We also understand that for many of our clients the environmental impact of their portfolio is an increasingly important consideration in conjunction with investment performance.

We are committed to understanding our climate-related risks and opportunities, and managing risks that are material to our business. We have joined the Net Zero Asset Managers Initiative and committed to investing aligned with net-zero emissions by 2050 or sooner.

Chairman and Chief Executive Officer (CEO) George Walker stated: “We believe that joining the Net Zero Asset Managers Initiative is a natural extension of our leadership in the climate space. Climate change is real and will impact risk and return across industries and asset classes. As an asset manager with a long-term perspective, we believe it is essential to manage climate risks and maximize climate opportunities across a multitude of scenarios by aligning our investment process with net-zero emissions by 2050 or sooner. We already manage net-zero mandates for climate-focused clients and look forward to designing leading climate-related investment solutions in partnership with our management teams and clients globally.”

This document describes Neuberger Berman’s climate-related corporate strategy in line with voluntary disclosure recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). Neuberger Berman is committed to integrating climate-related factors into our business and investment risk assessments. We plan to continue to align our monitoring of material climate-related risks with the recommendations outlined by the TCFD.

This climate-related corporate strategy will be reviewed annually and amended as needed.

“As an asset manager with a long-term perspective, we believe it is essential to manage climate risks and maximize climate opportunities across a multitude of scenarios by aligning our investment process with net-zero emissions by 2050 or sooner.”

— GEORGE WALKER
Chairman and Chief Executive Officer

SUMMARY:

- Our climate-related corporate strategy covers investment risk and opportunity, as well as the operational resilience of our business
- We seek to protect our clients’ assets from material climate-related risks and to identify opportunities as appropriate on behalf of our clients, including net-zero investment solutions
- We plan to continue to innovate and seek to improve our investment approach, including through expanded use of scenario analysis and targeted climate engagement
II. GOVERNANCE

1. Oversight
Neuberger Berman’s Board of Directors (the Board) oversees climate-related risks as a subset of all enterprise-wide risks.

The Board reviews climate-related enterprise risk and the firm’s approach to climate-related risks and opportunities at least once a year.

On November 2, 2021, Neuberger Berman announced we joined the Net Zero Asset Managers Initiative. The Board will be periodically updated on the firm’s progress on its commitment to support investing aligned with net-zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

2. Senior Management
Senior management is responsible for overseeing the firm’s operations, risk department and investment professionals, with climate-related risks and opportunities as a subset of overall management of the enterprise. The CEO is ultimately responsible for updating the Board on material updates and relevant climate-related risks and opportunities, and is supported by the Head of ESG Investing, Chief Risk Officer (CRO), Chief Investment Officers (CIOs) and Chief Operating Officer (COO).

The Head of ESG Investing works with the CIOs and the CRO to ensure appropriate climate expertise and analytical capabilities are in place to support portfolio managers and research analysts in understanding the potential implications of climate change for security analysis and portfolio construction.

As part of the net-zero commitment, the CIOs and the ESG Investing team will work with portfolio managers and research analysts to ensure designated assets are managed in line with a net-zero goal, and will review the implementation and performance of these mandates over time. The CIOs, Head of ESG Investing and CRO will monitor the implementation of the net-zero investment strategy, and report on the performance of the net-zero alignment against set targets. We will be client-driven in how we help our portfolio managers incorporate net-zero alignment into investment processes.

3. Portfolio Managers and Investment Teams
We believe ESG analysis should be based on financial materiality and customized by asset class and investment style by systematically modelling climate-related risk and opportunity.
This approach enables each portfolio manager to integrate climate-related risk analysis into her/his respective investment process in a manner they deem appropriate for investment decision-making and consistent with each client mandate. We believe that climate change is a risk and opportunity for all strategies, but the degree and manner by which it may be financially material will vary among asset classes, individual strategies, and investment time horizons. Therefore, depending on the holding period or account objective the short-, medium- and long-term risks will be considered accordingly.

Likewise, we understand that net-zero implementation will vary according to asset class, investment strategy and client demands. In accordance with the principle of ‘fair share’, we have adopted a capability approach in the public markets context, meaning we encourage each net-zero committed portfolio manager to reduce financed emissions to the maximum extent of each sector’s technological capability. We recognize that portfolio managers’ ability to implement net zero will be affected by their portfolio’s carbon footprint, regional focus including variation among countries’ Nationally Determined Contributions (NDCs), and sectoral composition. Thus, a uniform approach is not sufficient to ensure credible net-zero alignment.

In recognition of the need for a differentiated sector-level approach, we are bringing together our Global Equity and Fixed Income research teams to jointly determine sector-level alignment indicators, which will then be used by investment teams to measure progress on net-zero alignment over time. This proprietary framework will help us assess net-zero transition plans from the top down and bottom up, considering company and sector-level nuances. It will go beyond assessing company emissions data by seeking to capture real-time insights and expertise from our research analysts to generate a forward-looking view on each company’s alignment with net zero.

As part of its broader oversight of the firm’s ESG Policy, the ESG Committee is responsible for providing overall oversight of the integration of climate-related risks and opportunities by portfolio managers, including net-zero alignment. The ESG Investing team is responsible for working with portfolio managers on the implementation of the ESG Policy, the integration of climate-related risks and opportunities, and net-zero alignment.

4. Advisors

Neuberger Berman has established an ESG Advisory Council to enhance our ESG leadership position and elevate our understanding of key sustainability themes. The council consists of respected thought leaders across the ESG landscape whose role will be to provide expert external advice, without providing investment or voting recommendations. Given our commitment to net zero, the council’s initial focus is to provide expertise and guidance as we implement our net-zero methodologies and frameworks.
III. STRATEGY

Our climate-related corporate strategy is based on three core pillars:

• Climate-related Risk Management: Integrating climate-related risks into our overall risk management framework across investments and business operations

• Climate-related Opportunities: Identifying attractive investment opportunities related to climate change and innovating new investment solutions for our clients

• Communicating Metrics and Targets: Communicating to clients and stakeholders about climate-related risks and opportunity, including monitoring and reporting relevant metrics and targets

1. Climate-related Risk Management

We can segment climate-related risks into two categories:

• Transition Risk: The global transition to a low-carbon economy will cause policy, legal, technology and market shifts as the world addresses the mitigation and adaptation requirements related to climate change over the short, medium and long term. We have identified four types of risks that could potentially affect our business:
  – Investment value chain
  – Financial impact due to policy risks
  – Financial impact due to legal risks
  – Reputational risks

• Physical Risk: Physical risks resulting from climate change will be both event-driven (acute) and longer-term shifts (chronic) in climate patterns. These risks may have direct financial implications, such as through weather-related damage to our assets, as well as indirect impacts such as through disruption to our operations via our supply chain.

Transition and physical risk may affect both (a) our investment portfolios and (b) our business operations.

a) Investment portfolios

  i. Scenario Analysis: Neuberger Berman has implemented top-down scenario analysis for modelling transition and physical risks at the company level in line with the recommendations of the TCFD. Multiple scenarios estimate the impact of warming average temperatures at levels of less than 1.5°C and less than 2°C, for example. Different securities and companies will have varying levels of exposure to physical risk depending on the nature of their businesses, real asset holdings and locations of key assets. Additionally, the analysis considers potential regulatory costs, as well as technology opportunities related to low-carbon technology solutions for companies that need to comply with GHG reduction requirements. This scenario analysis currently focuses on our listed public equity and corporate-issuer fixed income holdings in the firm’s U.S. mutual funds and international UCITS range. The portfolio analytics output helps us understand the Climate Value-at-Risk for the portfolio.
Climate considerations are becoming more important for investors across asset classes. At Neuberger Berman, we do not consider sovereign issuers an exception to this rule. Given the relationship between ESG and credit ratings, we believe that sovereign sustainability needs to be holistically assessed in order to better align it with the more established concept of corporate sustainability and counter the challenges of data limitations. We have created a differentiated approach to assessing sustainability for sovereign issuers which seeks to evaluate and measure a country’s vulnerability and readiness to adapt to climate change. This analysis is centered on understanding the risks to governments, businesses and communities that will be exacerbated by climate change, such as overcrowding, food insecurity, inadequate infrastructure, and civil conflict. We also assess territorial net GHG emissions, adjusted for national income and GDP.

In private markets, we apply a materiality-based assessment to conduct targeted climate analysis for certain direct investments. Depending on the material risks posed, we have the ability to analyze probability models to assess physical climate risk or to engage with private equity managers on underwriting assumptions related to transition-related climate risk exposure for higher carbon intensity sectors.

The conclusions drawn from this analysis at both the corporate and sovereign level can be used by portfolio managers to more accurately price securities in their investment selection process. Additionally, portfolio managers can use this information in the construction of more resilient portfolios that can help protect client value over the long term.

**ii. Thermal Coal Involvement Policy:** Consistent with our fiduciary duty to clients to provide attractive investment returns while mitigating risk, Neuberger Berman is committed across all of our co-mingled U.S. registered mutual funds, exchange traded funds, and closed-end funds and international UCITS range, to subject investments in companies that have more than 25% of revenue derived from thermal coal mining or are expanding new thermal coal power generation to formal review and approval by Neuberger Berman’s Environmental, Social and Governance (“ESG”) Committee before the initiation of any new investment positions in the securities of such companies. The Thermal Coal Involvement Policy does not apply to subadvised funds.
iii. **Engagement Efforts:** We use engagement as a tool to mitigate exposure to transition and physical risks by encouraging companies to evaluate and make changes where necessary. As part of our net-zero strategy, our climate change engagement priorities include encouraging company boards to establish formal oversight of climate risk; encouraging issuers to disclose emissions and set Science-Based Targets; requesting disclosure on how companies are managing physical and transition risks; and tracking management responsiveness and progress toward these goals.

While the majority of our engagement is done in collaboration with companies and their management teams, we believe that the exercise of shareholder rights prescribed in regulations and company bylaws are part of our responsibility in the pursuit of value creation and the protection of our clients’ investments. We believe escalation should be investment-driven, taking into consideration matters such as investment objectives, issuer-specific circumstances, and our history of engagement. In the event that an issuer is not taking sufficient action to manage climate risks, we may take investment action. In addition to individual company engagements, we support a number of climate-focused organizations dedicated to climate research, target-setting, policy dialogue, and collaborative engagement.

Examples of our engagement efforts include:

- Between January 1, 2020 and December 30, 2020, our equity teams undertook 428 ESG engagements focused on environmental risks and opportunities.
- Between January 1, 2020 and December 30, 2020, our fixed income teams undertook 551 ESG engagements related to environmental issues.
- In the 2021 proxy season, we published our vote intentions along with our rationale on several material climate-related shareholder proposals through our NB Votes initiative, where we systematically announced our voting intentions in advance of the annual general meetings (AGMs) of a select group of companies in which we invest on behalf of clients.
- Ahead of the 2022 proxy season, we enhanced our proxy voting guidelines to include situations where we may oppose the re-election of directors due to concerns with the oversight and management of climate risk.
- Ahead of the 2022 proxy season, we initiated a letter campaign communicating our expectations of companies as it pertains to the management of climate risk, including oversight structures, target setting, capital allocation decisions and reporting.
- We are signatories to the Science-Based Targets (SBT) engagement campaign led by CDP to encourage companies globally to set science-based targets and commit to net-zero emissions by 2050. Since the campaign was launched in September 2020, a total of 154 companies committed to or set a science-based target.
- We are a lead investor in the Climate Action 100+, a five-year initiative coordinated by the UN-backed Principles for Responsible Investment and other groups.
- We are a founding signatory to the Global Investor Statement on Climate Change, which urges governments to step up their ambition to achieve the goals of the Paris Agreement, support investment in the low-carbon transition and improve climate-related financial disclosures.
- Neuberger Berman was the first North American Research Funding Partner of the TPI. The initiative seeks to encourage companies to set practical targets and to increase disclosure of companies’ progress in the transition to a low-carbon economy. Our support helps the TPI team to broaden coverage and to continue making their important analysis available as a public good. Additionally, we have begun to incorporate the TPI methodology into our proprietary ESG ratings.
• Neuberger Berman engages with private equity managers on a range of ESG topics including climate-related topics. We encourage greater disclosure of climate-related data such as carbon emissions. We also serve as a platform to disseminate knowledge and education related to net-zero initiatives and implementation considerations.

• We proactively engage regulators and policymakers. We engaged the IFRS Foundation regarding its consultation on sustainability reporting and the SEC regarding its climate consultation.

b) Business operations

i. Transition Risks

Within our business operations, Neuberger Berman recognizes that transitioning to a low-carbon economy presents both opportunities and challenges. Both our clients and our employees expect Neuberger Berman to be prepared for these scenarios, and we have already begun taking the following steps to reduce our own operational carbon footprint:

• Neuberger Berman is continuing to invest in technology energy efficiency to limit our carbon footprint even as the firm continues to grow. At end 2021, the power for our primary data center was 60kW, down from 65kW in 2020.

• In an effort to reduce Neuberger Berman’s travel-related carbon footprint, we have offset 100% of our travel-related emissions in 2020 and 2021 by supporting carbon reduction projects.

• Neuberger Berman leases all office space globally, which in many cases limits the amount of control we have in reducing our carbon footprint. However, in anticipation of a low-carbon economy, when possible we select buildings with high energy-efficiency standards. We have taken several actions to green some of our buildings, including the introduction of solar panels, LED lights and recycled rainwater usage.

  – Our New York headquarters, which houses 56% of our employees, is LEED Silver-certified.

  – Our London office recently moved to the Zig Zag building, which is certified by BREEAM, a U.K.-based certification for sustainable buildings.

ii. Physical Risks

• We actively seek to identify and monitor our potential exposures to climate-related physical risks, and are aware that the firm’s facilities, data centers and key locations may be at risk. Through top-down climate modelling and proxies, we have estimated the specific physical climate risks our headquarters in New York and regional headquarters in Hong Kong, London and Tokyo may face. Extreme heat is the largest risk factor for our New York, Hong Kong and Tokyo offices. In London, our office is vulnerable primarily to river flooding.

• In addition to our headquarters, Neuberger Berman has offices in more than 30 cities. We have assessed the event-driven physical risk associated with our office locations and will continue to monitor in case mitigation or adaptation measures are necessary.

• Our Business Continuity management team has developed the Neuberger Berman Incident Response Guide outlines specific procedures to follow during an event or business disruption, including climate-related disasters.
2. Climate-related Opportunities

In addition to climate-related risk, there are also potential opportunities from climate change. Identifying and developing these opportunities is a critical pillar of the firm’s climate-related corporate strategy. We are particularly focused on enhancing net-zero capabilities in our existing investment strategies and increasing our offering of new dedicated net-zero strategies.

a) Investment portfolios

i. Existing Investment Strategies

In conjunction with our commitment to the Net Zero Asset Managers Initiative, our portfolio managers across the sustainable investing strategies of our public equities and public taxable fixed income funds have affirmed their intent, consistent with their stated objectives and strategies and pursuant to their own targets, to invest with the goal of attaining net-zero alignment.

Our proprietary ESG ratings system, NB ESG Quotient,1 is used across the firm by equities and fixed income analysts, and a similar process is used in due diligence by private equity investors. The NB ESG Quotient considers energy efficiency, carbon emissions intensity, carbon footprint and low-carbon opportunities where it is material at the sub-sector level.

Alongside the NB ESG Quotient, our net-zero alignment framework will help us assess net-zero transition plans by introducing indicators that take into account company and sector-level nuances. We leverage third-party data and frameworks to support the analysis, including: Transition Pathway Initiative (TPI), CDP (formerly Carbon Disclosure Project), the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework and Climate Action 100+.

These ratings allow our existing investment strategies to assess the potential opportunity from tilting an existing portfolio toward issuers that are better positioned for a net-zero economy. They also serve to inform portfolio construction for our net-zero committed strategies and guide engagement across strategies.

ii. New Investment Strategies

As clients increasingly seek to align their investment portfolios with positive outcomes for the planet, demand is growing for environmental investment strategies. To meet this demand, we are continually evaluating our investment offerings and developing new strategies, including specific capabilities in thematic, climate transition and climate solutions strategies. For example, we offer several institutional carbon transition strategies. We also recently introduced a climate transition multi-sector credit strategy that has embedded net-zero objectives. This relative value, credit-focused strategy seeks to direct capital toward companies that are providing climate solutions and transitioning their business model toward a low carbon economy, and away from carbon-intensive industries with no signs of net-zero alignment. In addition, we’re also continuously expanding our offering of impact investing strategies across a range of asset classes, which intentionally seek to generate additional positive social and environmental outcomes alongside market-rate financial returns. Investing in climate solutions is a core theme of our impact investing strategies, including our listed equity and private equity impact strategies.

b) Business operations

We continue to focus on capturing the benefits associated with operational efficiencies in our own operations, including through reduced energy and water usage in our facilities.

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1 For additional information on the NB ESG Quotient please see page 10.
3. Communicating Metrics and Targets

As part of the Net Zero Asset Managers Initiative, we have committed to set a robust interim target for our assets to be managed in line with net zero by 2050 and review our target every five years with the view of ratcheting up the proportion of assets to ultimately cover 100% of assets under management. We are committed to working in partnership with our clients and portfolio managers to achieve this goal. Our specific interim target will be published within one year of signing on to the Net Zero Asset Managers Initiative.

Neuberger Berman has the ability to disclose climate-related metrics to our clients to help them understand the potential risks and opportunities associated with publicly listed corporate equity and bond portfolios:

- a) Weighted average carbon intensity
- b) Carbon footprint
- c) Percentage of portfolio companies with approved science-based targets
- d) Percentage of portfolio invested in climate solutions
- e) Climate value-at-risk analysis using 2-degree scenarios
- f) Climate-related engagement and proxy voting records

In addition, for clients of impact investing strategies, we disclose metrics related to the positive climate-related outcomes that those strategies are generating for people and the planet. For our operational impact, we are committed to collecting, evaluating and disclosing relevant metrics annually.

IV. CONCLUSION

Neuberger Berman is committed to assessing material climate risks and opportunities by conducting top-down and bottom-up analysis across investment portfolios and business operations. We are committed to managing climate risks and maximizing opportunities across a multitude of scenarios by supporting net-zero investing by 2050 or sooner. We will continue to engage our clients to align their portfolios with climate-related opportunities and believe this approach will ultimately create value for our clients.
FOR MORE ABOUT OUR APPROACH TO ESG & IMPACT INVESTING, PLEASE VISIT WWW.NB.COM/ESG.

For environmental and social (ES) rankings, A – D quartiles are used, where A is best (top quartile), D is worst (lowest quartile). For governance (G) rankings, 1 – 4 quartiles are used where 1 is best, 4 is worst. Average ESG rating is not a rating of the strategy itself.

Neuberger Berman’s Research Department and the ESG Investing team work together to rate corporations on material ESG factors at the industry level, across public equity and fixed income. We measure company performance on material ESG factors by using quantitative data and qualitative analysis, informed by engagement with individual companies. Neuberger Berman’s Research Department conducts comprehensive ESG research on company activities and products that is available to all portfolio managers. Our analysts provide comprehensive coverage of companies in their universe, including proprietary ratings and assessments of ESG, as well as ESG data and research available to them through internal portals and external platforms like FactSet and MSCI. Given limited disclosure of ESG data, many ratings include significant qualitative judgment from analysts themselves. These ratings are used by central research analysts in their fundamental analysis of companies and by portfolio managers as part of their approach to ESG integration.

The methodology for determining the proprietary ESG ratings is a multi-step process. In the first step, members of the firm’s central research equity analysts determine which Environmental and Social issues are likely to be financially material for the sector that each analyst covers. The research team then works with the ESG Investing team to identify quantitative sources to measure a particular company’s performance against those issues by applying a variety of public and proprietary sources. For ESG issues requiring additional incremental insight, research analysts use proprietary quantitative or qualitative assessments. Each company analyzed within a sector is then compared to peer companies on a normalized distribution. That analysis produces an overall ESG performance for the company, which is then converted into a quartile rating (A – D). As a final step, further refinements are applied by no more than one quartile. The data underlying the ratings is updated weekly and the methodology is reviewed at least annually.

The methodology for determining the proprietary G ratings is also a multi-step process. First, governance indicators are regressed against historical stock performance to identify potential variables for inclusion. The firm’s equity sector analysts then review those regressions and apply weighted variables to that data based on their judgment of which factors are likely to be predictors of positive or negative corporate performance. The analysts then rate the companies within the sector on a normalized distribution for their overall G performance, which is then converted into a quartile rating (1 – 4). As a final step, analysts are given the opportunity to adjust the ratings, but only after completing a standardized qualitative assessment of the company governance characteristics. The data underlying the ratings is updated weekly and the methodology is reviewed at least once annually.

All information is as of December 31, 2021 unless otherwise indicated. 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 include 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.

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