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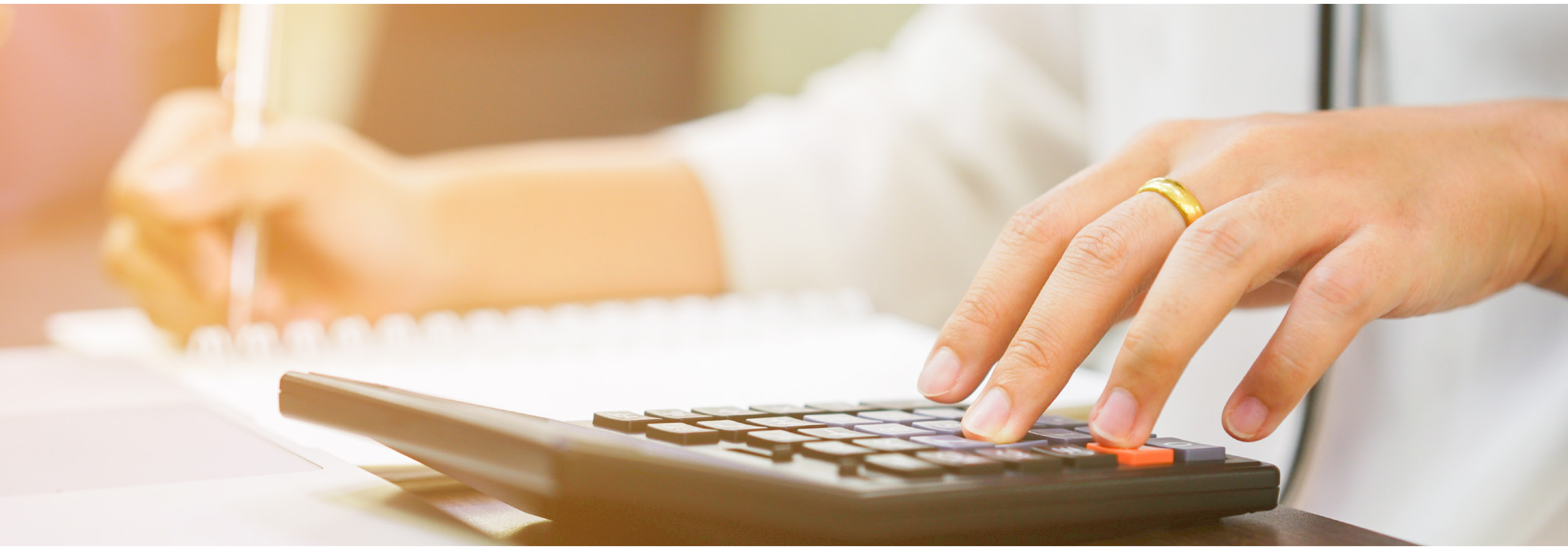
NEUBERGER | BERMAN



The Case for Tax-Managed Long/Short Investing

Tax optimization strategies, particularly systematically deferring capital gains and harvesting capital losses, are critical tools for maximizing after-tax wealth over time. Traditionally, these strategies have been applied to long-only equity portfolios. At Neuberger Berman, our NB Custom Direct Investing (CDI)™ platform enables the creation of tailored portfolios designed to address the unique needs of clients across the U.S. and Canada.

For clients with significant tax liabilities that need to be offset, managing taxes across more market exposure may be appropriate. One potential solution is to allocate additional cash to the equity portfolio, thereby increasing exposure. Alternatively, utilizing leverage by employing both long and short equity positions can amplify overall market exposure while providing additional opportunities for tax management. This may be viewed as a more efficient use of capital by investors.

Tax-Managed Long/Short

A long/short investment portfolio takes long positions in securities expected to outperform and short positions in securities anticipated to underperform. An example of a long/short portfolio may be structured as 130% long equity and 30% short equity.

The primary objective of a long/short portfolio is to seek improved pre-tax performance; however, potential exists for significant after-tax benefits. By combining long and short positions, these strategies create increased opportunities for tax-loss harvesting regardless of market direction.

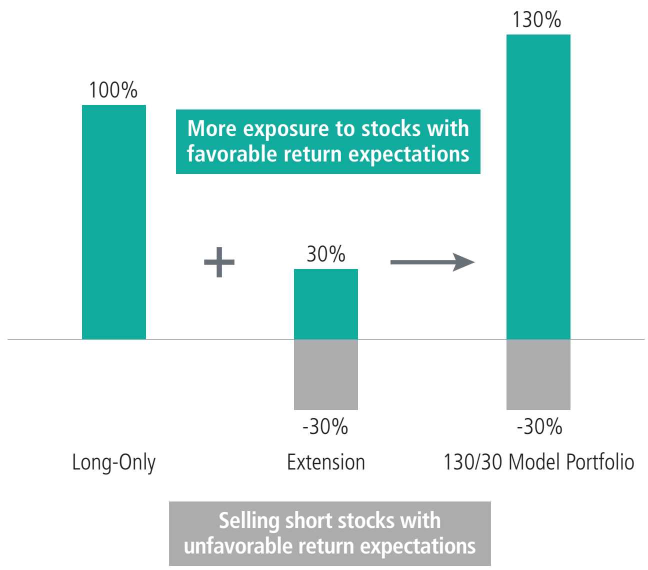
This approach may be particularly suitable for investors with substantial capital gains to offset, such as those preparing for a business sale or receiving large private equity distributions, and those looking to renew tax benefits of an appreciated portfolio. However, it is important to consider the trade-offs, including higher costs, increased complexity and additional risks from the use of leverage.

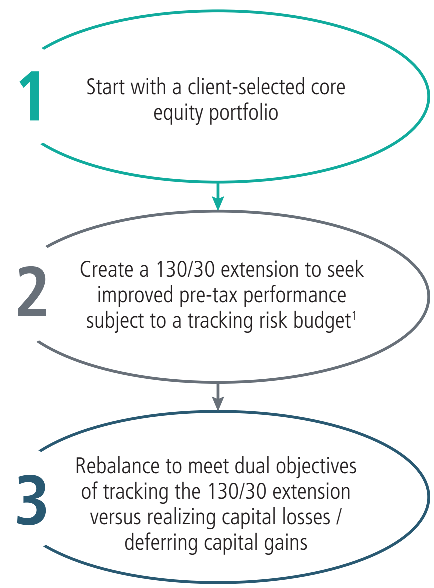
The NB CDI™ Approach

Consistent with the approach for long-only NB CDI™ portfolios, the long/short portfolios seek to provide clients the ability to implement broad market Core equity exposure or to implement an Active equity model.

When applying long/short extensions for Core equity mandates, we use a quantitative model that provides return forecasts for each stock in the universe seeking to increase the expected pre-tax returns of the portfolio.

If implementing an Active equity portfolio, the long/short extensions will provide leveraged exposure to the active stock picks from the underlying portfolio. This means increasing the weight to the underlying model names on the long side, while all short positions will consist of names that are not in the underlying active portfolio, so that we avoid shorting names that the active manager selected.





Investor Use Cases

The reason to accept the additional market risk and incremental cost often stems from one of the following categories:

1. Enhance Your Portfolio

Apply tax-managed long/short to your equity portfolio to potentially improve pre-tax and after-tax returns

2. Transition an Existing Portfolio

Take an appreciated portfolio in-kind seeking to add alpha and renew potential tax alpha

3. Diversify Concentrated Stock

Quickly and tax-efficiently transition a concentrated stock position into a diversified investment strategy

4. Improve Tax Efficiency of a Business Sale

Seek to increase after-tax wealth following the sale of a business by reducing the tax burden and enhancing investment returns

Tax-managed long/short investing offers a potentially powerful tool for addressing significant tax liabilities while seeking to enhance both pre-tax and after-tax portfolio performance. While requiring additional risk, complexity and cost, investors facing material tax liabilities may benefit from utilizing this as an extension of their wealth management toolkit.

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