

Neuberger Berman Small Cap: Staying the Course in a Wildly Speculative Market

PORTFOLIO MANAGERS

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The Russell 2000 Index has hit record highs in recent months, and to the speculators have gone the spoils: Emboldened by anticipated interest rate cuts and further potential advancements in artificial intelligence (AI), small cap investors have favored riskier names over high-quality ones, hurting our performance versus the broader market.

Despite recent headwinds, history suggests that—over full market cycles—ferreting out high-quality small caps decisively trumps trend-chasing and unbridled speculation. That's why we maintain our commitment to investing in small caps with strong fundamentals and durable business models—a disciplined, repeatable strategy that, in our view, will continue to deliver attractive long-term risk-adjusted returns.

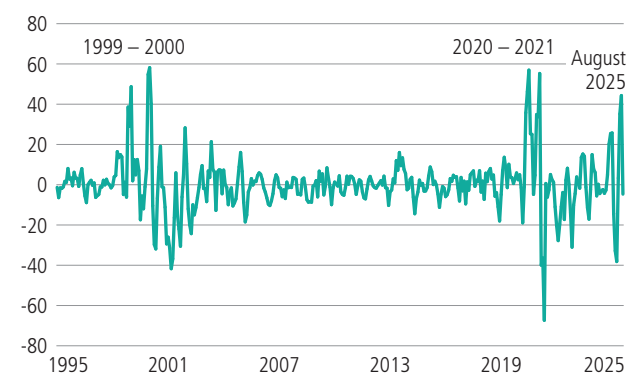
Raging Appetite for Risk

As potential interest rate cuts loomed in 2025, small cap investors grew hungry for risk. Many have piled into unprofitable, heavily shorted names with high sales growth, greater volatility and exposure to trending themes such as AI, crypto and quantum computing. This phenomenon has been especially prevalent in the Technology sector, where over half the stocks are unprofitable, and in which the lowest quality stocks outperformed meaningfully for the one-year period ending September 30, 2025. To provide a few data points for context:

- Heavily shorted stocks (i.e. those with short interest equal to at least 20% of shares outstanding) advanced 26%, versus 8.2% for the Russell 2000 Index.
- The Goldman Sachs Speculative Trading Indicator is approaching levels not seen since the 2000 dot-com bubble and the early-2021 Covid-19 rebound (see the left side of figure 1).
- Trading volumes on Robinhood—an effective measure of the market's broader "meme-fiction"—have hit record highs (right side of figure 1).

FIGURE 1. SPECULATIVE TRADING HAS HEATED UP

Goldman Sachs Speculative Trading Indicator



Robinhood Market, Quarterly Equity Trading Volume (\$Bn)



Source: Furey Partners and Goldman Sachs; data one-year through August 31, 2025.

Sentiment vs. Style

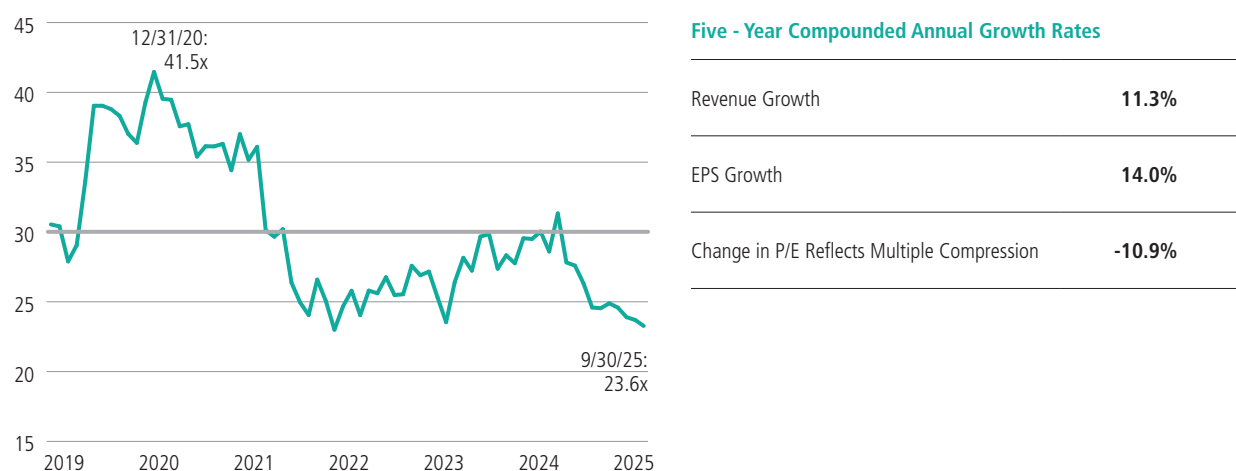
We note that 20 companies in the Russell 2000 Index—including many non-earning, high-beta names, with significant levels of short interest—accounted for 57% of the benchmark's one-year performance. This concentration reflects a speculative rally that we did not have exposure to, contributing to our underperformance over the period.

This frustrating result is also not completely surprising: We focus on identifying high-quality companies with sustainable earnings and resilient business models—criteria that are clearly out of step with current market sentiment. As shown in figure 2, revenue and EPS across our portfolio have grown at a solid 11.3% and 14.0% per year, respectively, over the last five years, yet our fund's weighted average forward P/E has fallen from 41.5 to 23.6.

When the U.S. economy reopened after COVID, earnings across our holdings rebounded sharply. In a low-rate environment, investors paid a premium for high quality companies, pushing our portfolio's P/E multiples higher. As the economy began to overheat in 2021 and 2022, anticipation of Fed hikes began to pressure valuations as growth moderated from an unsustainable pace. As earnings normalized, markets started to price potential rate cuts, and capital rotated into the most speculative parts of small cap—further compressing multiples in our high-quality holdings.

FIGURE 2: HIGH-QUALITY SMALL CAPS FELL OUT OF FAVOR WHILE PROFITS REMAINED ROBUST

NB Genesis Fund: Weighted Average P/E Next 12 Months



Source: Neuberger Berman. Data as of September 30, 2025. This material is intended as a broad overview of the portfolio managers' style, philosophy, and process and is subject to change without notice. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. The portfolio managers' views may differ from those of other portfolio managers as well as the views of Neuberger Berman. See Additional Disclosures section at the end of this piece, which is an important part of this presentation.

One prime example is **SPS Commerce (SPSC)**, which sells crucial software that helps manage retail supply chains. SPSC has reported 98 consecutive quarters of revenue growth, yet over the past three years its forward P/E multiple sank from 50 to 25, at a time when underlying EPS was compounding at more than 20% per year. While the stock is down 46% over the last 12 months, we see potential for mid-teen annual growth in free cash flow per share over the next few years.

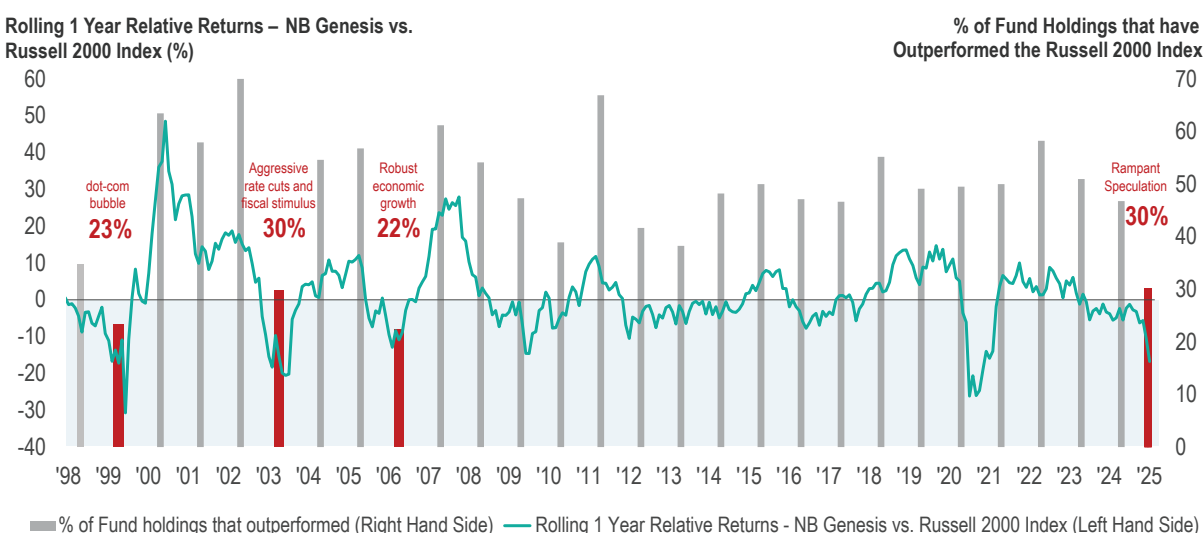
We find similar multiple compression across much of our portfolio, further showcasing the market's extreme appetite for risk. Therefore, we believe the portfolio's current risk-reward is attractive.

When the Tide Turns

History reminds us that investment styles go in and out of favor, and that speculative excess eventually gives way to a renewed focus on quality.

Figure 3 shows what can happen when the tide inevitably turns: Over the last 30 years, we find that periods when our high-quality style has been most out of favor (shown by the red bars) tend to be followed by periods of significant outperformance. With only 30% of our portfolio recently outperforming our small cap benchmark, we believe the next upswing in the quality cycle could be near at hand.

FIGURE 3: HISTORICALLY, PERIODS WHEN OUR QUALITY STYLE HAS BEEN MOST OUT OF FAVOR HAVE PRECEDED PERIODS OF SIGNIFICANT OUTPERFORMANCE



Source: Neuberger Berman as of September 30, 2025. The inception date for the Neuberger Berman Genesis Fund Institutional Class was 7/1/99. Prior to that date, performance of the Investor Class, which was inception on 9/27/88, was used to calculate return. **Past performance is no guarantee of future results.** This material is intended as a broad overview of the portfolio manager's style, philosophy and process and is subject to change without notice. The portfolio managers' views may differ from those of other portfolio managers as well as the views of Neuberger Berman.

Staying the Course

Despite current speculative pressures in the market, we remain committed to building high-quality small cap portfolios consisting of stocks that meet stringent investment criteria, including:

- The ability to generate sustainable and ample free cash flow
- Superior returns on assets (ROA)
- Generally strong balance sheets
- Above-average earnings growth prospects
- Business models protected by barriers to entry

This disciplined approach has been crucial to helping our clients outperform the Russell 2000 Index over the last 15-, 20- and 25-year periods. And while we acknowledge that speculative momentum may continue to weigh on the multiples of higher-quality small caps in the near term, much of the pain appears to be behind us; the fundamentals supporting our portfolio remain strong; and valuations for companies that meet our criteria have become extremely attractive on both an absolute and relative basis.

We believe these conditions have set the stage for a resurgence in high-quality small caps as excessive speculation subsides and market conditions begin to normalize.

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, and if available summary prospectus, which you can obtain by calling 877.628.2583. Please read the prospectus, and if available the summary prospectus, carefully before making an investment.

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Most of the Fund's performance depends on what happens in the stock market. The market's behavior can be unpredictable, particularly in the short term. There can be no guarantee that the Fund will achieve its goal. The Fund may take temporary defensive and cash management positions; to the extent it does, it will not be pursuing its principal investment strategies.

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

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

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.

High public debt in the U.S. and other countries creates ongoing systemic and market risks and policymaking uncertainty.

The Fund may experience periods of large or frequent redemptions that could cause the Fund to sell assets at inopportune times or at a loss or depressed value. Redemption risk is heightened during periods of declining or illiquid markets.

From time to time, based on market or economic conditions, the Fund may have significant positions in one or more sectors of the market.

Compared to larger companies, small- and mid-cap companies may depend on a more limited management group, may have a shorter history of operations, and may have limited product lines, markets or financial resources. The securities of small- and mid-cap companies are often more volatile and less liquid than the securities of larger companies and may be more affected than other types of securities by the underperformance of a sector or during market downturns.

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.

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.

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. It is not possible for the Manager or the other Fund service providers to identify all of the cybersecurity or other operational risks that may affect the Fund or to develop processes and controls to completely eliminate or mitigate their occurrence or effects.

There can be no guarantee that the Portfolio Managers will be successful in their attempts to manage the risk exposure of the Fund or will appropriately evaluate or weigh the multiple factors involved in investment decisions, including issuer, market and/or instrument-specific analysis, valuation and financially material environmental, social and governance factors.

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.

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

The **S&P 500 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.

The **Russell 2000 Growth Index** is a float-adjusted market capitalization-weighted index that measures the performance of the small-cap growth segment of the U.S. equity market. It includes those Russell 2000® Index companies with higher price-to-book ratios and higher forecasted growth rates. The index is rebalanced annually in June. Data about the performance of this index is prepared or obtained by the Manager and include reinvestment of all dividends and capital gain distributions. The Portfolio may invest in securities not included in the above-described index. Effective after the market close on March 21, 2025, FTSE Russell is implementing a capping methodology to all Russell U.S. Style Indices including this one. Any individual company weights in the index greater than 22.5% will be capped, and the sum of all individual companies that have an index weight greater than 4.5% will be capped to a 45% aggregate weight in the index. This will be applied quarterly going forward, but historical index returns will not be restated.

The Global Industry Classification Standard ("GICS")SM is used to derive the component economic sectors of the benchmark and the fund. GICS was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)," "GICS" and "GICS Direct" are service marks of MSCI and Standard & Poor's.

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