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 2,500 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 $447 billion in client assets as of March 31, 2022.

For more information, please visit our website at www.nb.com.

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Staying Focused

After three years of exceptionally strong market returns, and a pandemic that forced businesses to attend to pressing social and environmental issues, some might argue that making the case for environmental, social and governance (ESG) investing has been easy. Now, after Russia’s invasion of Ukraine, those same voices might say that heightened market volatility, inflation and the potential for an economic slowdown will concentrate minds back solely on the near-term bottom line. At Neuberger Berman, our day-to-day reality confirms the truth of the matter: ESG issues so often are the bottom line; and an event like the war in Ukraine is economically disruptive, but it is also an horrendous escalation of environmental, social and global governance risks.

The new year has been met with a spate of newspaper articles and investor commentaries arguing that ESG and sustainability is at best a publicity effort and at worst a costly distraction from the real job at hand. We disagree. It’s easy to see the error in these views when, like us, you maintain a rigorous focus on material ESG issues—those that, by definition, represent real risk and opportunity for businesses, and determine environmental, social and financial outcomes. But we believe you get a true idea of the importance of ESG investing only when you look into every brick of the structure that makes positive outcomes possible.

I think of this structure as having four pillars: data, integration, engagement and impact. We believe it is much more likely to achieve real and lasting impact through engagement than through exclusion or divestment.
As with most investment analysis, ESG investing always begins with data. What isn’t measured cannot properly be managed. But data isn’t gathered for the sake of data. A critical project for any ESG investor is combatting the ongoing lack of coverage and timeliness of ESG data, which is why we are knitting our data science insights ever more tightly into our ESG analysis, to ensure that we are identifying the lacunae that need to be filled and looking for the solutions in the right places.

As we continue to integrate data science into ESG, we also continue to integrate ESG analysis into the full breadth of our franchise—ESG-integrated strategies now make up over 84% of our assets under management. Years of development of our Sovereign Sustainability Assessment Framework, which we consider industry-leading, has facilitated the launch of a dedicated sustainable strategy in Emerging Markets Hard Currency Debt.

The breadth of that ESG integration is regional, as well as across asset classes. This year has seen us expand our ESG capabilities into China, where we created a localized version of the NB Materiality Matrix, our measure of which ESG factors are most material for each industry. Our Hague-based Global Sustainable Equity team is now settled in, and new leadership for our more established U.S. Sustainable Equity team offers the opportunity to further integrate this global franchise.

I believe that one reason why ESG integration comes naturally to Neuberger Berman is that our ESG products and initiatives tend to have their origins not in top-down directives, but in our traditional research and analysis and in the work we have done in close partnership with our clients. One great example of that in the past year was putting the finishing touches to a £1.3 billion multi-asset credit portfolio for the U.K.’s Brunel Pension Partnership, one of Europe’s leading sustainable investors. This mandate integrates a climate-transition plan to achieve net-zero emissions by 2050, with multifaceted interim targets. Discussions with Brunel on the scope, targets and risk-management parameters of that mandate drew upon our previous experience—for example, the development of our Thermal Coal Involvement Policy and our Climate Value-at-Risk analytical tools, as well as two years of TCFD reporting and implementing our corporate climate strategy. But those discussions also gave us a wealth of new insights into what it takes to develop a serious approach to net-zero investing. Those insights now inform climate-related analysis across our product range and influence the design of new strategies; they also gave us confidence that the pledge we made when we signed up to the Net Zero Asset Managers Initiative in November 2021 is realistic and attainable.

The centrality of engagement to the way we pursue ESG and sustainable investment goals will be clear to any reader of our NB Votes web page, the market-leading initiative that we launched in 2020 (see page 53 for details). It reveals the sheer speed with which we have managed to scale the volume of constructive engagement we are involved in, with some of the world’s largest and most important companies. The page offers details from 62 Annual General Meetings in 2021 alone. It also shows how engagement is not only about encouraging change among laggards, but also making great businesses realize even more of their potential.

I’ve had many people ask me why Neuberger Berman opposed the election of four Berkshire Hathaway board members back in May 2021. The answer is that, while Warren Buffet is a legendary investor and it’s unsurprising that he is both CEO and Chair, that structure necessitates a strong lead independent director, which Berkshire lacks. We also voted for the firm to begin reporting its climate-related risks and opportunities—despite the obvious difficulties this presents to such a decentralized business—because we regard these factors as critically important, and an incredible business track record doesn’t exempt you from evolving standards of corporate disclosure. Around the same time, while we were delighted to see the extension of H. Lawrence Culp’s contract as CEO of General Electric as it struggled with the pandemic, we voted against his compensation package, which raised his potential payout while lowering his performance targets. Such arrangements neither align with industry standards nor reflect broader concerns about social inequality—and it’s also very difficult to see how they enhance shareholder value.
The other point to note here is that, in all these cases, we failed to carry the vote—which didn’t surprise us. We think it’s important to make a stand for what we believe to be best practice, even against the world’s biggest and most admired companies, and even when there appears to be nothing to gain. That stance was vindicated in these instances, where we quickly saw the outcomes that we championed: appointment of a lead Independent Director at Berkshire and a revised compensation package at General Electric. You might say we lost the vote, but we think we sent a useful message.

Frustratingly, we are the only major asset management firm to bring this kind of transparency to our proxy-voting activities, and we continue to invite our peers to join us. But NB Votes, and even our broader proxy voting program, represents only one part of our engagement efforts. These efforts are just as deep and advanced in our fixed income business, where we often benefit from access to senior management as major capital providers, as they are in our equity business.

Why is engagement so important to us? Because we believe it is much more likely to achieve real and lasting impact than exclusion or divestment. Engagement can achieve impact in the broad sense of changing management and corporate aims and behavior. It can also support impact in the specific sense of investment strategies that raise sustainability goals to the same level of priority as financial returns—an approach that we and our clients increasingly embrace as we establish robust track records for our new U.S. Equity and Private Equity Impact strategies.

We are proud of the structure we are building, but we also recognize that this is a long project, both for us and our clients, and that we are always learning and improving. I have no doubt that our efforts today would fall short of the bar we intend to set in the years ahead. As we broaden and improve the datasets that we can access, and build the technology and human resources of our platform, our challenge will be to make the very best use of those resources as we can.

That is the key objective of our new ESG Advisory Council, which aims to bring the latest knowledge from academia, the non-profit sector and institutional asset owners into the heart of Neuberger Berman. Like our work with Brunel, and with the dozens of management teams we engage with, we think our ESG Advisory Council demonstrates how important the exchange of ideas is to us. That includes practical and technical things, like how to cut a credit portfolio’s emissions without cutting its yield, or where to find the best data, or how best to build collaborative groups for sustainability advocacy. But the bigger philosophical questions are in scope, too. If a firm sells a coal-powered energy plant to a less scrupulous operator, on paper that firm looks like a more palatable investment—but the plant might have been better managed, and perhaps even closed sooner, had the same firm held onto it. The environment hasn’t benefitted, so how should we, as investors, think about that decision? If regulation of sustainable business and investment becomes too stringent or too rigid, does it risk dividing the world into binary “investable” and “non-investable” companies or sectors? Will net zero be a reality sooner if we can only invest in Tesla, rather than capitalizing and encouraging net-zero transitions at others like BMW, Ford and GM?

Learning together at these different levels—the nitty-gritty and the philosophical—is critical for us. It helps us develop the solutions our clients demand. It also helps ensure that we live the values we expect to see at the companies we invest in. We continue to hit the demanding targets of the industry-leading sustainability-based credit facility that we secured back in February 2020, for example—but there is still much more for us to do.

In short, when we engage with company management and partner with clients on sustainability issues, we learn as much as we guide. Some commentators might consider these efforts a distraction. We know that they make us a better firm, and better investors. And we know that our clients are urging us to be more focused on them than ever.
Our ESG Philosophy

As an active manager, our purpose is to deliver compelling investment results for our clients over the long term, supporting them to achieve their investment objectives. We have a longstanding belief that material environmental, social and governance (ESG) factors are an important driver of long-term investment returns. We take a comprehensive approach toward managing client assets, including the integration of ESG criteria into our investment processes. We also understand that for many clients, the environmental and social impact of their portfolios is considered of equal importance as the investment performance.

Despite having a dedicated ESG Investing team, we take a decentralized approach to ESG integration, whereby investment professionals throughout the firm are responsible for incorporating material ESG factors in portfolios and investment research.

From our first application of “avoidance screens” in the early 1940s to the launch of our U.S. Sustainable Equity team in 1989, Neuberger Berman has been at the forefront of integrating ESG factors into investment processes.

Today, we continue to innovate, driven by our belief that ESG factors, like any other factor, should be incorporated in a manner consistent with the specific asset class, investment objective and style of each investment strategy. ESG factors can be employed in a variety of ways to help generate enhanced returns, mitigate risk and meet specific client objectives within a portfolio. We believe that our approach, which is focused on maximizing results for our clients, can also support better-functioning capital markets and have a positive impact for people and the planet.

We are excited to expand our public commitments around managing climate-related risk across the firm by partnering with our clients, who share our ambition of achieving net-zero emissions, on seeking to develop and achieve net-zero portfolios. We will also continue to deepen the robustness of our proprietary, analyst-led ESG insights and engagement efforts to drive meaningful change over time.

In 2021, almost half of our top 100 institutional clients made some form of net-zero commitment, thereby placing ESG at the core of their long-term investment objectives. It has been a privilege to work closely with many of them on putting these commitments into practice, and to try to collectively change the climate trajectory of the planet.

JONATHAN H. BAILEY
Head of ESG Investing
$460 billion
Assets Under Management Around the Globe
100% ESG Aware

First dedicated sustainable investing strategy

Awarded Top Score
A+
In the most recent UN-supported Principles for Responsible Investment (PRI) assessment report for our overarching approach to ESG strategy and governance, as well as ESG integration across each asset class*

A+ Awarded Top Score
In the most recent UN-supported Principles for Responsible Investment (PRI) assessment report for our overarching approach to ESG strategy and governance, as well as ESG integration across each asset class*

3,162 Equity Engagements
1,463 Fixed Income Engagements

~84% Total assets under management that are ESG-integrated*

Named to PRI 2020 Leaders’ Group, awarded to only 20 of 2,100+ PRI investment manager signatories*

First large asset manager to provide proxy vote disclosure well in advance of company meetings
First North American asset manager to secure a sustainability-linked credit facility

>2,500 Credit
>7,000 Equity
Proprietary NB ESG Quotient Ratings

1989 First dedicated sustainable investing strategy

62 votes disclosed in advance of shareholder meetings in 2021

*Please refer to page 68 for associated disclosure. All information is as of December 31, 2021 unless otherwise noted.
ESG Advisory Council

In 2021 we established the NB ESG Advisory Council to guide our ESG investing journey. Our expert Advisory Council members provide guidance on the future of impact investing and sustainability topics, and challenge us to go further in our own efforts. The Council particularly focused in 2021 on the topic of net-zero investing.

In its inaugural year, the Advisory Council provided feedback on our decision to join the Net Zero Asset Managers Initiative. They provided valuable guidance on how to adapt net-zero alignment methodologies across asset classes, the role of climate solutions, and the impact of climate policy and regulation.

Advice from our ESG Advisory Council Members on Net-Zero Alignment

Under the Net Zero Asset Managers Initiative, we have one year to set an interim net-zero target, but portfolio managers and clients are asking for guidance now. What should we consider in selecting an implementation methodology?

It is important to set absolute carbon reduction targets to realize emissions reductions for sectors and companies.

We favor erring on the side of ambition in picking a target methodology, and thus recommend a carbon reduction and portfolio coverage approach.

Temperature alignment is another methodology often considered by asset managers, but the complexity of climate forecasting may result in misleading outcomes.

A target methodology must be flexible and portable across geographies. If it includes an engagement element, the portfolio manager must be willing to divest if there is no clear improvement over a set timeframe.

What is a portfolio’s “fair share” of the 50% required reduction in GHG emissions by 2030? Should it be determined by responsibility for emissions or capability to reduce emissions?

Decarbonization pathways should be based on a capability approach, given available technologies, so portfolio managers must stay on top of emerging low carbon technologies within sectors. Cost-efficiency is important. For example, it is difficult for carbon-intensive sectors that are cyclical and lower margin (e.g., airlines) to decarbonize. Investors should be aware of each sector’s marginal abatement cost curve and understand the potential impact of decarbonization on corporate returns over time. Investors should
also focus on how they, as active owners of each security and sector in a portfolio, are supporting companies in their transition to net zero.

**What is a climate solution?**

You do not necessarily need to follow a taxonomy to define a climate solution. You should ask whether a company’s products and services are enabling the substitution of lifecycle emissions, and understand that product or service’s carbon abatement potential versus the current standard. This provides an idea of its total addressable or serviceable market.

In evaluating such carbon abatement potential, the council recommends applying the same margin-of-safety framework that investors use: is there confidence in both emissions reduction measurement and execution? Thresholds may differ based on sector, manufacturing process and measurement methodology, and may change as technologies mature and scale.

**Do the definitions of net-zero alignment, fair share and climate solutions apply consistently to private equity?**

The proposed definitions are generally applicable in a private equity context, but there is nuance around the pathways that companies can take to help decarbonize the economy.

Here, in the context of NB’s private equity platform model, a portfolio coverage approach makes sense but may still encounter challenges given evolving portfolios and net asset values. Also, many private companies are growing and scaling, which can increase their absolute emissions even if their carbon intensity falls. A sectoral decarbonization approach is appropriate at the portfolio company level, but relevant sectoral targets are not yet widely available, and at the fund level, portfolio coverage is more feasible. Rather than excluding higher-emitting sectors, it may be better to support their transition.

**What were the key takeaways from the UN Climate Change Conference (COP26), both globally and for the U.S.?**

Globally, COP26 achieved several key outcomes: the establishment of the Glasgow Finance Alliance for Net Zero, commitments from 190 countries and companies to phase out coal, and a pledge by more than 100 countries to halve deforestation by 2030. For context, 90% of global GDP now has a net-zero target, up from 30% when the U.K. took over the COP presidency.

As we look to COP27 next year, participants are already planning how they will demonstrate progress, while the UN has commissioned an expert group to assess the integrity of net-zero commitments for companies and financial institutions.

Commitments alone do not change weather patterns, of course. In the U.S. it will be crucial over the next few years that corporations and asset managers really act on their net-zero commitments, with the support of regulators.

President Biden’s Climate Risk Executive Order has already directed several federal agencies to act on climate change. All financial regulators have been asked to study climate-related financial risks. The U.S. Securities and Exchange Commission has now proposed a rule on mandatory climate disclosures, but they are not yet as far-reaching as the U.K.’s requirements. The Department of Labor has announced a proposed rule allowing plan fiduciaries to consider ESG factors, while the Federal Reserve is assessing its ability to monitor climate impacts on the financial system. The U.S. is also looking at a potential climate action plan for procurement.

**What was missing from COP26?**

Despite clear progress, three important catalysts were missing from the conference: (i) a commitment to carbon pricing within developed markets; (ii) a robust framework for a carbon border adjustment tax; and (iii) meaningful assistance from developed to developing markets. We are optimistic that more progress will be made on these fronts.

**Will carbon markets play a more prominent role in the coming years?**

We have recently seen elevated interest in carbon markets. The “net” in net zero is about removing carbon from the atmosphere. In carbon markets, we must make sure the supply side has the right amount of quality offsets, while the demand side should require that actors use them responsibly. Voluntary carbon markets must grow in a way that truly impacts climate—unlike many current offset arrangements.

In compliance carbon markets like the EU emissions trading scheme (ETS) carbon allowance prices are rising. However, the EU ETS was initially designed to reduce emissions, not achieve net zero; but success will require carbon allowances to operate alongside carbon removal offsets.

In the U.S., carbon pricing and offsets are likely to grow in importance; however, offsets are very complicated, so almost every company and asset manager wants to better understand what is and what is not a legitimate offset.
Getting Sustainability Covered

Hiscox manages an investment portfolio worth close to £8 billion ($10.8 billion), backing a book of property and casualty insurance and reinsurance risks worldwide. We spoke to Chief Investment Officer and ESG Executive Sponsor James Millard about managing sustainability across its liabilities and its portfolio of largely short-dated fixed income assets.

Insurance companies often have complex group liabilities, with different entities underwriting protection under different capital-adequacy regimes. Can you give us a sketch of Hiscox’s structure and how it influences management of ESG issues?

James Millard: We manage to Group capital and risk appetites, but look to optimize investment allocations to local ALM, regulatory and capital requirements. It’s a bit like a game of chess to ensure we deliver to both Group and local entity goals. Similarly, our approach is focused on embedding ESG within each area of our business, rather than building a large specialist sustainability team at the center. We monitor ESG risks for our investments at both Group and local entity level, providing regular updates to stakeholders across the Group. We recently selected a new ESG data provider and extended analytics to include climate stress-testing across our bond portfolios, amongst other ESG risks and opportunities we keep an eye on.

VOICE OF THE CLIENT

A Conversation with Hiscox
How does Hiscox think about the relationship between climate-related liability and asset risk?

James Millard: While we carefully manage the underwriting risks associated with climate change, we also recognize new opportunities as customers’ risks evolve. One example of a clearly growing risk is flood. We’ve done a huge amount of work to understand U.S. flood risk, specifically. Our U.S. flood product, FloodPlus, provides broader, more attractive cover for homeowners and businesses than the government-backed alternative, and now serves over 75,000 customers across 49 states. We try to reduce correlations between our underwriting and investment portfolios where we have significant exposures. With respect to climate, we apply our ESG exclusions policy to sectors unlikely to be part of the transition to net zero in both our investment and our underwriting portfolios. We also think about how, for example, the unique insights we get into climate from our market-leading natural catastrophe research and modelling team can inform what we do as an investor. There is lots of collaboration on ESG and climate-related matters across the business, but how that translates into the sustainability of our asset managers and investee companies is something we’re still developing.

How does Hiscox think about the net-zero transition?

James Millard: As a Group, Hiscox has been operationally carbon-neutral since 2014, and we’ll continue to offset our emissions via accredited offset schemes. We’ve also recently set new greenhouse targets, including for investments, to align with a 1.5°C warming scenario, using the Science Based Targets Initiative (SBTi) methodologies. This means Hiscox could be net zero by 2050. We’ve committed to reduce our Scope 1 and 2 emissions by 50% in absolute terms and our Scope 3 emissions by 25% per employee by 2030, against a 2020 baseline adjusted to correct for the impact of COVID-19 on business travel, office use and other factors. We also aim to have more than 25% of the value of our corporate bond portfolio meet net-zero or Paris-aligned targets by 2025, and more than 50% by 2030. We prefer an SBTi-aligned approach because, while disinvesting from companies may reduce our measured carbon footprint, engagement can help them play a role in the net-zero transition and ultimately have more of a real-world impact.

Getting to net zero is a shared challenge, which is why we are also engaging with our suppliers, brokers and reinsurers on our commitments and their own plans to adopt Paris-aligned targets. Where common standards and methodologies do not yet exist—for example, in measuring and assessing supply chain impacts, and underwritten emissions—we want to foster collaboration within our industry to help shape the solution.

A significant proportion of Hiscox’s assets are in bonds, of which much is short-dated. What do you say to those who argue that it’s difficult to have influence as a bondholder, and that long-term ESG risks pose little threat to short-dated investments?

James Millard: The traditional view is that voting rights give shareholders the most influence on corporate behavior. In practice, however, short-term debt financing is an important part of an issuer’s capital structure, and debt issuance and refinancing typically occurs more frequently than equity issuance. That gives asset owners like us real opportunities to engage with issuers. We see the rapidly growing demand for, and issuance of, ESG-related bonds as evidence of this. We already have over $220 million in ESG-related bonds, and our short-dated portfolios enable us to quickly reinvest proceeds from distributions and maturities in issues and issuers that align with our responsible investment objectives. Some labelled bonds not only incentivize issuers to act in a more sustainable manner, they also offer lower expected volatility and better secondary market liquidity with very little detriment to returns. Our managers need strong ESG capabilities to ensure they do exactly what they say on the tin, but further development and alignment of standards, such as sustainable taxonomy regulations and non-financial disclosures, will really help us to boost exposure here.
What are your thoughts on integrating ESG factors into the strategic asset allocation (SAA) process?

James Millard: Incorporating ESG characteristics into Capital Market Assumptions appears to have relatively limited impact. If it simply punishes asset classes such as emerging markets, where companies are often behind on emissions reduction, it can lead us back to disinvestment as opposed to engaging to maximize real-world impact. An asset allocation strategy that is more forward-looking with respect to ESG, such as optimizing to Climate VaR or net-zero alignment, is conceptually more appealing, but can come with issues of methodology, consistency and coverage. Given the challenges of the approaches on offer, this is an area that needs continued investigation.

Could you briefly describe what you look for on ESG from asset managers?

James Millard: Over 99% of our AUM is with managers signed up to the PRI, and Hiscox itself signed up in 2021. We embed ESG consideration in our manager selection and regular monitoring processes, and we expect all our managers to adhere to our Responsible Investment Policy. We look for a strong ESG investment philosophy, relevant and robust processes, and of course appropriate resources to actually implement ESG considerations on our behalf. We want managers to incorporate their own analysis of ESG risks and opportunities at issuer and portfolio level, and to evidence the added value of their engagement in client portfolio-level reporting in line with the latest ESG reporting standards.

What are the next big ESG-related projects for you, as Hiscox’s CIO?

James Millard: Important developments across the Group during 2021 included: the implementation of our ESG exclusions policy; becoming signatories of both the PRI and the Principles for Sustainable Insurance (PSI); contributing to key industry taskforces via the Sustainable Markets Initiative and ClimateWise (where I sit on the Council); setting new Group-level SBTi-aligned GHG reduction targets; and establishing a Sustainability Steering Committee, which is led by our Group CEO. Looking forward for investments, alongside preparing the new reporting required by the PRI, we’ll also be embedding our new SBTi GHG targets into our segregated mandates as we continue to work with our managers to ensure progress against those targets. We will also further investigate embedding climate risk, in particular, into our asset allocation processes. Beyond asset management, 2022 will see us looking to embed a sustainable underwriting strategy across each of our business areas.

Hiscox spoke with Neuberger Berman in London on February 22, 2022.
2021 ESG ANNUAL REPORT

Our Investment Approach
Our Commitment to ESG Integration

We integrate ESG analysis across our firm, not only in traditional equity and fixed income strategies, but in private market offerings as well. Overall, approximately 84% of Neuberger Berman’s total assets under management are now ESG-integrated, compared to 60% in January 2020 and 25% in 2016. Certain of our strategies that are not ESG integrated, such as our co-mingled U.S. Equity Index Put write options strategy, which writes options on the S&P 500, are difficult strategies in which to integrate ESG factors.

We continue to innovate, driven by our belief that ESG factors, like any other factor, should be incorporated in a manner consistent with the specific asset class, investment objective and style of each investment strategy. ESG factors can be employed in a variety of ways to target enhanced returns, mitigate risk and meet specific client objectives within a portfolio. We believe that our approach, which is focused on maximizing results for our clients, can also support better-functioning capital markets and have a positive impact on people and the planet.
Investment professionals throughout the firm are responsible for incorporating material ESG factors in portfolios and investment research as a part of their role. To reinforce the importance of ESG to our work, compensation for many investment professionals is tied to ESG research insights and integration.

We believe the most effective way to integrate ESG factors into an investment process over the long term is for investment teams themselves to research ESG factors and consider them alongside other inputs. For this reason, ESG is included in the work of our research analysts rather than a separate ESG research team. The investment teams can then choose how best to apply all the tools of active management, whether that is to engage or ultimately to sell a security when it no longer offers attractive risk-adjusted potential returns.

To augment our analysis, we regularly add new data sets and leverage the capabilities of our data science team, which play a key role in the development of our firmwide proprietary ESG ratings system, the NB ESG Quotient. We believe our proprietary data allows us to identify sometimes hidden issues whose contribution to one or more investment themes may not be fully expressed in financial disclosures, but are critical to the fundamental thesis of a company. We are continually exploring new ways to strengthen and evolve our investment processes and tools to enhance the data we use, facilitate its application across our investment platform and provide transparency to our clients through reporting.

We believe alternative and big data are likely to transform active management over the next five years, minimizing reliance on voluntary disclosure and large third-party data providers.

**Our ESG Integration Framework**

Each portfolio manager has a customized approach to ESG integration that is driven by multiple factors, including the objectives of the strategy, asset class and investment time horizon.

For our ESG-integrated strategies, each portfolio management team selects an approach from our ESG Integration Framework: *Avoid, Assess, Amplify or Aim for Impact*. In building their portfolios, portfolio managers consider whether to simply exclude particular companies (Avoid), reach a more holistic understanding of risk and return (Assess), tilt the portfolio to best-in-class issuers (Amplify) or invest in issuers that are intentionally generating positive social/environmental impact (Aim for Impact).

The approach to integration can be further customized by the type of investment vehicle employed for investing—for example, specific client vehicles can be created to implement client-specific avoidance criteria, to tilt toward specific ESG characteristics valued by the client or to seek certain types of positive impact such as pathways to net zero.

We know that every client journey is different when it comes to ESG, and changes in regulation or legislation over time are going to require a product that can be dynamic and adaptable.
### Integration Approach

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<th><strong>Amplify</strong></th>
<th><strong>Aim for Impact</strong></th>
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<td>Excluding particular companies or whole sectors from the investable universe</td>
<td>Considering the material effect on risk and return of ESG factors on investments alongside traditional factors in the investment process</td>
<td>Focusing on ‘better’ companies based on ESG factors that are expected to have a material effect on the investments’ risk and return</td>
<td>Seeking to intentionally generate positive social and environmental impact alongside a financial return</td>
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**“ESG INTEGRATED”**  
*(used in description of strategy and fund offering documents, but not in the fund names)*

Portfolio manager systematically and explicitly include material ESG considerations as a factor in its investment analysis and investment decisions for all securities.

**“SUSTAINABLE”**  
*(in name of strategy and offering documents)*

Portfolio manager selects and includes securities on the grounds that they fulfill certain sustainability criteria, such as being best-in-class issuers. There are clear investment rationales for focusing on sustainability leaders, such as the potential to signal business quality or to align with secular sustainability trends. Engagement outcomes are set and tracked with influence on sell decisions.

**“IMPACT”**  
*(in name of strategy and offering documents)*

Portfolio manager seeks to achieve positive social and environmental outcomes for people and the planet alongside a market rate financial return. The core business, products or services of each holding contributes to solutions of pressing environmental and social issues. Further, all holdings meet the firm’s ESG threshold for a “sustainable” fund.

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### The Rise of Regulation

Rapidly evolving global sustainability-driven regulations are being felt across the asset management industry. European regulations such as the Sustainable Finance Disclosure Regulation (“SFDR”)¹ and European Taxonomy Regulation have set the global benchmark by introducing EU sustainability disclosure obligations and creating an EU common classification system.

The SFDR Regulatory Technical Standards (the “SFDR Level 2”), which will set out the content, methodology and detailed disclosure requirements is expected to be implemented on 1 January 2023, following a further postponement of the implementation date by the EU Commission. Until SFDR Level 2 comes into effect, compliance with SFDR Level 1 is on a principles or high-level basis only.

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¹ “SFDR” means Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. European Taxonomy Regulation means Regulation EU/2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending SFDR, as may be supplemented, consolidated, substituted in any form or otherwise modified from time to time;
Meanwhile, other jurisdictions that are not as advanced on their sustainability journey may have taken a different or even conflicting approach to that adopted by the EU which could prove challenging for all stakeholders to manage.

It is not just asset managers who are coming to terms with the new levels of reporting and disclosure, but, equally, we acknowledge the challenges our clients are facing to meet their regulatory commitments.

At Neuberger Berman we offer a range of Article 8 and Article 9 funds as designated under the SFDR and are here to support clients through the regulation challenges they face.

**Oversight of ESG Integration**

Investment professionals throughout the firm are responsible for incorporating material ESG factors in portfolios and investment research. A high percentage of our professionals have ESG responsibility as a part of their role. As much as ESG is a common thread across all that we do at Neuberger Berman, our ESG Committee has top-down responsibility for overseeing ESG integration and activity across the firm.

The ESG Committee is chaired by the Head of ESG Investing and composed of senior investment professionals, including the Chief Investment Officer for Equities and representatives from Equity, Fixed Income and Private Equity teams. The ESG Committee also includes our Chief Risk Officer and senior professionals from our client coverage organization, as well as our legal and compliance teams.

The ESG Committee delegates responsibility for the detailed review of new and existing strategies making an ESG-related claim to the ESG Product Committee to ensure integrity and consistency in their integration of ESG. The ESG Product Committee is responsible for determining whether portfolio managers systematically and explicitly include material ESG considerations as a factor in their investment analysis and investment decisions for all securities. The ESG Product Committee is also responsible for determining the SFDR classification of in-scope funds and segregated mandates. In addition to ongoing monitoring by risk and internal audit teams, the ESG Oversight Committee provides an annual review of all sustainable and impact-labeled products.

Neuberger Berman also has a dedicated ESG Investing team, which is responsible for setting the firm’s global ESG Strategy in collaboration with the ESG Committee and after consultation with portfolio managers, CIOs and our CEO. The ESG Investing team drives the implementation of the global ESG strategy by deepening the integration of ESG themes into new and existing investment strategies. The ESG Investing team also coordinates the firm’s approach to proxy voting and engagement, works with research teams on innovating our proprietary ESG assessment of companies and issuers, and provides thought leadership that highlights our ESG research in order to encourage dialogue and share best practices.

The ESG Investing team’s work is supported by ESG working groups at the asset-class level that are responsible for providing context-specific expertise and assisting with education and implementation among the investment teams.

For additional detail on asset-class specific ESG philosophies, please reference our ESG Policy.

**Monitoring Progress**

We monitor the progress we are making and are continually enhancing the integration of ESG into our investment processes. Relevant indicators of progress include the proportion of assets under management that are formally ESG-integrated, our score in the PRI assessment report each year, the effect of ESG analysis on portfolio performance, the impact of our engagement and proxy voting activities, and whether we are meeting the needs of our clients for ESG-integrated solutions.

Given the dynamic and evolving nature of ESG factors that are material to investment performance, we are committed to continued innovation and improvement.
Proprietary ESG Ratings and Analysis

At Neuberger Berman, we have long believed that material ESG characteristics are an important driver of long-term returns. Our proprietary analyst-informed rating system, NB ESG Quotient, captures ESG considerations with potentially material impacts on financial performance at both the company and portfolio levels, and informs investment strategies across asset classes.

Developed through a collaboration of the ESG Investing team and NB’s Global Equity and Fixed Income Research teams, this custom rating measures performance on ESG issues that we have identified as material across corporate and sovereign issuers. As shown in the NB Materiality Matrix, we have identified material ESG factors in each of 73 industries (e.g., privacy in the technology sector or raw material use in packaging). We then employ three broad tools to measure performance in each category: available third-party ESG data, non-traditional ESG data and, most significantly, input from our research analysts on hard-to-measure factors such as net-zero transition opportunities, equity, inclusion and diversity (“EID”), and expected governance impacts. The result is an industry-relative rating, or NB ESG Quotient, on separate Environmental and Social (ES) and Governance (G) characteristics for over 7,000 equities and 2,500 credit issuers.

Over the past year, we have focused on two key aspects of our ESG analysis process: leveraging our dynamic model to consistently refine inputs and enhancing our use of non-traditional ESG data in partnership with our Data Science team.
Dynamic Inputs & Data Science Insights

As material ESG factors evolve, the NB ESG Quotient evolves with them. We review the factors with sector analysts at least annually to determine if new material factors have emerged and whether there is a more accurate way to capture them. Qualitative analyst inputs are generated by our central research analysts in partnership with the ESG Investing team for areas where there is limited data availability. Currently, our model includes over 40 custom analyst inputs.

Furthermore, through our ongoing partnership with NB’s Data Science team, we also continuously integrate alternative data sources that go beyond third-party ratings. NB ESG Quotient already integrates alternative data from job postings, publicly available databases (OSHA, etc.), and employment review websites.

This year, we particularly focused on using Big Data to elevate our understanding of human capital trends. We onboarded a new dataset that allows us to conduct deep dives on companies where disclosure on EID is lacking. This collaboration between the Neuberger Berman ESG and Data Science teams led to the construction of 15 unique EID indicators.

Through a historical backtesting exercise, we identified certain of these 15 indicators had a material impact on shareholder returns for the U.S. banking sector. We discovered that gender pay gap and minority pay gap in particular have historically been correlated with stock performance for this industry. These indicators were subsequently integrated into the NB Quotient for the U.S. banks. The ESG big data landscape is constantly evolving. We will continuously evaluate new and innovative data providers to enhance our proprietary ratings where corporate disclosure may be lacking.

HISTORICAL SHAREHOLDER RETURNS FOR U.S. BANKS DIFFERENTIATED BY GENDER PAY GAP

HISTORICAL SHAREHOLDER RETURNS FOR U.S. BANKS DIFFERENTIATED BY MINORITY PAY GAP
DEVELOP SYSTEMATIC AND ASSET CLASS-SPECIFIC ESG RATINGS BY COMPANY

NB ESG Quotient Company Rating Example: Financials – U.S. Commercial Banks

Quantitative evaluation of the bank’s credit exposure to the oil and gas sector and its emission reduction targets. Analyst evaluation of bank’s net-zero methodology to assess resilience to climate change.

Leverages third-party data provider’s measurement of data privacy and security protection practices.

Combines proprietary data science analysis of equity, inclusion, and diversity information with third-party evaluation of human capital and training practices.

Analyzes green financing opportunities and the bank’s policies and procedures related to integrating ESG across its lending platform.

Analytical studies conducted on the relationship of material ESG factors to investment performance.

Qualitative analysis, including reviewing specific compensation metrics and looking in detail at board capabilities.

<table>
<thead>
<tr>
<th>ENVIRONMENTAL &amp; SOCIAL</th>
<th>Bank #1</th>
<th>Bank #2</th>
<th>Bank #3</th>
<th>Bank #4</th>
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<tr>
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<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
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<td>Access to Finance</td>
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<td>Climate Risk</td>
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<td>Overall G Rating</td>
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<td>Risk Management Expertise</td>
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<td>Board Gender Diversity</td>
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Central Research Analyst’s view of the environmental, social and governance characteristics of a company on material factors relative to the peer group. For environmental and social, A – D quartiles where A is best, D is worst. For governance, 1 – 4 quartiles where 1 is best, 4 is worst.
Global Sustainable Equity

Sustainability is deeply entwined with a company’s financial performance
Sustainable investing is a multidisciplinary investment philosophy that seeks positive returns by considering the financially material consequences of companies’ impact on society and the environment.

The Global Sustainable Equity team believes there are potential financial benefits from investing in high-quality, resilient, properly governed companies, including those that address unmet and growing environmental and social needs. It also engages companies to help their transition to resilient and more responsible business models.

Strategy Overview
The Neuberger Berman Global Sustainable Equity strategy is a risk-controlled sustainable investment opportunity that uses a robust multidisciplined, bottom-up ESG analysis approach to invest in high-quality companies on a global scale.

• Focus on high-quality companies with durable growth and resilience through downturns
• A concentrated portfolio of 40 – 60 holdings, typically at the lower end of that range
• Fundamental analysis of sustainability attributes specific to companies and their value chains, not an exclusion-based or top-down screen or an approach reliant on third-party assessments

• An integrated screening policy, which excludes companies that conduct highly controversial behavior and those with very poor ESG assessments scores
• Engagement is at the core of the process

A consistent and repeatable process from research to investment
The team’s focus is on materiality, momentum and engagement. They incorporate proprietary, bottom-up environmental, social and governance (ESG) analysis, focusing on material issues that affect a company’s sustainability and financial performance; and company engagement helps to identify ESG momentum and non-quantitative idiosyncratic risks. ESG is deeply embedded at different levels in the investment process:
The team seeks to identify “Transition Winners” in what it considers to be the major “Value Chains” in the modern economy, whose durable competitive advantages are to some extent due to their positive impact on the environment and society through their operations and practices or their products and services—defined and benchmarked by the UN Sustainable Development Goals (SDGs). The team believes that proprietary research is necessary to locate truly sustainable companies with potential for additional alpha.

In having a strong integrated sustainability engagement model, the team also engages with companies—not only to look at current sustainability issues, but also to help companies with their transition to more resilient and more responsible business models, with a focus on innovation and continuous improvement.

This strategy is also managed in line with our firmwide commitment to the Net Zero Asset Managers Initiative. The team seeks to have at least 90% of the portfolio’s assets under management (AUM) invested in companies with science-based (“SBTi”) validated targets (or equivalent as assessed by Neuberger Berman’s net-zero sector alignment methodology) by 2030, and aims to reach 100% of the portfolio’s AUM by 2050. Additionally, the team plans to reduce its portfolio’s carbon footprint across scope 1, 2 and material scope 3 GHG emissions by a minimum of 30% by 2030 relative to a 2019 baseline, with a subsequent decline to net zero by 2050.
Our Net-Zero Commitment

Neuberger Berman recognizes the impact of climate change and the urgent need to accelerate the sustainable transition toward global net-zero emissions. We have long been committed to identifying and managing climate risks across our business and investment platform. In March 2019, we released our first Climate-Related Corporate Strategy in line with the recommendations of the Task Force on Climate-Related Disclosures. Since then, we have made substantial investments in data-driven climate scenario analysis capabilities, instituted its Thermal Coal Involvement Policy and expanded the number of climate-focused engagements we carry out with portfolio companies. Finally, in November 2021, we joined the Net Zero Asset Managers Initiative, committing to supporting investing aligned with net-zero emissions by 2050 or sooner.

We draw on the practical work we have done in partnership with clients to share conclusions on the journey to net zero.

1. **Carbon reductions today are more valuable than carbon reductions in the future.**
   Carbon emissions are cumulative, as they stay in the atmosphere between 300 and 1,000 years. Reducing emissions now increases the probability of limiting global warming to 1.5°C.

2. **The initial 25 – 30% reduction in a portfolio’s carbon footprint is easier to achieve.**
   The final 50% is harder, because it depends on companies’ adoption of nascent low carbon technologies. We recognize that each sector will decarbonize at a different rate, and have brought our Global Equity and Fixed Income research teams together with the ESG Investing team to determine sector-level alignment indicators that can be used by investment teams to measure progress toward net zero over time.

3. **The earlier the net-zero goal, the more asset owners need to allocate to climate solutions.**
   Our proprietary Climate-Integrated Strategic Asset Allocation has multiple levers that can be tailored according to client needs, including pension fund and insurance portfolios. The model can be modified to include climate-related risk and opportunities, and carbon footprint constraints. Using these inputs, we reconstruct a climate-integrated efficient frontier that can give directional insights to asset allocators. Our model suggests that there needs to be a shift to investing in low carbon solutions to achieve net-zero alignment.
4. Engagement with corporations is a necessary tool to influence real economy emissions. We believe that companies should consider the long-term impact of climate change on their business model and operations, and that all issuers should identify key environmental risks to their business. Divestment is one tool in our arsenal, but as active managers, we know that targeted climate engagement can yield effective results.

5. In a net-zero state, avoided emissions cannot be used as offsets because emissions must be balanced by permanent carbon removal. However, avoided emissions can still serve as an important marker of the impact of climate solutions. Avoided emissions occur when a product or service is substituted by a less carbon-intensive alternative. Our impact strategies measure avoided emissions as part of their climate solutions analysis.

6. Carbon allowances (regulated instruments used in cap-and-trade schemes) or carbon removal units are the only viable instruments to achieve net-zero alignment, according to industry associations such as the Institutional Investors Group on Climate Change.

Target Setting and Implementation

Ultimately, we are committed to partnering with our clients as they increasingly seek to have their assets managed in line with a net-zero objective. To achieve this ambitious goal, we have focused on setting a robust interim target and measurement process.

First, we worked with our ESG Advisory Council, who advised us to set an absolute carbon reduction target that is flexible across asset classes, geographies and sectors. Thus, we adopted carbon footprint over carbon intensity as our emissions metric and normalized the emissions value by the portfolio’s market value adjusted for any change in asset flows over time. In the context of ‘fair share’, we adopted a capability approach, encouraging each net-zero committed portfolio manager to reduce financed emissions to the extent of their ability, guided by our net-zero sector alignment indicators.

Second, we aimed to set a target that is realistic within the constraints in which we operate, including real economy emissions trajectories and data limitations. Our interim target is set in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement. To maximize the ambition of our target, we chose to include material Scope 3 emissions in our target-setting approach, but recognize that data availability and integrity needs to improve over time. Furthermore, we acknowledge that the current lag in emissions data disclosure may present a challenge to net-zero reporting, but are hopeful that increasing regulatory requirements globally to report on climate-related metrics will better align these timelines. Despite these data challenges, we believe that keeping a consistent methodology over time appropriately estimates a fund’s carbon footprint evolution. We are likewise working on alternative estimation methods for our sovereign and private equity portfolios.

Given all these considerations, our net-zero committed portfolio managers can choose from the following two target options:

A. 50% reduction in carbon footprint across Scope 1, 2 and material Scope 3 emissions by 2030 relative to a 2019 baseline and a subsequent decline to net zero by 2050.

OR

B. Achieve >90% of portfolio (by value) with science-based (SBTi) validated targets (or equivalent as assessed by NB’s net-zero sector alignment methodology which conforms with the IIGCC target-setting guidance) by 2030 and to achieve 100% of the Portfolio’s AUM by 2050.

AND

Minimum 30% reduction in carbon footprint across Scope 1, 2 and material Scope 3 emissions by 2030 relative to a 2019 baseline and a subsequent decline to net zero by 2050.
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 Task Force on Climate-Related Financial Disclosures (TCFD). Multiple scenarios estimate the impact of warming average temperatures at levels of less than 1.5°C, 2°C and 3°C. The analysis measures physical climate risks, such as the impact of extreme weather events, wildfires and floods, as well as transition risks, which are business risks associated with the net-zero transition. Different securities and companies will have varying levels of exposure to physical risk depending on the nature of their business models and physical locations. 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 ("CVaR") for the portfolio.

**CLIMATE VALUE-AT-RISK HIGHLIGHT**

- **Equities Climate Value-at-Risk**
  - Over 15 Years
  - EQUITIES CLIMATE VALUE-AT-RISK
  - 1.5 DS
  - 2 DS
  - 3 DS
  - 0%
  - -4%
  - -8%
  - -12%
  - -16%
  - NB Equity Book
  - Benchmark

- **Fixed Income Climate Value-at-Risk**
  - Over 15 Years
  - FIXED INCOME CLIMATE VALUE-AT-RISK
  - 1.5 DS
  - 2 DS
  - 3 DS
  - 0%
  - -4%
  - -8%
  - -12%
  - -16%
  - NB Fixed Income Book
  - Blended Benchmark

NB equity book climate Value-at-Risk vs. benchmark is lower in varying scenarios. NB FI book climate Value-at-Risk vs. benchmark is lower in varying scenarios.
Of the 15 companies with the highest equity CVaR, NB has engaged with 11 to proactively mitigate climate risks.

Of the 15 companies with the highest CVaR, NB has engaged with 9 to proactively mitigate climate risks.
Each year, we host the ESG Investing Challenge in conjunction with internationally leading business schools. During the Challenge, students worked with the firm’s professionals who served as student mentors and judges. For this year’s theme, we chose net-zero investing. Students were encouraged to identify an investment that met a dual objective: positive impact and financial performance.

We were thrilled with the many submissions we received. Of the 21 teams that provided an investment pitch for their company of choice, six were chosen to progress to the finals, where they presented their investment pitch to the judges. Ultimately, we selected two winning teams, with the choices reflecting our belief in the need to focus both on decarbonizing carbon-intensive industries and investing in climate solutions. The first team presented an auto parts manufacturer with a focus on sustainable mobility products, and the second team presented a farming and industrial solutions company, highlighting its position as a climate leader within a traditionally high-emitting industry as an opportunity to maximize environmental impact.

We look forward to continuing to meet students’ growing interest in ESG Investing and to expanding our business school collaborations in the years to come.
Climate Transition Multi-Sector Credit Strategy

A relative value strategy with embedded net-zero objectives

Achieving the ambitious goals of the 2015 Paris Climate Agreement requires substantial shifts in capital allocation. Lenders, as providers of new capital and critical refinancing, have a key role in directing it toward companies that are creating climate solutions or adapting to a low carbon economy, and away from carbon-intensive industries with no possibility of alignment.

Strategy Overview

- A relative value, credit-focused strategy with flexibility to invest across sectors, rating cohorts and geographies
- Outperformance objective of 4 – 5% p.a. over the cash rate over the cycle
- Designed to have a portfolio carbon footprint (Scope 1 & 2) that declines by around 7% per year to be around 20% lower by 2025, 50% lower by 2030 and net zero by 2050
- Similar for holdings with material Scope 3 emissions

Building a net-zero investment solution requires a multi-tool approach

Neuberger Berman was awarded its first Climate Transition Multi-Sector Credit mandate with the goal to deliver a portfolio with net-zero Scope 1 and 2 emissions by 2050. Net-zero investment solutions should have simple and clear objectives from the outset with milestones in between, such as 2025 and 2030 emissions reduction targets, to measure to success. Transparency of metrics is key. We choose to measure annual declines in attributable portfolio emissions, as well as deploying climate scenario analysis to pinpoint where risks reside at a granular, company level.
Integrating climate considerations into an investment solution is not simply about investing in companies with the lowest emissions today, it is also about robust quantification of companies’ future climate risks.

There is no one-size-fits-all for quantifying risks. A top-down approach can be a useful guide, but difficult to discern what good and bad looks like at the company level given sector nuances.

Company emissions data is backward-looking and is no guide to the future path to decarbonization. Systematic data approaches fail to capture real-time progress and commitments; this highlights the necessity of untangling these assumptions to get a clear picture of how companies are actually seeking to align to net zero.

To solve for this, we are developing a framework to help us assess net-zero transition plans from the top down and bottom up, taking into account company- and sector-level nuances. While integrating traditional measures, we go beyond them, allowing our existing investment strategies to assess the opportunities fully.

Our climate transition indicators bring together our Global Equity and Fixed Income research teams to jointly determine appropriate sector-level alignment indicators. This serves to inform portfolio construction for our net-zero committed strategies.

Net-zero investment requires a multi-tool approach that includes setting ambitious and transparent goals, agreeing on minimum standards, measuring risk and opportunity, and engaging with at-risk companies to encourage mitigation strategies.

In addition, every net-zero journey will be different, and changes in regulation and legislation will require dynamic, adaptable investment solutions that can be calibrated to clients’ specific and evolving needs.
Passive ESG: The Data Conundrum

There’s no substitute for nuanced analysis and judgment in ESG investing. In our view, a passive approach to ESG investing that is based on mechanical rules-based implementation of third-party ESG data is fraught with data-quality issues.

The vast majority of ESG data today is unaudited. It is largely based on self-disclosure by companies, which is nonstandard and ranges in level of transparency from company to company. While there have been some attempts in the industry to even the playing field, such as the CDP and Sustainability Accounting Standards Board (which take very different approaches), disclosure is generally far from standardized. For example, only about 25% of U.S.-listed companies disclose all the requested material ESG data, and disclosure rates are even lower in small-cap equities and emerging markets equities.

In addition to its lack of standardization, the disclosure also tends to be backward-looking. Companies voluntarily respond to questionnaires from the data providers, typically once a year, using prior-financial-year data. As such, at any point in time, the resulting third-party ESG ratings based on disclosures today could have a 12- to 18-month lag. As active managers, engaging directly with company managements, we come across situations where the ratings and their corresponding explanations may not reflect more recent changes and adjustments in corporate practices.

Third-party ESG ratings providers have their own methodologies to take in all the information disclosed by companies and fill in the missing gaps. This process is typically based on top-down assumptions, by sector and then peer group. These approaches can result in unintended consequences by sometimes missing out on material nuances that are specific to a company’s business model, regional exposure and business mix. In contrast, bottom-up fundamentals-based approaches can allow for deep-dive nuanced analysis of material ESG issues.

Such differences can result in very different outcomes, as evidenced by low correlations between third-party ESG ratings providers. While no one would suggest building a portfolio based on credit ratings alone, even where there is a higher level of correlation between ratings providers, it is better than using third-party ESG ratings, which do not offer such confidence on the underlying assessments of material ESG issues.

More recently, leading sustainability standard-setting organizations have moved to integrate the disparate sustainability reporting frameworks into a comprehensive reporting system that would include both financial and sustainability disclosure. In addition, evolving data science capabilities offer much progress and opportunity for gleaning additional ESG insights in investment research. However, the evolving frameworks and the enhanced tools to parse ESG data still require nuanced human judgment and deep domain expertise to thoughtfully analyze ESG issues in the context of bottom-up business analysis.

For more discussion on passive ESG products, see our publication, Insights: Why Passive ESG Fails to Deliver.

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2 See https://www.sasb.org/about/sasb-and-other-esg-frameworks/.
### SAMPLE THIRD-PARTY RATINGS AND UNDERLYING CONCERNS

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<tr>
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<th>Third-party Rating</th>
<th>Third-party Rating Issue</th>
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<tbody>
<tr>
<td>Paint company</td>
<td>BBB</td>
<td><strong>Top-down assumptions and stale information:</strong> Did not take business mix differences into account in peer relative evaluation of company, in addition to focusing on a 100-year-old issue that is no longer relevant to current mix.</td>
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<tr>
<td>E-commerce company</td>
<td>BB</td>
<td><strong>Generic assumptions:</strong> Regarding reduced employee morale simply based on acquisitions by the company.</td>
</tr>
<tr>
<td>Airline company</td>
<td>BB</td>
<td><strong>Generic assumptions:</strong> Concerns around labor management issues suggesting operational risks while engagement with company suggested otherwise.</td>
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<tr>
<td>Industrials company</td>
<td>BBB</td>
<td><strong>Missed information:</strong> Concerns around lack of risk management experience in audit committee because of scraping bios, instead of a detailed review of skills and experience matrix provided by company in its proxy report.</td>
</tr>
<tr>
<td>Industrials company</td>
<td>BBB</td>
<td><strong>Lack of disclosure:</strong> Relatively new public company with limited disclosure on sustainability issues, which doesn’t necessarily imply poor business practices.</td>
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Source: Neuberger Berman. Represent examples of issues identified in the process of our company research and due diligence.

### ACTIVE ESG STRATEGIES HAVE HISTORICALLY BEEN MORE SUCCESSFUL THAN PASSIVE OVER MARKET CYCLES

Percentage of time in which active ESG strategies outperform the passive ESG index after fees September 2010 – September 2021. Rolling Three-Year Monthly Returns.

![Bar chart showing percentage of time active ESG strategies outperform passive ESG index.](chart.png)

Source: Morningstar. For illustrative and discussion purposes only. Morningstar category net average annualized return covering 98 (rolling three-year returns) time periods (September 2010 through September 2021). Weighted averages are based on the number of Sustainable Investment - Overall labeled ETFs, passively managed open-end U.S.-domiciled funds and actively managed open-end U.S.-domiciled funds with three-year track records as of September 30, 2021, including funds that have been liquidated. Performance is based on funds’ oldest share class and compared to the MSCI World ESG Leaders Index for Equity, Bloomberg Barclays MSCI Global Aggregate Sustainable for Fixed Income. Morningstar defines “Sustainable Investment” as a fund that explicitly indicates any kind of sustainability, impact or ESG strategy in their prospectus or offering documents. The U.S. registered investment companies (ETFs, mutual funds) are used as the source of the analysis due to the consistency of their performance calculation, uniformity in the performance presentation, regulatory oversight and transparency of their investment strategy, along with the objectivity of the Morningstar categorizations. Please note that there are differences between separate account strategies and mutual funds, and each has their own separate and distinct peer universe. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**
Delivering Sustainable Pensions

The Canada Post Corporation Pension Plan manages over CAD$30 billion ($24 billion) for its 100,000 members. We spoke to its first Director of ESG Investing, Karen Lockridge, about the progress made since she joined the Plan two years ago.

You are just over two years into your tenure at the Canada Post Pension Plan. What have been the key milestones on the sustainability journey so far?

Karen Lockridge: The Board of Canada Post Corporation had a strong emphasis on sustainability across its organization, and by 2019 it was ready to get the pension plan aligned. Having such a clear mandate from the plan sponsor is powerful. The first milestone was to sign up to the United Nations-supported Principles for Responsible Investment (PRI) and put together a three-year roadmap identifying two strategic ESG priorities: climate change and diversity, equity and inclusion (DE&I).

Momentum picked up when Irshaad Ahmad joined as our CIO in February 2021. He came from Allianz Global Investors in London and brings a lot of experience of how ESG has evolved in Europe. Irshaad led the development of our first set of Investment Beliefs, two of which relate explicitly to ESG factors. We also undertook scenario analysis with Mercer and Ortec in 2021, looking at the energy transition as well as the physical impacts of climate change. A key conclusion was that a failure to aggressively reduce emissions would expose the plan to increasing physical risks that would negatively impact financial returns across all asset classes, regions and sectors. That led to a recommendation to the Pension Committee to commit to managing its investment portfolio in line with achieving net-zero greenhouse gas (GHG) emissions by 2050 or sooner, and to develop a Climate Action Plan.

The most recent milestone I’d identify involves Neuberger Berman directly. We included a special addendum on Responsible Investing Requirements in our Investment Management Agreement (IMA) to ensure alignment with our net-zero commitment. We talk about it with our peers, with advocacy groups and with other asset managers. We want to get other asset management partners onboard with it, as we think it will open the door to more collaborative and coordinated action on climate change. That’s important for a lot of reasons, but I’ll give one example. I’ve been asking managers that are signed up to the Net Zero Asset Managers Initiative whether the strategy they manage for us is covered by their net-zero commitment. Often it is not, because they generally start their transitions in specific ESG and sustainability strategies. The Initiative calls for engagement with the clients on this journey, and we hope to see more of that to help us achieve our own net-zero goals—I think talking through things like the addendum in our IMA can start that conversation.
Can you talk us through your Climate Action Plan?

**Karen Lockridge:** It’s a work in progress, at an early stage of development. That said, it is underpinned by a philosophy, shared by the investment team and the corporate Board, that favors engagement and stewardship over divestment and exclusion. We believe that recognizes what the real objective is. When you consider the commitment statements of the Net Zero Asset Owners’ Alliance or the Paris Aligned Investment Initiative, for example, there’s a clear emphasis on emissions reduction in the real economy; this is about reducing climate-related risk in our portfolio at the company level, but it’s mostly about reducing systemic risks that threaten the entire portfolio, and indeed the ability of our members to live in a comfortable retirement. At the same time, we can only affect real-world change through the companies in our portfolio. Therefore, while we and our asset managers may use exclusions to reduce portfolio risks, or to recognize that a company isn’t responding to engagement, we regard stewardship as the only truly impactful way to pursue the change we need. In my view, that is why good stewardship became so prominent after the Great Financial Crisis: systemic risks, whether financial, societal or environmental, demand proper oversight from asset owners and not just selective divestment.

This is another area where we would like to build on our asset manager relationships. We have engaged directly with some of the key North American companies through our two internally managed investment sleeves, tracking the Toronto Stock Exchange Composite and the S&P 500 Index, but we recognize the limitations of that approach and want to enhance our leverage in partnership with our external managers.

**Is advocacy with government and regulators an important part of your strategy, as well as engagement with companies?**

**Karen Lockridge:** It is—in fact, I would underline it. Different sectors and companies have differing incentives on sustainability questions. As an independent advocate, we can help to cut through that to help regulators create a truly level playing field for competition. I’d highlight our response to the Canadian Securities Commission’s recent consultation on Disclosure of Climate Related Matters. It was strongly worded, asking for more stringent disclosure requirements than proposed, and warning that if Canada falls behind international standards, companies may find it more difficult to raise capital.

**Where will you focus after the climate and DE&I strategic priorities?**

**Karen Lockridge:** We focused on climate risk because it is so prominent and urgent, and on DE&I because the COVID-19 pandemic and the George Floyd incident raised a lot of awareness, and because it is such a priority for Canada Post itself, as a large Canadian employer. You’ll have noticed that Indigenous Rights have a special place in our IMA with Neuberger Berman. It’s an area of focus for us. We recently rolled out a five-hour online training course on indigenous culture awareness which we expect all of our pension investment staff to take. The course was developed by the indigenous consulting group NVision Insight. The training raised awareness of historical and ongoing injustices and it coincided with discoveries of unmarked graves of indigenous children at former residential schools. Our staff were really appreciative that Canada Post was making this training available, as these are things that were not covered when we went to school.

There are other issues that are strategic to Canada Post that may inform where we focus next. Accessibility and waste management are two good examples. Our business depends upon thousands of postboxes and post offices all over Canada being accessible to the elderly and the disabled, and our operations involve a lot of packaging, which we are working hard to make more sustainable. High standards on issues like these that are material to Canada Post are important to the investment team because they show us “walking the talk.” It would be difficult for us to demand certain standards from external asset managers and portfolio companies if Canada Post didn’t take its own sustainability and ESG risks seriously.

For now, our focus is still on climate and DE&I, but because these sustainability issues are often interrelated, we find that we are already making inroads on additional goals, such as the Sustainable Development Goals.

**Would the Canada Post Pension Plan ever consider impact investing?**

**Karen Lockridge:** Our number one purpose is to pay pensions. To do that, we need financial returns. Our most recent asset-liability study led to discussions of having a public equity climate-transition allocation, or strategy with a similar sustainability objective, in order to gain more formal exposure to sustainability opportunities. But it would need a performance benchmark comparable with standard financial benchmarks, so the bar is set very high. We are looking for those types of opportunities. For example, in real estate, affordable housing investments can provide an opportunity to earn returns by addressing a market failure that has damaging social consequences. But whatever we opt to do, there can never be a trade-off against potential return.

*The Canada Post Corporate Pension Plan spoke with Neuberger Berman in London on March 22, 2022.*
NB Impact Themes

We believe the 17 United Nations’ Sustainable Development Goals (SDGs), adopted in 2015 to address the world’s most pressing social and environmental challenges by 2030, are important to formulating and communicating objectives of sustainable and impact investment strategies. At Neuberger Berman, we have organized the SDGs into consistent, investable themes across our strategies and believe investors can contribute to the SDGs by investing in or engaging with companies whose products and services have the potential to deliver significant positive social or environmental outcomes.

<table>
<thead>
<tr>
<th>SOCIAL</th>
<th>ENVIRONMENTAL</th>
</tr>
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<tbody>
<tr>
<td><strong>Drive</strong> sustainable and equitable growth</td>
<td><strong>Combat</strong> climate change and enable energy transitions</td>
</tr>
<tr>
<td><strong>Improve</strong> positive health and safety outcomes</td>
<td><strong>Conserve</strong> natural environment</td>
</tr>
<tr>
<td><strong>Promote</strong> gender and racial equality</td>
<td></td>
</tr>
</tbody>
</table>
The NB Private Equity Impact Strategy primarily invests in direct and fund investments that seek to achieve positive social and environmental outcomes that are aligned with the United Nations Sustainable Development Goals (UN SDGs) and that also meet NB Private Equity’s traditional underwriting standards. Examples include the following:

**SMART WIRES\(^1\)**

**Challenge:** Grid constraints are growing globally due to aging infrastructure and increasing power demand, and the adoption and distribution of renewable energy is often limited by existing infrastructure.

**Contribution to Solution:** Company’s modular power flow control solutions allow utilities to more effectively utilize existing transmission system capacity and help improve renewable energy integration into the grid.

One of the Company’s customers, National Grid Electricity Transmission (NGET), named Smart Wires as the technology behind the world’s first large-scale use of power flow technology, unlocking 1.5GW of network capacity—enough transmission capacity to deliver renewable energy to 1 million homes and support the United Kingdom’s net-zero ambitions.*


**INNOVACARE\(^2\)**

**Challenge:** Aging demographic and associated health care costs, especially related to elderly and low-income dual-eligible populations.

**Contribution to Solution:** Company is facilitating the provision of essential health services to an exclusively in-need patient base. Structure of the delivery model generally incentivizes the delivery of high-quality care that leads to better health outcomes over the long term.

The Company managed Puerto Rico’s largest MA plan, reaching more than 267,000 MA members and over 305,000 Medicaid members. Anthem is acquiring the Puerto Rico subsidiaries of the Company, announced in February 2021.**


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\(^1\) The Impact Fund invested in Smart Wires, in partnership with Lime Rock New Energy. Smart Wires designs, manufactures and deploys modular power flow control solutions that allow utilities to control power flows on their high-voltage transmission systems.

\(^2\) The Impact Fund invested in Innovacare, in partnership with Summit Partners and Athyrium. Innovacare is a managed care organization (MCO) delivering Medicare Advantage (MA) and Medicaid integrated health plans and clinical care models.
Collaborations and Engagements with the Industry

We recognize that we have a responsibility to improve the functioning of capital markets as a whole by encouraging the broader implementation of ESG investing activities. We believe this can best be achieved by working collaboratively with clients and others in the investment industry, including by engaging with individual companies and whole industries, conducting joint research on ESG topics, and supporting the creation and adoption of industry-standard ESG disclosures.

While we support many highly impactful groups and initiatives, each year we seek to particularly focus our efforts where we feel our leadership can make a unique and significant difference.

Neuberger Berman continues to actively contribute to the PRI’s work by showing ongoing support for ESG in Credit Risk and Ratings Initiative and has seen a significant positive response from credit agencies as a result. In 2021, we continued to serve as a member of PRI’s Private Equity Advisory Committee (PEAC), a collaborative group that advises the PRI on its private equity initiatives. Additionally, we were a member of the PRI EU Taxonomy Practitioners Working Group, meeting regularly throughout the year to collaborate on implementation with peers and participating in interviews to support the PRI’s EU Taxonomy research.

We are proud to have been named to the 2020 Leaders’ Group for our efforts to assess, manage and disclose climate risk and opportunity across our investment strategy. Only 20 asset managers of the 2,400+ investment manager PRI signatories were awarded this designation.

Neuberger Berman is a proponent of the Value Reporting Foundation, which houses the Integrated Reporting Framework and SASB Standards. SASB aims to develop and maintain standards for public company ESG disclosures using a rigorous process of evidence-based research. The SASB Standards identify a number of ESG and sustainability topics that most directly impact long-term value creation.

As a founding member of the SASB Alliance and the SASB Standards Advisory Group, we continue to be involved with SASB in a number of ways. Our Chief Investment Officer of Equities, Head of ESG Investing, and Global Research ESG Engagement Director serve as members of the Investor Advisory Group (IAG). We have investment team members on several of the SASB Standards Advisory Groups, and we are members of the APAC Working Group of the IAG. As part of this work, we have published a case study showing how we integrate the SASB Standards into Japanese equity strategies.
Transition Pathway Initiative (TPI)
Neuberger Berman is a Research Funding Partner of the TPI, which is a global asset owner-led initiative that assesses companies’ preparedness for the transition to a low carbon economy by encouraging companies to set practical targets and increase disclosure. Our support has helped the TPI team to broaden coverage and continue making their important analysis a public good. We have incorporated this analysis into some of our proprietary ESG ratings, and will continue to leverage this tool in our investment processes.

UN Global Compact (UNGC)
Neuberger Berman is a signatory of the UN Global Compact and is committed to aligning our operations with universal principles on human rights, labor, environment and anti-corruption, and to taking actions that advance societal goals. In 2021, Neuberger Berman submitted its third Communication on Progress (COP), demonstrating the firm’s commitment to implement the Ten Principles, and qualified for the Global Compact Advanced Level.¹

Asian Corporate Governance Association (ACGA)
Our Director of Japan Investment Stewardship assumed the role of the Chair of the Japan Working Group (JWG) of the Asian Corporate Governance Association (ACGA) in 2021. The Group is comprised of approximately 112 asset owners and managers with a combined assets under management of US$40 trillion and its mission is to support the improvement of corporate governance across companies in Japan. The Chair manages the Group’s mid-term strategy, which includes collaborative engagements with key institutions in Japan’s investment chain, including companies, and in the future, with regulators and industry associations. The Chair will also be supporting ACGA’s thought leadership initiatives, such as publishing open letters and white papers on key issues related to Japan’s corporate governance.

Institutional Investors Group on Climate Change (IIGCC)
Neuberger Berman is a member of the Institutional Investors Group on Climate Change (IIGCC), a leading global investor membership body and the largest in Europe focusing specifically on climate change. Through our IIGCC membership we support and help shape the public policies, corporate action and investment practice required to address climate risks. In 2021, we hosted a virtual GP webinar with the Institutional Investors Group on Climate Change (IIGCC), who provided a preview of a forthcoming paper on net-zero alignment in the private equity context.

Oxford University Initiative on Rethinking Performance (ORP)
Neuberger Berman is a partner of the Oxford University Initiative on Rethinking Performance (ORP). Increasingly, businesses recognize that they need to understand and demonstrate how they create value beyond financials. The management of systemic risks related to issues such as climate change and global inequality is as pertinent to enhancing stakeholder well-being as it is to the capture of business opportunities and the creation of shareholder value. ORP works with members like us to understand the issues companies are trying to resolve, and to identify ways in which corporate purpose can be measured and the costs of delivering products and avoiding problems can be tracked.

¹ Global Compact Active COPs meet minimum requirements, including a statement by the Chief Executive expressing continued support for the UNGC and renewing the participant’s ongoing commitment, a description of practical actions the company has taken or plans to take to implement the Ten Principles of the UN Global Compact and a measurement of outcomes.
Collaborative Engagements

Climate Action 100+
Neuberger Berman is an investor participant of the Climate Action 100+ initiative.² Through the Climate Action 100+ initiative, we partner with like-minded investors to work with companies to ensure they take necessary action on climate change. We are the lead investor for an aerospace company and the leading manufacturer of commercial jet transports. In 2021, we engaged with the company, both independently and as the Climate Action 100+ lead investor, and we are pleased with the steps the company has taken toward the oversight of climate issues and disclosure of emissions.

The CDP Science-Based Targets Campaign
The Science Based Targets initiative (SBTi) is an independent organization that assesses the alignment of emission reduction targets set by companies with the Paris Agreement. We joined 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. In 2020, this included being a signatory on letters sent to over 1,800 companies globally. As of September 2021, over 380 companies included in the campaign have agreed to set science-based targets, while the campaign continues to reach out to the remaining companies.

To see a complete list of our memberships, please see our Stewardship report.

² Climate Action 100+ is an investor initiative launched in 2017 to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change.
Engagement and Proxy Voting
Our Approach to Engagement

Engagement is core to our investment process—whether to inform our investment decision or as part of our stewardship of the asset. We look for companies where we can constructively exchange insights with Board members and management teams. Much of our engagement with issuers arises organically from the investment diligence process, but we are also increasingly focused on ensuring that the same attention and intensity are sustained throughout our stewardship of the asset. We also recognize that while the core propositions of dialogue with companies—diligence, accountability and the exchange of views—remain important, the practice has also seen the development of new, important dimensions, namely more information about companies from external sources, and the appetite for transparency and reporting around engagement practices and outcomes.

The first of those developments has meant more of our conversations focus on peer comparisons of external markers, questions such as “why does the company not provide disclosure on issues its peers do?” or “why is progress on material risks not as ambitious as those of other companies?” On the second point, we are working hard to provide our clients and stakeholders with more information about how we engage, on what topics and what our outcomes are. This commitment to more transparency led to the publication of our first-ever Stewardship Report, which we intend to update on an annual basis.

We believe that engaging with issuers is an essential part of being a long-term active owner, and that engaging with issuers on ESG topics can improve their performance and reduce their risk profile. With our long-term relationships with companies, Neuberger Berman’s investment teams are well positioned to engage with companies on these key issues. In 2021, we conducted 3,162 equity engagements and 1,463 fixed income engagements.
As an active owner, we employ a variety of engagement tools depending on the issuer, the issue being discussed and the accessibility of the issuer. Since our engagement efforts with a given issuer typically span a multiyear period, it is common to utilize multiple methods of engagement, such as one-on-one meetings with company management teams, formal written communication, proxy voting and industry collaborations.

While the overwhelming majority of our engagement is done in collaboration with companies and their management teams, we strongly 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 not be a top-down dictated approach, but rather investment-driven, taking into consideration matters such as investment objectives, issuer-specific circumstances and our history of engagement.

Where a company does not respond to our concerns or our concerns have not been sufficiently addressed, we may take escalated action such as withholding support from directors, supporting a shareholder proposal, sending letters to the board of directors, making our concerns public, or joining a collaborative initiative, amongst others. The escalation tools leveraged will depend on the rights available to us and the circumstances of the case in question. Importantly, escalation methods are not exclusive and when an escalation method is utilized, we continue to seek to drive change through private one-on-one engagements.

**ENGAGEMENT OVERVIEW**

**PUBLIC EQUITY**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Total Engagements</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENVIRO.</td>
<td>3,162</td>
</tr>
<tr>
<td>SOC.</td>
<td>1,463</td>
</tr>
<tr>
<td>GOV.</td>
<td>1,463</td>
</tr>
</tbody>
</table>

**TOP ENVIRONMENTAL TOPICS**

- Green opportunities
- Environmental reporting
- Pollution and mitigation management
- Waste/water management

**TOP SOCIAL TOPICS**

- Community/government relations
- Human capital management
- Labor relations
- Workforce relations
- Health & safety

**TOP GOVERNANCE TOPICS**

- Long-term business strategy
- Capital structure
- Risk management
- Board independence and quality
- Disclosure and financial control
- Compensation structure

**’One engagement can extend across environmental, social and governance categories.”**
The following case studies provide examples of our engagement activities and outcomes on a range of material topics across different markets, asset classes and sectors. Our work in this area is the best reflection of our investing culture—built around being well informed, with clear views, and ready to use all the tools at the disposal of investors to protect and enhance the value of our clients’ investments.

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>INCENTIVES</th>
<th>BOARD INDEPENDENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopt, formulate and communicate value-enhancing long-term strategies</td>
<td>Align management and board incentives with long-term shareholder goals</td>
<td>Effective boards of directors must be truly independent</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>SHAREHOLDER REPRESENTATION</th>
<th>CAPITAL DEPLOYMENT</th>
<th>TRANSPARENCY AND COMMUNICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strive to maximize shareholder representation</td>
<td>Allocate capital to maximize long-term risk-adjusted shareholder value</td>
<td>Provide transparency in communication and reporting</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>RISK MANAGEMENT</th>
<th>ENVIRONMENTAL ISSUES</th>
<th>SOCIAL ISSUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boards of directors should actively engage with management to evaluate and control enterprise risk</td>
<td>Consider the material impacts of their business operations on the environment</td>
<td>Actively assess the material impacts of their business and operations on their employees, customers, local communities and society</td>
</tr>
</tbody>
</table>
Evoqua Water Technologies (“Evoqua”) is a leader in water treatment equipment and services. Historically under private ownership, it emerged as a public company in 2017 and became increasingly interested in improving disclosure and performance on ESG issues. With a relationship since the IPO and as shareholders since 2020, we noted specifically that it lacked ESG or impact reporting and had no targets to reduce its environmental impact. Additionally, Evoqua did not disclose diversity statistics in its public reporting.

Scope and Process: We began engaging with Evoqua in 2020, with discussions becoming more frequent over the course of 2021, as its executives and sustainability team explored options for setting environmental impact targets. The company came to us with various proposals that, while headed in the right direction, were short of what we considered industry best practices. We encouraged them to go further by introducing Science Based Targets (SBT) for emission reductions and water conservation. We also stressed the importance of increasing transparency on diversity, equity and inclusion. As part of this, we asked for additional disclosure on gender and minority representation within the company’s workforce and senior leadership.

Outcome and Outlook: In April 2021, Evoqua disclosed diversity statistics in its global workforce and senior leadership as well as minority and veteran representation in its U.S. workforce. The company also announced diversity initiatives including a diversity-focused referral program, a diverse supplier program and shared that it would ensure diverse interview panels when hiring senior leadership. In November 2021, the company announced goals for achieving net-zero emissions by 2050, supported in the interim with a commitment to set SBTs by 2023 and a goal for 2035 to recycle and reuse more water than is withdrawn by company operations. Going further, Evoqua incorporated these targets, along with safety targets, into its employee compensation program for 2022.

We continue our partnership with Evoqua on ESG best practices in the supply chain and potential impact targets around water treated or conserved for customers through its products and services.
Broadening Financial Access

**Background:** OneMain Financial is the largest nonprime installment lender in the U.S. and engages in inclusive practices such as lending to underserved communities, with 25% of its customers living in credit-insecure or credit at-risk communities. Through a proactive, long-term process, we encouraged OneMain to take incremental steps to provide access to finance for underserved communities while enhancing its commitment to responsible underwriting and improving disclosure.

**Scope and Process:** Our focus was to leverage our long-term relationship with management to guide them toward incorporating best-in-class ESG policies and establish long-term objectives that would reinforce the company’s commitment to responsible underwriting and expand its lending efforts for underserved communities and populations.

Our diligence process included 20+ discussions with senior management, including the CFO, chief risk officer, treasurer, general counsel, investor relations and equity stakeholders. We engaged with the company to establish an ESG strategy and enhance disclosures of its policies. In our view, formally establishing and publishing its ESG framework would increase transparency and reinforce the company’s commitment to responsibly servicing its communities and underserved customer population. We encouraged OneMain to establish a best-in-class social bond framework and engaged on the importance of transparency in oversight, reporting and performance tracking.

**Outcome:** OneMain released its first ESG report in July 2020 and established its social bond framework in 2021, which aligned with the International Capital Market Association’s Social Bond Principles 2020, received a third-party alignment opinion from Standard & Poor’s, and is intended to align with UN Sustainable Development Goals 1.4, 8.10 and 10.2. OneMain issued its inaugural social bond in June 2021, for which we served as an anchor order in the $750 million issuance.

**Key Details:**
- **Issue:** Financial Inclusion and ESG Disclosures
- **Category:** Social
- **Strategy:** Non-Investment Grade Fixed Income
- **Sector:** Finance

**Authors:**
- **RACHEL YOUNG**
  - Co-Director of Research and Senior Research Analyst
Background: CVSG is the largest integrated veterinary services provider in the U.K., with a presence in the Netherlands and Ireland. Its more than 400 U.K. sites include first opinion practices and referral hospitals, and its operations extend to laboratory, cremation and online retail. Long a key contributor to animal welfare and care, we believe CVSG had the potential to improve the extent and quality of its practices and disclosures.

Scope and Process: Over several years, we engaged with CVSG on many occasions regarding business fundamentals and management. In 2019, the company experienced a business crisis where we intervened with detailed strategic advice and then watched as CVSG was able to “right its ship.” Extensive dialogue continued, with regular in-person meetings, site visits and conference calls involving multiple senior executives, with the focus shifting more squarely on material ESG topics.

Specifically, we suggested that the company seek to (1) improve its ESG disclosures, (2) focus on factors that were material to the business and (3) engage with ESG rating agencies to promote better understanding of its initiatives and impact. Its human capital policies and practices were particularly relevant given the essential role of its workforce in maintaining effectiveness and cost-efficiency. We also proposed the introduction of key performance indicators (KPIs) to help the company more effectively track and report its progress over time.

Outcome and Outlook: The company accepted our recommendations and acknowledged the need to improve its external communications on ESG, which previously focused on internal information-sharing. Last year, for the first time, CVSG included ESG factors as part of its standard earnings reporting slides. It also began engaging on sustainability with MSCI, which upgraded its rating to AA in March 2021 thanks to better disclosures. Also, CVSG is working to improve its reporting on sustainability, and it expects to publish a sustainability update with relevant KPIs in its 2022 annual report. We have been pleased to see the company improve its human capital management practices. The firm’s emphasis on quality of care, as well as qualitative and monetary support for its staff, continued to drive improved retention and new hires, leading to a decline of its vacancy rate from 12% in 1H 2018 to 7.5% in 1H 2021.
Japan Governance: A Small Cap Company’s Big Step Forward

**Background:** Japan is undergoing significant corporate governance reforms, with the revision of its governance code in 2021 and the introduction of new requirements to occupy the preferred TSE Prime section of the Tokyo Stock Exchange. Many large companies are well prepared for this transition, but many smaller companies are working hard to catch up. As part of our focus on improving corporate performance around sustainability, we have had a receptive audience for our ideas. One example is the operator of a small Japanese company that runs the country’s largest press release distribution platform, which faced conflict of interest issues based on its majority ownership by a large technology company.

**Scope and Process:** Since April 2020, we have engaged with the company on a number of key issues, including corporate governance (board independence and diversity), capital management (share liquidity) and material equity, environmental and safety issues. We started by meeting repeatedly with the company president, focusing on how the company could mitigate its conflict-of-interest issues. Moving into 2021, the discussion broadened to seek greater board independence in order to be aligned with the revised corporate governance code, which requires majority board independence or the creation of a special committee of independent directors and auditors, as well as the need to improve board diversity (there were no female directors at the time). We also addressed the company’s liquidity, noting that it fell short of the 35% “free-float” share requirement needed to meet new listing requirements starting in April 2022.

**Outcome and Outlook:** In September 2021, the company announced that it would apply to become a member of the stock exchange’s TSE Prime section, and introduced a plan to be in compliance with the revised corporate governance code. It also announced the retirement of a board member from the parent company, replacing him with a female external director with strong management and board experience—still a rarity in Japan. In addition, the company negotiated a partial sale of the parent company’s ownership stake, allowing the company to meet exchange requirements.

Looking ahead, the next step will be to accelerate dialogue with the company around the mid- to long-term capital relationship with its parent and to strengthen measures around the protection of minority shareholder value in the event the company makes a final decision on its capital structure. In the interim, we will also be holding more concrete discussions on addressing material issues tied to cybersecurity, human capital management and responsible marketing.

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**ISSUE**
Board Independence and Diversity, Capital Management

**CATEGORY**
Governance, Social

**STRATEGY**
Japan Equity

**SECTOR**
Media/Technology

KEI OKAMURA
Director of Japan Investment Stewardship
The Workforce Diversity Imperative

**Background:** Our team has built positions in leading retail companies that we believe are poised to benefit from investments in omnichannel capabilities. Given the human capital intensity of retail, we believe retailers that foster supportive and inclusive work environments are more likely to deliver financial outperformance. Following the U.S. anti-racism protests in 2020, many companies publicly pledged to increase their commitment to diversity and inclusion. Additionally, the ongoing pandemic fueled labor shortages that created headwinds for organizations reliant on customer-facing roles. In this environment, our team engaged with the senior management of five retail holdings to examine their commitment to equity, inclusion and diversity (EID).

**Scope and Process:** To facilitate comparison across companies, we developed a series of questions around EID practices, disclosures and goals material to financial performance and to developing a more equitable society. Through our analysts’ longstanding relationships, we arranged meetings with management to pose the questions and gauge the responses. Overall, we found that the companies were keenly interested in moving forward in these areas, although some were at a more advanced stage than others.

Among the leaders, one large retailer has long championed diversity, and we believe that its EID efforts have enhanced its business. Specifically, a diverse workforce has helped it drive creativity, for example leading it to introduce cosmetics and food offerings catering to a wider array of ethnic and racial groups, and building broader and deeper connections with customers. Based on our use of proprietary web traffic data, we were able to confirm that this EID-enabled “creativity engine” was helping to attract more consumer interest than for a key competitor.

Another company explained that it is working to introduce progress on diversity goals into executive compensation formulas—a key step forward which we believe demonstrates its importance and establishes accountability. In contrast, some mall-based retailers had given EID topics limited attention, and were unable to provide meaningful data on their practices. They generally acknowledged that more work needs to be done, particularly as it relates to narrowing diversity gaps between stores and headquarters—hence our ongoing support for their investment in “upskilling” and other efforts to drive career mobility.

**Outcome and Outlook:** Our team was pleased that these companies were focusing on EID while acknowledging potential areas of improvement. In our view, a business’s talent often drives success, making staff well-being a key priority, particularly in employee-intensive sectors like retail. Although much has been accomplished over the past couple of years to combat pay, gender and racial inequality, we have found that few companies have incorporated EID metrics into management compensation, something we advocated for in our engagement campaign. Adding a “social” component to management’s incentives is essential to drive change and should rank with more traditional financial metrics in assessing company performance. Importantly, we understand that companies may be at different stages of their EID journey. Thus, we can serve as a resource for those who are just getting started, as well as offer perspective to those who are more advanced and may wish to fine-tune their efforts.
Making Sustainable Investing the Standard

UBS Global Wealth Management stewards $3.1 trillion* of assets for clients in 45 markets across 5 continents. We spoke to Andrew Lee, Head of Sustainable and Impact Investing, about making sustainable portfolios the “preferred choice above traditional investments” for those clients.

**UBS claims to be the first truly global wealth management organization to make sustainable investing portfolios its “preferred choice above traditional investments.” What does that mean, in practice?**

**Andrew Lee:** It reflects our view that sustainability risks and opportunities matter for investment performance, and signals how important we think this dynamic will be for the development of the investment management industry. Our conversations with clients suggest that many of them share this view and are on the same path of prioritizing sustainability. Integrating sustainability at the core of our asset allocation and portfolio construction approach produces portfolio solutions that are well positioned to deliver long-term risk-adjusted returns across market cycles and meet the evolving expectations of our clients. Further, in addition to thinking about factor, style, sector, asset class and geographic balance, we also emphasize diversification from a sustainability perspective. Clients benefit from exposure to asset classes and strategies that approach sustainability differently, ranging from companies demonstrating leadership on ESG operational management, to companies whose business models address specific sustainability themes like climate change or healthcare, to development bank bonds and active strategies designed to drive positive social or environmental impact through engagement. The universe of available (and credible) sustainable investments has expanded significantly in recent years, and we see ample potential for further innovation across asset classes and strategies in the coming years, which should accrue to investors’ benefit and support additional portfolio diversification.

**In 2019, UBS’s then-chairman, Axel Weber, stated that the UN Sustainable Development Goals (SDGs) will not be achieved until more people are aware of them and more solutions are available to the public. How has UBS Global Wealth Management been raising awareness of the SDGs with its clients?**

**Andrew Lee:** We embrace the SDGs as an important common framework for discussing the challenges that can be addressed by investors alongside governments, philanthropists, corporations and other key stakeholders. However, the awareness and understanding of the SDGs can vary widely among clients. We think that the financial services industry has a key role to play in raising awareness of the SDGs and mobilizing capital to address these urgent challenges.

*AUM figure as of 1Q22.
To this end, we’ve been incorporating SDGs into the investment views we share with clients since adoption of the goals in 2015, whether in sustainability-specific discussions, thematic discussions, or more general communications. We do this to highlight the need for action and the risks inherent in not tackling these problems, as well as the commercial investment opportunities that can drive progress on these issues.

Beyond awareness, it is clear that more capital and credible solutions are needed to effect positive change. Engagement has long been an asset manager tool to improve corporate business performance on a variety of issues, and the SDGs had emerged as an effective frame for such engagement dialogue on sustainable development challenges and opportunities. And investors are showing increasing interest in driving real-world environmental and social change with their investment capital. We introduced our SDG Engagement concept as part of our sustainable strategic asset allocation framework back in 2018, seeking to bring these objectives together in a dedicated investment approach focused on using engagement to deliver potential positive change on SDG challenges. Today, SDG Engagement strategies in equities and fixed income represent some of the key components which are designed to deliver positive impact in public markets within these diversified portfolios.

How easy is it for your asset management partners to engage on behalf of your clients as lenders, as opposed to as shareholders?

Andrew Lee: Great question. Clearly bondholders, in a different position in the capital structure, may have different interests than those of equity holders. Nonetheless, the interests of these two investor types will have meaningful overlaps, especially from a long-term perspective. Both are able to utilize engagement to support their interests, but the avenues for engagement may differ. Shareholders have voting rights and a clear voice, with their primary leverage based on their power to divest and sell shares to another buyer. Bondholders, on the other hand, do not have voting rights, but are regularly asked to provide fresh capital, offering them opportunities to influence use of proceeds of the bonds and make their priorities known. If they withhold financing, companies may not always find it easy to raise alternate replacement capital. In many cases the lending proceeds may finance critical new projects, which makes it important for capital providers to take a view and make their strategic and operational priorities known.

UBS has genuinely global reach. What ESG and sustainable investing trends have you seen across your markets? How do UBS and your advisors work to identify each client’s specific sustainability objectives, and tailor solutions to meet those specific objectives?

Andrew Lee: The overarching trend we see across regions is that private client interest in sustainable investing continues to grow despite market volatility. We think this is motivated not only by the recognition that sustainability matters for all investments, but also by growing investor interest in driving positive change with their capital.

With regard to specific sustainable themes in focus for clients, there are more similarities overall across the globe, albeit with some identifiable regional differences. For example, clients in the Asia-Pacific region appear to be more attuned to environmental, pollution and climate issues than peers in Europe or the United States. Overall, however, private clients globally generally express common interest in the following broad areas: climate change and natural resources (including related areas like pollution and waste), with healthcare and other people issues like diversity, equity and inclusion not far behind. These themes are of interest to clients both from a “biggest risks” and “biggest opportunities” perspective.

Personalizing portfolios to reflect these and other private client sustainability preferences is important given that everyone has distinct interests, which are often informed by their professional or philanthropic priorities. So tailoring can help improve portfolio fit with investor preferences and increase stickiness of capital. Yet we also aim to balance individual personalization with the potential to leverage common areas of client interest to motivate more investment into collective investment solutions at scale that can then signal or exert greater shared influence on portfolio companies toward more sustainable behavior or outcomes.

When selecting investment strategies for sustainable portfolios, UBS assesses different elements of their approach, including people, process, philosophy, performance, risk and pricing. Is there a particular area that tends to pose the hardest challenge, or requires the most improvement in the industry?

Andrew Lee: Impact investing strategies are some of the most exciting solutions within the asset management industry, thanks to the potential real-world social or environmental change they aim to deliver alongside competitive financial performance. Yet delivering credibly on that promise is challenging for fund managers to do properly. Significant investment of time and resources is needed to establish a rigorous and repeatable investment process that truly incorporates impact. For example, we’d expect strategies to do this throughout their lifecycle, from identifying opportunities for positive change, developing clear theory of how to drive that change through investment and active involvement, managing progress toward impact objectives, working to ensure that change is persistent, and verifying that it did in fact benefit relevant stakeholders. Clearly there’s a lot here. The Operating Principles for Impact Management provide a guide to the key elements that investors should expect from strategies positioned as impact investments.

In our view, the time and resource investment by asset managers should be more than worthwhile. The global sustainability challenges we collectively face are growing, and investors increasingly express interest in having their capital drive tangible real-world change. We believe that our industry, our firm, our partners and our clients have a key role to play in working together to drive interested capital and action toward building a more just and sustainable world.
Sustainable Emerging Market Debt – Hard Currency Strategy

Promoting sustainability in the emerging world

While Environmental, Social and Governance (ESG) issues are now a leading topic of conversation in emerging markets, we think the more active, engaged and forward-looking perspective of genuinely sustainable investing is critical to meet the particular needs in these regions. One reason is that sovereign ESG scores systematically favor richer countries. Another is that certain UN Sustainable Development Goals (SDGs) have more impact than others in economically developing countries, and demand more focus. We believe an effective approach to emerging sovereign sustainability needs to counter the challenges of data limitations, take a holistic view of the concept of sovereign sustainability, and bring it somewhat in line with the better-established concept of corporate sustainability.

Strategy Overview

• Aims to outperform the JPMorgan JESG EMBI Index by investing primarily in hard currency emerging markets debt issued by countries that comply with the strategy’s sustainable investment criteria.

• Focused on three key sustainability objectives:

1. Climate-change preparedness: portfolio tilts based on the income-adjusted Notre Dame Global Adaptation Initiative Country Index (ND-GAIN)

2. Progress on the UN SDGs: portfolio tilts based on the Sustainable Development Report and UNDP Human Development Index

3. “Do No Harm” and Minimum Thresholds: portfolio guidelines, including exclusions to reduce ESG tail risks
An active approach to sustainability in emerging markets

We believe standard sovereign ESG ratings can be misleading and even lead to undesirable outcomes. Richer countries tend to have stronger institutions and lower social inequality, which is why the World Bank calculates that 90% of the variation in sovereign ESG scores can be explained by differences in per-capita national income. If money follows ratings, economically developing countries miss out on funding for SDGs. That is why we advocate a forward-looking perspective: we can look more favorably on poorer countries with lower third-party ESG ratings even than countries we exclude, if they show strong progress.

Importantly, we also think that this forward-looking perspective influences the sustainability goals that an investor should emphasize. In the emerging world social goals, life expectancy and education are key because they create the essential foundations for enhancing so many other SDGs.

We also see an increasing role for engagement. While country-level progress can be slow and modest, it can contribute to better performance in key areas such as carbon emissions, global tax transparency and corruption, money-laundering and terrorism financing.
Approach to Proxy Voting

We believe that proxy voting is an integral aspect of investment management. Accordingly, proxy voting must be conducted with the same degree of prudence and loyalty accorded any fiduciary or other obligation of an investment manager. Neuberger Berman has developed custom Proxy Voting Guidelines that comprehensively lay out our voting positions, including the potential financial impact on a company from corporate governance, environmental and social issues. These Guidelines are updated as deemed appropriate and reviewed at least on an annual basis.

NB Votes

Bringing Transparency and Accountability to Proxy Voting

In 2020, we launched NB Votes, an advance proxy vote disclosure initiative in which our firm announces 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. In 2021, we disclosed key votes and supporting rationales at 62 of our portfolio companies, double the amount disclosed in 2020.

The 2021 proxy season showcased important trends in shareholder engagement and active measures to improve company disclosures and policies around a range of issues. The number of proposals increased from 2020, as did shareholder support. Moreover, the array of matters expanded, with an increased focus on environmental and social issues.

The backdrop for this momentum was the truly extraordinary period we have been living through—the challenges of the COVID-19 pandemic, calls for racial justice and reduced inequality, and the growing urgency of climate change. In this environment of greater engagement between shareholders and boards, we accelerated our efforts around NB Votes. Now in its second year, this program seeks to amplify our voice by pre-announcing a select array of our voting choices balanced across issues and with a balance of votes in support and against management recommendations. The program underscores our commitment to bringing more transparency into the proxy voting decision-making process and, while we remain the only large asset manager providing regular advanced disclosure, we encourage others to do the same to create a better-functioning system.

Our goals are as follows:

- Encourage the companies we invest in to take steps to enhance long-term value for our clients
- Improve the transparency of our voting process, for the benefit of clients and the companies
- Demonstrate the fundamental, long-term focus of our investment teams, which informs our vote decisions

In 2021, we disclosed votes at 62 of our portfolio companies where our clients had material economic exposure and where we identified significant issues for our clients. Of our votes disclosed in advance, we took positions against management 48% of the time and for management 52% of the time. A particular outcome in regard to supporting or opposing management was not our goal, but rather we vote in the best interest of our clients, including where we wanted to make our position known, with the understanding that the process of modifying policies and practices may take more than one “bite at the apple”.
While our vote may not be in that majority in the first year, it can provide an important signal indicating the direction we would like the company to pursue.

We sought to balance our pre-announced votes across multiple areas of interest (see our Governance and Engagement Principles below), as well as between pro and con positions, to help highlight our thinking. In this turbulent environment, we felt it was important to zero in on issues we believe are particularly important for companies and stockholders, including operation during the pandemic (including compensation), management of environmental risks, and thoughtful equity, inclusion and diversity (EID) policies, all of which could help paint a picture of management and business quality. Moreover, with corporate engagement expanding globally, we sought to make our presence known in a broader array of markets with one-third of the disclosed votes at international companies.

Pre-announcement of proxy voting intentions is in its infancy and key organizations are highlighting the practice as an effective tool to advance change. As an active manager, we believe that ongoing engagement with corporate managements and boards, including the active use of our proxy votes, is an important means to creating value for clients. By extension, the pre-announcement of our voting choices through the NB Votes program amplifies our impact, helps companies understand what we are seeking to achieve, and, in our view, encourages best practices across industries and among our investor peers. Looking forward, we will watch the follow-through of managements and boards in relation to our votes, and continually assess our own practices to ensure that we are focusing on the right matters and using our leverage in the most effective ways. Throughout this report we discuss several votes we disclosed through the initiative. For a full list of the votes disclosed in 2021, please see our publication, NB Votes: 2021 Neuberger Berman Proxy Voting Positions.
Voting Statistics

In our consideration of the voting decision, we look to balance the expectation that we set a high bar for board effectiveness while acknowledging the information asymmetry between shareholders and company management. This means that we must, at times, begin with the assumption that management and the board are carrying out their duties faithfully; however, it does not mean that we are shy about voicing our concerns through engagement and voting. We feel it is important to reiterate that our public voting policy, and not deference to management, is always our default position.

We find ourselves opposing many proposals that are either unclear in their alignment with shareholder interests or at odds with our judgment of the best course for the company. This is reflected in both the 89% of management proposals that we supported in the last year and the 11% we opposed. We opposed management on at least one item at 42% of meetings. Some of the main areas of opposition for management proposals involved director elections, management compensation, and share issuances without a clear case for the dilution. Main drivers of management opposition for shareholder proposals were related to political spending and lobbying disclosure, the separation of chair and CEO, and the elimination of supermajority provisions.

Management and Shareholder Proposal Vote Distribution for 2021

Management and Shareholder Proposal Distribution

MANAGEMENT PROPOSALS (46,470 VOTED)

- Supported Proposal: 89%
- Opposed Proposal: 11%

SHAREHOLDER PROPOSALS (666 VOTED)

- Supported Proposal: 43%
- Opposed Proposal: 57%

Source: Neuberger Berman. Data for the calendar year 2021.
Management Proposals

<table>
<thead>
<tr>
<th>Management Proposals</th>
<th>Supported Proposal</th>
<th>Opposed Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AUDIT-RELATED</strong></td>
<td>5,587</td>
<td>293</td>
</tr>
<tr>
<td>Appointment of Auditor</td>
<td>549</td>
<td>36</td>
</tr>
<tr>
<td><strong>BOARD-RELATED</strong></td>
<td>24,528</td>
<td>2,848</td>
</tr>
<tr>
<td>Election of Directors</td>
<td>21,835</td>
<td>2,299</td>
</tr>
<tr>
<td>Ratification of Board Actions</td>
<td>715</td>
<td>66</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>211</td>
<td>16</td>
</tr>
<tr>
<td><strong>CAPITAL MANAGEMENT</strong></td>
<td>2,346</td>
<td>519</td>
</tr>
<tr>
<td>Authority to Issue Shares</td>
<td>640</td>
<td>209</td>
</tr>
<tr>
<td>Increase in Authorized Common Stock</td>
<td>75</td>
<td>10</td>
</tr>
<tr>
<td><strong>CHANGES TO COMPANY STATUTES</strong></td>
<td>1,568</td>
<td>215</td>
</tr>
<tr>
<td>Adoption of Majority Voting for the Election of Directors</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Amend Articles, Constitution, Bylaws</td>
<td>413</td>
<td>39</td>
</tr>
<tr>
<td>Elimination of Supermajority Requirement</td>
<td>61</td>
<td>0</td>
</tr>
<tr>
<td><strong>COMPENSATION</strong></td>
<td>4,677</td>
<td>962</td>
</tr>
<tr>
<td>Advisory Vote on Executive Compensation</td>
<td>1,456</td>
<td>276</td>
</tr>
<tr>
<td>Stock Option Plan</td>
<td>141</td>
<td>66</td>
</tr>
<tr>
<td><strong>MERGERS AND ACQUISITIONS</strong></td>
<td>528</td>
<td>21</td>
</tr>
<tr>
<td>Divestiture/Spin-off</td>
<td>59</td>
<td>2</td>
</tr>
<tr>
<td>Merger/Acquisition</td>
<td>265</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Neuberger Berman. Data for the calendar year 2021.

The above table profiles broad categories and select examples of our voting activity on management proposals in 2021. Each case is unique, but the high-level picture reflects our views on issues such as director elections, share issuances and executive remuneration, and how often those proposals met our expectations. The particular positions that led to our opposition on these issues are articulated in our Proxy Voting Guidelines, but are most commonly a reflection of concerns on the clarity of disclosure or the structure of executive compensation plan or capital management practices of a company.
KEY MANAGEMENT PROPOSAL VOTES IN 2021

**COMPANY:** Berkshire Hathaway Inc.  
**MEETING DATE:** May 01, 2021  
**PROPOSAL:** Director Elections (members of the Governance, Compensation and Nominating Committee)  
**OUR VOTE:** Against  
**VOTE RESULT:** 95.9%

**OUR RATIONALE:** The board lacked a leadership role held by an independent director. In cases where the chair of the board is not independent, it is best practice to appoint a lead independent director. Since the chair of the board was not independent and a lead independent director had not been appointed, we withheld support from members of the Governance, Compensation and Nominating Committee.

**OUTLOOK AND OUTCOMES:** In addition to opposing the directors, we sent a letter to the board outlining our concerns with the lack of independent leadership. In September 2021, the independent directors named Susan L. Decker as lead independent director. We believe the appointment of a lead independent director is a meaningful improvement and demonstrates responsiveness to a shareholder concern.

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**COMPANY:** General Electric Co.  
**MEETING DATE:** May 04, 2021  
**PROPOSAL:** Executive Compensation  
**OUR VOTE:** Against  
**VOTE RESULT:** 42.0%

**OUR RATIONALE:** GE was significantly impacted by COVID-19, with significant portions of its business tied to Aviation, Power and Renewables, all of which experienced notable declines in 2020. This resulted in significant share price declines with the stock dipping below $6 for the first time since the 2008-09 financial crisis. We believe the disruption of COVID-19 also delayed the turnaround that GE’s Chairman and CEO, H. Lawrence Culp, Jr. has been trying to accomplish in the business since his appointment in 2018. Given this delay, the board chose to extend Mr. Culp’s employment agreement to secure his retention for two additional years beyond the original agreement. We see Mr. Culp’s leadership as the lynchpin to GE’s successful turnaround and as such are delighted that the Board has extended Mr. Culp’s contract. We have known Mr. Culp for many years and think highly of his leadership capabilities and track record of delivering shareholder value. We are confident that under Mr. Culp’s leadership GE will return to being one of the best large cap multinational companies. We look forward to Mr. Culp’s continued focus on creating long-term sustainable value for our clients that are shareholders.

However, while we support the contract extension, we have concerns with adjustments made to compensation-related performance targets included in the contract. Although the environment was very uncertain in the midst of the pandemic, we generally believe that when performance targets are reduced, potential payout levels should also be lowered. We expect boards to establish performance targets that are sufficiently challenging and believe doing so is of heightened importance for awards granted outside of regularly scheduled compensation plans. We also note that boards at many other companies that were also negatively impacted by Covid-19 did not significantly reduce long-term compensation-related performance targets. For this reason, we intend to vote against the advisory vote on executive compensation consistent with our views on compensation best practices.

**OUTLOOK AND OUTCOMES:** The plan failed to receive majority support. We engaged with the company after the vote to further discuss our concerns and understand the changes the board was considering implementing. We will continue to monitor the plan structure for future changes.

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**COMPANY:** Daibiru Corporation  
**MEETING DATE:** June 24, 2021  
**PROPOSAL:** Elect Director Toshiyuki Sonobe  
**OUR VOTE:** Against  
**VOTE RESULT:** 90.6%

**OUR RATIONALE:** Neuberger Berman believes that companies should allocate capital to maximize long-term, risk-adjusted shareholder value. In this case, we have been long-term shareholders of Daibiru and have been engaging management primarily on capital management and board independence issues, as well as other material ESG issues more recently. Our discussions related to capital management have focused primarily on improving both the return and equity components of return on equity (ROE). On the former, we have asked management to deliver on its commitment to grow its real estate portfolio according to its mid-term plan to ensure long-term growth of its core leasing business. On the latter, we have shared our belief that the company address what we see as a poorly managed balance sheet by considering capital efficiency improvement measures such as selling some commercial real estate to a REIT and to utilize the capital gains to finance growth investments and/or return the surplus back to shareholders. We believe addressing these issues in a constructive manner would help to significantly improve its capital efficiency and strengthen the real estate portfolio that would ultimately lead to sustainable long-term growth of the business. While we acknowledge and view positively the company’s decision to buy back its shares for the first time last fiscal year, we do not believe it sufficiently addresses our concerns. For these reasons, we intend to oppose the reelection of President Sonobe as we see little indication that the company is making tangible progress to addressing its capital efficiency issues.

**OUTLOOK AND OUTCOMES:** In addition to our votes against management, we continue to engage with the company on capital allocation strategy. We will monitor for improvement and consider withholding support from management at next year’s meeting if the company is not responsive.
<table>
<thead>
<tr>
<th>COMPANY</th>
<th>MEETING DATE</th>
<th>PROPOSAL</th>
<th>OUR VOTE</th>
<th>VOTE RESULT</th>
<th>OUR RATIONALE</th>
<th>OUTLOOK AND OUTCOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Sherwin-Williams Company</td>
<td>April 21, 2021</td>
<td>Executive Compensation</td>
<td>For</td>
<td>92.8%</td>
<td>The company responded prudently to the impact of the COVID-19 pandemic by rescinding 2020 base salary increases for top executives and named officers, having the CEO voluntarily forego a previously approved increase to target and maximum payout opportunities, and adjusting the achievement level for sales targets. Although we are wary of discretionary adjustments, we find that the company’s decision to do so was informed by thoughtful analysis that involved various parts of the business, management and the compensation committee. The adjustment was made with front-line workers in mind to reflect sales-related targets more fairly in the context of store closures and industrial/commercial customers that were shut down for lengthy periods because of the pandemic. As such, the adjustment particularly benefitted store-level associates whose compensation is meaningfully impacted by sales. Further, we believe the adjustment was not material in the context of overall sales representing approximately 1.25% of reported sales. For these reasons, we are voting in favor to signal our support for the company’s sound judgement and mindfulness of employees beyond senior leadership when adapting its executive compensation program to unprecedented circumstances caused by COVID-19.</td>
<td>We believe the adjustments made to the compensation plan in response to the COVID-19 pandemic were appropriate. However, we do not expect adjustments to be made on a regular basis and will closely review any future ones.</td>
</tr>
<tr>
<td>Accton Technology Corporation</td>
<td>July 14, 2021</td>
<td>Election of Directors</td>
<td>For</td>
<td>84.7%</td>
<td>Neuberger Berman believes that companies should adopt, formulate and communicate value-enhancing long-term strategies. Here, we have engaged with the company over the last three years on increasing the independence of the board and adding directors with international experience to improve the company’s overall governance practices and strategy. As a result, the company is seeking to nominate six new independent directors, many of whom are industry veterans with international expertise. With the addition of these new members, Accton will be a leader in the Taiwanese market in terms of board independence with greater than 66% board independence, well above the market requirement of 20% board independence. While we note that none of the independent director nominees are female, the company has committed to identifying a female nominee in the near term. For these reasons, we intend to support the reelection and election of all director nominees.</td>
<td>We would also like the board to increase its gender diversity. We have shared this expectation with the board and will monitor progress.</td>
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</table>
# Shareholder Proposals

<table>
<thead>
<tr>
<th>Shareholder Proposals</th>
<th>Supported Proposal</th>
<th>Opposed Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENVIRONMENTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate Change</td>
<td>38 42%</td>
<td>53 58%</td>
</tr>
<tr>
<td>Environmental Report</td>
<td>10 36%</td>
<td>18 64%</td>
</tr>
<tr>
<td>Climate Lobbying</td>
<td>3 60%</td>
<td>2 40%</td>
</tr>
<tr>
<td></td>
<td>10 91%</td>
<td>1 9%</td>
</tr>
<tr>
<td><strong>SOCIAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Capital Management</td>
<td>73 54%</td>
<td>62 46%</td>
</tr>
<tr>
<td>Reviewing Political Spending or Lobbying</td>
<td>16 80%</td>
<td>4 20%</td>
</tr>
<tr>
<td>Report on EEO-1 Data</td>
<td>31 66%</td>
<td>16 34%</td>
</tr>
<tr>
<td></td>
<td>3 100%</td>
<td>0 0%</td>
</tr>
<tr>
<td><strong>GOVERNANCE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eliminating Supermajority Provision</td>
<td>166 42%</td>
<td>231 58%</td>
</tr>
<tr>
<td>Separation of Chair and CEO</td>
<td>17 94%</td>
<td>1 6%</td>
</tr>
<tr>
<td>Right to Act by Written Consent</td>
<td>27 71%</td>
<td>11 29%</td>
</tr>
<tr>
<td>Declassification of the Board</td>
<td>6 8%</td>
<td>66 92%</td>
</tr>
<tr>
<td>Majority Vote for Election of Directors</td>
<td>7 100%</td>
<td>0 0%</td>
</tr>
<tr>
<td></td>
<td>11 100%</td>
<td>0 0%</td>
</tr>
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</table>

Source: Neuberger Berman. Data for the calendar year 2021.

While the overall number of shareholder proposals we voted on remained relatively consistent year-over-year, we continued to support resolutions that are both material across many sectors and have a high level of standardization. For example, we supported proposals pertaining to environmental reporting and workforce composition data leveraging EEO-1 data at a higher rate, signaling to companies the importance of providing disclosure on material ESG topics. Additionally, given the potential reputational impact of the use of company funds in relation to trade associations and political processes, we continued to support a high percentage of resolutions pertaining to political spending or lobbying activities, including ones focused on climate-aligned lobbying. Below we provide examples of key shareholder proposals to illustrate the factors considered and rationales that underpinned our vote decisions.
### KEY SHAREHOLDER PROPOSAL VOTES IN 2021

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>MEETING DATE</th>
<th>PROPOSAL</th>
<th>OUR VOTE</th>
<th>VOTE RESULT</th>
<th>OUR RATIONALE</th>
<th>OUTLOOK AND OUTCOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phillips 66</td>
<td>May 12, 2021</td>
<td>GHG Reduction Targets</td>
<td>For</td>
<td>79.4%</td>
<td><strong>OUR RATIONALE</strong>: Neuberger Berman believes that companies should consider the long-term impact of their business model and operations, and that all issuers must be able to identify key environmental risks to their business. We will generally support shareholder proposals asking for increased disclosure where our assessment finds that existing disclosure practices are significantly lagging behind recognized frameworks necessary for investors to assess these risks. Here, while the company currently does not have reduction targets for Scope 1 and 2 emissions, earlier this year it publicly stated that it plans to establish targets by the end of 2021. Overall, we believe there is opportunity for the company to strengthen its practices and disclosures pertaining to GHG emissions, such as establishing Scope 1 and Scope 2 reduction targets and interim targets, having these targets certified by the Science-based Targets initiative, and receiving third-party assurance for GHG emissions disclosure. While we recognize the company’s stated commitment to make progress, we believe support for the proposal is warranted given the opportunity for further improvement and to reinforce our support for the company’s intent to set reduction targets.</td>
<td><strong>OUTLOOK AND OUTCOMES</strong>: Since the vote, the company has adopted 2030 targets for its Scope 1, 2, and 3 emissions and has set a 2050 target for its Scope 1 and 2 emissions.</td>
</tr>
<tr>
<td>Netflix, Inc.</td>
<td>June 03, 2021</td>
<td>Political Contributions and Expenditures Report</td>
<td>For</td>
<td>82.3%</td>
<td><strong>OUR RATIONALE</strong>: Given the potential reputational impact of the use of company funds in relation to political processes and activities, Neuberger Berman will generally support shareholder proposals asking for disclosure and/or reports on this issue. Here, the company does not seem to maintain board-level oversight of political activities or a corporate political spending policy. Further, the company does not disclose information regarding its direct or indirect political contributions or its trade association memberships. As such, we believe enhanced disclosures are necessary to better inform shareholders’ evaluation of the company’s risks associated with these activities and to hold the board accountable accordingly. For these reasons, we intend to vote for the proposal.</td>
<td><strong>OUTLOOK AND OUTCOMES</strong>: We sent a letter to the board outlining our concerns regarding board oversight and transparency of political activities. We will continue to monitor progress.</td>
</tr>
<tr>
<td>Union Pacific Corporation</td>
<td>May 13, 2021</td>
<td>EEO-1 Reporting</td>
<td>For</td>
<td>85.6%</td>
<td><strong>OUR RATIONALE</strong>: Neuberger Berman believes topics related to human capital are among the most significant risks and opportunities for companies. We believe equitable, inclusive, and diverse workforces are important elements of a company’s long-term success. We value transparency on workforce composition and information related to human capital policies, practices, and outcomes. There is limited disclosure on workforce composition, and where information is disclosed, it is often not comparable across companies. As such, we encourage U.S. companies to disclose their EEO-1 reports as a starting point and provide supplemental information on their workforce composition and human capital management practices specific to the company. Here, while the company currently provides some disclosure on the gender and racial composition of its workforce, it does not disclose its EEO-1 report. As such, we believe support for this proposal is warranted.</td>
<td><strong>OUTLOOK AND OUTCOMES</strong>: In response to shareholder feedback, the company has enhanced its workforce reporting to include EEO-1 data.</td>
</tr>
</tbody>
</table>

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1 The U.S. Equal Employment Opportunity Commission collects workforce data (EEO-1 data) from employers with more than 100 employees on an annual basis.
### KEY SHAREHOLDER PROPOSAL VOTES IN 2021 (CONTINUED)

| COMPANY: Charter Communications, Inc. | **OUR RATIONALE:** Here, we are supportive of the company providing more disclosure but do not believe the annual vote aspect of this proposal is appropriate. While the company provides some information related to its sustainability initiatives, it fails to disclose a climate change risk strategy, along with its GHG emissions and related reduction targets or plans. In this aspect, the company is in the minority among S&P 500 companies, as a majority are already reporting this information. As a company within the communications services sector, we believe more disclosure on the company’s environmental footprint is warranted. We believe climate action plans are inherently long-term and would not expect these strategic plans to change significantly on an annual basis, therefore making an annual vote potentially less impactful than a vote in connection with material changes to such plans. There are also concerns that this type of proposal could have unintended consequences, such as insulating directors from accountability on climate issues through the mere passage of the advisory vote. For these reasons, we are abstaining from this proposal. |
| MEETING DATE: April 27, 2021 | **OUTLOOK AND OUTCOMES:** We shared our expectations regarding improved climate reporting with the company. Since the vote, the company has included a TCFD index within its ESG Report. |
| PROPOSAL: Annual Shareholder Vote on Emissions Reduction | **OUR VOTE:** Abstain |
| VOTE RESULT: 36.8% |

| COMPANY: First Solar, Inc. | **OUR RATIONALE:** Neuberger Berman believes topics related to human capital are among the most significant risks and opportunities for companies. We believe equitable, inclusive, and diverse workforces are important elements of a company’s long-term success. We value transparency on board and workforce composition and information related to human capital policies, practices, and outcomes. Here, while we recognize that the company’s corporate governance guidelines state that the board considers diversity of gender, race, and ethnicity when assessing director candidates, the board currently has no minority representation and does not appear to have publicly pledged to have a diverse candidate among prospective board nominees. As such, we believe additional disclosure on the board’s approach to seeking diverse candidates is warranted and intend to vote in support of the proposal. Further, while the focus of this proposal is on board diversity, we also believe the company could enhance its disclosures pertaining to workforce equity, inclusion, and diversity. We appreciate that the company appears to be making progress on these topics, for example by recently disclosing gender data by seniority and new hires, but we would encourage the company to provide more details by reporting its EEO-1 data or similar data for the global footprint. Additionally, we would encourage the company to publicly disclose the results of pay equity assessments that the company already undertakes. |
| MEETING DATE: May 12, 2021 | **OUTLOOK AND OUTCOMES:** We engaged with the company and shared our expectations on board diversity. In July 2021, the board appointed a diverse candidate that has experience in solar, investing and development finance. |
| PROPOSAL: Board Diversity Report | **OUR VOTE:** For |
| VOTE RESULT: 90.8% |
Firm Stakeholder Metrics

As we consider ourselves and the companies we invest in, progress across Equity, Inclusion and Diversity (EID) can sometimes appear frustratingly slow. Yet, we must be mindful that material change does not happen overnight and that our efforts today will greatly impact tomorrow. Accountability and measurement will help ensure that our momentum persists toward meaningful progress over time. Our sustainability-linked corporate revolving credit facility ties our borrowing cost to our performance against these key ESG metrics, demonstrating our commitment to leading change in our industry.

Two particular areas of focus have been board diversity and disclosure of diversity-related metrics. We have engaged with many companies on both fronts but, importantly, have also held ourselves accountable.

In September, we welcomed Michele Docharty to our seven-member board as the fourth independent director, alongside Sharon Bowen, Steven Kandarian and Richard Worley. Since 2019, we have increased the gender and racial/ethnic diversity of our board to approximately 29%.

Michele most recently served as Americas Head of Execution Services and Global Co-Head of Synthetic Product Distribution at Goldman Sachs, where she spent more than 30 years, including the last 10 as a partner. Throughout her career, Michele has been a consistent and active proponent of diversity and inclusion, serving on Goldman Sachs’ Americas Inclusion and Diversity Committee and as a senior member of its Hispanic/Latinx Network. She will be a key driver of our continuing commitment to EID and has already engaged with our newest employee resource group, the NB Hispanic and Latinx Network.

Regarding disclosure, we are committed to sharing more detailed diversity statistics. This includes ethnic/racial diversity for U.S. employees and gender diversity for our global employee base, looking at broader statistics and breakdown by corporate title. These metrics were first shared with employees in June 2021 and will be publicly available on our external website in 2Q 2022 (and updated monthly after that). As shown in the following pages, we have made progress on gender and ethnic/racial diversity since 2018, but still have much work to do.

Transparency remains at the forefront of our EID efforts. We will continue to report relevant metrics regarding our employees, client portfolios, environmental impact and community engagement in our ESG Annual Report.
CLIENT PORTFOLIO METRICS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teams with access to environmental,</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>social and governance (ESG) research</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets managed with consistent and</td>
<td>56%</td>
<td>58%</td>
<td>80%</td>
<td>84%</td>
</tr>
<tr>
<td>demonstrable ESG integration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholder meetings voted (#/%)</td>
<td>4,894/99%</td>
<td>4,738/100%</td>
<td>4,774/100%</td>
<td>4,645/99%</td>
</tr>
</tbody>
</table>

Total number of engagement meetings with corporate management teams

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of equity engagements held</td>
<td>1,324</td>
<td>1,173</td>
<td>2,213</td>
<td>3,162</td>
</tr>
<tr>
<td>Number of credit engagements held</td>
<td>1,728</td>
<td>901</td>
<td>1,453</td>
<td>1,463</td>
</tr>
<tr>
<td>% AUM engaged (public equity)</td>
<td>62%</td>
<td>68%</td>
<td>70%</td>
<td>78%</td>
</tr>
<tr>
<td>Percentage of UCITS and mutual funds with 3+ Globes on Morningstar Sustainability Ratings</td>
<td>50%</td>
<td>73%</td>
<td>68%</td>
<td>76%</td>
</tr>
<tr>
<td>Median stock turnover ratio for equity mutual funds</td>
<td>39%</td>
<td>37%</td>
<td>43%</td>
<td>30%</td>
</tr>
<tr>
<td>Number of adverse final judgments in legal proceedings relating to marketing communications of investment products</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

COMMUNITY METRICS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Charitable Giving (inclusive of foundation-giving, employee gift-matching, disaster relief, and business-related charitable giving)</td>
<td>$2,553,479</td>
<td>$2,965,108</td>
<td>$2,852,968</td>
<td>$2,415,357</td>
</tr>
</tbody>
</table>

Firm-sponsored Volunteerism²

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee volunteer hours</td>
<td>5,738</td>
<td>5,759</td>
<td>323</td>
<td>750</td>
</tr>
<tr>
<td>Employee volunteer participation (#) (not unique)</td>
<td>1,861</td>
<td>1,833</td>
<td>147</td>
<td>300</td>
</tr>
<tr>
<td>Unique volunteer participation</td>
<td>64%</td>
<td>58%</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>Firm and regional headquarter locations participating in volunteerism</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>75%³</td>
</tr>
<tr>
<td>Number of projects</td>
<td>166</td>
<td>147</td>
<td>26</td>
<td>35</td>
</tr>
</tbody>
</table>

Beneficiaries

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizations reached through giving</td>
<td>752</td>
<td>614</td>
<td>780</td>
<td>575</td>
</tr>
<tr>
<td>Organizations reached through volunteerism</td>
<td>111</td>
<td>115</td>
<td>21</td>
<td>30</td>
</tr>
<tr>
<td>Number of children/youth/students impacted through giving and volunteerism</td>
<td>496,557</td>
<td>1,176,025</td>
<td>563,499</td>
<td>675,000</td>
</tr>
<tr>
<td>Number of employees sitting on charitable boards</td>
<td>407</td>
<td>246</td>
<td>317</td>
<td>317</td>
</tr>
<tr>
<td>U.S. Minority Women-owned Business Enterprise (MWBE) suppliers</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

¹ Unvoted meetings were typically due to cases where Neuberger Berman determined voting would not be in clients’ best interests for reasons such as the presence of share-blocking requirements or meetings in which voting would entail additional costs.
² COVID-19 restrictions limited our employees’ capacity to engage in volunteer activities during 2020 & 2021.
³ The Tokyo Office was not able to participate in volunteerism in 2021 due to Covid-19 restrictions.
## Employee Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total employees, full-time</td>
<td>2,036</td>
<td>2,178</td>
<td>2,305</td>
<td>2,411</td>
</tr>
<tr>
<td>Total employees, part-time</td>
<td>44</td>
<td>43</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td>Senior investment professional retention rate (MD/SVP)</td>
<td>95%</td>
<td>95%</td>
<td>97%</td>
<td>98%</td>
</tr>
<tr>
<td>Employees with access to benefits (full-time)</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Percentage of firm owned by employees</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Employees with firm ownership (#/%)</td>
<td>~500/~25%</td>
<td>~500/~24%</td>
<td>~550/~23%</td>
<td>~575/~24%</td>
</tr>
<tr>
<td>Portfolio Managers whose compensation is tied to multi-year performance</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Employees with access to skills-based training</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Employees with access to promotion opportunities</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Employees with access to educational assistance</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Staff Diversity (women %)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total staff</td>
<td>35%</td>
<td>37%</td>
<td>37%</td>
<td>38%</td>
</tr>
<tr>
<td>Senior staff (VP+)</td>
<td>26%</td>
<td>28%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>New hires (% women, three-year average)</td>
<td>39%</td>
<td>40%</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total U.S. employees</td>
<td>1,578</td>
<td>1,690</td>
<td>1,732</td>
<td>1,777</td>
</tr>
<tr>
<td>Employees with 15% 401K firm contribution (no required match or vesting)</td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
<td>98%</td>
</tr>
<tr>
<td><strong>Staff Diversity (ethnic minority %)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total staff</td>
<td>29%</td>
<td>31%</td>
<td>31%</td>
<td>34%</td>
</tr>
<tr>
<td>Senior staff (VP+)</td>
<td>20%</td>
<td>22%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Ethnic minority hiring (% of new hires, 3-year average)</td>
<td>35%</td>
<td>38%</td>
<td>39%</td>
<td>45%</td>
</tr>
</tbody>
</table>
## ENVIRONMENTAL METRICS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees using public transportation</td>
<td>88%</td>
<td>89%</td>
<td>10%</td>
<td>33%</td>
</tr>
<tr>
<td>GHG emissions from business travel (Metric tons CO₂e)</td>
<td>5,500</td>
<td>5,000</td>
<td>889</td>
<td>559</td>
</tr>
<tr>
<td>GHG emissions offset from estimated global travel</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Electricity used for regional headquarters (gigajoules)</td>
<td></td>
<td></td>
<td></td>
<td>22,593</td>
</tr>
<tr>
<td><strong>NY Headquarters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Square footage as percentage of total global office space</td>
<td>64%</td>
<td>58%</td>
<td>57%</td>
<td>63%</td>
</tr>
<tr>
<td>LEED certifications</td>
<td>Silver</td>
<td>Silver</td>
<td>Silver</td>
<td>Silver</td>
</tr>
<tr>
<td>Total energy used (gigajoules)</td>
<td>48,499</td>
<td>43,003</td>
<td>38,362</td>
<td>38,315</td>
</tr>
<tr>
<td>Electricity used (gigajoules)</td>
<td>21,508</td>
<td>21,911</td>
<td>19,552</td>
<td>19,020</td>
</tr>
<tr>
<td>Steam used (gigajoules)</td>
<td>26,991</td>
<td>21,092</td>
<td>18,810</td>
<td>19,296</td>
</tr>
<tr>
<td>GHG emissions from energy used (Metric tons CO₂e)</td>
<td>3,420</td>
<td>2,655</td>
<td>2,369</td>
<td>2,347</td>
</tr>
<tr>
<td>Total water used (million gallons)</td>
<td>8.6</td>
<td>8.4</td>
<td>6.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Waste recycled (diversion rate)</td>
<td>47%</td>
<td>53%</td>
<td>59%</td>
<td>59%</td>
</tr>
</tbody>
</table>

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Note: As an employee-owned private firm, this report is not intended as a communication to investors, however the Sustainability Accounting Standards Board (SASB) standards for Asset Management & Custody Activities have helped inform this report. The SASB disclosure topics below align closely with our stakeholder metrics as noted.

1. Transparent Information & Fair Advice for Customers
   i) Number of adverse final judgments in legal proceedings relating to marketing communications of investment products

2. Employee Diversity & Inclusion
   i) Global Staff diversity metrics
   ii) U.S. Staff diversity metrics

3. Incorporation of Environmental, Social, and Governance ("ESG") Factors in Investment Management & Advisory
   i) Assets managed with consistent and demonstrable ESG integration
   ii) Total number of engagement meetings with corporate management teams including both equity and credit

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3 The reported data for the London regional headquarters is half-year data due to the office’s relocation. This was added as a standard metric in 2021.

Source: Neuberger Berman. Data for the calendar year 2021.
ESG Committee Members

Joe V. Amato  
Managing Director, President and Chief Investment Officer – Equities – New York

Jonathan H. Bailey (Chair)  
Managing Director, Head of ESG Investing – London

Ashok K. Bhatia  
Managing Director, Deputy Chief Investment Officer – Fixed Income – Chicago

Anne F. Brennan  
Managing Director, Chief Risk Officer – New York

David M. Brown  
Managing Director, Senior Portfolio Manager and Global Co-Head of Investment Grade – Chicago

Timothy F. Creedon  
Managing Director, Director of Global Equity Research – New York

Tully S. Cheng  
Senior Vice President, Client Strategist – New York

Rob J. Drijkoningen  
Managing Director, Senior Portfolio Manager and Global Co-Head of Emerging Markets Debt – Den Haag

Ingrid S. Dyott  
Managing Director, Senior Portfolio Manager – New York

Daniel P. Hanson  
Managing Director, Senior Portfolio Manager – New York

Corey A. Issing  
Managing Director, General Counsel – Mutual Funds – New York

Hendrik-Jan Boer  
Managing Director, Senior Portfolio Manager and Global Equities Team Group Head – Den Haag
Neuberger Berman’s PRI Assessment Scores

As a result of continued progress over the last several years, Neuberger Berman has received top scores across all categories in the most recent UN-supported Principles for Responsible Investment (PRI) assessment report of Environment, Social and Governance (ESG) integration efforts. See below for a summary scorecard by asset class and by year. Neuberger Berman was honored to also be named to the PRI 2020 Leaders’ Group, a designation awarded to fewer than 1% of investment firms, for our work on climate risk.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>01. Strategy &amp; Governance</td>
<td>A+</td>
<td>A</td>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>Indirect – Manager Sel., App &amp; Mon</td>
<td>A+</td>
<td>A</td>
<td>A+</td>
<td>C</td>
</tr>
<tr>
<td>07. Private Equity</td>
<td>A+</td>
<td>A</td>
<td>A+</td>
<td>B</td>
</tr>
<tr>
<td>Direct &amp; Active Ownership Modules</td>
<td>A+</td>
<td>A</td>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>10. Listed Equity – Incorporation</td>
<td>A+</td>
<td>A</td>
<td>A+</td>
<td>B</td>
</tr>
<tr>
<td>11. Listed Equity – Active Ownership</td>
<td>A+</td>
<td>B</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>12. Fixed Income – SSA</td>
<td>A+</td>
<td>B</td>
<td>A+</td>
<td>B</td>
</tr>
</tbody>
</table>

PRI has delayed publication of 2021 scores. These scores remain up to date. For illustrative and discussion purposes only. PRI grades are based on information reported directly by PRI signatories, of which investment managers totaled 1,924 for 2020, 1,119 for 2019, 1,120 for 2018 and 935 for 2017. All signatories are eligible to participate and must complete a questionnaire to be included. The underlying information submitted by signatories is not audited by the PRI or any other party acting on its behalf. Signatories report on their responsible investment activities by responding to asset-specific modules in the Reporting Framework. Each module houses a variety of indicators that address specific topics of responsible investment. Signatories’ answers are then assessed and results are compiled into an Assessment Report. The Assessment Report includes indicator scores, summarizing the individual scores achieved and comparing them to the median; section scores, grouping similar indicator scores together into categories (e.g. policy, assurance, governance) and comparing them to the median; module scores, aggregating all the indicator scores within a module to assign one of six performance bands (from E to A+). Awards and ratings referenced do not reflect the experiences of any Neuberger Berman client and readers should not view such information as representative of any particular client’s experience or assume that they will have a similar investment experience as any previous or existing client. Awards and ratings are not indicative of the past or future performance of any Neuberger Berman product or service. Moreover, the underlying information has not been audited by the PRI or any other party acting on its behalf. While every effort has been made to produce a fair representation of performance, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for damage caused by use of or reliance on the information contained within this report. Information about PRI grades is sourced entirely from PRI and Neuberger Berman makes no representations, warranties or opinions based on that information.
For more information about Neuberger Berman’s approach to ESG investing, please visit www.nb.com/esg