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VALUE INVESTING | FUNDS

This Value-Focused Fund Doesn't Own Nvidia. It's Beating the Market Anyway.

By Debbie Carlson

Neuberger Berman Sustainable Equity Fund (NBSLX)

	Total Return		
	YTD	1-Yr	3-Yr
NRAAX	9.1%	29.4%	7.4%
Large-Cap Blend Category	5.9	21.5	6.8

Top 10 Holdings

Company / Ticker	% of Assets
Mircosoft / MSFT	9.1%
Amazon.com / AMZN	8.2
Alphabet / GOOGL	6.8
Berkshire Hathaway / BRK.B	4.8
Mastercard / MA	4.8
Cigna Group / CI	4.0
Applied Materials / AMAT	3.7
Interactive Brokers Group / IBKR	3.4
GoDaddy / GDDY	3.1
Cencora / COR	3.0
TOTAL:	50.9%

Note: Holdings as of Feb. 29. Returns through April 15; three-year returns are annualized.
Sources: Morningstar, Neuberger Berman

Don't call Daniel Hanson an ESG investor.

Hanson, senior portfolio manager of the $1.5 billion Neuberger Berman Sustainable Equity fund, is an acolyte of Warren Buffett and Benjamin Graham's investing style, which favors high-quality companies at undervalued or fair prices and holding them for the long term to benefit from compounding growth. As such, the fund seeks out companies that display high-quality hallmarks, such as high profit margins, low debt, consistent earnings growth, and strong management teams.

Hanson likes to use what he calls a "stakeholder lens" for his fund's holdings, which considers how a company treats its employees, customers, and its communities. He says it helps him identify intangible factors and long-term drivers of quality outcomes.

"Being customer-centric employers of choice, businesses that are viewed as positive to their communities—those all contribute to the flywheel of good business outcomes," the New York City–based manager says.

Hanson, 53, who celebrated his second anniversary at the fund this month, has already made an impressive mark. Sustainable Equity is up 9.1% so far this year, and is up 29.4% on a one-year annualized basis, handily beating both its peers' one-year return of 21.5% and the 24% gain of its benchmark, the S&P 500 index, according to Morningstar. That puts the fund in the top 7% of large-blend funds. Its three-year annualized return, which includes his predecessors' record, is up 7.4%, versus peers' gain of 6.8% and the S&P 500's 8.2% return. The A shares carry a 5.75% front load, which is waived at some brokers. Morningstar considers its 1.06% annual fee average.

Hanson, previously chief investment officer at Waddell & Reed and Ivy Investments, took over the Neuberger fund after his two predecessors retired. He prefers the term "sustainability" over environmental, social, and governance, or ESG, investing, as the acronym has become maligned and misunderstood and has an unclear definition.

Sustainability is broader than a simplistic score card, and it fits in with how Hanson's philosophy emulates Buffett, by owning high-quality companies with durable competitive advantages. Sustainability considers how managers run the business, attract and retain the best employees, create value for their customers, and use resources efficiently with a long-term focus. He says high-quality business practices deepen the competitive advantage, what Buffett calls "moat."

Hanson also prefers strong management teams with an ownership mind-set that bring the intensity of a founder but also have cultures of candor and accountability. "This is age-old, classic, fundamental bottom-up investing," he says. "We want to know businesses inside out."

Hanson says his "North Star" is to own businesses that grow enduring value that shows up in financials like unit revenue growth; businesses with pricing power that shows up in margins. Moat matters. A company could be ethically run by strong managers, but if it operates in a highly competitive, commodity-type space, the competitive advantage won't last. "They're just different actors arguing over slices of a fixed pie," he says.

Since taking the helm, Hanson has shuffled the portfolio to add more high-quality growth names that reflect durable competitive advantage and high-quality business practices. Stock selection is important, but so is portfolio construction, and the two have equally contributed to performance, he says. Of the 38 names in the portfolio, he has increased the holding sizes of his highest-conviction names, with about 50% of the portfolio in the top 10 holdings. The fund's top 10 holdings previously had a 37% weighting.

Among the changes: increasing Sustainable Equity's position in now-No. 1 holding Microsoft from underweight to 9% and adding No. 2 Amazon.com and No. 3 Berkshire Hathaway in 2022. In 2023, it bought No. 7 semiconductor equipment maker Applied Materials and No. 8 brokerage firm Interactive Brokers Group. Another new name, although not in the top 10, was retailer Costco Wholesale.

Hanson took advantage of 2022's growth selloff to ramp up the fund's position in Microsoft and add Amazon. At the time, he says, Amazon's reduced valuation was driven more by fears over how its marketplace division would survive a possible recession than concerns over Amazon Web Services, which drives most of its business. He picked up Applied Materials in late 2023 at a discount to intrinsic value and sees it as a way to play semiconductors' secular growth.

Sustainable Equity's portfolio construction reflects a barbell approach, with higher-growth, higher-valuation names such as Microsoft and Costco but also ones such as equipment-rental firm United Rentals and drug wholesaler Cencora —tangible-value-driven business models that trade at a discount to intrinsic value. Those names can better weather an economic cycle in which growth isn't in favor.

What the fund doesn't own is just as important as what it does. In 2023, Sustainable Equity matched the S&P 500's return, and it did it without owning Tesla, Nvidia, or Meta Platforms, three of the biggest-gaining Magnificent Seven stocks. Hanson admits they're impressive companies, but they don't fit with his philosophy. He thinks the valuation ascribed to future growth and strong market share for Nvidia and Tesla are too high. And despite Meta's strong financials and founder-led attitude, Hanson says the company doesn't align with their ethos. "The DNA of the company is to, frankly, exploit the user. That is their business model," he says.

He isn't worried about whether interest rates remain elevated, noting that the fund's high-quality holdings weathered the rate hikes without difficulty. He's excited about artificial intelligence, given his positions in Microsoft, Amazon, and Alphabet. Yes, there's plenty of hype around the technology, but he's more comfortable owning large-cap names rather than up-and-coming companies with unproven tech. He disagrees that the AI hype is like the dot-com bubble of 2000, seeing differences in valuations, initial public offerings, merger and acquisition activity, and management sentiment.

"You don't have anywhere near the markers of the excesses as back then," Hanson says.

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An investor should consider the Neuberger Berman Sustainable Equity Fund's investment objectives, risks and fees and expenses carefully before investing. This and other important information can be found in a Fund's prospectus or summary prospectus, which you can obtain by calling 877.628.2583. Please read the prospectus or summary prospectus carefully before making an investment.

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The composition, sectors, holdings and other characteristics of the Fund are as of the period shown and are subject to change without notice. For the Fund's portfolio holdings current to the most-recent month end, please visit https://www.nb.com/en/us/holdings.

As of 12/31/2024, Costco was 1.17%, United Rentals was 1.59% and Cencora was 2.25% of the Fund's net assets, respectively.

To the extent that the Fund invests in securities or other instruments denominated in or indexed to foreign currencies, changes in currency exchange rates could adversely impact investment gains or add to investment losses.

The Fund's ESG criteria could cause it to sell or avoid stocks that subsequently perform well. The Fund may underperform funds that do not follow an ESG criteria.

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

Markets may be volatile and values of individual securities and other investments, including those of a particular type, may decline significantly in response to adverse issuer, political, regulatory, market, economic or other developments that may cause broad changes in market value, public perceptions concerning these developments, and adverse investor sentiment or publicity.

Compared to smaller companies, large-cap companies may be less responsive to changes and opportunities. Compared to larger companies, mid- cap companies may depend on a more limited management group, may have a shorter history of operations, and may have limited product lines, markets or financial resources.

The Fund may experience periods of heavy redemptions that could cause the Fund to sell assets at inopportune times or at a loss or depressed value.

To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors.

Value stocks may remain undervalued or may decrease in value during a given period or may not ever realize what the portfolio management team believes to be their full value.

A decline in the Fund's average net assets during the current fiscal year due to market volatility or other factors could cause the Fund's expenses for the current fiscal year to be higher than the expense information presented.

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

NB Sustainable Equity Fund - Total Returns

For Periods Ended December 31, 2024			**Average Annualized**					**Expense Ratios[3]**
At NAV	**Quarter**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since Inception**	Gross
NB Sustainable Equity Fund Institutional Class[1]	5.29	28.37	28.37	9.95	14.47	11.82	10.28	0.70
NB Sustainable Equity Fund Class A[1]	5.20	27.95	27.95	9.56	14.06	11.41	10.07	1.07
NB Sustainable Equity Fund Class C[1]	4.99	26.94	26.94	8.74	13.20	10.58	9.65	1.82
NB Sustainable Equity Fund Class R6[1]	5.32	28.50	28.50	10.07	14.59	11.92	10.28	0.61
With Sales Charge								
NB Sustainable Equity Fund Class A[1]	-0.85	20.59	20.59	7.42	12.72	10.75	9.86	
NB Sustainable Equity Fund Class C[1]	4.00	25.94	25.94	8.74	13.20	10.58	9.65	
S&P 500® Index[2]	2.41	25.02	25.02	8.94	14.53	13.10	10.62	
Morningstar US Fund Large Blend Average	1.42	21.45	21.45	7.24	12.89	11.57	N/A	

Performance data quoted represent past performance, which is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Results are shown on a "total return" basis and include reinvestment of all dividends and capital gains distributions. Current performance may be higher or lower than the performance given. For current performance data, including current to the most recent month end, please visit www.nb.com/performance. Average Annual Total Returns with sales charge reflect deduction of current maximum initial sales charge of 5.75% for Class A shares and applicable contingent deferred sales charges (CDSC) for Class C shares. The maximum CDSC for Class C shares is 1%, which is reduced to 0% after 1 year.

1. The inception date for Neuberger Berman Sustainable Equity Fund Class A, Class C and Class R3 was 5/27/09. The inception dates for the Institutional, Investor, Trust Class and Class R6 were 11/28/07, 3/16/94, 3/3/97 and 3/15/13, respectively. The inception date used to calculate benchmark performance is that of the Investor Class.

2. The **S&P 500 Index** consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance. Indexes are unmanaged and are not available for direct investment.

3. Gross expense represents the total annual operating expenses that shareholders pay (after the effect of fee waivers and/or expense reimbursement). The Fund's investment manager has contractually undertaken to waive and/or reimburse certain fees and expenses of the Fund so that the total annual operating expenses are capped (excluding interest, brokerage

commissions, acquired fund fees and expenses, taxes including any expenses relating to tax reclaims, dividend and interest expenses relating to short sales, and extraordinary expenses, if any) through 8/31/28 for Class A at 1.11%, Class C at 1.86%, Institutional Class at 0.75%, Class R3 at 1.36%, Class R6 at 0.65%, and Trust class at 1.50% (each as percentage of average net assets). As of the Fund's most recent prospectuses, the Manager was not required to waive or reimburse any expenses pursuant to this arrangement. Absent such arrangements, which cannot be changed without Board approval, the returns may have been lower. Information as of the most recent prospectuses dated 12/18/2024, as amended, restated and supplemented.

Morningstar US Fund Large Blend Category
Large-blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.