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Neuberger Berman Kantor Group All Cap Core Portfolio

PORTFOLIO MANAGERS: Charles Kantor

Performance Highlights

In the first quarter of 2021, Neuberger Berman Kantor Group Portfolio posted a positive return (before fees)[1] and slightly trailed its benchmark, the S&P 500 Index (the "S&P 500").

Market Context

The S&P 500 (including dividends) reached new all-time highs during the quarter – adding to the swiftest stock market recovery in recent history following a sharp correction during the first half of 2020. We believe a mix of better than feared corporate earnings and strong economic readings combined with fiscal stimulus and unprecedented liquidity by central banks provided tailwinds to the market, driving the broad-based index higher during the period. Interest volatility remains elevated as the bond market debates the longer-term inflationary effects of more fiscal spending in the midst of a strong economic recovery as the pace of COVID-19 vaccinations accelerate. In addition, global economic news for the period was strong with manufacturing's Purchasing Managers Index surged to multi-decade high's in March, driven by broad based gains across geographies. Meanwhile the Federal Reserve (the "Fed") remains dovish and continues to reiterate its patient stance as progress towards their employment and inflation goals needs to be achieved first before it moves to raise rates. For the period, large-cap value stocks outpaced growth stocks as the prospect for higher inflation ticked up modestly. High yield credit spreads tightened during the quarter while ten-year Treasury yields rose – ending the period yielding 1.74%. Last, WTI crude oil price jumped higher while the U.S. dollar strengthened against a basket of major world currencies.

Portfolio Review

During the quarter, the Portfolio slightly underperformed its benchmark partly as a result of negative stock selection in Industrials, Information Technology and Financials sectors. Conversely, stock selection in Consumer Discretionary, Consumer Staples and Real Estate sectors was positive to relative performance during the quarter. In addition, the Portfolio's overweight to Industrials was additive from an allocation perspective while a slight underweight to Energy was negative for the period.

Our investments fall into three buckets: Growth, Total Return and Opportunistic. Capital Growth companies are those companies that are growing their revenues and, as they do so, generate free cash flow that is reinvested in their businesses at what we identify as attractive risk-adjusted returns. Total Return investments demonstrate sustainable and/or growing streams of income that are underpinned by asset value and which could result in growing cash returns to shareholders (e.g., increased dividends, share repurchases, return of capital). Finally, Opportunistic investments are those with identifiable catalysts. This bucket may include companies with management changes, company reorganizations, merger and acquisition activity, "hidden assets," or other market dislocations that have the potential to unlock intrinsic value.

BEST AND WORST PERFORMERS FOR THE QUARTER[2]

Best Performers	Worst Performers
1. Alphabet Inc.	1. Anaplan Inc
2. Expedia Group Inc	2. Apple Inc
3. NVent Electric Plc	3. Verisk Analytics Inc
4. Home Depot	4. Spotify Technology
5. CDW Corp	5. ServiceNow Inc

2. Reflects the best and worst performers for the quarter in descending order based on individual security performance and portfolio weighting. Positions may include securities that are not held in the Portfolio as of 03/31/21. Information is based upon a composite account and additional information regarding the performance contribution calculation methodology is available upon request. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. It should not be assumed that any investments in securities identified and described were or will be profitable.

Outlook

Global economic growth is forecasted to exceed 5% in 2021 with year-over-year growth beginning in the second quarter. U.S. GDP is expected to grow faster than China GDP for the first time since the late 1970s. Based on consensus estimates, S&P 500 earnings are expected to increase in excess of 25% in 2021 after declining by 11% in 2020. Said differently, 2021 earnings are expected to exceed 2019 earnings. This rapid rise in earnings would likely be driven by productivity initiatives (e.g., embracing digitization and new

1. The portfolio return is preliminary composite return (gross of fees), subject to future revision (downward or upward). Gross return is referenced as supplemental and does not reflect the deduction of advisory fees, trading costs, and other expenses, which will reduce returns. The actual fees may vary depending on, among other things, the wrap fee or similar program fee.

technologies to do more with less) as non-farm payrolls are still expected to be below pre-pandemic levels. And while the current S&P 500 forward price to earnings valuation multiple of over twenty times earnings may appear expensive at face value, it is much less extreme when measured against the 10-year Treasury bond yield (which is still near historic lows), negative real rates, and solid earnings growth. The current dividend yield on the S&P 500 is near the 10-year Treasury yield and the equity risk premium continues to screen attractively. Longer-term, we believe that current valuations – supported by low 10-year Treasury yields and accelerating profit growth potential in 2021 – provide equity assets with a reasonable risk/reward proposition.

While, the Fed does not anticipate a rate hike until post 2023, the futures market is pricing in one rate hike in 2022 and three in 2023. The Fed remains dovish and continues to reiterate that it would "take some time" before they raise rates and that substantial further progress towards their employment and inflation goals need to be achieved. The unemployment rate, while down from the 15% peak, is still over 6% and above the Fed's 4% target. The Fed also stressed the importance of distinguishing between a temporary uptick in inflation (which they expect) and a longer-term trend change. While the Fed expects core inflation to rise in the coming months, the latest reported inflation rate came in at 1.4%, which is below the Fed's 2% sustained inflation rate. The Fed will likely want to see inflation substantially above their target before signaling an intention to raise rates.

The Fed is forecasting that the economy will boom, inflation will run at or above its 2% target and employment will be near capacity – yet they will not raise rates until 2024. The market and the Fed are at odds about the path of monetary policy. The market continues to price in rate increases near the end of 2022, with many pundits believing that inflation could run "hotter for longer" given all of the aforementioned stimulus (could the recent $1.9 trillion COVID-19 Relief Bill be too aggressive?), and that unchecked fiscal spending has consequences. We believe investors are concerned that the combination of trillions of dollars in stimulus (not including the new $2 trillion proposed infrastructure bill) will lead to a burst of pent up demand that would far outstrip the supply leading to higher inflation. The yield on the U.S. Treasury 10-Year Bond started the year at 0.9%, hit a high of 1.77% and ended the quarter at 1.74%. Although we agree that growth will likely accelerate and there probably will be a period of higher inflation, we believe over time inflation should settle down. For the past decade we have been waiting for sustained inflation, but it has never arrived. As we move into next year and beyond, we believe the speed of technological advances and price transparency (largely driven by the internet) will once again keep a lid on inflation. Downward pressure on prices from technology, globalization and competition will continue to restrain long term inflation. And in 2022, upward pressure on inflation from stretched supply chains and re-opening related increases in price will both likely subside. The willingness to fund the growing amount of government debt with tax increases over the longer run will be helpful in containing inflationary expectations. Fiscal policy remains the key to inflation in the long run.

The first quarter of 2021 saw an increase in equity market volatility. Outside of the first and second quarters of 2020, this was the highest single name volatility quarter since the fourth quarter of 2011. In January, we saw unprecedented volatility within specific stocks highlighted by the "Reddit phenomenon". January 27th saw the largest volume day in the history of the market as 23.5 billion shares traded. This amount was 60% above the 20-day average and surpassed the 2008 previous largest day by over 20%. Simply put, retail momentum trading and headlines have been driving large gains (as well as catastrophic losses for some investors) in certain stocks with large short interests. In our opinion, this "Reddit phenomenon" is the power of collective wisdom facilitated by the digital revolution, supported by boredom and enabled by new technology platforms (and the concurrent impulsivity that these platforms help facilitate). In our view, compounding gains over time has little appeal to these day traders in a "get rich quick" market.

We are even more emboldened that our philosophies around "taking the long-term view" and being "reasonable optimists" will continue to produce sound decision making and reasonable investment results. As we have discussed, we believe some companies will emerge with stronger competitive moats as they capitalize on an accelerated pace of secular change. We want to own companies that are "outcome makers" and not "outcome takers". We believe management experience, forward thinking strategies, and prudent capital structure and capital allocation have never been more important.

Given all the volatility in the markets this past quarter we are pleased with how we have performed, but as you know we have a long-term and reasonably optimistic mindset and thus remain confident in the skills and ingenuity of the corporate managers that lead our businesses.

As a reminder, we are investors with a relatively longer-term view and remain unwilling to bet against the skills and ingenuity of the corporate managers that lead our businesses. In our view, corporate managers' willingness to drive innovation, enhance productivity, allocate capital to the best risk-adjusted return opportunities, and compete on a global scale could provide investors with suitable long-term return potential for the risks they bear.

Nevertheless, we are very mindful of the complex world in which we live and invest. The myriad of ongoing geopolitical issues around the world remain top of mind. In these difficult economic and financial conditions, we remain dedicated to thinking deeply and creatively and strive to deliver attractive risk-adjusted return opportunities. We remain flexible in our decision making and open-minded to new ideas across different asset classes and geographies.

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Investing in the stocks of even the largest companies involves all the risks of stock market investing, including the risk that they may lose value due to overall market or economic conditions. Small to mid-capitalization stocks are more vulnerable to financial risks and other risks than larger stocks. They are generally less liquid than larger stocks, so their market prices tend to be more volatile.

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. As of September 16, 2005, S&P switched to a float-adjusted format, which weighs only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets.

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