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Neuberger Berman Emerging Markets Equity ADR Portfolio

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Performance Highlights

For the first quarter of 2025, the Neuberger Berman Emerging Markets ADR strategy posted a positive return and performed virtually in line with the MSCI Emerging Markets Index (Net).

Market Context

Major global equity markets posted mixed returns during the first quarter of 2025. Emerging market (EM) equities added 3% (in USD), as represented by the MSCI Emerging Markets (EM) Index (Net). This return beat the return of the US market (-4%), as represented by S&P 500, but trailed non-US developed markets (+7%), as represented by the MSCI EAFE Index (Net).

During the first quarter, investors showed a preference for non-US equities as US tariffs were implemented, with additional tariffs to follow in the second quarter. On the other hand, Germany proposing a large domestically-focused spending initiative helped European markets. The key EM headline was the emergence of DeepSeek, a more cost-effective Chinese artificial intelligence (AI) local language models (LLM), which boosted the belief of Chinese AI LLMs and their application to the domestic market in areas such as advertising and cloud services. But these models would also challenge the US AI LLMs, crimping future related spending globally, which would hurt the global IT semiconductor names.

These headlines were in reflected EM sector performance: IT fell -9%, while Chinese e-commerce internet giants that could benefit from Chinese AI LLMs, boosted Consumer Discretionary to the top spot, up 13%. Colombia was the top performer (+33%). Eastern European markets were next in line, led by Poland (+31%), while Thailand was the laggard (-14%), followed by IT-weighted Taiwan (-13%).

Portfolio Review

The Neuberger Berman (NB) Emerging Markets (EM) Equity ADR strategy posted a positive return in the first quarter virtually in line (on a gross of fee basis) with the MSCI EM Index.

By sector, Financials and Consumer Discretionary stock picking helped the most, along with an overweight to the latter, which was the top performing segment. Security selection in Health Care and IT were the main relative headwinds. By country, off-benchmark EM-related US-listed IT exposure (see Broadcom and Nvidia in *Worst Performers*) hurt the most, while the Taiwanese underweight provided the largest relative boost.

BEST AND WORST PERFORMERS FOR THE QUARTER[1]

Best Performers	Worst Performers
Alibaba	TSMC
Tencent	Broadcom
BYD	Nvidia
Xiaomi	Dr Reddy's
Embraer	MakeMyTrip

[1]Reflects the best and worst portfolio 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 3/31/2025. 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.

Best Performers

Alibaba, the Chinese online e-commerce and cloud services giant, rose on hopes that its AI LLM business integration investments could aid revenue growth potential in their advertising and cloud services businesses.

Tencent, the Chinese online services giant, rallied on hopes that its AI LLM business integration investments could aid growth in their social media and payments segments.

BYD, The Chinese EV and battery manufacturer, announced new battery charging technology that charges in five minutes, a much shorter charge time compared to competitors.

Xiaomi, the Chinese electronics manufacturer, once again posted a strong quarterly earnings report with double-digit revenue percentage gains with stable gross margins.

Embraer, the Brazilian aircraft manufacturer delivered strong quarterly earnings including strong cashflow metrics.

Worst Performers

TSMC, the dominant Taiwanese semiconductor fabricator, was weighed down by concerns that global AI-related demand would be less than previously hoped.

Broadcom, the semiconductor name fell in line with the broader selloff across semiconductor stocks on fears of slowing demand.

Nvidia, the semiconductor giant, sold off on fears of future AI-related demand could disappoint current expectations. The position was trimmed during the period.

Dr Reddy's, the Indian pharmaceutical firm reported disappointing quarter results due to weakness in its domestic market and price erosion in its US business.

MakeMyTrip, the Indian travel booking site fell in sympathy with the broader Indian equity market after its strong 2024 rally. The position was trimmed earlier in the period.

Outlook

While emerging market equities digested some of the initial US tariff impact during the first quarter, the early April US tariff announcement could be much more disruptive to EM equities going forward, in our opinion. We believe the announcement may not just be about near-term tariffs that could necessitate concessions but is part of the US administration's goal to possibly reshape the current world economic construct, which has been based on richer nations consuming while developing economies provide low-end manufacturing. This change cannot happen overnight. Although US imports could be held up in the near term, the export-driven economic business model is being challenged structurally, and the response of shifting to higher-end manufacturing and services could take over a decade to implement.

Given US consumption makes up USD 22 trillion out of the global USD 77 trillion figure (as of 2023), it is impossible to offset that trade. The European Union (EU) (at USD 14 trillion) and China (at USD 10 trillion) have some room to manoeuvre - especially in the latter where the GDP contribution of consumer consumption has declined (as a percentage of GDP) since joining the World Trade Organization at the start of 2002. (source; World Bank).

The tariffs are believed to be inflationary in the US, but deflationary elsewhere as those goods find another home. Apart from the EU, Latin America, Africa, and Developing Asia are likely recipients, such that EM consumption is aided. But we are mindful that more countries could adopt protectionist policies. One potential negative implication that we are following is pre-emptive buying in areas such as IT, in anticipation of the US tariffs, which could lead to a sequential decline in sales growth for those types of exporters later this year. On the other hand, the softness in oil and other commodity prices could provide relief to EM energy consumers.

Typically, the US Dollar appreciates during times of stress, but it has declined on a year-to-date basis. While a near-term US Dollar rally is possible, structurally, the currency is at risk due to the significant amount of liquid US Dollar equity and fixed income assets owned by foreigners that may leave, despite the promise of higher foreign direct investment related to tariff-negotiated outcomes.

When we survey EM economies, domestically focused ones that are more service-oriented – rather than goods exporters, could be favoured going forward. Elsewhere, while demographics offer a long-term headwind, China offers select innovative segments. This includes domestically linked artificial intelligence (AI) applications, and global leading positions in leading-edge technologies such as electric vehicles, which offer idiosyncratic investment opportunities. Separately, China has growing domestic niche consumption business models in gaming, and certain internet names now have attractive strong balance sheets and more disciplined investment plans. Countries that export to the US such as Mexico, Korea, and Taiwan are susceptible to daily changes in investor sentiment, but their value-added manufacturing cannot be replaced easily and could resume growth once the tariff negotiations are concluded. Meanwhile, Eastern Europe is more geared towards Western Europe, thereby potentially being less directly impacted.

By sector, we still favour domestically driven businesses, whether that be consumption-linked ones, or structural growth areas such as AI. The portfolio includes a mix of domestically oriented businesses across various geographies. For the select exporters especially in IT, balance sheet strength is going to be the key characteristic we seek – given most of them have different degrees of cyclicality. Our focus on cash flows and strong balance sheets will continue in this period of external stress to EM.

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Investing in foreign securities involves greater risks than investing in securities of U.S. issuers, including currency fluctuations, potential political instability, restrictions on foreign investors, less regulation and less market liquidity. Investing in emerging market countries involves risks in addition to and greater than those generally associated with investing in more developed foreign countries.

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An ADR, or American Depositary Receipt, is a security issued by a U.S. bank representing a specific number of shares of a foreign stock traded on a U.S. stock exchange and held in trust by that bank. ADRs allow U.S. investors to buy shares in foreign-based companies in U.S. dollars from domestic stock exchanges.

To the extent the Portfolio seeks to invest in securities of small-, mid-, or large-cap companies, it takes on the associated market capitalization risks.

The MSCI Emerging Markets (Net) Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of emerging markets. The index consists of the following 24 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the UAE. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. In June 2016, the benchmark was changed from the MSCI Emerging Markets (Gross) Index to the MSCI Emerging Markets (Net) Index. The benchmark was changed to better reflect how account returns are calculated.

The MSCI EAFE (Net) Index (Europe, Australasia and Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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. Please note that the index does not take into account any fees and expenses of investing in the individual securities that they track, and that individuals cannot invest directly in any index. Data about the performance of this index are prepared or obtained by the Manager and include reinvestment of all dividends and capital gain distributions.

The MSCI Emerging Markets Momentum Index is based on MSCI Emerging Markets, its parent index, which includes large and mid-cap stocks across 24 Emerging Markets (EM) countries. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the UAE. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.

The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

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