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Neuberger Berman Global Sustainable Equity Fund

PORTFOLIO MANAGERS: GLOBAL SUSTAINABLE EQUITIES TEAM

Performance Highlights

During the Quarter the Neuberger Berman Global Sustainable Equity Fund – W Class gained 3.87% (Net of Fees), slightly underperforming its Benchmark, the MSCI World Net Total Return Index (AUD) (before fees and taxes), which gained 4.07%.

At the Fund level, stock selection contributed to performance, notably in Information Technology and Consumer Staples while the zero weighting in Energy and Materials accounted for most of the performance detraction from sector allocation.
In the current market volatility, the Fund remains resilient and attractive, thanks to high-quality companies where sustainability reinforces their competitive advantage, and we expect a return to positive performance when the market reverts to fundamentals again.

Past performance does not predict future returns

PERFORMANCE[1,2]

	1m	3m	FYTD	1y	2y[3]	3y[3]	5y[3]	SI[3,4]
Fund	-5.24	3.87	1.79	-23.28	–	–	–	-14.93
Benchmark[5]	-5.44	4.07	4.42	-12.24	–	–	–	-4.78

Performance figures in the table above relate only to the W Class of units in the Fund.

1 Performance to latest month end. m – month, FYTD – Financial Year to Date, y – year, SI – Since Inception.
2 Performance is net of fees. Please refer to the additional disclosure at the back of this document. Past performance is not indicative of future results.
3 Returns are annualized for periods longer than one year.
4 Performance from 6 October 2021 to latest month end.
5 MSCI World Net Total Return Index (AUD) (before fees and taxes). The Benchmark has been included for performance comparison purposes only and its inclusion is not intended to convey that the Fund is intended to track the Benchmark.

Market Context

Towards year-end, capital markets calmed down after a very turbulent year and major equity markets recovered somewhat during the fourth quarter. An important driver for this was consumer prices receding from high levels, helped by lower energy prices due to a significantly improved supply/demand balance in the energy market. This may imply peak inflation and as a result, the Federal Open Market Committee minutes revealed a potential slowdown in rate hikes.

Most sectors generated positive returns during the quarter with Industrials, Energy and Materials leading the way. Only Consumer Discretionary showed a negative return, as investors priced in a slowdown in consumer spending.

Although it seems to be the market consensus that we will see a recession in 2023, the U.S. labour market continues to show strength, with the economy adding more jobs than expected. Wage growth also remains respectable and retail sales are holding up well. This bodes well for fourth-quarter U.S. GDP growth, but whether this is sustainable in the face of deteriorating consumer optimism and high inflation is yet to be determined.

Portfolio Review

During the quarter, the Fund slightly underperformed the benchmark, with a positive contribution from stock selection and sector allocation detracting.

Stock selection was positive overall in Q4, particularly in information technology (part of the Digital Enterprise value chain) and consumer staples (part of the Conscious Consumer value chain).

From a sector allocation perspective, a zero weighting in Energy and Materials (particularly metals & mining) detracted the most from performance. However, both sectors do not offer attractive, sustainable investment opportunities when looking at them through our value chain lens.

At a stock level, our holdings in Bakkafrost, 3i Group and Nike contributed significantly to performance whilst our positions in Amazon and Alphabet detracted from performance. All these stocks are part of the Conscious Consumer value chain, except for 3i Group which resides in the Fintech & Financial Inclusion value chain.

Top Contributors to Performance

➢ Bakkafrost

Bakkafrost shares performed well in Q4, as it became clear that the impact of the new Faroese tax proposal was much more benign compared to the resource tax to be introduced in Norway. In addition to a relatively small increase in the effective tax rate for Bakkafrost, the new tiered tax system protects the company margins on the downside from a high-cost inflationary environment. Furthermore, the company's Q3 report highlighted strong performance in the company's Faroese operations. While Scotland was weak again, the segment should see an inflection ahead, as biological risks should be significantly lower next year, when the Applecross smolt facility will become operational. This, in combination with a very benign supply/demand dynamic across the salmon market in the coming years, reinforces our strong conviction in the Bakkafrost investment case.

➢ 3i Group

3i Group shares performed strongly after reporting reassuring results over the first half of FY2022/23 with a 14% total shareholder return, driven by broad-based strength across the private equity portfolio as its value-for-money and private label investments continue to perform well. This is especially true for their largest investment hard-discounter Action with a 59% weight in the portfolio, which grew revenues by 25% and EBITDA by 35% during the first ten months of the year. A key driver behind this strong performance is Action's mid-teens same-store sales growth and the rapid store roll-out strategy across continental Europe as the value proposition continues to resonate well with consumers. 3i Group's defensive healthcare investments and business service companies with long- term contracts also performed well.

➢ Nike

Nike shares outperformed in Q4 on news flow suggesting a potential earlier-than-expected re-opening of the Chinese economy from the Covid-related lockdown, which may lead to accelerating revenue growth in the region. In addition, the company reported very strong quarterly results and surprisingly raised its FY guidance, as North America, EMEA & Asia Pacific all grew 30%+ on a constant currency basis and importantly gross margin came in ahead of expectations despite high inventory levels.

In the current tough trading environment, Nike's results showcase the company's ability to take share across geographies and showcase proof points that its direct-to-consumer strategy is working well to support its margins. Both of these are important parts of the company's competitive moat and cornerstones of the investment case.

Top Detractors from Performance

➢ Amazon

Amazon guided to a softer Q4 outlook, reflective of a worsening macroeconomic environment with AWS seeing pressure and retail demand slowing. While North American e-commerce trends held up well, management pointed to slowing international results, driven by softening consumer confidence and inflationary pressures in markets like the UK and Germany. Despite these short-term, exogenous pressures to the business, we believe nothing has structurally changed about Amazon's retail and AWS long-term propositioning and opportunity. In fact, Amazon is continuing to take market share through its leading retail service (inventory availability, price, and fast delivery). Furthermore, while in the short-term revenue growth at AWS is slowing from a high base, the appeal of AWS's public cloud should structurally become stronger for enterprises looking for efficiencies in a downturn (something highlighted by the strength of the AWS billings growth).

➢ Alphabet

While Alphabet remains the best-growing asset in digital advertising, reporting 11% constant currency revenue growth in Q3, greater pressure on operating margins weighed on the shares in Q4. On that same basis, Google Search grew a solid 10% and YouTube ads decelerated to 4% while the company's headcount still grew 20% in the last 4 quarters. We believe that Alphabet management is quite sensitive to publicly suggesting workforce reductions but see a significant opportunity to right-size the company's cost base either way through other steps facilitating natural attrition. This informs our constructive stance on the company's ability to grow profits, despite a tough macro environment for advertising into 2023.

ESG & Engagement

During the quarter, we had a number of engagement calls and here we highlight two of the companies we spoke with.

In our call with the private asset management firm **Partners Group**, we discussed commercial momentum which is still strong. On the ESG front, Partners Group presented a clear ambition to reduce carbon emissions to zero by 2050. However, data collection is an issue as they invest in 1,000 companies directly and in 14,000 indirectly and applying too strict commitments might also constrain investment opportunities.

Oversight of the practical implementation of ESG-related plans at Partner's Group is delegated to the boards of controlled companies along a materiality matrix setup by Partners Group. External consultants usually help with implementation as SMBs often lack the required skills in-house. Partners Group sets 3 ESG targets per controlled holding which are material and measurable. Partners Group has ESG integration on all its investments, classified as article 8 under SFDR.

We also attended the **ASML** Capital Markets Day in Veldhoven, The Netherlands. ASML is the global market leader in lithography, the most critical step in the fabrication of microchips, with an estimated market share of 90%. It is the only company active in the cutting-edge part of the technology, called EUV (extreme ultra-violet).

We came away from the event with increased confidence in the long durability of ASML's competitive moat, based on its strong market position and technological leadership.

Also, ASML is likely to remain relatively untouched by the coming 2023 downturn as customers' expectation about the duration of the economic downturn is shorter than the lead times of ASML's tools. As a result, we estimate ASML can grow EPS at a 30%+ CAGR in the medium term and 20%+ over the longer term.

With respect to governance, ASML announced that Mr. Nils Andersen will be the new Chairman. Mr. Andersen was previously CEO at Carlsberg and Maersk and is currently Chairman at AkzoNobel and Unilever. With this appointment, board diversity, unfortunately, remains limited at ASML which is a subject we will continue to engage the company on. A key task of Mr. Andersen will be the search for successors for CEO Peter Wennink and Chief Technology Officer Martin van den Brink.

Trading Activity

During the quarter we did not initiate a new position or exit any position.

Outlook

Despite fluctuations in the broader market, macro-economic developments or outright shocks such as the Covid-19 pandemic, the Fund remains resilient and attractive, thanks to high quality companies where sustainability reinforces their competitive advantage. We focus on companies that:

- **Have a Durable Competitive Position**: possess hard to replicate competitive advantages
- **Do No Harm:** Carefully manage environmental, social and governance practices
- **Adapt to Change:** focus on innovation and continuous improvement

We anticipate a continued regulatory push for more sustainable development of the global economy. Given the challenging market backdrop, we believe the success of most quality companies now increasingly depends on the development of intangible capital - innovative technology, research and development, human capital, and brand or platform reputation to create a durable competitive position. This durable competitive position can be reinforced via good corporate citizenship through careful management of environmental, social, and governance practices. We think the forward-looking analysis of this combination of quality attributes, ESG factors, and idiosyncratic characteristics, is key to identifying the Transition Winners of the new economy.

Shorter-term, markets appear to be at an inflection point; repricing the balance of growth vs. inflation, as data begins to show signs that central bank tightening is creeping into economic activity and recession risk is rising. We believe the path forward will be highly dependent on central bank policy and inflationary pressures easing toward the Fed's inflation target.

Neuberger Berman believes that Environmental, Social and Governance ("ESG") factors, like any other factor, should be incorporated in a manner appropriate for the specific asset class, investment objective and style of each investment strategy.

Neuberger Berman Global Sustainable Equity Fund – W Class's Target Market Determination is available here. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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