

Neuberger Berman International Equity Team

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In light of the evolving situation at Silicon Valley Bank (“SVB”) and other US regional banks, the NB International Equity team highlights two key points that we believe distinguish SVB from the non-US banks owned in client portfolios:

- (1) Differentiated Business Model. SVB was a California-based bank focused on venture capital firms and startups, primarily in the technology and innovation economy. Its large, homogeneous deposit base (USD 173bn as of year-end 2022) was matched against long-dated investments (USD 120bn) as opposed to loans (USD 74bn). We have found that traditional banks typically have more diversified deposit bases, tend to have fewer securities as a percentage of assets, and often hold more liquidity in the form of central bank deposits.
- (2) Regulatory Environment. Despite its sizable assets (USD 212bn as of year-end 2022), due to a US-specific regulatory change implemented in 2019, SVB was not required to comply with international banking liquidity regulations established by the Basel Committee, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) rules. US regional banks were also allowed to “opt out” of including unrealized gains and losses on available-for-sale (AFS) securities in their regulatory capital ratios. In general, the non-US banks in the portfolio do not enjoy these exemptions, typically maintaining LCR and NSFR ratios comfortably in excess of regulatory requirements, and fully reflecting unrealized gains and losses on AFS securities in regulatory capital.

Given these key differences, we do not believe SVB’s fate can be linked to non-US banks in the NB International Equity portfolios. However, we believe that equity risk premiums and volatility will remain elevated until this story plays out. The team has not made any material changes to its broader portfolio risk exposures, including in Financials, due to these specific incidents. The team is following the situation closely.

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