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Conversations with…

Fred Ingham, Portfolio Manager

Reflecting on three years managing the Neuberger Berman Uncorrelated Strategies Fund

With a multi-year bull run for equities seemingly coming to an end, investors are increasingly looking for diversifying solutions. The goal is to find offerings with the ability to deliver positive returns in market reversals and to access return sources which are differentiated from traditional sources of return such as equity and fixed income. The NB Uncorrelated Strategies Fund aims to fill this gap. We catch up with Fred Ingham following the three year anniversary of the Fund's launch to discuss both how the fund has evolved over that period and examine how it has been impacted by recent market turbulence.

Could you give a brief overview of the kinds of investments you think might be attractive?

The wide variance in potential outcomes for markets over the next six to 12 months means that it would probably be unwise to focus on a single strategy or investment type. Our philosophy remains based around maintaining exposure to a diversified set of trading strategies which we believe can achieve positive returns over a cycle but in different and diversifying ways from traditional markets and each other.

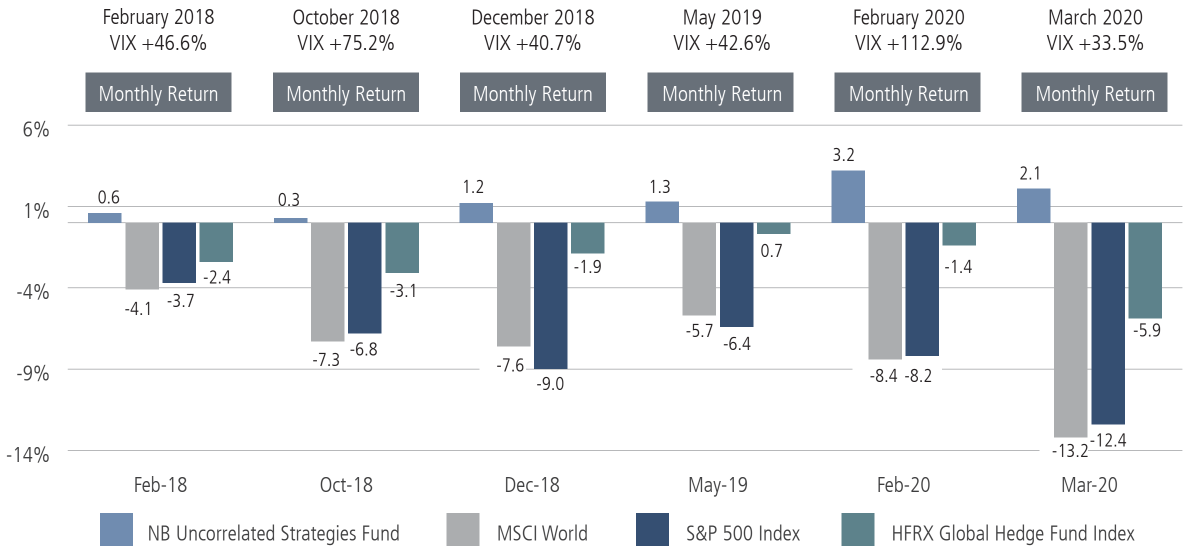
This said, the pick-up in overall volatility in 2020 has created an environment which has certainly offered more opportunity to some of our most dynamic and high turnover styles, such as Short Term Futures Trading, as well as equity options-based approaches. Should we see this continue, we would expect these strategies—as well as Global Macro—to continue to find plenty to do. However, a return to a more stable market may see a better landscape for areas such as Equity Market Neutral or Statistical Arbitrage.

In our view, much of the liquid alternatives universe continues to underwrite the same tail as risk-assets generally, performing well in rallies such as 2019, but struggling during risk-off periods such as the first quarter of 2020. We try to avoid these kinds of exposures in our portfolios so that we can function as a genuine diversifier.

How has the Fund evolved against its objectives over the past 3 years? What is the outlook for the next three years?

Our return distribution has been fairly consistent in terms of remaining uncorrelated to risky assets, such as equities, since we started trading. This remains an important goal for the Fund and we were glad to deliver our strongest quarter from inception during Q1 2020.

STABLE RETURNS IN PERIODS OF MARKET VOLATILITY

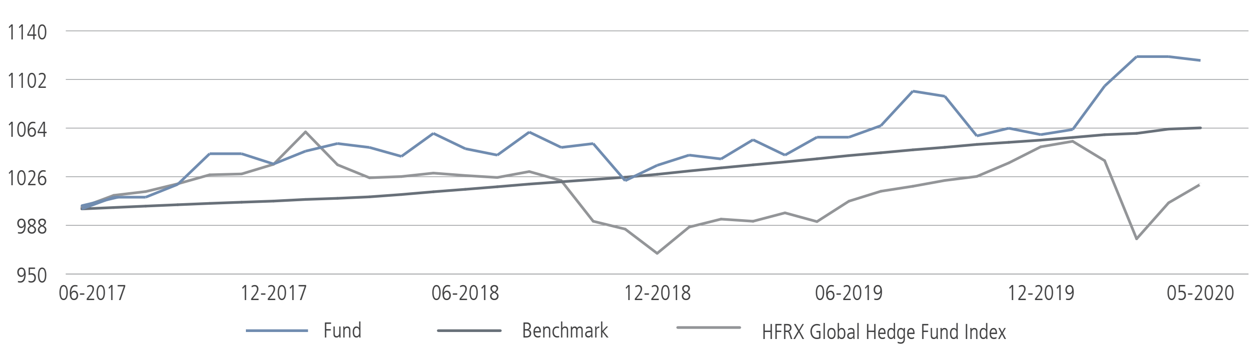


Source: Neuberger Berman, Hedge Fund Research, Bloomberg. USF data represents the USD I share class. **Past performance is not indicative of future results.** Performance begins on June 1, 2017. Track record represents the net return of the Institutional USD-denominated share class, with NB management fee of 0.75% per annum and an expenses cap of 0.20% per annum. The performance data for the indices is shown for illustrative purposes only.

At the same time, correlation to Fixed Income indices remains low when measured over the life of the Fund, so we do believe returns have been generated from truly diversifying sources. This has led to steady asset growth from investors seeking uncorrelated returns, with the Fund now sitting at over $1.4bn.*

Our return generation has been positive, in excess of our cash benchmark and significantly ahead of most liquid alternative indices. This is largely because we have been able to navigate the most volatile periods for markets successfully. Strategies such as Volatility Relative Value, Global Macro and Short Term Trading performed well for us during these periods.

CUMULATIVE PERFORMANCE: GROWTH OF $1,000



Performance of USD 1,000 in the Fund's USD I Acc Share Class on inception vs. Benchmark – the ICE BofA US Dollar 3-Month Deposit Offered Rate Constant Maturity Index and the HFRX Hedge Fund Index. Total Return, net of fees, USD.

However, the absolute level of return has still been below our overall expectations and we believe we can do better in the future. There are two reasons for this.

First, while some of our more "counter-cyclical" strategies have delivered—especially in tough times—some of our more benign market strategies have not achieved the levels of returns we would normally expect. This has been largely because of the significant deleveraging cycle which has taken place within the quantitative equity trading space over the last couple of years. We believe that this cycle is now coming to a close and there are exciting opportunities within market neutral equity strategies as investors assess the fundamental outlook for individual stocks following the crisis. We have also reconfigured our exposure within the Equity Market Neutral and Statistical Arbitrage areas with the aim of improving our outcomes in these strategies going forward and are already seeing the benefits here.

Second, the very low levels of absolute volatility in markets during 2017 – 2019 also made risk-taking at target levels somewhat difficult for anyone with concerns about a potential shake-up in the risk environment. As such, we were arguably under-risked for much of this period, which constrained returns. We believe that the recent crisis has unlocked some of this torpor and our view is that market conditions going forward will be more consistent with longer term patterns of volatility, rather than reverting to the unusual lows of recent years. Our view is that this will assist us in terms of achieving higher absolute levels of risk and return.

What role do you see the Fund playing in investors' portfolios? In particular, what might be expected during both more volatile and more stable market environments?

We aim to function as a diversifier in investor portfolios by generating a differentiated pay-off profile compared to other exposures in a typical asset allocation. This is achieved by focusing on a variety of specialised and often capacity-constrained trading strategies with low correlation to the overall market. Historically, as discussed above, performance has been strongest during some of the toughest times for equities. However, our goal is to generate positive absolute returns over a cycle, irrespective of what that cycle holds in terms of positive or negative returns for traditional asset classes.

We see these goals as particularly relevant today. We are at record low levels in sovereign bond yields, while the recent recovery in equities has brought some markets back to record highs and puts a question mark over valuations at this stage in the cycle. For investors trying to understand where returns might come from over the next five to 10 years and worrying about the weakness of the global economy and the deteriorating geopolitical situation, we believe the Fund may offer one potential solution.

What are some of the key takeaways from the past three years' managing the Fund?

Structuring investments in the right way is critical. Over the past three years, the benefits have been clear of implementing our strategies through managed accounts, having full transparency and control over risk taking and minimising the drag from fees and expenses.

A patient and diversified approach is essential when allocating to alternative strategies. We run a diversified book, so are deliberately not reliant on a single strategy to work at all times. It is notable how often last year's winner is next year's problem child and vice versa. These cycles are difficult to time or predict, so running a diversified book with fully transparent risk is especially important to get the best long-term outcomes from a portfolio of hedge fund strategies.

Markets can trade in a narrow and binary way for long periods of time. For example, during much of 2019, the narrative around US-China trade negotiations drove pricing in equities, fixed income and currencies simultaneously. It is important to be able to risk-manage through these periods to ensure a portfolio is not overly exposed to one particular direction of travel and has multiple means of making money.

What do you believe distinguishes the Fund from its peers?

First, we believe that the proven ability to generate uncorrelated returns—especially in times of crisis—has differentiated the fund from the majority of peers.

Second, allocating a high portion of our assets to very dynamic trading strategies with capacity constraints has been a major positive over time, rather than trying to create infinite scale. This will cap our AUM limits, but we see it as a significant benefit in achieving our goals.

Third, we believe that our operating model—which has required significant investment and infrastructure to build—delivers more cost- and cash-efficient exposure to a portfolio of diversifying strategies than most alternative approaches.

Finally, we believe that our extensive experience in the space and long-standing global team is competitively positioned to get the best out of the available universe of investments.

AT A GLANCE

Neuberger Berman Uncorrelated Strategies Fund

- Seeks uncorrelated returns to equity and bond markets in a transparent and cost-efficient fund solution through allocations to a carefully selected range of alternative investment advisors
- Aims for cost-efficiency, flexibility and transparency, using managed accounts to tailor strategy risk levels and build a highly liquid portfolio
- Since its inception in 31 May 2017, the fund has delivered positive returns in each of the six worst months for the over that period
- The turbulent conditions of February and March of this year saw the Fund generate attractive gains, with performance of +5.8% for the first quarter of 2020

Risk Considerations:

Market Risk: The risk of a change in the value of a position as a result of underlying market factors, including among other things, the overall performance of companies and the market perception of the global economy.

Liquidity Risk: The risk that the Fund may be unable to sell an investment readily at its fair market value. In extreme market conditions this can affect the Fund's ability to meet redemption requests upon demand.

Derivatives Risk: The Fund is permitted to use certain types of financial derivative instruments (including certain complex instruments). This may increase the Fund's leverage significantly which may cause large variations in the value of your share. Investors should note that the Fund may achieve its investment objective by investing principally in Financial Derivative Instruments (FDI). Certain investment risks apply in relation to the use of FDI.

Interest Rate Risk: The risk of interest rate movements affecting the value of fixed-rate bonds.

Credit Risk: The risk that bond issuers may fail to meet their interest repayments, or repay debt, resulting in temporary or permanent losses to the Fund.

Counterparty Risk: The risk that a counterparty will not fulfil its payment obligation for a trade, contract or other transaction, on the due date.

Operational Risk: The risk of direct or indirect loss resulting from inadequate or failed processes, people and systems, including those relating to the safekeeping of assets or from external events.

Currency Risk: Investors who subscribe in a currency other than the base currency of the Fund are exposed to currency risk. Fluctuations in exchange rates may affect the return on investment. The past performance shown is based on the fund and is not specific to the share class. If the currency of the fund is different from your local currency, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency.

*As at 31 April 2020.

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