

The growth fund that dodged the worst of the 2022 bear market by leaning on fundamentals

By Alex Harring
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While last year's technology sell-off was a game-changer for many growth-centric investors, it proved a vindication to a pair of portfolio managers at Neuberger Berman.

The firm's \$1.7 billion Large Cap Growth Fund, with some of the biggest technology names among its top holdings, lost 24.3% in 2022. By comparison, the Russell 1000 Growth Index, its benchmark, slid 29.8%.

That shows the value of careful, bottom-up stock selection in a part of the market that for years leading up to 2022 was considered a sure bet to grow, said Charles Kantor, senior portfolio manager. The market has moved back to valuing business fundamentals, he said, after a period when a stock's "story" meant more than its balance sheet. And 2022's performance told Kantor and Marc Regenbaum, the fund's other portfolio manager, that they cut through the tech noise and picked the right stocks.

"The proof's in the pudding," said Kantor, a Harvard MBA who joined Neuberger in 2000. "We hate losing money but we, on balance, must have owned less of the hyperbolic growth."

The fund, with an annual expense ratio of 0.83% and rated five stars by Morningstar, lands in the fifth percentile among all large growth funds over the past three years, and the 12th percentile over five years.

'Rigor and process'

Kantor and Regenbaum have spent years managing the fund by taking a magnifying

glass to the inner plumbing of some of the biggest growth stocks.

The fund uses an economic value-added (EVA) framework, which Regenbaum said accounts for balance sheets, cost of capital and management incentives when deciding, in his words, if a great company can become a great stock. This strategy builds in part on Kantor's prior work as a consultant trying to best align a company's performance measurement with maximum shareholder value over the long term.

"You should go to the end of the earth and back to do the fundamental research necessary to buy not just good companies, but to buy them at future growth values," Kantor said, adding that the goal is to bring "rigor and process" to stocks that are too often marketed and hyped.

Risk management is a key part of their evaluation, as is a review of the authenticity of companies' environmental, social and governance work, Regenbaum said. Neuberger is also known for its "active engagement" with the companies it holds.

What the fund is left with, is a group of stocks it calls "Beyond Privileged and Resilient Companies."

"Given we do not know the Fed's terminal rate and when the U.S will hit a recession, we continue to 'double down' on our Beyond Privileged and Resilient companies while intensifying our due diligence around each investment's 'pricing power,' competitive moat, business quality and cash flows as we progress through 2023," Kantor and Regenbaum wrote in their first quarter letter to shareholders.

Indeed, Morningstar says the fund's portfolio has a lower price-to-book-value than other large cap growth funds or Morningstar's benchmark index for the group, and faster book value growth. Almost 67% of the fund's portfolio is made of stocks that Morningstar regards as having a wide moat, higher than the average large cap growth fund's 63% or the Morningstar index's 61%.

Microsoft was the fund's biggest holding at 9.9% at the end of the first quarter, followed by Apple (7.4%) and privately-held, pre-IPO Fanatics (5.7%). Salesforce (3.9%) and Alphabet (3.8%) rounded out the top five.

Software, tech hardware, interactive media, internet, semiconductor and semi equipment stocks took up 49.6% of the entire portfolio at the end of the first quarter.

Surprisingly, Morningstar's latest report said the fund's "strategy skews toward

smaller, more value-oriented companies compared with its average peer in the Large Growth Morningstar Category.”

Kantor and Regenbaum, an NYU MBA who joined Neuberger in 2007, say they’re methodical, seeing strong futures for their stocks only after sifting through financial statements and the quality of management, who they see as executors of cash flows. They also look closely at the value of future growth and return on invested capital. For all that, eight of the fund’s top 10 holdings at the end of March were in tech, the exceptions being Fanatics and UnitedHealth.

“You pay something for today, and then you should try and quantify how much you pay for the future that is yet to be delivered,” Kantor said.

THE 10 BIGGEST HOLDINGS

COMPANY ↕	WEIGHTING ↕
MICROSOFT	9.9
APPLE	7.4
FANATICS	5.7
SALESFORCE.COM	3.9
ALPHABET	3.8
AMAZON	3.6
META	3.0
SERVICENOW	2.9
UNITEDHEALTH	2.9
NVIDIA	2.5

Source: Neuberger Berman

Outperformance over one and three years

To be sure, the managers admit that their focus on quality has cost them gains in the past. There were “crazy growth companies that went to the moon,” Kantor said, “and then unfortunately at some point had to return to Earth.” In 2020, the fund lagged the Russell 1000 Growth Index by almost four percentage points.

Still, the pair note that their ability to limit losses in 2022 proves the fund holds the right stocks. It’s easier to make money when you have a smaller loss to bounce back from, Kantor said. The fund has outperformed its bogey over the last one and three years, through March 2023.

Kantor took over the nearly three-quarter-century old fund in 2015 and Regenbaum joined him about two years later.

They “reluctantly” changed the name from the Neuberger Berman Guardian Fund last September to better reflect the investment strategy, though they very much still see themselves as “guardians” of capital.

Investors are at an important moment given the Federal Reserve’s campaign to rein in inflation by hiking interest rates, and the interest-rate sensitive nature of growth stocks. The central bank is set to meet on May 2-3, with a majority on Wall Street thinking the benchmark fed funds rate will rise yet another quarter point.

But Kantor said the work he and Regenbaum have done to pick the best stocks leaves him optimistic at times of higher market uncertainty. For his part, Regenbaum said that while the macroeconomic outlook for growth investing may have shifted, that’s only bolstered the value of the fund’s “bottom-up” strategy.

“It does feel like we’re in a different investment regime where the details matter, where fundamentals matter,” Regenbaum said. “When you have this kind of change, right, it’s not going to be just a stock market, it’s suddenly a market of stocks. And as active stock pickers, you’ve got to find the right one.”

Although the Investor, Trust and Advisor Classes of the fund are closed to new investors, Classes A, C, Institutional, R3 and R6 are open, although sometimes with assorted, higher expense ratios, fees or front-end loads.

Correction: Eight of the Neuberger Berman Large Cap Growth Fund’s top 10 holdings at the end of March were in tech, the exceptions being Fanatics and UnitedHealth. An earlier version misstated the number.

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An investor should consider the Neuberger Berman Large Cap Growth Fund's investment objectives, risks and fees and expenses carefully before investing. This and other important information can be found in a Fund's prospectus or summary prospectus, which you can obtain by calling 877.628.2583. Please read the prospectus or summary prospectus carefully before making an investment.

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The composition, sectors, holdings and other characteristics of the Fund are as of the period shown and are subject to change without notice. For the Fund's portfolio holdings current to the most-recent month end, please visit <https://www.nb.com/en/us/holdings>.

The Investor Class is closed to new investors. The inception date for Neuberger Berman Large Cap Growth Fund Class R6 was 3/29/19, performance prior to that date is of the Investor Class. The inception dates for Class A, Class C and Institutional Class was 5/27/09. The inception date of the Investor Class was 6/1/50.

Changes in currency exchange rates could adversely impact investment gains or add to investment losses.

Foreign securities involve risks in addition to those associated with comparable U.S. securities.

An individual security may be more volatile, and may perform differently, than the market as a whole.

From time to time, the trading market for a particular investment or type of investment in which the Fund invests is or may become less liquid or even illiquid. Illiquid investments frequently can be more difficult to purchase or sell at an advantageous price or time, and there is a greater risk that the investments may not be sold for the price at which the Fund is carrying them. Certain investments that were liquid when the Fund purchased them may become illiquid, sometimes abruptly.

To the extent the Fund invests in securities of small-, mid-, or large-cap companies, it takes on the associated risks.

Markets may be volatile and values of individual securities and other investments, including those of a particular type, may decline significantly in response to adverse issuer, political, regulatory, market, economic or other developments that may cause broad changes in market value, public perceptions concerning these developments, and adverse investor sentiment.

There can be no guarantee that the use of options will increase the Fund's return or income. In addition, there may be an imperfect correlation between the movement in prices of options and the securities underlying them and there may at times not be a liquid secondary market for various options.

Investments in private companies, including companies that have not yet issued securities publicly in an initial public offering ("IPO") ("pre-IPO shares"), involve greater risks than investments in securities of companies that have traded publicly on an exchange for extended periods of time. Investments in these companies are generally less liquid than investments in securities issued by public companies and may be difficult for the Fund to value.

Private placements and other restricted securities may not be listed on an exchange and may have no active trading market. As a result of the absence of a public trading market, the prices of these securities may be more difficult to determine than publicly traded securities and these securities may involve heightened risk as compared to investments in securities of publicly traded companies. Private placements and other restricted securities may be illiquid, and it frequently can be difficult to sell them at a time when it may otherwise be desirable to do so or the Fund may be able to sell them only at prices that are less than what the Fund regards as their fair market value.

The COVID-19 health pandemic has negatively affected and may continue to affect the economies of many nations, individual companies and the global securities and commodities markets. This has impacted and may continue to impact the issuers of the securities held by the Fund.

There can be no guarantee that the Portfolio Managers will be successful in their attempts to manage the risk exposure of the Fund or will appropriately evaluate or weigh the multiple factors involved in investment decisions, including issuer, market and/or instrument-specific analysis, valuation and environmental, social and governance (ESG) factors.

The Fund and its service providers, and your ability to transact with the Fund, may be negatively impacted due to operational matters arising from, among other problems, human errors, systems and technology disruptions or failures, or cybersecurity incidents. Risk is an essential part of investing. No risk management program can eliminate the Fund's exposure to adverse events.

**NB Large Cap Growth Fund - Total Returns –
For Periods Ended March 31, 2023**

Average Annualized

**Expense
Ratios³**

At NAV	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Gross Expense	Total (Net) Expense
NB Large Cap Growth Fund Institutional Class ¹	13.22	13.22	-6.36	20.10	13.58	12.62	11.30	0.68	N/A
NB Large Cap Growth Fund Class A ¹	13.08	13.08	-6.73	19.63	13.15	12.19	11.22	1.05	N/A
NB Large Cap Growth Fund Class C ¹	12.93	12.93	-7.40	18.76	12.31	11.36	11.06	1.80	N/A
NB Large Cap Growth Fund Class R6 ¹	13.22	13.22	-6.32	20.13	13.56	12.51	11.27	0.66	0.58
NB Large Cap Growth Fund Investor Class ¹	13.15	13.15	-6.49	19.92	13.39	12.42	11.26	0.83	N/A
Russell 1000® Growth Index ²	14.37	14.37	-10.90	18.58	13.66	14.59	N/A		
S&P 500® Index ²	7.50	7.50	-7.73	18.60	11.19	12.24	11.16		
With Sales Charge									
NB Large Cap Growth Fund Class A ¹	6.58	6.58	-12.09	17.29	11.82	11.53	11.13		
NB Large Cap Growth Fund Class C ¹	11.93	11.93	-8.27	18.76	12.31	11.36	11.06		

Performance data quoted represent past performance, which is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Results are shown on a "total return" basis and include reinvestment of all dividends and capital gains distributions. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please visit www.nb.com/performance. Average Annual Total Returns with sales charge reflect deduction of current maximum initial sales charge of 5.75% for Class A shares and applicable contingent deferred sales charges (CDSC) for Class C shares. The maximum CDSC for Class C shares is 1%, which is reduced to 0% after 1 year.

Prior to September 30, 2022, Neuberger Berman Large Cap Growth Fund was known as Neuberger Berman Guardian Fund.

1. The Investor Class is closed to new investors. The inception date for Neuberger Berman Large Cap Growth Fund Class R6 was 3/29/19, performance prior to that date is of the Investor Class. The inception dates for Class A, Class C and Institutional Class was 5/27/09. The inception date of the Investor Class was 6/1/50.

2. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). On September 30, 2022, the Fund began comparing its performance to the Russell 1000® Growth Index rather than the S&P 500® Index because the Russell 1000 Growth Index has characteristics that are more representative of the Fund's investment strategy than its current index, the S&P 500 Index.

3. For Class R6, total (net) expense represents, for Institutional Class, Class A, Class C and Investor Classes, gross expense represents, the total annual operating expenses that shareholders pay (after the effect of fee waivers and/or expense reimbursement). The Fund's Manager has contractually undertaken to waive and/or reimburse certain fees and expenses of the Fund so that the total annual operating expenses are capped (excluding interest, brokerage commissions, acquired fund fees and expenses, taxes including any expenses relating to tax reclaims, dividend and interest expenses relating to short sales, and extraordinary expenses, if any, consequently, total (net) expenses may exceed the contractual cap) through 08/31/2026 for Institutional Class at 0.75%, 1.11% for Class A, 1.86% for Class C and Class R6 are capped at 0.58% until 12/31/2023 and 0.65% from 1/1/2024 until 8/31/2026 (each as a % of average net assets. Absent such arrangements, which cannot be changed without Board approval, the returns may have been lower.

Information as of the most recent prospectuses dated December 19, 2022, as amended and supplemented.

Morningstar. Morningstar rankings are based on Morningstar total returns, which include both income and capital gains or losses and are not adjusted for sales charges or redemption fees, to all funds that have the same Morningstar category. The highest percentile rank is 1 and the lowest is 100. Neuberger Berman Large Cap Growth Fund was ranked 11% (1-year time period out of 1,250 Large Growth Funds), 5% (3-year time period out of 1,139 Large Growth Funds), 11% (5-year time period out of 1,053 Large Growth Funds) and 40% (10-year time period out of 809 Large Growth Funds).

Morningstar Large Growth Category: Large-growth funds invest in stocks of big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

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