NEUBERGER BERMAN

Global Corporate Credit ESG Engagement Report

November 2021

NEUBERGER | BERMAN

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Global markets have faced a backdrop of enormous economic, health and social challenges over the last year. As a result, the rate of adoption and integration of environmental, social and governance (ESG) considerations by stakeholders is accelerating across the globe. It is critical for companies to incorporate ESG factors into their long-term business strategy, as failing to do so could affect the cost of capital over time. Navigating this dynamic environment can be challenging, and Neuberger Berman seeks to partner with key stakeholders to help drive transparency, solutions and progress in reducing areas of credit risk.

Our corporate credit research teams closely integrate ESG factors into our fundamental credit research process. In the past year, our research analysts continued to rigorously engage with issuers despite the tumultuous environment resulting from the COVID-19 pandemic, leading to a 30% increase in engagement meetings compared to the prior year. As expectations grow for disclosure and better performance on ESG factors, active engagement is crucial to guide issuers toward practices that can enhance their credit profile over time.

As investors, we recognize the important role we hold to influence corporate decision-making. Over 60% of our engagements were with senior management, demonstrating the strength of the long-term relationships we have established. These relationships uniquely position us to have consistent and direct engagement with issuers, which we believe will result in effective dialogue and ultimately a greater probability of success in driving long-term positive outcomes.

Within this report, we provide an update on our recent issuer engagement activity, which focused on key areas of identified business risk and opportunities for fixed income issuers, such as climate change, workforce diversity and community relations.

DIRECT ENGAGEMENT WITH ISSUERS PLAYS AN IMPORTANT ROLE IN NEUBERGER BERMAN'S FUNDAMENTAL RESEARCH PROCESS.

Prioritizing Our Engagement Efforts

Our 2021 engagement data reflects our commitment to active and direct dialogue with corporate management. Our corporate fixed income research teams hosted 1,514 meetings during the period, 62% of which were with the CEO or CFO leadership, compared to 56% in the prior year. We prioritize direct engagement with issuers as evidenced by our limited reliance on letter-writing or email campaigns during the period, representing only 5% of our engagements.

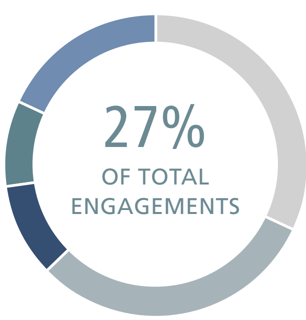
Our engagement data supports the strength of our long-term relationships with issuers, as our engagements increased over 30% year-over-year. We saw an increase in engagements related to environmental topics, which made up 27% of engagement discussions. Climate change and energy transition pose risks and opportunities to issuers across global corporate credit markets. For this reason, it is an important priority for our team to engage with issuers on how these factors impact them at a granular level.

Within our social engagements, we documented growth in engagements centered on equity, inclusion and diversity (EID), as well as community and government relations and cybersecurity. Our governance-focused engagement efforts covered a range of important topics such as long-term business strategy, capital structure, risk management and disclosure enhancement.

ENGAGEMENT AT A GLANCE[1]

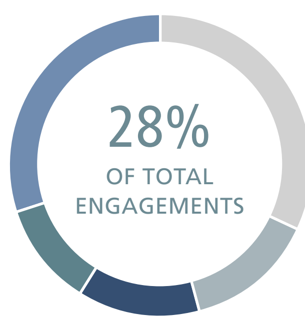
1,514	NUMBER OF MEETINGS
2,621	TOTAL NUMBER OF ESG TOPICS
62%	ENGAGEMENTS WITH CEO OR CFO

ENVIRONMENTAL



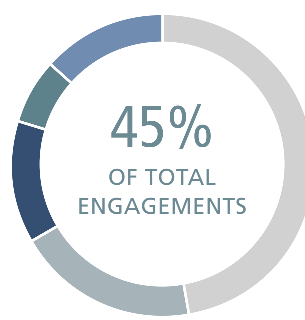
- Climate Change
- Green Opportunities
- Pollution and Mitigation Management
- Disclosure of Key Environmental Metrics
- Other

SOCIAL



- Community/Government Relations
- Labor Relations
- Health and Safety
- Human Capital Management
- Other

GOVERNANCE



- Long-term Business Strategy
- Capital Structure
- Risk Management
- Disclosure and Financial Controls
- Other

1. Source: Neuberger Berman. Data as of July 1, 2020 – June 30, 2021.

Engagement Areas in Focus

1 CARBON REDUCTION AND TRANSITION RISK

We view climate change as a critical business risk factor across many industries and believe detailed disclosures, robust emissions policies and strong transition risk strategies will be crucial to mitigate long-term risks. Ongoing systematic engagement with issuers provides Neuberger Berman with a platform to advise issuers on strategies and objectives to mitigate risk and advance opportunities related to climate change and energy transition.

Priorities of our engagement on climate change:

- Encourage issuers to disclose historical emissions records and adopt principles based on the Science Based Targets initiative (SBTi).
- Understand how companies are managing transition risks as well as physical risks to their assets.
- Integrate increased business risk into our thesis for issuers with outsized exposure to energy transition risks, while tracking management responsiveness and progress toward goals.

Climate change engagement in practice:

Energy companies face heightened threats from climate change, as the energy transition may result in stranded fixed assets and significant financial costs if not properly managed. As such, we regularly engage with companies to communicate our belief that it is critical for issuers to provide robust environmental disclosures and both short- and long-term emission reduction targets.

A recent example of an engagement effort relating to this emphasis on disclosures and goal-setting is with a Canadian oil and gas producer. We routinely met with the senior management team to set a long-term net-zero target and implement a set of more ambitious goals to reduce emissions by 2030. Given these conversations, we were pleased the company recently announced a new 2030 emissions target that is 25% more ambitious than its previous goal, as well as a 2050 net-zero target.

CLIMATE CHANGE AND ENERGY TRANSITION POSE RISKS AND OPPORTUNITIES TO ISSUERS ACROSS GLOBAL CORPORATE CREDIT MARKETS. ACTIVE ENGAGEMENT ON THESE TOPICS CAN IMPROVE AN ISSUER'S CREDIT PROFILE.

2 WORKFORCE DIVERSITY

We believe strong policies with respect to equity, inclusion and diversity are fundamental to driving strong labor relations, human capital management and workforce organizational opportunities.

Priorities of our engagement on workforce diversity:

- Reinforce the importance of diversity in membership of an issuer's board and senior management and encourage aggregate disclosure.
- Publish EEO-1 reports (employment information reports provided to the U.S. Equal Employment Opportunity Commission) and provide supplemental information on workforce composition and human capital management practices specific to the company.
- Develop strong human capital management programs, including training, recruiting and retention policies.
- Conduct pay equity/parity assessments based on diversity and encourage commitments and the establishment of programs to achieve parity.
- Encourage companies to evaluate opportunities to advance diversity efforts across their communities and supply chains.

Workforce diversity engagement in practice:

Our workforce and diversity efforts have leveraged access to management to encourage a formal commitment to diverse work environments and better disclosure on workforce diversity. While diversity of representation at the board level is a natural starting point, we are increasingly targeting our engagements to seek progress across entire organizations, understanding that the character of midlevel management can have a major influence on workplace culture. In this area, U.S. EEO-1 data is becoming the disclosure standard around workforce demographics. Our engagement activity was broad-based across issuers in sectors such as the healthcare, real estate, technology and financial services. Specifically, we encouraged EEO-1 disclosures and we assessed corporate plans to enhance EID over time.

While corporate issuers are making improvements around workplace diversity, the rate of change is varied as evidenced by our engagement outcomes with two leading consumer product entities. We engaged with both issuers on the need to report and disclose diversity metrics including gender, ethnicity and race as a firm's diversity and inclusion priorities reflect strong talent management and labor relations. Both are critical to the success of a global company that depends on human capital in its operations. One firm has now established and published information regarding its diversity and inclusion strategy in its 2020 ESG report while the other continues to lag its industry peers in the level of diversity and inclusion disclosure and lack of key performance objectives. Due to the importance of a diverse workforce, we will continue to target the laggards across all industries for continued engagement.

3 COMMUNITY RELATIONS

We believe it is important for issuers to be good stewards of their communities and environment. An issuer's corporate strategy that includes a strong development framework for its local communities can mitigate reputational, regulatory and financial risks that can arise as a result of its business operations.

Priorities of our engagement on community relations:

- Understand how an issuer's operations affect the communities where they operate and any related controversies.
- Engage with issuers to promote sound risk-mitigation policies using industry-leading standards and benchmarking.
- Identify issuers that value their relationship with communities.

Community relations engagement in practice:

An issuer's products and services can have a material impact on stakeholders and members of the local communities in which it operates. Our engagement efforts are focused on encouraging companies to be accountable for their impact on these communities and to be active contributors to their development. Our emphasis on accountability is demonstrated in our engagement initiatives with leading communication firms in Europe and North America.

Given their technologically advanced networks, we highlighted the constructive role these firms can play in achieving various ESG targets. Specifically, we encouraged issuers to contribute to underserved communities and help bridge the digital divide for all constituents. Following our engagement initiatives, a leading communications firm expanded its rural broadband coverage and continued its commitment to bringing its services to underserved populations. The importance of this commitment was evidenced as COVID-19 led to higher dependence on virtual learning. This challenging period underscored the differences in broadband between affluent and low-income communities. Partnering with local organizations and city leaders, the communications firm initiated a multiyear program to launch more than 1,000 WiFi-connected facilities serving low-income communities to provide broadband access in a safe environment for students and families. Today, the company is on target to achieve its initial goal a full year ahead of schedule and has also pledged to spend $1 billion over the next decade to further reduce the digital divide. While we are pleased with the progress, we will continue to engage with this issuer and others across the industry to track their progress and encourage ambitious performance goals that cover a wide community base.

OUR ENGAGEMENT EFFORTS ARE FOCUSED ON ENCOURAGING COMPANIES TO REDUCE ESG RISKS IN THEIR BUSINESS OPERATIONS AND POSITIVELY CONTRIBUTE TO THE COMMUNITIES IN WHICH THEY OPERATE

Partnerships Focused on Driving Long-Term Positive Outcomes

CAPITAL MARKETS PARTNERSHIP: ENGAGEMENT ON QUALITY OF ESG BONDS

The volume of ESG bond issuance has increased significantly over the last several years as issuers have looked to tap an expanded investor base. Through September, the assets under management for global ESG bond funds have increased to $500 billion, a 350% increase in two years.[1]

With limited standardization for ESG issuance, we believe engagement with management teams prior to such issuance can be a powerful tool to encourage them to align their capital markets activity with best-in-class standards. Specifically, our engagements focus on a company's tracking and reporting systems, financial incentives and, where appropriate, eligible green projects or key performance indicators (KPIs).

For green or social bond issuance, we believe it is important for companies to have strong ESG track records, clearly identify the use of proceeds and adhere to robust reporting standards. Our long-term engagement with a U.S. utility was critical to our recent decision to purchase its inaugural green bond. We have a favorable view of the issuer's credit profile, its ESG strategy to date, and the structural strength of its green bond framework. Our engagement efforts provided us insight into the company's commitment to reducing its environmental impact through its sizable renewable generation and emerging technology investments, including battery storage and hydrogen fuel. They also allowed us to communicate our standards for green bonds, which advises issuers to identify specific eligible green projects, a reasonable investment time frame and financial penalty if the standards were not met. We were pleased that these important standards were ultimately implemented in the final new issue terms and conditions.

For sustainability-linked bonds, we believe it is important for companies to have a strong ESG track record and set KPIs that are material and ambitious. In contrast to the green bond that we viewed favorably, we recently passed on a sustainability-linked bond issued by a large midstream energy issuer when it failed to adjust its KPIs after our engagement efforts. In our opinion, the KPIs were not ambitious enough and fell short of addressing risk factors we had identified to be critical to the company's credit profile and ESG exposure. For example, we thought the company's KPI on emissions reduction should be more aggressive, given that it had already made significant progress on its targets. Additionally, we thought the issuer should have included a KPI on pipeline incidents, as we view those as material to its credit profile.

INDUSTRY PARTNERSHIP: ENGAGEMENT WITH ASSET ALLOCATORS ON CLIMATE RISKS

Climate risk and energy transition pose risks and opportunities across global corporate credit markets, as fast-paced regulatory changes, evolving market dynamics and other factors can impact an issuer's long-term credit profile. With this as a backdrop, we hosted a webinar on managing climate risks in fixed income for nearly 50 European asset allocators in late 2020. Neuberger Berman speakers included the head of our ESG Investing team, along with senior investment professionals on the global fixed income platform. External speakers included the head of investments at a leading U.K. pension fund, the head of manager research at a responsibility-focused investment consulting firm and the chief technical advisor to the Transition Pathway Initiative.

1. Source: EPFR Informa Financial Intelligence, BofA Global Research, as of November 1, 2021.

Our goal for the webinar was to collaborate with and be a resource for asset allocators as they implement climate change themes into their investment process. During the webinar, we discussed how we incorporate climate risks into portfolio construction, management and reporting, in addition to credit analysis and issuer engagements. In particular, we highlighted our use of Climate Value-at-Risk (CVaR), a scenario analysis tool that we use to model transition and physical risks at the company level under several warming scenarios. Portfolio managers can use this tool to construct portfolios that better incorporate risks associated with climate change. From a research perspective, CVaR is used to benchmark issuers within industries that have material exposure to climate risk. This is then used to inform our engagement with issuers as we evaluate their ability to successfully manage climate risk.

Through this forum, we were able to engage directly with other investors to discuss, share and help promote best-in-class climate risk mitigation strategies and to further advance the goals of the Paris Agreement on climate change.

SEEKING BEST PRACTICES IN ESG REPORTING

In May 2021, the Non-Investment Grade Credit and ESG Investing teams hosted the second annual roundtable discussion on ESG engagement in the Non-Investment Grade credit market. Senior management from 34 corporate issuers were in attendance, with the discussion focused on explaining Neuberger Berman's approach to ESG engagement and general trends in the industry, while providing practical guidance for issuers.

In light of a changing landscape of disclosure standards and expectations, Neuberger Berman conveyed to issuers how our ESG integration and engagement processes work, and what we expect from them in terms of information flow and goal-setting. We emphasized that informational demand is becoming more voluminous and specific as expectations grow for disclosure, particularly on social and climate practices.

For issuers, we argued that it is critical for a company to disclose its strategy to address the various ESG risks and opportunities that impact their business in order to gain recognition among investors on their progress. We suggested that issuers take a methodical approach to improvement, by identifying and then acting on a few concrete goals that are closely aligned with their core businesses, and then reporting those changes publicly. In our view, repeating this process can have a gradual, positive impact on perceptions and support long-term credit improvement.

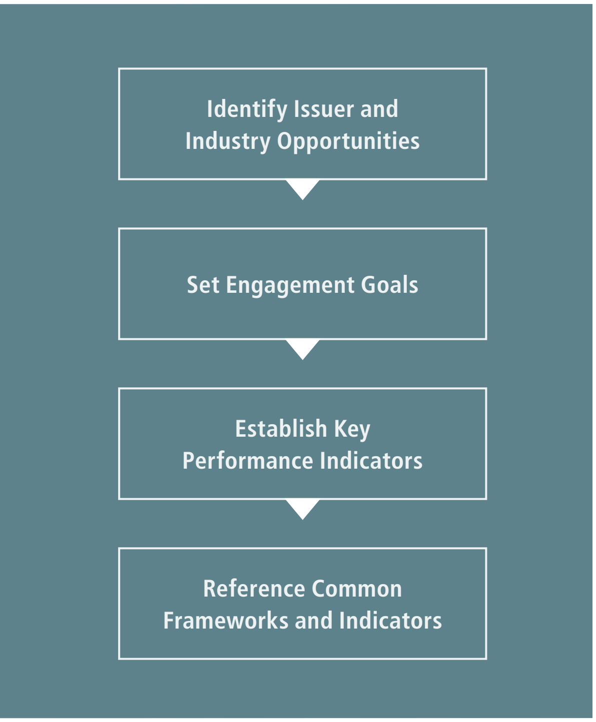
Our discussions emphasized the importance of issuers to map out not only what they want to achieve, but also the value of incorporating guidance from well-regarded frameworks, such as the London School of Economics' Climate Transition Initiative or the United Nations Sustainable Development Goals. The use of such frameworks can help with market understanding—and potential appreciation—of ongoing ESG efforts.

Active engagement is a crucial element of our approach, helping to identify credit risk and guide issuers toward practices that can enhance their credit profile over time. The most effective engagement often comes down to direct dialogue with companies to explain how the ESG landscape is evolving, what we are looking for and how management teams can enhance their prospects for credit improvement. This latest roundtable was just one opportunity in our overall engagement approach. Combined with our direct conversations with management, we seek to encourage issuers to take action on the areas of ESG risks and opportunities that can impact their business.

In addition to our direct company engagement, we also collaborate with organizations to address industry-wide issues. Examples of industry engagements include serving on sector committees at SASB to help develop and maintain standards for company ESG disclosures and participating in the NIRI Senior Investor Relations ESG Panel focused on the important role of fixed income stakeholders in ESG engagement.

OTHER EXAMPLES OF INDUSTRY-WIDE ENGAGEMENTS

SASB PRI niri LSTA



Paving the Way for Strategic Engagement

Neuberger Berman understands the important role we can play in influencing capital allocation and encouraging improvements in operations and practices of fixed income issuers globally. Our process in tracking an issuer's progress is critical to identifying leaders and evolving our engagement strategy as needed when an issuer is lagging in its efforts.

Our proprietary ESG scoring system helps us identify specific ESG opportunities that are unique to the issuer and industry. We are focused on following best practices in engagement:

- Setting goals that are specific, ambitious, and directly tied to the issuer's core business or operations.
- Where possible, we tie engagement to a common framework, such as the United Nations' Sustainable Development Goals (or UN SDGs), Transition Pathway Initiative or the Science Based Targets initiative (SBTi).
- We track progress against these goals with key performance indicators that are reportable and potentially additive to a company's strategy and investment.
- We leverage our relationships to access senior management and communicate these engagement objectives and related KPIs.

ENGAGEMENT IN PRACTICE: SETTING UN SDG OBJECTIVES

The UN SDGs provide an established framework that governments, non-profits, companies and investors can work together to accomplish common goals that benefit society. They provide clear targets and timelines for achieving the social and environmental principles outlined. Achievement of the goals can address climate change, and lead to global economic development and social betterment of all people. This standardized framework combined with other impact dimensions—such as depth, scale, who is being affected and their level of need—is helpful to identify engagement objectives and opportunities for increased alignment through active engagement.

ENGAGEMENT SPOTLIGHT

Partnership with OneMain Financial

A multiyear engagement with a focus on the incorporation of best-in-class ESG policies

BACKGROUND

OneMain Financial is the largest nonprime installment lender in the U.S. and engages in inclusive practices such as lending to underserved communities, with 25% of its customers being credit insecure or living in at-risk counties. Through a proactive and investment team-led process, Neuberger Berman encouraged the issuer to take incremental steps to provide access to finance for underserved communities while enhancing its commitment to responsible underwriting and improving disclosure.

OBJECTIVE

Our focus was to leverage our long-term relationship with management to encourage the issuer to incorporate best-in-class ESG policies and establish long-term objectives that would reinforce its commitment to responsible underwriting and expand its lending efforts for underserved communities and populations.

SCOPE AND PROCESS

Our diligence process included 20+ discussions with the senior management team, including the CFO, Chief Risk Officer, Treasurer, General Counsel, Investor Relations and equity stakeholders.

We engaged with the company to establish an ESG strategy and enhance disclosures of its policies. We believed formally establishing and publishing its ESG framework would increase transparency and reinforce the company's commitment to responsibly servicing its communities and underserved customer population.

OneMain was encouraged to establish a best-in-class social bond framework and engaged on the importance of transparency in oversight, reporting and performance tracking.

OUTCOME

OneMain released its first ESG Report in July 2020 and established its social bond framework in 2021, which aligned with ICMA's Social Bond Principles 2020, received a third-party alignment opinion from Standard & Poor's, and is intended to align with UN Sustainable Development Goals 1.4, 8.10, and 10.2. OneMain issued its inaugural social bond in June 2021, for which Neuberger Berman served as an anchor order in the $750 million issuance.

ENGAGEMENT OPPORTUNITIES BY UN SDGs

SUSTAINABLE DEVELOPMENT GOAL 1: End poverty in all its forms everywhere

1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

SUSTAINABLE DEVELOPMENT GOAL 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all

SUSTAINABLE DEVELOPMENT GOAL 10: Reduce inequality within and among countries

10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

"Neuberger Berman has been a longtime, valued partner for our capital markets and ESG programs. As the nation's largest installment lender to hardworking Americans with nonprime credit, OneMain is constantly working to demonstrate our corporate social responsibility across the 44 states where we operate. Neuberger Berman's Non-Investment Grade and ESG teams have helped us to accomplish this with the best interests of our customers, communities and team members in mind."

– Rich Tambor, Chief Risk Officer, OneMain Financial

Note: OneMain Financial is not an investment advisory client of Neuberger Berman, and their experience regarding ESG engagement with Neuberger Berman and the related description is not related to any investment advisory services provided or investment capabilities of Neuberger Berman Investment Advisers LLC or its affiliates. Nothing herein constitutes an endorsement or recommendation.

Reflections from a Fixed Income Perspective

- **Global bond markets play an important role:** Fixed income investors can play a critical role in identifying areas of ESG risks and opportunities to an issuer's credit profile such as sustainable development, climate action, and best-in-class governance frameworks.
- **Setting specific and measurable goals drives long-term accountability and alignment:** Engaging issuers to achieve specific targets that align with well-recognized frameworks such as the UN SDGs encourages alignment and transparency of progress.
- **Direct conversations matter:** In our position as long-term capital providers, engagements can be more successful when built on the strength of long-term relationships with senior management.
- **The global landscape remains challenging and demand for ESG integration is increasing:** Issuers seek guidance from long-term partners and capital investors. Neuberger Berman's deep relationships provide opportunities for transparent feedback on the most material ESG factors affecting industries and issuers, and we are committed on tracking our progress. Future areas of focus include a continued integration of the UN SDGs into our engagement efforts, as well as implementing products with net-zero alignment and engagement with companies on risks associated with climate transition.

CASE STUDY

Environmental Remediation

Investment in efficient resource consumption through the implementation of alternative energy vehicles

BACKGROUND

Neuberger Berman engaged with an issuer that provides a variety of environmental remediation and industrial waste management services to customers in North America. The company's services include the treatment and disposal of hazardous and non-hazardous solid and liquid waste, surface remediation, groundwater restoration and used oil collection and recycling through re-refining.

OBJECTIVE

Through a proactive and investment team-led process, Neuberger Berman engaged with the company on priorities aligned with the Sustainable Development Goals with a focus on the environmental impact of the company's fleet of transportation vehicles and resource consumption.

SCOPE AND PROCESS

Our diligence process included discussions with the company's CFO and Investor Relations team. While the company has incorporated a sustainability strategy into its core operations, we felt the company could enhance its sustainable business practices further by focusing on its large fleet of over 8,000 transportation vehicles. We engaged with the company to set objectives to reduce the environmental impact from its transportation fleet and enhance disclosure on this topic. We encouraged the company to invest and commit to projects that improve the fuel efficiency of its transportation fleet.

OUTCOME

The company has created a publicly stated goal to grow the percentage of alternative energy vehicles in its light-duty fleet to over 10% by 2030. During 2019, alternative energy vehicles represented less than 1% of its light-duty fleet.

The issuer has one of the largest private transportation fleets in North America, so this is a meaningful environmental initiative. We believe the size of this commitment has the potential to reduce long-term vehicle maintenance and fuel expense, which we view as favorable for the issuer's credit profile.

CASE STUDY

Commitment to Carbon Reduction

Opportunity to capitalize on the energy transition and improve long-term competitiveness through reduced environmental impact

BACKGROUND

We identified an opportunity to drive change in one of the largest carbon emitters in the European utility sector. Given its heritage, we sought to encourage the company to embrace the energy transition by aligning its capital allocation framework with carbon neutrality targets and reposition its asset base through disposals, plant closures and organic growth. Moreover, we argued that the issuer was particularly well placed to capitalize on opportunities in renewables globally due to its scale and early-mover advantage.

OBJECTIVE

Our objective was to understand the issuer's commitment to the transition toward a lower-carbon generation mix along with its timeline and strategic initiatives aimed at meeting its target. We also wanted to know how it intended to offset lost earnings through emerging opportunities in high-growth clean power generation technologies. Leadership in this transition will be a key determinant in the flow of capital within the sector going forward.

SCOPE AND PROCESS

The diligence process included regular discussions with the issuer's management team, investor relations, operational managers, industry competitors and regulators. In addition, we leveraged our proprietary ESG scoring system to prioritize our engagement efforts on the most material issues and track progress on key variables. While the company had been an early adopter of carbon-reduction strategies, we also encouraged management to challenge its current climate-transition targets and maintain its industry-leading best-in-class status.

OUTCOME

During our multiyear engagement process, the company has accomplished the following:

- Transformed itself from one of the most polluting players in the sector to an energy transition leader
- Reduced its annual Scope 1 carbon emission level by almost 60 million tons. To put that in perspective, Sweden emits around 43 million tons of carbon per annum, according to SCB data
- Announced an accelerated commitment to exit coal generation (pulled forward the exit plan by three years)
- Upgraded its highly ambitious plan to triple renewables capacity by 2030

Overall, these actions also allowed the issuer to raise its 2030 greenhouse gas emission reduction target from 70% to 80% at the end of last year. The more aggressive reduction target was also certified by the Science-Based Targets initiative and consistent with the purpose of limiting global warming to 1.5 degrees Celsius. Going forward, the company continues its focus on maintaining its leading sustainability position with nearly all of its annual capex (about 90%) aligned with the UN SDGs and the proposed EU Taxonomy framework.

CASE STUDY

Environmental Disclosure When Producing Commodities

Capitalizing on strong fundamentals to address environmental risk

BACKGROUND

Oil & Gas (O&G) and Metals & Mining (M&M) corporate bond issuers in Russia have historically been underperformers on environmental risks compared to sector peers. Russia has a large extractive sector and accounted for approximately 5% of worldwide greenhouse gas emissions in 2018, placing it behind only China, the U.S. and India. Per capita emissions of 15.2 thousand kilograms were the sixth highest worldwide. We expect to see growing pressure on companies in commodity sectors, particularly in O&G to address environmental risks.

OBJECTIVE

We believe it is important not only to disclose formal ESG policies and specifically carbon emissions, but also to produce plans, details and targets related to the transition to a net-zero emissions economy.

SCOPE AND PROCESS

We have engaged with Russian companies in high-risk sectors, encouraged them to establish and disclose greenhouse gas (GHG) emissions reduction targets aligned with the Paris Agreement. Also, we have inquired about companies' plans related to the usage of their strong balance sheets and excess cash flows in the time of the favorable leg of the commodity cycle. Over the past 12 months, we had approximately 18 engagements on environmental topics and targets with Russian O&G and M&M companies. This year our engagements have been specifically focused on increases in environmental-related capex spending and the development of concrete action plans aimed at GHG reduction and transition to a net-zero emissions economy aligned with UN SDG sub-goal 13.3 related to climate change mitigation.

OUTCOME

Based on our engagements with Russian issuers, we see improvements as most of the key O&G and M&M companies have begun to disclose Scope 1 and Scope 2 emissions, while an increasing number of companies are starting to disclose Scope 3 emissions. This is particularly important for O&G companies, whose emissions largely come from third-party combustion of the oil and gas the companies produce. We have engaged four times over the past year with a Russian O&G company that has shown significant improvement with a 14% year-over-year reduction in greenhouse gas emission in 2020. The company has established 2030 emission reduction targets for two of its key subsidiaries as it focuses on methane emissions reductions across its operations—management is now working toward long-term goals through a 2050 road map that could potentially incorporate a net-zero emissions target.

In the M&M sector, we have engaged for a number of years with a Russian steel producer. The company has adopted an environmental program with short-term emissions reduction targets and is investing in and testing innovative technologies that will facilitate emissions reduction beyond current short-term commitments. This company is also a participant in the UN Global Compact on Human Rights with targets for continued improvement in industrial safety metrics and has seen recent improvement to its already-strong third-party ESG ratings. Among metals producers in Russia in particular, we have observed an emerging trend of de-merging carbon-intensive assets and this could be a driver of continued improvement on emissions reduction in the sector going forward. We will continue to engage with Russian commodity issuers to leverage the currently favorable fundamental environment to focus on improved emissions performance and proactive targeting, which should facilitate wider investor support as they work through the energy transition.

Global High Yield Sustainable Action Strategy

Engagement progress toward sustainable development goals

As a leader in ESG integration, Neuberger Berman launched a Global High Yield Sustainable Action strategy in 2020 to meet the growing demand for investments in high-quality companies with the potential to meet ESG objectives aligned with the UN SDGs.

This strategy strives to collaborate with high-quality companies whose business operations have the potential to contribute to the UN SDGs in an effort to drive positive outcomes for broader stakeholders while reducing portfolio credit risk within a market where we have a unique ability to engage with issuers and create positive change. Our approach utilizes active engagement with issuers to advance the UN SDGs and consequently reduce issuer credit risk.

Progress toward issuers' tailored engagement objectives is tracked by a multistage tracking system where, over time, consideration is given to divestment of issuers that are unresponsive. Reflecting on our progress, we are pleased that our engagement activity has shown a strong response from management teams, in which over 80% of issuers have shown to be responsive or taken some level of action to our engagement objectives.

PROACTIVE ESG ENGAGEMENT TRACKING PROCESS

Initiated Engagement	**Stage 1** Attempted to Speak to Company	**Stage 2** Company Responsive	**Stage 3** Partial Action Taken by Company	**Stage 4** Sufficient Action Taken by Company
10%	3%	60%	14%	13%

Data through June 25, 2021.

OUR PROACTIVE ESG ENGAGEMENT PROCESS AND THE STRENGTH OF OUR RELATIONSHIPS WITH MANAGEMENT TEAMS CREATES A UNIQUE PLATFORM THAT MAXIMIZES THE PROBABILITY OF SUCCESSFUL ENGAGEMENT OUTCOMES ALIGNED WITH THE UN SDGs

Engagement Alignment with UN SDGs and Underlying Targets

We track which of our engagements have delivered incremental change by issuers to support a specific UN SDG target

As an additional component of the strategy, we set engagement goals with issuers aligned with the UN SDGs where their industry, products or services are able to contribute to advancing the goals. We measure progress toward these objectives by utilizing key performance indicators. While we engaged on a diverse range of UN SDGs, many of our engagement goals in 2021 were aligned with SDG 12, Responsible Consumption and Production, SDG 3, Good Health and Well-being, and SDG 9, Industry, Innovation, and Infrastructure.

PERCENTAGE OF GLOBAL SUSTAINABLE ACTION ADDRESSED BY UN SDG

Responsible Consumption and Production 31%
Ensure sustainable consumption and production patterns

Good Health and Well-being 16%
Ensure healthy lives and promote well-being for all at all ages

Industry, Innovation and Infrastructure 15%
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Clean Water and Sanitation 11%
Ensure availability and sustainable management of water and sanitation for all

Affordable and Clean Energy 6%
Ensure access to affordable, reliable, sustainable and modern energy for all

Sustainable Cities and Communities 5%
Make cities and human settlements inclusive, safe, resilient and sustainable

Decent Work and Economic Growth 4%
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Climate Action 3%
Take urgent action to combat climate change and its impacts*

Gender Equality 3%
Achieve gender equality and empower all women and girls

Zero Hunger 2%
End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Quality Education 2%
Ensure inclusive and equitable quality education and promote life-long learning opportunities for all

Reduced Inequalities 1%
Reduce inequality within and among countries

No Poverty 1%
End poverty in all its forms everywhere

Life on Land 1%
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Source: Neuberger Berman. Data as of June 25, 2021.

Ongoing Innovation with Climate Transition Mandates

Continuing engagement on climate change and net-zero emission targets

Neuberger Berman's commitment to responsible investing using issuer engagements and our ability to integrate climate risk across fixed income sectors resulted in our recent funding of a £1.3 billion climate transition-related mandate. We worked with one of the U.K.'s local government pension asset pools to develop an ESG-integrated fixed income portfolio that utilizes the IIGCC Net Zero Investment Framework to meet the client's specific carbon-intensity reduction objectives.

It has been designed to align with the Paris Climate Agreement, delivering a portfolio with net-zero emissions by 2050 along with well-defined interim carbon reduction targets. Our methodology for calculating the portfolio carbon intensity is based on the recommended guidance set forth by Science-Based Targets initiative (SBTi) and the Taskforce for Climate Related Financial Disclosure (TCFD).

Issuer engagements will be a key tool in seeking to meet the portfolio's objective. Our active engagement process prioritizes climate change issues, particularly for the companies that we believe are not net zero-aligned. We believe issuers should have appropriate climate risk disclosure, transparent reporting and clear ESG targets and performance goals, and we closely monitor and measure their progress over time. This engagement structure will allow us to focus on issuers with credible and well-defined absolute carbon reduction plans versus companies utilizing carbon offsets to mitigate their elevated GHG emissions. In terms of issuer accountability, should insufficient action be taken within three years, the holdings will be eventually removed over time.

CLIMATE RISK INTEGRATED INTO STRATEGIC ASSET ALLOCATION (SAA)

PORTFOLIO COMMITMENT AND INDICATORS	MINIMUM STANDARDS	NET-ZERO COMPANY ANALYSIS	ENGAGEMENT
The portfolio is designed to have a net portfolio carbon footprint (scope 1 + 2 and material scope 3) which declines over time to zero by 2050, with regular client reporting on indicators and progress	Dynamic and incrementally progressing spectrum for assessing company contribution, whereby companies or industries lacking alignment with the transition to a low carbon economy are excluded, with tilting toward those aligned or contributing to solutions	All holdings evaluated to ensure operations support net-zero objectives, which is informed by proprietary ESG analysis and climate scenarios to identify leaders or laggards	Company- and sector-specific engagement on ESG issues, including climate change. Focus on materiality, tracking objectives and achieving real-world outcomes

Conclusion

As a leader in fixed income investing, Neuberger Berman's credit research teams are focused on engaging directly with senior management teams to identify ESG related credit risks and opportunities. As expectations grow for disclosure and improvement, active engagement can guide issuers toward practices that can enhance their credit profile over time. Neuberger Berman recognizes the important role we can play in the market and we are committed to engaging with both issuers and other industry participants to encourage improvements in operations and the allocation of capital. Ongoing systematic engagement provides us with a platform to engage issuers on strategies and objectives to mitigate risk and advance opportunities in areas such as climate change, energy transition and alignment with the United Nations Sustainable Development goals. By encouraging issuers to take incremental action, we believe our consistent engagement can improve an issuer's credit profile, reduce its cost of capital and drive positive outcomes for a broad range of stakeholders and the planet.

FOR MORE ABOUT OUR APPROACH TO ESG AND IMPACT INVESTING, PLEASE VISIT WWW.NB.COM/ESG.

ESG integration approaches may evolve over time.

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