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Neuberger Berman Small Mid Cap Portfolio

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Performance Highlights

Small-mid cap stocks, as measured by the Russell 2500 Index, declined 7.50% during the first quarter of 2025.

While the Neuberger Berman Small Mid Cap Portfolio posted a negative return during this timeframe outperformed its Russell 2500 Index benchmark. The U.S. equity markets were up at the start of the period, as investors reacted positively to solid economic reports and eagerly anticipated the rollout of President Trump's "America First" policy agenda.

In February, a flurry of executive orders, a hotter-than-expected inflation reading, layoffs by the Department of Government Efficiency (DOGE), and tariff announcements raised concerns about the potential for higher inflation and slower economic growth ahead. In March, ongoing government policy uncertainty, especially as it relates to tariffs, weighed heavily on both consumer and investor confidence. Within the Russell 2500, performance was negative in all sectors except for Utilities, with the largest declines in the Technology, Consumer Discretionary, and Industrial sectors.

Portfolio Review

During the period, our Portfolio outperformed the Russell 2500 due to positive stock selection, which was partially offset by negative sector allocation. Stock selection was positive in eight of the eleven sectors in which we invest, and was strongest in the Industrials, Consumer Discretionary, and Technology sectors.

Within the Industrials sector, our outperformance was broad-based across several end markets, with our exposure to aerospace and defense companies adding the most value. These companies could benefit from a potential recovery in commercial aerospace volumes, durable end-market demand, and exposure to critical areas within defense and national security. Several of our shorter-cycle holdings also outperformed due to low expectations and the anticipation of a cyclical recovery following several years of soft macro data. Our bias towards companies with recurring revenue streams was rewarded in this inherently cyclical area of the market.

Within the Consumer Discretionary sector, the companies that added the most value outperformed due to the prospect of improving earnings as the year progresses and their relative defensiveness from macro uncertainty. In addition, the lack of exposure to the underperforming textile, apparel, and luxury names contributed to outperformance.

Concerns over the health of the consumer, particularly at the lower end, remain top of mind for investors (e.g. inflation, tariffs, immigration). We anticipate that the first quarter earnings results for many companies will likely be negatively impacted by unusual weather, a severe flu season, and calendar shifts. Stock selection was mixed in Technology with relative outperformance in the semiconductor subsector offset by company-specific underperformance in software. Stock selection was negative in the Energy and Real Estate sectors. Within the Energy sector, we underperformed due to company-specific weakness. Within Health Care, our Life Science names were under pressure due to concerns related to reduced R&D budgets and uncertainty about RFK JR.'s appointment as Secretary of Health and Human Services.

Sector allocation hurt relative performance during the period due to our overweight to Technology and Industrials and underweight to Financials and Real Estate Investment Trusts. In the Technology sector, we are focused on companies with high barriers to entry, strong free cash flow generation, and attractive growth opportunities led by company-specific innovation and the mission-critical nature of their products. We seek a balance of holdings that can broadly be characterized as more cyclical in the semiconductor and hardware industries (with proprietary technologies, company-specific growth drivers, and products that represent a low percentage of the finished product cost) and steadier growing companies in the software industry (with mission-critical businesses, recurring revenues and the opportunity to upsell additional products to customers).

We seek this balance to help minimize the impact of macroeconomic factors on relative performance in any given period. We are overweight in the Industrials sector, with a focus on companies with leadership positions in niche markets, strong technical experience, durable customer relationships, and scale advantages that we believe position them well through a cycle. We generally focus on capital-light companies with leading portfolios of highly engineered and mission-critical products that are integrated into their customer's production process and entrenched within the distribution network. In the Financials sector, we are underweight primarily due to our underweight exposure to Regional Banks. We are cognizant of the challenging industry dynamics and focus on Regional Banks that have conservative credit and risk management cultures, robust capitalization, long-term customer relationships, and the ability to compound tangible book value over the long run.

BEST AND WORST PERFORMERS FOR THE FIRST QUARTER 2025

Best Performers	Worst Performers
Chemed Corp.	MKS Instruments, Inc.
Ryan Specialty Holdings, Inc.	Haemonetics Corp.
Nexstar Media Group, Inc.	SPS Commerce, Inc.
Rollins, Inc.	Tetra Tech, Inc.
Bright Horizons Family Solutions, Inc.	Manhattan Associates, Inc

Reflects the best and worst portfolio performers for the quarter, in descending order, based on individual security performance and portfolio weighting. Positions may include securities that are not held in the portfolio as of 3/31/2025. Information is based upon the manager's composite and additional information regarding the performance contribution calculation methodology, is available upon request. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. It should not be assumed that any investments in securities identified and described were or will be profitable.

Best Performers

Chemed Corporation

Chemed operates two business segments, VITAS (hospice) and Roto-Rooter (plumbing to residential and commercial customers). Both VITAS and Roto-Rooter are market share leaders in fragmented industries. The stock outperformed after reporting solid earnings with signs of a recovery in its Roto-Rooters revenue following several quarters of declining sales.

Ryan Specialty Holdings, Inc.

Ryan Specialty Holdings is the number two player in wholesale insurance brokerage oligopoly. The company is levered to the Excess and Surplus insurance market which has secular growth drivers such as social inflation, climate change, and cybersecurity risk. The stock significantly outperformed its peers after a favorable earnings release and strong 2025 guidance, which showcased the durability of the company's organic growth algorithm despite pricing headwinds within some property lines of business.

Nexstar Media Group, Inc.

Nexstar is the largest broadcast television operator in the U.S. While economically sensitive, broadcasters are very free cash flow generative businesses with strong margins and have historically been able to allocate free cash flow to a combination of market consolidation and shareholder returns. The stock performed well in the period due to market excitement around the prospect of deregulation and more specifically, around the opportunity to lessen restrictions on market consolidation to allow these companies to more effectively compete with less regulated large technology platform firms. Additionally, stock performance was aided by strong reported results relative to peers.

Rollins, Inc.

Rollins is a leading provider of pest and termite control.
We believe the company has a durable and economically resilient business model. Rollins competes in a fragmented industry, allowing the company to use its scale advantages (including technology) to increase market share and deliver industry-leading growth and returns. The stock performed well as the company delivered strong financial results and continued to generate durable organic growth.

Bright Horizons Family Solutions, Inc.

Bright Horizons is the leading provider of employer-sponsored childcare services in the US. The company is differentiated by its strong reputation (qualified teachers, safety protocols), long-term customer relationships, pricing power, scale in its backup care offering, and strong free cash flow generation to fund buybacks and M&A. The stock outperformed due to strong earnings results that point to a continued recovery in full-service center enrollment and sustained growth in the high-margin backup care business.

Worst Performers

MKS Instruments, Inc.

MKS Instruments is a leading provider of process control subsystems across semiconductor, industrial tech, life science, and other verticals. The company enjoys strong barriers to entry including its leading product breadth, intellectual property, deep customer relationships, and global supply chain. Over time, the management team has added considerable shareholder value through strategic acquisitions. The stock declined due to an industry-wide inventory correction that has weighed on near-term results and as concerns around tariffs and trade barriers intensified.

Haemonetics Corporation

Haemonetics is a leading supplier of blood management systems, and consumables used to collect and process blood into its components. The stock underperformed despite reporting strong financial results as investors weighed normalization in demand for plasma consumables.

SPS Commerce, Inc.

SPS Commerce sells supply chain software that helps connect suppliers to retail partners. Its solutions generally serve as a network to help suppliers comply with a retailer's unique procurement needs and provide an automated solution for suppliers to serve these customers. Its solutions are very sticky, and the company has a long track record of healthy organic growth. The stock underperformed after reporting results that were modestly below consensus expectations.

Tetra Tech, Inc.

Tetra Tech provides high-end consulting and engineering services that focus on water, the environment, and sustainable infrastructure for government, commercial, and international clients. Tetra Tech's competitive advantage is based on its deep institutional knowledge, and a strong reputation for providing high-end services, both of which, in our view, result in superior project management. The stock underperformed due to ongoing concerns over the outlook and structure of US federal government contracts following the election.

Manhattan Associates, Inc.

Manhattan Associates is a leading provider of supply chain software used by large retail and manufacturing customers. Its solutions help its customers drive efficiency and enable e-commerce and omni-channel retailing. In our view, the company is a very high-quality business with significant barriers to entry, sticky products and a long runway for organic growth ahead. The stock sold off in the period primarily for two reasons. First, the company lowered its guidance for its services business, which led to some investor fear that this may portend broader software revenue weakness in the coming quarters. Enterprise IT budgets are under significant scrutiny, and Manhattan Associates has not been alone in calling out these trends. Second, the company announced an abrupt CEO transition that was unrelated to this quarterly miss which took the market by surprise.

Outlook

The Liberation Day announcement on April 2, 2025 sent off considerable shockwaves across U.S. and global markets. While the first reaction of investors was to sell equities directly exposed to tariffs, the selloff has since broadened, as fears of a resulting recession have grown. For example, in the Consumer Discretionary sector, some leisure-oriented airlines have sold off nearly on par with apparel companies that source significantly from tariff-impacted countries. In the short term, markets are trying to discount both the potential earnings impact from announced tariffs and the increased potential for a U.S. and/or global recession. The market is highly sensitive to any indication that the headline tariff rates are simply a starting point for negotiation or intended to be permanent, serving as a revenue generator to pave the way for domestic tax cuts. The final result may be somewhere in the middle.

Going into this period, in our view, the economic backdrop in the U.S. was generally OK. Employment remained healthy, and inflation had moderated from prior highs. The prospect of deregulation and a more business-friendly administration was a source of growing "animal spirits" in the economy. It is our view that the administration's plan is to front-load "the bad" (tariffs and spending cuts) and follow this up with "the good" (tax cuts and deregulation) with the aim being that these policies incentivize reinvestment into the U.S. economy.

Our portfolio is intentionally highly diversified and comprised of companies with pricing power, financial flexibility, high barriers to entry, and strong management teams. Some companies may experience little direct negative impact from tariffs, others may be able to raise prices to offset input cost inflation over time. That said, the ability to offset input pressures with price will take time and demand may be negatively impacted which may negatively impact earnings for some of our holdings.

Relative to larger cap companies, small caps tend to be more domestically focused and have not been able to benefit from the global wage arbitrage and outsourcing to the same degree that larger caps have during the last three decades. This may benefit small-cap companies on a relative basis. In the long term, we see the potential for a more optimistic case where the announced tariffs, coupled with supportive fiscal policy, will accelerate re-shoring efforts in the U.S. to the benefit of our highly domestic portfolio. This investment could stimulate lending demand from local banks, materials demand from aggregates suppliers, software and technology investment from domestic suppliers, and specialized industrial components. We believe our portfolio is well-positioned to capitalize on this.

That is the optimistic view. For now, uncertainty is elevated. As a team, we believe that compounding our investor's capital through a business cycle is best done by preserving that capital in times of uncertainty and distress. This means that we remain intently focused on balance sheet quality, pricing power, free cash flow generation, and business model resilience. We believe companies that possess these attributes should be relatively advantaged to navigate this environment from a position of strength. Conversely, in our view, companies that sell undifferentiated products, have significant leverage and/or are unprofitable could be highly vulnerable. We remain confident, in our belief, that our high-quality focused portfolio is well-positioned to weather these uncertain times and deliver above-average, risk-adjusted returns.

Information is as of March 31, 2025.

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Small and mid capitalization stocks are more vulnerable to financial risks and other risks than stocks of larger companies. They also trade less frequently and in lower volume than larger company stocks, so their market prices tend to be more volatile. Consequently, investments in small-capitalization stocks may not be appropriate or suitable for all investors.

The Russell 2500 Index is comprised of the smallest 2500 securities in the Russell 3000 Index. The Russell 2500 Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment of the U.S. equity universe. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. Please note that indices do not take into account any fees or expenses of investing in the individual securities that they track, and that individuals cannot invest directly in any index. Data about the performance of the index are prepared or obtained by the Manager and include reinvestment of all dividends and capital gain distributions. The Portfolio may invest in many securities not included in the above-described index.

The Russell 2000 Index is an unmanaged index consisting of the securities of the 2,000 issuers having the smallest capitalization in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The smallest company's market capitalization is roughly $150 million.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance. As of September 16, 2005, S&P switched to a float-adjusted format, which weighs only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets. Please note that the index does not take into account any fees and expenses of investing in the individual securities that they track, and that individuals cannot invest directly in any index. Data about the performance of this index are prepared or obtained by the Manager and include reinvestment of all dividends and capital gain distributions.

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