



NEUBERGER BERMAN

# 2020 Environmental, Social and Governance Annual Report

NEUBERGER	BERMAN
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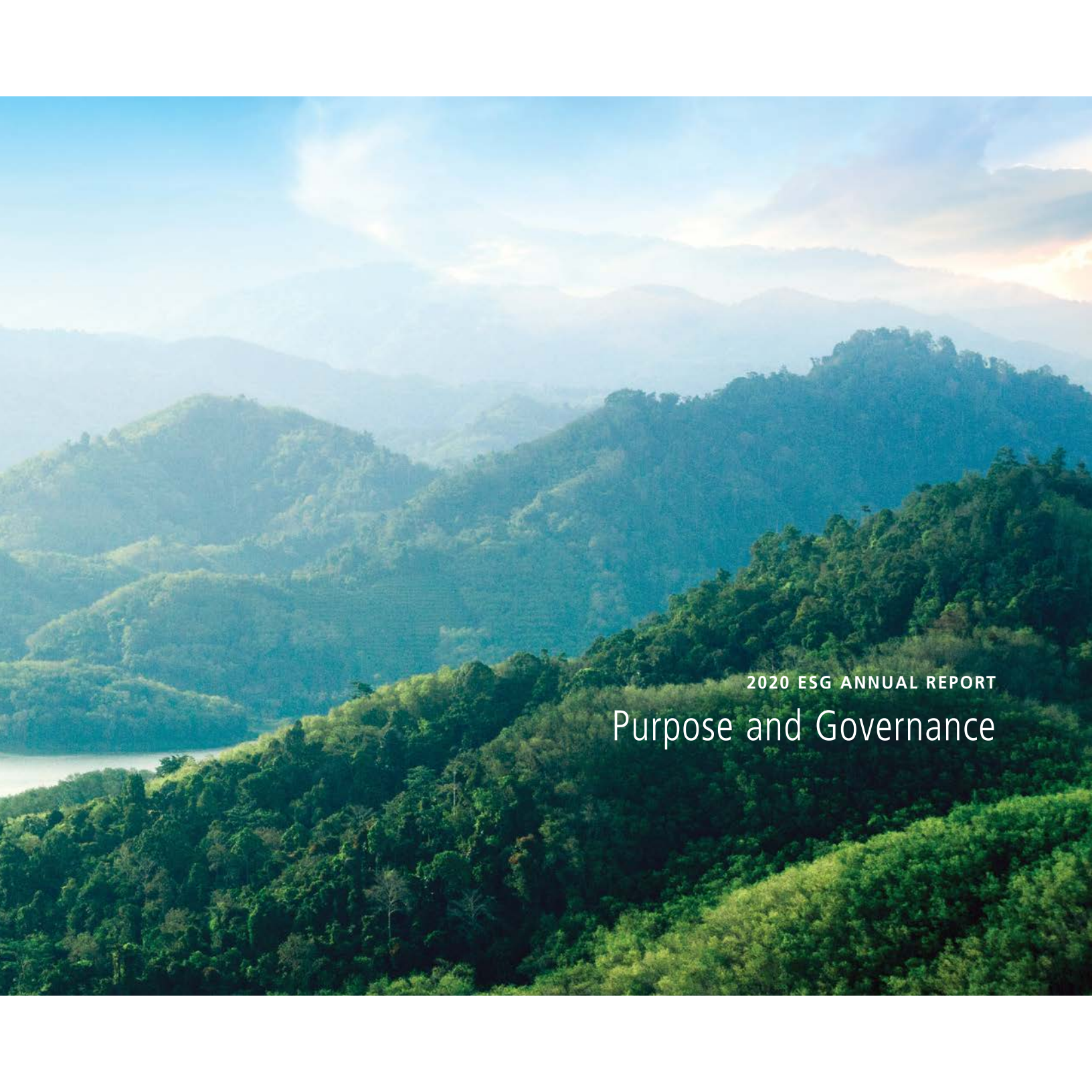
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Neuberger Berman, founded in 1939, is a private, independent, employee-owned investment manager. The firm manages a range of strategies—including equity, fixed income, quantitative and multi-asset class, private equity, real estate and hedge funds—on behalf of institutions, advisors and individual investors globally. With offices in 24 countries, Neuberger Berman’s diverse team has over 2,300 professionals. For seven consecutive years, the company has been named first or second in *Pensions & Investments* Best Places to Work in Money Management survey (among those with 1,000 employees or more). In 2020, the PRI named Neuberger Berman a Leader, a designation awarded to fewer than 1% of investment firms for excellence in Environmental, Social and Governance (ESG) practices. The PRI also awarded Neuberger Berman an A+ in every eligible category for our approach to ESG integration across asset classes. The firm manages \$405 billion in client assets as of December 31, 2020.

The 2020 ESG Annual Report shares our ESG investing and active ownership activities, the philosophies and processes that underpin them, and the outcomes they produce. The report is also intended to demonstrate our compliance with the best practices identified in the U.K. Stewardship Code 2020. We have included a guide on page 70 that shows where within this report we address each principle.

For more information, please visit our website at [www.nb.com](http://www.nb.com).





2020 ESG ANNUAL REPORT

# Purpose and Governance



**JOSEPH V. AMATO**

PRESIDENT AND CHIEF INVESTMENT OFFICER—  
EQUITIES

## Entering A New Phase

The past year has been deeply challenging on a global basis for the health and safety of communities. We are optimistic that the continued rollout of vaccines will ease the grip of COVID-19 and allow the world to return to a more normal existence. In the midst of this crisis, we believe the importance of environmental, social and governance analysis has been reinforced. Investors were able to employ an ESG lens to assess dynamics such as the disruption of supply chains, technology-enabled behavioral shifts, and attention to human capital management and employee health.

In 2020, our focus on ESG investing deepened even further. In our view, material ESG factors can have a meaningful impact on investment performance across a range of asset classes. Many of our clients agree and have sought to understand the role of ESG analysis at our firm and have chosen to invest in strategies that employ ESG considerations as part of the investment process.

### Deepening Efforts

A signatory of the UN-supported Principals for Responsible Investment (PRI) since 2012, we were named to the 2020 PRI Leaders' Group for our efforts to assess, manage and disclose climate risk and opportunity across our investment strategies. Only 20 of the 2,400 investment manager PRI

signatories were awarded this designation. This was in addition to the obtaining the highest score, A+, for ESG integration across every asset class and for our overarching approach to ESG strategy and governance in the PRI's annual assessment report.

Throughout the year, we continued to integrate ESG analysis across our firm, not only in traditional equity and fixed income strategies, but in alternative offerings as well. Overall, today more than 80% of assets are now ESG-integrated, compared to 60% in January 2020 and 25% back in 2016.

We expanded our proprietary ESG rating system, the "NB ESG Quotient", which leverages the deep fundamental knowledge of our research analysts and unique insights from our Data Science team to rate thousands of

equity and fixed income issuers.

## Adding to Our Capabilities

Understanding the robust demand for ESG-informed investment across geographies and asset classes, we introduced a range of new strategies, including: a Japan Equity portfolio where the portfolio managers identify companies that we believe represent outstanding opportunities and that many investors have seemingly passed by—we like to think of them as potential “hidden gems” with the opportunity for significant improvement on ESG factors that we see as risks for the company—and then employ active engagement to drive change; Global High Yield Sustainable Action, an actively managed portfolio of global high yield securities with an engagement objective aligned with the UN Sustainable Development Goals; and U.S. Equity Impact, which invests in companies whose products and services we believe have the potential to deliver significant positive social and environmental solutions to high priority issues within the U.S. In an important additional step for our franchise, we brought in an established team of portfolio managers based in the Netherlands to spearhead global and European equity investing with an emphasis on sustainability.

Drawing on insights from our Climate Value-at-Risk scenario analysis, we reaffirmed our growing concern about the unsustainability of thermal coal from an environmental and financial perspective. In October, we introduced a new Thermal Coal Involvement Policy that covers our co-mingled U.S.-registered mutual funds and closed-end funds, as well as UCITS portfolios that prohibit the initiation of new direct investment positions in securities issued by companies that have more than 25% of revenue derived from thermal coal mining or are expanding new thermal coal power generation. We plan to revisit the policy, specifically the details around exclusion, on an annual basis.

## Using Our Voice

In recognition of the crucial role of engagement, last year was the first in which our firm announced our voting intentions in advance of the annual and special stockholder meetings of certain companies, in a program called “NB Votes”. To allow for engagement on each vote decision, we chose to focus on roughly 25 companies where our clients had significant economic exposure. We sought to highlight our votes on a broad range

of proposals with a balance of votes in support of and against the recommendations of management. This enabled us to share our analysis and expectations on a variety of matters that we believe are important to company performance. For example, we voted in support of a shareholder proposal to require more meaningful diversity reporting at a major hotelier, but we voted against increased greenhouse-gas-reduction reporting from an energy company that we believed had already been very detailed in its disclosures and in its commitment to net-zero carbon emissions.

We hope to enhance the level of transparency around our proxy voting decisions, improve corporate practices amongst companies we invest in, and encourage our large asset manager peers to also begin preannouncing proxy votes and openly encourage better corporate practices.

## Looking Ahead

We know it’s not enough to talk about ESG ideas, but rather embody them in our own practices. It has been roughly a year since we secured a sustainability-linked corporate revolving credit facility that ties our borrowing cost to our performance against key ESG metrics. Having met those targets for 2020, we remain ambitious in our goals for the coming years to deliver on diversity initiatives and more firmly establish our plans to achieve net-zero emissions.

In all of our efforts, the need for transparency is clear, as reflected in our corporate ESG and climate policies, our ongoing efforts to inspire positive ESG practices that can benefit the performance of such companies and reduce exposure to certain risks via individual corporate engagements, and our NB Votes program. As a PRI Leader, we take our commitment on climate seriously, and plan to continue influencing our peers and portfolio companies to enhance disclosures and practices associated with climate-related impact. More broadly, we will continue the drive to strengthen our processes and to introduce new solutions across asset classes. We are excited to be partnering with our clients on innovations from net-zero to Impact that address their needs and strengthen their potential for risk-adjusted returns. As the world renews its consensus around solving for climate change, inequality and accountability, we believe that our focus on ESG factors across portfolios will provide meaningful performance benefits over time.



First large asset manager to provide proxy vote disclosure well in advance of company meetings

First North American asset manager to secure a sustainability-linked credit facility

**2,213**  
Equity Engagements

**1,453**  
Fixed Income Engagements

**80%**  
Assets managed with consistent and demonstrable ESG integration\*

**A+**  
Awarded Top Score



>1,100 Credit  
>5,000 Equity

Proprietary NB ESG Quotient Ratings

**1989**  
First dedicated sustainable investing strategy

In the most recent UN-supported Principles for Responsible Investment (PRI) assessment report for our overarching approach to ESG strategy and governance, as well as ESG integration across each asset class\*



160 colleagues in ESG across asset classes within committees and working groups



**Named to PRI 2020 Leaders' Group,** awarded to only 20 of 2,100+ PRI investment manager signatories\*

\*Please refer to page 72 for associated disclosure. All information is as of December 31, 2020 unless otherwise noted.

## Our ESG Philosophy

As an active manager, we have a long-standing belief that material environmental, social and governance (ESG) factors are an important driver of long-term investment returns from both an opportunity and a risk-mitigation perspective. Therefore, we take a comprehensive approach toward managing client assets, including the integration of ESG criteria into our investment processes. We also understand that for many clients the impact of their portfolios is an important consideration in conjunction with investment performance.

From our first application of “avoidance screens” in the early 1940s to the launch of our U.S. Sustainable Equity team in 1989, Neuberger Berman has been at the forefront of integrating ESG factors into investment processes. Today, we continue to innovate, driven by our belief that ESG factors, like any other factor, should be incorporated in a manner consistent with the specific asset class, investment objective and style of each investment strategy. ESG factors can be employed in a variety of ways to help generate enhanced returns, mitigate risk and meet specific client objectives within a portfolio. We believe that our approach, which is focused on maximizing results for our clients, can also support better-functioning capital markets and have a positive impact for people and the planet.

“We have seen all too clearly that the crises of our time—Covid-19, climate change, discrimination and inequity—can only be solved with the enthusiastic involvement of business. More and more of our clients are asking how we are considering these material ESG topics while investing their precious capital.”



**JONATHAN H. BAILEY**  
HEAD OF ESG INVESTING





## Sustaining Progress: The CIOs' View

Neuberger Berman investment platform heads talk about their ESG objectives and recent ESG, sustainability and impact-related developments across our firm.



**ERIK L. KNUTZEN, CFA, CAIA**

CHIEF INVESTMENT OFFICER—MULTI-ASSET CLASS

### Building Blocks for ESG Investing

In the post-COVID world, investors seek portfolio solutions that help them achieve their investment objectives in an increasingly challenging environment for future returns while navigating an ever more complex global risk landscape. We believe incorporating ESG considerations has become an increasingly important component of our solutions: to inform investment research for better return-seeking decisions; to seek to understand and manage risks such as the effects of climate change; and to help meet our clients' unique sustainability objectives. We are fortunate to be able to integrate ESG considerations into custom portfolios that incorporate strategies across equity, fixed income and alternative assets, including private markets, where Neuberger Berman's teams deploy proprietary ESG research and due diligence tools. We also bring ESG considerations into portfolio construction as we assess the relative attractiveness of the diverse array of global markets. This allows us to help fulfill our clients' sustainability objectives by delivering multi-asset solutions that reflect the findings of our proprietary ESG Quotient, climate value-at-risk and diversity measures, as well as highlight Neuberger Berman's engagement activities on ESG issues.



**BRAD TANK**

CHIEF INVESTMENT OFFICER—FIXED INCOME

### Longstanding Skills, New Challenges

ESG investing and engagement has tended to be seen as something for equity investors. At Neuberger Berman, however, we have long regarded ESG factors as a critical aspect of fundamental credit analysis. With a focus on risk, our role as direct providers of new capital, with an interest in the use of proceeds is a strong justification for close engagement.

In 2020 we enhanced our ESG analysis beyond credit. For example, among structured products we introduced a new framework for analyzing climate risk in mortgage backed securities, and a new approach to assessing affordability and lending practices for asset-backed securities. We upgraded our methodology for sovereign ESG analysis, something that has always been important for our emerging market strategies, but which we have now enhanced for application to global developed markets sovereign credit analysis. Along with rising rates and inflation risk, ESG and sustainability are top of clients' agendas, and they appreciate how ESG processes permeate our entire fixed income platform. Many are seeking customized ESG solutions, and we have been delighted to partner with them on innovative approaches such as net-zero in multi-asset credit.



**ANTHONY D. TUTRONE**

GLOBAL HEAD OF ALTERNATIVES

### Looking for Impact

This year, we witnessed an increased interest from our limited partners in ESG and impact investing, diversity and inclusion, and climate transition strategies. The past year has also seen the global pandemic put a spotlight on sustainability issues.

The nature of impact investment means that the companies we have invested in via impact strategies tend to provide essential products and services that are less exposed to discretionary spending. In some cases, they are even contributing to COVID-19 treatments and vaccine development. Overall, that has made these companies relatively resilient through the recent crisis. But it is important to underline that we believe integrating ESG considerations throughout our investment process can lead to more consistent and better investment outcomes—by helping to identify both material risks and opportunities.



2020 ESG ANNUAL REPORT

# Our Investment Approach



## Our Commitment to ESG Integration

Investment professionals throughout the firm are responsible for incorporating material ESG factors in portfolios and investment research. Over 160 of our professionals have the responsibility of ESG as a part of their role. To reinforce the importance of ESG to our efforts, compensation for many investment professionals is tied to ESG research insights and integration.

Each portfolio manager has a customized approach to ESG integration which is driven by multiple factors, including the objectives of the strategy, asset class and investment time horizon, as well as the specific research and portfolio construction, philosophy and process used by the portfolio manager. Each portfolio management team determines how best to achieve its ESG integration objectives, from conducting research into ESG related risk, to measuring and comparing ESG issuers at the security level, to constructing portfolios influenced by these insights.

We believe the most effective way to integrate ESG factors into an investment process over the long term is for investment teams themselves to research ESG factors and consider them alongside other inputs. For this reason, ESG is included in the work of our research analysts rather than a separate ESG research team. To augment our analysis, we regularly add new data sets and leverage the capabilities of our Big Data team. With custom ratings covering more than 5,000 equities and 1,000 credit issuers, the investment teams can then choose how best to apply all the tools of active management.

## Oversight of ESG Integration

The ESG Committee is responsible for overseeing ESG integration activities across the firm. The Committee is chaired by the Head of ESG Investing and is comprised of senior investment professionals, including the Chief Investment Officer (CIO) for Equities, and representatives from Equity, Fixed Income and Private Equity teams. The Committee also includes our Chief Risk Officer and senior professionals from our client organization and legal and compliance.

Our dedicated ESG Investing team is responsible for setting the firm's ESG strategy in collaboration with the Committee and after consultation with portfolio managers, CIOs and our CEO. The ESG strategy is reviewed by the firm's Partnership Committee and Board of Directors on an annual basis. A detailed description of the Committee's broader responsibilities can be found in our ESG Policy.

The ESG Committee delegates responsibility for the detailed review of new and existing strategies making an ESG-related claim to the ESG Product Committee to ensure integrity and consistency in their integration of ESG. The ESG Product Committee is responsible for determining whether Portfolio Managers systematically and explicitly include material ESG risk and opportunities in investment analysis and investment decision making for all securities. In addition to ongoing monitoring by risk and internal audit teams, the ESG Oversight Committee provides an annual review of all sustainable and impact labeled products.

## Asset Class-Specific ESG Philosophies

To further our ESG integration efforts across our investment portfolio, our ESG working groups have developed asset class-specific ESG philosophies that are aligned with our overall firm philosophy. Details on each asset class-specific ESG philosophy shown below can be found in our ESG Policy.

- Public Equity
- Public Fixed Income
- Municipal Fixed Income
- Sovereign Debt
- Asset-Backed Securities (ABS)
- Real Estate
- Private Equity
- Private Debt
- Alternative Investment Management (NBAIM)
- Multi-Asset Class (MAC)

## Our ESG Integration Framework

For all ESG integrated strategies, each portfolio management team selects an approach from our ESG Integration Framework: Avoid, Assess, Amplify or Aim for Impact. In building their portfolios, portfolio managers consider whether to simply exclude particular companies ("Avoid"), reach a more holistic understanding of risk and return ("Assess"), tilt the portfolio to best-in-class issuers ("Amplify") or invest in issuers that are intentionally generating positive social/environmental impact ("Aim for Impact").

The approach to integration can be further customized by the type of investment vehicle employed for investing: for example, to implement client-specific avoidance criteria, to tilt toward specific ESG characteristics valued by the client or to seek certain types of positive impact.

## Integration Approach



### Avoid

Excluding particular companies or whole sectors from the investable universe, including application of the firm's thermal coal exclusion policy



### Assess

Considering the material effect on the risk and return of ESG factors on investments alongside traditional factors in the investment process

#### "ESG INTEGRATED"

(used in description of strategy and fund offering documents, but not in the fund names)

Portfolio manager systematically and explicitly includes material ESG risks and opportunities in investment analysis and investment decisions for all securities.<sup>1</sup>



### Amplify

Focusing on 'better' companies based on ESG factors that are expected to have a material effect on the investments' risk and return

#### "SUSTAINABLE"

(in name of strategy and offering documents)

Portfolio manager selects and includes securities on the grounds that they fulfil certain sustainability criteria, such as being best-in-class issuers. There are clear investment rationales for focusing on sustainability leaders, such as the potential to signal business quality or to align with secular sustainability trends. Engagement outcomes are set and tracked with influence on sell decisions.



### Aim for Impact

Seeking to intentionally generate positive social and environmental impact alongside a financial return

#### "IMPACT"

(in name of strategy and offering documents)

Portfolio manager seeks to achieve positive social and environmental outcomes for people and the planet alongside a market-rate financial return. The core business, products or services of each holding contributes to solutions of pressing environmental and social issues. Furthermore, all holdings meet the firm's ESG threshold for a "Sustainable" fund.

## Monitoring Progress

We monitor the progress we are making and are continuously enhancing the integration of ESG into our investment processes. Relevant indicators of progress include the proportion of assets under management that are formally ESG-integrated, our score in the PRI assessment report each year, the effect of ESG analysis on portfolio performance, the impact of our

engagement and proxy voting activities, and whether we are meeting the needs of our clients for ESG-integrated solutions.

Given the dynamic and evolving nature by which ESG factors are material to investment performance, we are committed to continued innovation and improvement.

## Broad Perspective and Granular Insights from Proprietary ESG Ratings

Investors increasingly accept that material ESG factors can have a tangible impact on companies and their general prospects for earnings and credit quality, and by extension, investment performance. To capture these factors and inform investment strategies across asset classes, our firm employs a set of proprietary ratings, NB ESG Quotient, that measures ESG performance in areas that we believe could have potentially material impacts on investment results at both the company and portfolio levels.

NB ESG Quotient is a collaboration between the ESG Investing team and NB's Global Equity and Fixed Income Research teams, going beyond third-party ESG ratings by leveraging our deep industry knowledge, frequent engagements and our view of financial materiality to better measure ESG characteristics across corporate and sovereign issuers. As set forth in our Materiality Matrix, we have identified the ESG factors that we believe are material in each of 75 industries (e.g., privacy in the technology sector or raw material use in packaging). We then employ three broad tools to measure performance in each category: available third-party ESG data, ESG data from NB's Data Science team and, most significantly, input from our research analysts on hard-to-measure factors such as regulatory risk, expected governance impacts and forward-looking data such as climate-related targets.

The result is an industry-relative rating, or NB ESG Quotient, for each company under coverage on separate Environmental and Social (ES) and Governance (G) characteristics, which can be accessed by our investment professionals, incorporated into their investment process and aggregated on a portfolio-wide basis.



### Potential Return Driver

Beyond its value as a resource to investment teams, we see NB ESG Quotient as a potential driver of portfolio returns. Indeed, it is a cornerstone of the firm’s Sustainable Research Opportunity (SRO) strategy, which combines the research team recommendations with the top ESG Quotient companies to create a low-cost enhanced index portfolio.

The SRO strategy seeks to capture the attractive characteristics of both passive and active approaches in a Beta Plus format. It combines the low cost of passive investing with the alpha performance objective, fundamentals-driven weightings and investment insights via company engagements of active management.

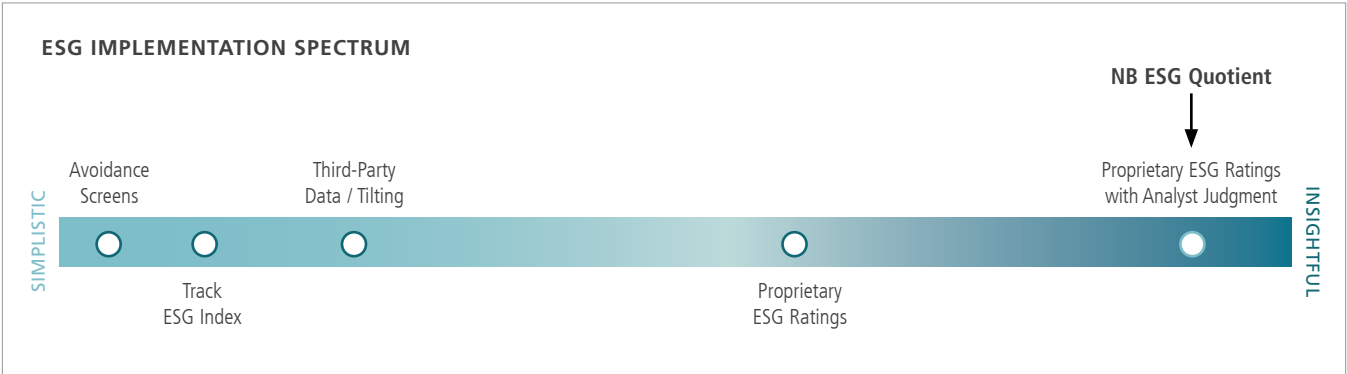
### ESG Quotient and Engagement

Engagement is a crucial aspect of Neuberger Berman’s active management and has been critical to refining the NB ESG Quotient ratings. For example, an energy infrastructure operator recently divested high emission assets that were not reflected yet in backward-looking third-party data. The company provided us with estimates of what portion of historical emissions the assets

represented and we were then able to adjust the inputs to our ratings—resulting in what we believe to be an improved and more forward-looking view through collaboration with the covering analyst.

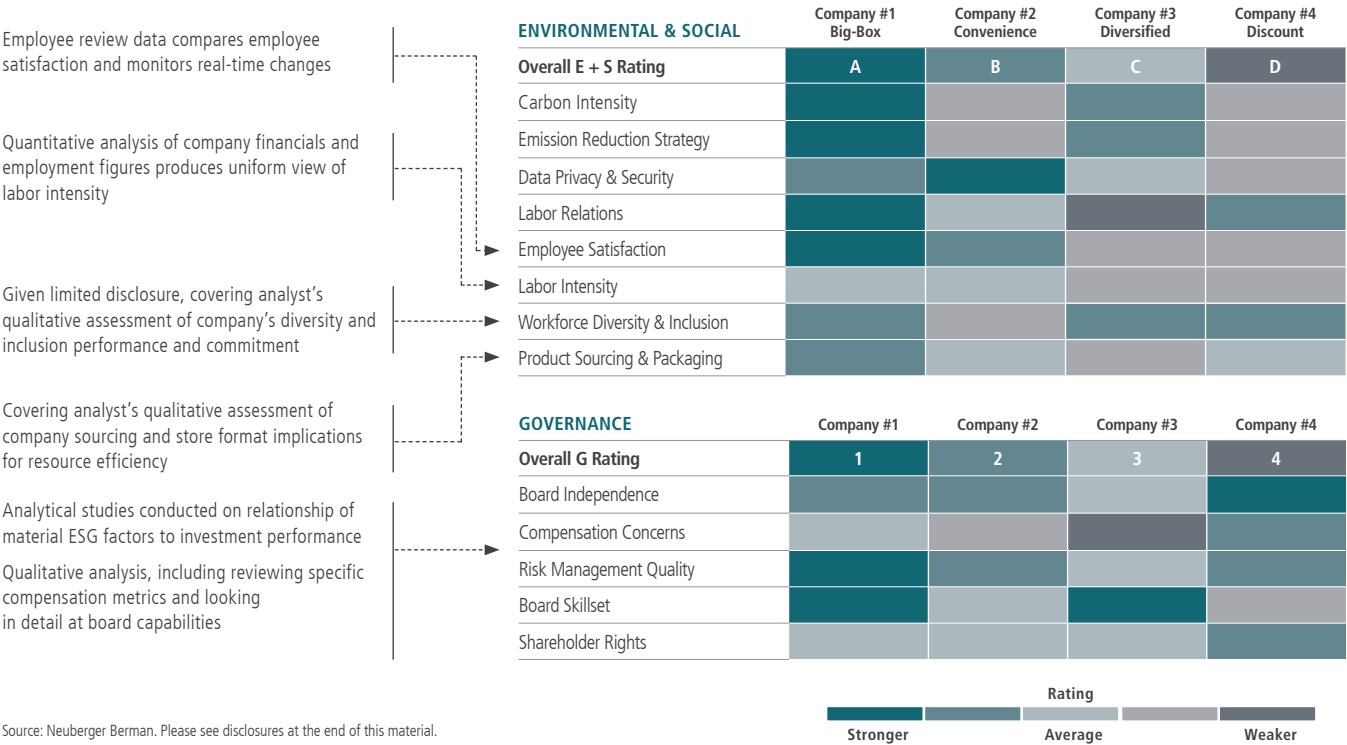
The ratings can also be highly useful in improving ESG corporate performance. Given the close relationships that our research analysts have with the companies they follow, the ratings have provided them with a tool to discuss and advance ESG objectives. Data science initiatives have also helped reinforce our ratings on specific companies. For example, by scraping online employee sentiment for one holding, we determined that employee views suggested higher-quality labor practices than reflected in third-party metrics, reinforcing the conclusions we had drawn in multiple engagements, and creating additional confidence in our own ratings for the company.

In our view, NB ESG Quotient ratings are a significant step forward in drawing together what we believe are unique insights that can be applied within portfolios and broadly to promote improved ESG practices across asset classes. They are also a work in progress, and we will continue to refine the integration of data and human perspectives to enhance their contribution.

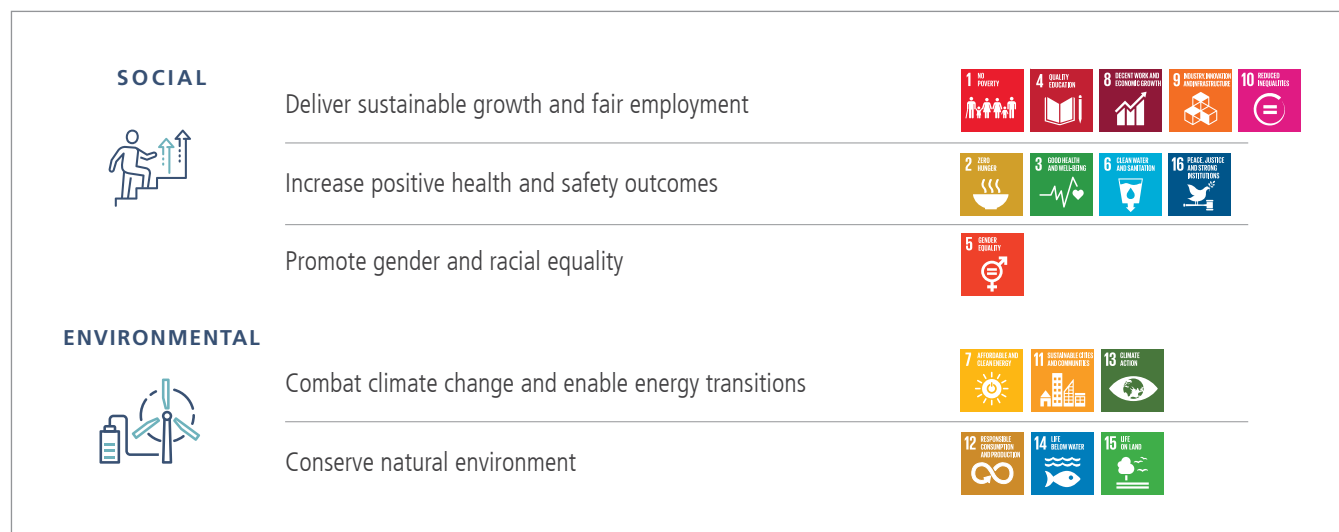


DEVELOPED SYSTEMATIC AND INDUSTRY-SPECIFIC ESG RATINGS BY COMPANY

Proprietary ESG Quotient Rating Example: Retail and General Merchandise Industry



# NB Impact Themes



We believe the 17 United Nations’ Sustainable Development Goals (SDGs), adopted in 2015 to address the world’s most pressing social and environmental challenges by 2030, are important to formulating and communicating objectives of sustainable and impact investment strategies. At Neuberger Berman, we have organized the SDGs into consistent, investable themes across our strategies and believe investors can contribute to the SDGs in two significant ways:

1. Invest in companies whose products and services have the potential to deliver significant positive social or environmental outcomes—employed by our new U.S. Public Equity Impact strategy
2. Engaging with companies in an effort to increase their positive system-level impact through operations or products—utilized by the new Global High Yield Sustainable Action strategy

These two strategies share the common objectives of delivering measurable progress toward the SDGs and seeking to deliver on their distinct financial objectives, while committing to annual reporting on outcomes or engagement.

OUR PERSPECTIVE

# U.S. Public Equity Impact

Our U.S. Public Equity Impact strategy seeks to invest in companies whose products or services have the potential to deliver significant positive social and environmental outcomes. The universe of potential companies is evaluated through an integrated process using proprietary Impact analysis, traditional fundamental financial assessment, and material environmental, social and governance (ESG) considerations.

## Company Contributions

The team uses proprietary analysis to assess the quantitative and qualitative Impact of companies, creating a relative comparison to select investments within an industry. Through this process, the collinearity between financial performance and positive outcomes is tested. In Healthcare for example, a cheaper treatment for a widespread condition is likely to have a more material Impact toward achieving Sustainable Development Goals than an expensive, specialized treatment, irrespective of its effectiveness. We can quantify this by using peer-reviewed studies and cost benefit analysis for the treatments in each company's portfolio to determine which produce the most positive health outcomes at the lowest cost. This analysis led us to invest in a company that makes cost-effective treatments for cancer and diabetes, the second and seventh biggest

causes of death in the U.S. This company also produces an annual pricing report that demonstrates more transparency and cost awareness than many peers, addressing a topical ESG risk in the industry.

## Investor Role

We actively engage with companies to increase their Impact through capital allocation decisions, target setting, industry collaboration and reporting. We set detailed Impact engagement objectives for each company holding and report on progress over time. We also set an engagement objective for all holdings related to their own equity, inclusion and diversity initiatives to directly advance the *Promote gender and racial equality* NB Impact Theme. As a result, our investor role has the potential to go beyond capital provided and push companies to increase their positive Impact.

### EXAMPLE IMPACT PORTFOLIO REPORTING<sup>1</sup>



160 million

tons of avoided greenhouse gas emissions from portfolio companies annually



1 million

customers in rural areas across the U.S. with highspeed internet access



4 million

quality adjusted life years provided through therapeutics and treatments per year



12,000

nursing and healthcare degrees granted in the U.S. to help fill healthcare labor shortages

<sup>1</sup>: Company disclosed data, Neuberger Berman estimates.



OUR PERSPECTIVE

# Global High Yield Sustainable Action

Our Global High Yield Sustainable Action strategy focuses credit selection specifically on issuers whose business operations are designed to contribute to the achievement of the U.N. SDGs, or have the potential to do so following active engagement. These characteristics must be accompanied by strong fundamental credit and other material ESG metrics.

## Company Contribution

A successful outcome was achieved with a large manufacturer of doors and door components, with which we developed an engagement program aligned with SDG 15 that seeks to preserve land ecosystems and forests. The program focused on the manufacturer confirming a commitment to maintaining its wood supplies from Forest Stewardship Council (FSC) certified sources; expanding the use of sustainable raw materials as a replacement for traditional wood; developing the company's innovation center for more sustainable products and increasing ESG reporting. We ultimately encouraged the company to quantify and disclose the Impact of its use of wheat straw. The company uses wheat straw as a replacement for wood in many of its door cores and reported that it saved over 70,000 trees in its manufacturing process in the prior year. As a result, this has had a direct improvement on forestation for an overall positive environmental outcome.

## Investor Role

Engagement as a strategy is more readily associated with equity investors, but we think that the voice and influence of large credit investors is underappreciated, particularly when that voice is used to offer constructive and value-additive advice.

Our research teams engage with each issuer on specific SDG engagement objectives such as climate change, access to healthcare and workplace diversity, among others. Progress is tracked against a four-stage benchmark and reviewed with our ESG Investing team twice a year. Stage one is our own approach to the company; stage two is a response from management; stage three marks the company taking partial action in response to our engagement; and stage four marks the point at which we deem sufficient action has been taken. Regardless of current credit quality or positive Impact, we will consider divestment if a management team remains unresponsive to our attempts at engagement for two years.

### ENGAGEMENT SUMMARY Within six months of launching<sup>1</sup>



89%

of the strategy's engagements  
had reached stage two  
with a response



71%

of engagements were with the  
company's senior management



33%

had already resulted in action  
by the company



70,000<sup>2</sup>

trees saved through more  
sustainable material sourcing  
by one company in 2020

<sup>1</sup> Strategy launched January 2020. <sup>2</sup> Annual statistic for the year of 2020.



## Climate Change in Focus

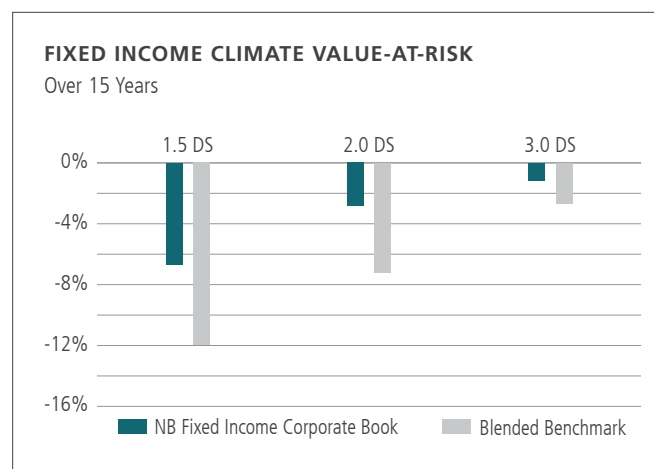
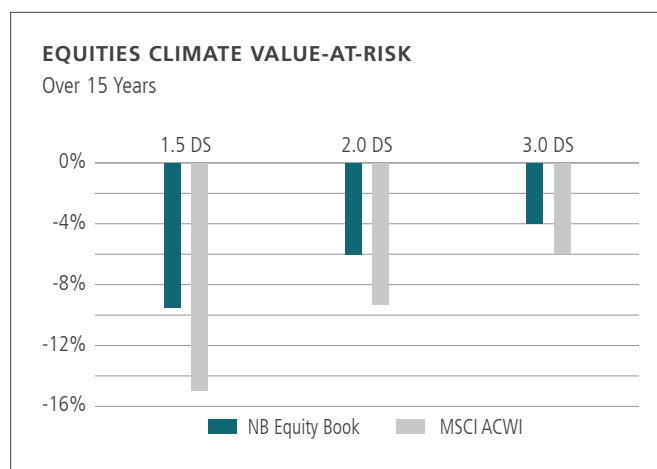
In 2021, as the coronavirus crisis subsides, we think climate change will reclaim its place at the top of the agenda.

At Neuberger Berman, climate risk is never out of focus. We believe it affects business in two major ways: through direct physical impact and the transition to a low-carbon economy. Extreme weather events, wildfires, floods and higher sea levels are likely to disrupt some supply chains and threaten the viability of some capital assets. Carbon taxes, regulation, green fiscal spending, energy transitions and changing purchasing behavior are likely to create new winners and losers. That is why we developed a comprehensive Climate-related Corporate Strategy three years ago, to reflect the growing climate risks in our operations and investments. Since then, we have made substantial investments in data-driven climate risk analytical capabilities—efforts that saw us named in the United Nations-supported Principles for Responsible Investment (PRI) “Leaders’ Group” for 2020, on the theme of climate reporting.

At the heart of this is “Climate Value-at-Risk”, or CVaR, a systematic model of our portfolios’ exposure to physical and transition risk, under various warming scenarios.

We review the analysis at least once a year for every comingled vehicle (Mutual funds and UCITS). The latest results indicate that, should we meet the 2015 Paris Agreement goal of keeping global temperature within 2°C of pre-industrial levels this century (2 DS), our aggregated equity book has an estimated climate value-at-risk of -6.04% over the next 15 years compared to -9.32% for the MSCI ACWI.<sup>1</sup> In our fixed income holdings, the value-at-risk in a 2-degree scenario is -2.83% vs. -7.20% for the blended benchmark.

<sup>1</sup>Source: Neuberger Berman and Carbon Delta, an MSCI company, as of December 31, 2020. Equity book defined as all publicly listed equity securities held by Neuberger Berman, excluding ETFs. MSCI All-Country World Index. (MSCI ACWI is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.) Given the global nature of our equity business and book, we believe the MSCI ACWI is the appropriate comparison for this analysis.



With this insight, we can focus our engagement on companies with significant value at risk to assess and encourage their mitigation strategies. In 2020, of our 15 firmwide equity holdings with the highest economic exposure, we engaged with 13; of our 15 firmwide fixed income holdings, we engaged with 10.

If we see limited mitigation potential, we can adjust our investment exposure. We believe every sector is potentially affected by climate change in different ways and to different degrees. While total economic exposure to thermal coal is low across Neuberger Berman’s portfolios, relative to the market value, the risk is very high, which is why, in 2020, Neuberger Berman implemented a Thermal Coal Involvement Policy. This prohibits the initiation of new direct investment positions in companies deriving more than 25% of revenue from thermal coal mining or expanding new coal-

fired power generation, across all of our co-mingled U.S. registered mutual and closed-end funds, and our UCITS range.

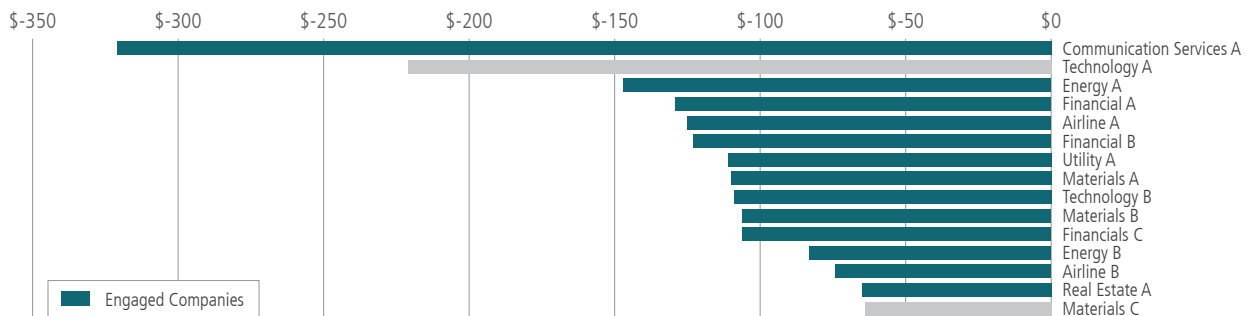
This policy originated with our Emerging Markets Debt team. Many emerging economies are still investing in new coal-fired capacity to meet growing energy demand. Asia’s share of total coal consumed in power generation worldwide grew from 36% in 2000 to 75% at the end of 2019, for example. As debt investors, Neuberger Berman’s clients often found themselves providing capital directly to new thermal coal projects.

Our climate value-at-risk modelling was a vital tool to help us weigh demand growth against transition risk in these markets—and conclude that this industry is likely unviable over the long term. It then played a persuasive role in conversations with other portfolio management teams, enabling us to apply our Thermal Coal Involvement Policy firmwide.

Source: Carbon Delta an MSCI Company. Neuberger Berman equity holdings as of 12/31/20. Climate Value-at-Risk (CVaR) is defined as the present value of the aggregated future policy risk costs, technology opportunity profits, and extreme weather event costs and profits expressed as a percentage of the portfolio’s market value should the scenario in question be realized.

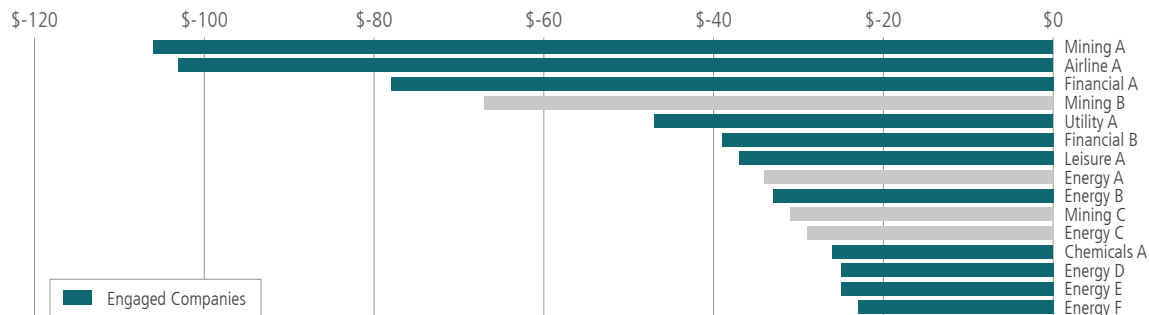
### HIGHEST WEIGHTED CLIMATE VALUE-AT-RISK – EQUITY

In millions



### HIGHEST WEIGHTED CLIMATE VALUE-AT-RISK – FIXED INCOME

In millions



Furthermore, it continues to inform our engagement with companies that fall outside the scope of the prohibition but still have thermal coal assets or exposure. In particular, the Emerging Markets Debt team carried out a targeted engagement effort with power generators in 2020, to gain a better understanding of their commitment to a transition to renewables and away from using coal and other fossil fuels. Engagement outcomes from 10 issuers have factored into investment decisions thus far, and seven have demonstrated commitment to transition strategies.

These types of analytical tools and objectives are the first step to addressing the highest sources of emissions in an investment portfolio. As our clients increasingly look at how their portfolios can transition to net-zero emissions alignment by 2050, these tools will be applied to less obvious sources of emissions across our clients' portfolios. As climate change remains at the top of the agenda, our focus on addressing climate-related risks and opportunities within our investments will, too.

## Active Management and ESG

Given the surging interest in ESG investing, investors face the dilemma of choosing between active versus passive approaches to ESG integration. A passive ESG strategy, particularly one that seeks to implement an ESG tilt using third-party data, can be perceived as a low-cost approach to implementing a client's sustainability or impact preferences. While we understand the appeal of potential cost savings, we believe the analytical limitations and performance outcomes of passive ESG approaches highlight the importance of active ESG integration.

We have analyzed rolling three-year monthly returns over the 10 years from September 1, 2010 to December 31, 2020, for active sustainable

open-end funds and the corresponding benchmark for each asset class.<sup>1</sup> As shown below, active Global Equity ESG strategies beat their passive counterparts after fees about 56% of the time. The success of active ESG integration was even more pronounced in fixed income portfolios, with active Fixed Income ESG strategies outperforming passive ones about 84% of the time. From both an impact and performance perspective, our research indicates an active approach has historically been superior. We believe that the qualitative analysis, supported by deep industry expertise, involved in an active ESG approach is integral to the proper identification and management of ESG risks, thereby providing for better outcomes.

### ACTIVE ESG STRATEGIES HAVE HISTORICALLY BEEN MORE SUCCESSFUL THAN PASSIVE OVER MARKET CYCLES

Percentage of time in which active ESG strategies outperform passive ones after fees September 2010 – December 2020. Rolling Three-Year Monthly Returns.



<sup>1</sup>Source: Morningstar. For illustrative and discussion purposes only. Morningstar category net average annualized return covering 89 (rolling three-year returns) time periods (September 2010 through December 2020). Weighted averages are based on the number of Sustainable Investment - Overall labeled ETFs, passively managed open-end U.S.-domiciled funds and actively managed open-end U.S.-domiciled funds with three-year track records as of December 31, 2020, including funds that have been liquidated. Performance is based on funds' oldest share class. Morningstar defines "Sustainable Investment" as a fund that explicitly indicates any kind of sustainability, impact or ESG strategy in their prospectus or offering documents. The U.S. registered investment companies (ETFs, mutual funds) are used as the source of the analysis due to the consistency of their performance calculation, uniformity in the performance presentation, regulatory oversight and transparency of their investment strategy, along with the objectivity of the Morningstar categorizations. Please note that there are differences between separate account strategies and mutual funds, and each has their own separate and distinct peer universe. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**



2020 ESG ANNUAL REPORT

# Our Engagement



**CAITLIN McSHERRY**

DIRECTOR OF INVESTMENT STEWARDSHIP  
ESG INVESTING

## Our Approach to Engagement

Over the last several years we have publicly articulated our culture, philosophy and framework on engagement, which has always been rooted in the fundamental analysis of companies by our analysts and portfolio managers to create economic value while reducing risk. Yet as will become clear through the case studies and statistics we share in the following pages, the tools and techniques we use for engagement are continuing to evolve.

Much of our engagement with issuers arises organically from the investment diligence process, but we are also increasingly focused on ensuring that the same attention and intensity are sustained throughout our stewardship of the asset. We also recognize that while the core propositions of dialogue with companies—diligence, accountability and the exchange of views—remain important, the practice has also seen the development of new, important dimensions, namely more information about companies from external sources, and the appetite for transparency and reporting around engagement practices.

The first of those developments has meant more of our conversations focus on peer comparisons of external markers, questions such as why does the company not provide disclosure on issues its peers do, or why is progress on material risks not as ambitious as those of other companies. On the second point we are working hard to provide our clients and stakeholders with more information about how we engage, on what topics and what our outcomes are. To that effect we have focused our year on ensuring the right infrastructure and assurance are in place to capture all the work of our investment and research teams. We look forward to sharing more of this data, our successes, our areas of needed improvement, and the clear case studies of our impactful engagement program.

We believe that engaging with issuers is an essential part of being a long-term active owner and that engaging with issuers on ESG topics can improve their performance and reduce their risk profile. The COVID-19 pandemic and the rise of social issues demonstrated the relevance of active engagement. In our view, access to senior management is key to a successful engagement process. With our long-term relationships with companies, Neuberger Berman's investment teams are well positioned to engage with companies on these key issues.<sup>1</sup>

The events of 2020 have highlighted the benefits of active engagement with issuers, as ESG risk factors have the potential to be financially material to an issuer's business if they are not properly mitigated. Our research and investment teams responded to the need for active engagement during this unprecedented period, and engaged with issuers on the importance of workplace safety, diversity and inclusion, supply chain management, and alignment of capital allocation and long-term business strategies for all stakeholders. We seek to maximize positive economic outcomes by determining which issuers are successfully navigating the new environment and encouraging laggards to incorporate socially responsible principles into their core operations in an effort to enhance performance and reduce risk.

## Prioritizing Our Engagement Efforts

Neuberger Berman has identified nine key governance and engagement principles focused on positively influencing corporate behaviors to seek to drive long-term, economic value. As a multi-asset class manager, we engage with issuers across the capital structure using a range of tools and approaches guided by these principles.

Our engagement prioritization is a function of the following considerations: severity of ESG concern as assessed by our proprietary ESG Ratings, potential economic exposure to the risk, relative level of influence on a situation (be it through engagement or a voting decision), and the existence of an emergent risk as identified through our internal assessment or collaborative engagement campaigns.

While the prioritization assessment is ongoing, the timing of the engagement may be reactionary in certain cases, opportunistic in cases of industry events or pre-planned meetings, or proactive where time allows and without undue restrictions such as during quiet periods or M&A events that may prevent outreach actions.

### STRATEGY

Adopt, formulate and communicate value-enhancing long-term strategies

### INCENTIVES

Align management and board incentives with long-term shareholder goals

### BOARD INDEPENDENCE

Effective boards of directors must be truly independent

### SHAREHOLDER REPRESENTATION

Strive to maximize shareholder representation

### CAPITAL DEPLOYMENT

Allocate capital to maximize long-term risk-adjusted shareholder value

### TRANSPARENCY AND COMMUNICATIONS

Provide transparency in communication and reporting

### RISK MANAGEMENT

Boards of directors should actively engage with management to evaluate and control enterprise risk

### ENVIRONMENTAL ISSUES

Consider the material impacts of their business operations on the environment

### SOCIAL ISSUES

Actively assess the material impacts of their business and operations on their employees, customers, local communities and society

<sup>1</sup>Subject to Neuberger Berman's policies and procedures, including certain information barriers within Neuberger Berman that are designed to prevent the misuse by Neuberger Berman and its personnel of material information regarding issuers of securities that has not been publicly disseminated.

## ESG ENGAGEMENTS<sup>1</sup>

### PUBLIC EQUITY

**TOTAL  
ENGAGEMENTS**  
**2,213**

### ENVIRONMENTAL

**43%**

**SOCIAL**  
**61%**

**GOVERNANCE**  
**85%**

### FIXED INCOME

**TOTAL  
ENGAGEMENTS**  
**1,453**

### ENVIRONMENTAL

**38%**

**SOCIAL**  
**52%**

**GOVERNANCE**  
**73%**

Ultimately, we aim to prioritize engagement that is expected to have a high impact on the protection of and improvement to the value of our clients' assets, be it through the advancement of actionable disclosure, understanding of risks and risk management at an issuer, or through influence and action to mitigate risks and take advantage of investment opportunities.

### Methods of Engagement

**Company Meetings:** The Neuberger Berman research department and portfolio management teams host on average over 2,000 one-on-one meetings with company management teams in-person at our offices and via conference calls, in addition to a similar number of outside meetings and on-site company visits. These meetings provide an opportunity to communicate views and concerns directly to company managements. Our investment teams were able to maintain their level of engagement with management teams via Zoom despite COVID-19-related travel restrictions.

**Written Communication:** Should portfolio managers determine that additional means to communicate with company management teams is warranted, they can pursue formal written communication with management teams and boards of directors on identified areas of concern and recommended courses of action. We expect companies to be responsive to our formal and informal communications.

**Shareholder Proposals and Proxy Contests:** Portfolio management teams may seek governance change through shareholder proposals, proxy contests and other measures of shareholder activism if a company's responsiveness is deemed inadequate.

**NB Votes:** Through our NB Votes initiative, we publish our vote intentions in advance of select shareholder meetings, with a focus on companies where our clients have significant economic exposure.

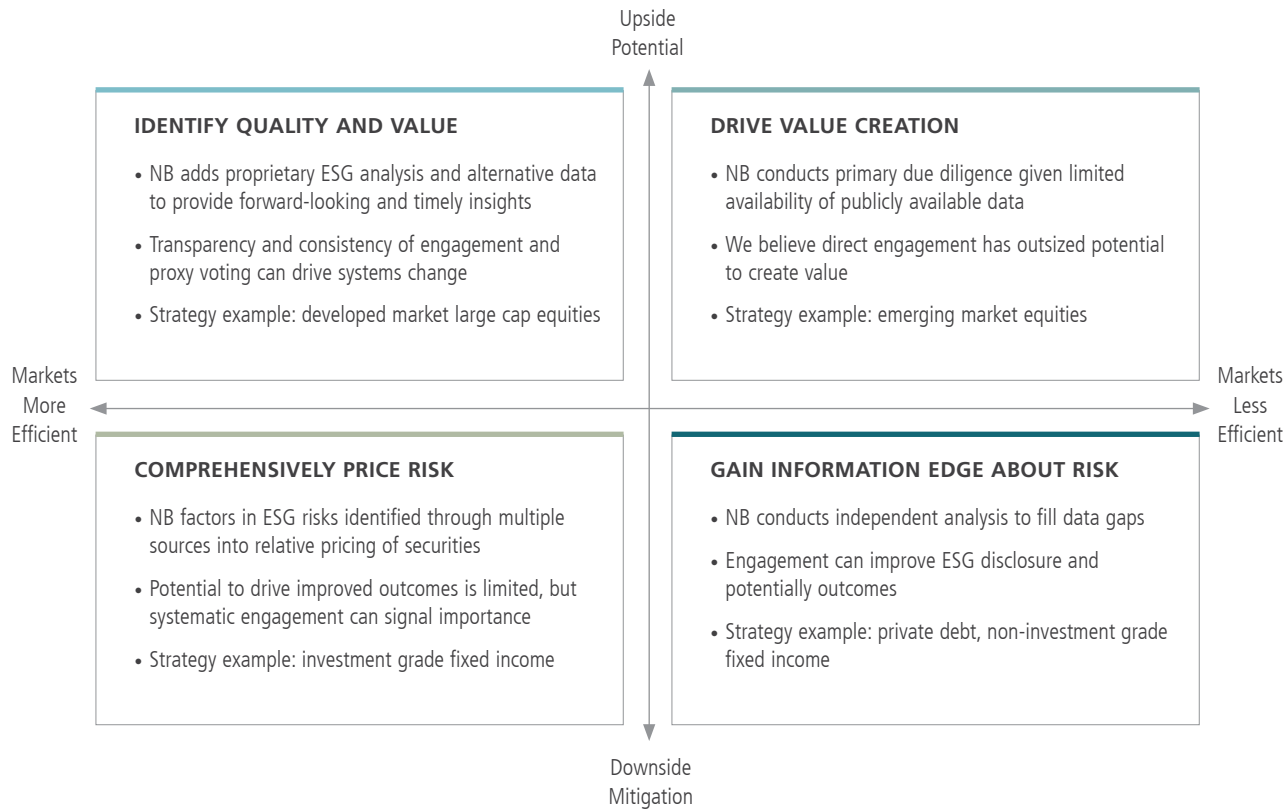
**Proxy Voting:** One important way in which we exercise engagement is through voting proxies on behalf of our advisory clients for whom we have voting authority. We do this in order to fulfill our fiduciary responsibility to protect our clients' best interests and as an important component of our approach to creating shareholder value.

**Industry Collaborations:** We collaborate with several organizations, especially where we feel our leadership can make a significant contribution.

<sup>1</sup> One engagement can extend across environmental, social and governance categories.

Asset Class and Market Considerations

Our chosen engagement approach and method is informed by the relevant market and asset class:



## Escalation

While the overwhelming majority of our engagement is done in support of companies and their management teams, we strongly believe that the exercise of shareholder rights prescribed in regulations and company bylaws are part of our responsibility in the pursuit of value creation and the protection of our clients' investments. We believe escalation should not be a top-down dictated approach, but rather investment-driven, taking into consideration matters such as investment objectives, issuer-specific circumstances, and our history of engagement.

Where a company does not respond to our concerns or our concerns have not been sufficiently addressed, we may take escalated action such as:

- Withholding support from directors, opposing a management proposal or supporting a shareholder proposal at annual meetings
- Sending letters to the board of directors
- Making our concerns public
- Nominating new directors to the board
- Withholding or ceasing investment in the company

## Engaging Data and Service Providers

We use a wide range of data and service providers and select them for their expertise on specific topics. Rather than deferring to top-level ratings from a data provider, we leverage the underlying data. We firmly believe that a proprietary approach to ESG analysis is the best way to generate alpha because it combines data and judgment with a focus on what we believe is financially material for the specific asset class. We regularly engage with data and service providers to share our views on the quality of service received and suggestions for future improvements. For example, we encountered a challenge with one provider in 2020 when the structure of the data delivered to us was changed without advance notice. We promptly engaged the provider to resolve the issue and more clearly define our expectations moving forward, which ultimately resulted in process improvements. In another example, we took action to ensure our voting guidelines and other proxy-related information were more easily accessible to investment teams to analyze votes and worked with a data provider to facilitate that. Additionally, we participate in service providers' feedback mechanisms, such as roundtable discussions and surveys.

## ENGAGEMENT CASE STUDY

**ISSUE:** Environmental Impact and Risk

**CATEGORY:** Environmental

**ASSET CLASS:** Fixed Income

**STRATEGY:** Non-Investment Grade Fixed Income

**SECTOR:** Utilities

# Accelerating a Transition Out of Coal

**Background:** Talen is a privately owned utilities issuer with a diversified portfolio of power-generation assets, including natural gas, nuclear and coal power plants. Given its relatively high allocation to coal assets, Talen was working on a transition to cleaner fuels. However, we believed it needed to better communicate its actions, reduce financial risk and implement a faster timeline on reducing its coal exposure to avoid increasing its cost of capital.

**Scope and Process:** Based on our due diligence (regular discussions with management, site visits and consultations with competitors, industry experts and the company's financial sponsor), we believed there was significant potential for management to reduce the company's environmental impact and risk profile through operational improvements, equipment retrofits and plant retirements. At the same time, we believed that its financial policy was relatively aggressive and did not appropriately position the company to navigate industry changes. In regular engagements held over multiple years, we sought to encourage a more conservative balance sheet strategy and a continued focus on shifting away from coal.

**Outcome and Outlook:** Management and its financial sponsor were responsive to our suggestions. The company implemented a more conservative financial policy and disclosed expectations for future emission reductions. The company subsequently took additional steps and announced that all wholly owned coal power generation will be transitioned out of its portfolio over 2025 – 2028, in conjunction with a preliminary agreement with the Sierra Club to avoid future coal litigation and increased investment to expand solar, wind and energy storage. The transition is unusual not only for its ambitious timeline, but also its conversion (rather than divestment) of some existing facilities to use energy sources with a lower emission profile. Talen also improved transparency by providing historical emission and safety statistics, attending industry conferences and hosting recurring Analyst Days to provide updates on its progress.



**ROBERT GEPHARDT, CFA**  
SENIOR RESEARCH ANALYST  
AND SECTOR TEAM LEADER  
THE ENERGY TEAM





## ENGAGEMENT CASE STUDY

**ISSUE:** Communications, Metrics and Compensation

**CATEGORY:** Governance

**ASSET CLASS:** Equity

**STRATEGY:** The Kantor Group

**SECTOR:** Chemicals

# A Small-Cap Company Raising Its Game

**Background:** Univar Solutions Inc. is a leading global chemical and ingredients distributor and provider of specialty services. A private company until 2015, Univar acquired a key competitor in early 2019 to become one of the largest North American players in a fragmented market, and is in the process of streamlining its assets and enhancing its digital capabilities to better connect with customers and suppliers. In initiating our position, we saw potential for cost synergies and increased asset efficiency due to the acquisition, but also some issues in corporate governance. We believed we could leverage our knowledge to help guide this recently public, smaller-cap company on how a top-tier public company should look and act.

**Scope and Process:** Starting in early 2019, we engaged with senior management and the lead independent director on various governance issues. During in-person meetings and conference calls, we argued that the management team should clarify its messaging to the investment community, adopt a mandatory retirement age policy for the Board of Directors and hire a new CFO to develop and implement best practices. As part of our inaugural NB Votes initiative, based on what we

considered an excessive Chairman/ex-CEO pay package, we withheld votes for the Directors on the Compensation Committee, indicating our position to Univar and publicly disclosing it in advance of the annual meeting. Recently, we began communicating with the company's CFO and general counsel on their employee satisfaction, diversity and inclusion metrics.

**Outcome:** Over the course of the past year, most of the changes we requested have occurred. The Board of Directors implemented a mandatory retirement age of 75, strengthened its "claw-back" incentive compensation for executives, and reduced the number of public Boards upon which the CEO and Directors can serve. Univar also hired a new CFO and, with our input, revamped its investor presentations. In October 2020, the Board of Directors appointed a leader for its newly formed Governance and Corporate Responsibility Committee with the plan to lay out more goals on diversity, inclusion and environmental metrics. This progress has helped reinforce our confidence in Univar.



**FRANK BISK**  
RESEARCH ANALYST  
THE KANTOR GROUP

## ENGAGEMENT CASE STUDY

**ISSUE:** Fair Compensation During the Crisis

**CATEGORY:** Social

**ASSET CLASS:** Equity

**STRATEGY:** Multi Cap Opportunities

**SECTOR:** Consumer Staples, Food and Staples Retailing

# Safeguarding Employees, Aligning Pay with Business Goals

**Background:** The COVID-19 environment has changed consumer, investor and corporate behavior as society has collectively sought to safely progress through the pandemic. The effects have varied across sectors and companies, creating dislocations in some areas yet accelerating demand in others.

We established a position in BJ's Wholesale in the early stages of the pandemic, believing it was well positioned to capitalize on increased home storage of groceries and eat-at-home trends due to social distancing. During this time, the company continued to focus on delivering value for families and initiating a shift to a faster-growth business model.

**Scope and Process:** In our research, we identified several ESG-related opportunities at BJ's Wholesale that we believe could create value for shareholders. Engagement is crucial to our process; and we interacted with the company's senior management team on multiple ESG topics. We sought to address shorter-term challenges, including their response to COVID-19, while also considering medium-term objectives such as diversity, inclusion and capital allocation. Our goal is to ensure BJ's Wholesale is competitively positioning itself to have greater resilience both during the pandemic and through the recovery.

Regarding capital allocation, we supported the company's strategy to use its growing cash flow and improved balance sheet to increase new store openings and return capital to shareholders. In response to COVID-19, the company acted prudently by increasing pay for frontline employees during the crisis, adjusting its absentee policy, improving safety and social distancing, and donating perishables to food banks. We also asked for more disclosure of pay parity and key performance indicators to address equity,

inclusion and diversity (EID). Research has repeatedly shown that EID has a positive impact on business performance, organizational health, innovation and resilience, all of which will be much needed as companies recover from the COVID-19 crisis.

**Outcome and Outlook:** Since going public three years ago, BJ's Wholesale has made significant strides on ESG matters that have also supported the company's buoyancy against market uncertainty. Examples of recent progress include its agreement to a shareholder proposal to declassify its board (so all directors stand for election each year), a sustainability website, and a public stance against racism and violence. The company is also committed to provide more disclosures in accordance with the SASB standards.

We will continue to monitor the company's progress, and encourage management to prioritize efficient capital allocation, and customer and employee safety. In our view, BJ's Wholesale can readily achieve these goals while providing critical services during a difficult period, and beyond.



**RICHARD NACKENSON**  
SENIOR PORTFOLIO MANAGER  
THE NACKENSON GROUP



**INGRID DYOTT**  
CO-PORTFOLIO MANAGER  
CORE EQUITY AND  
SUSTAINABLE EQUITY



**DINA CIARMATORI**  
RESEARCH ANALYST  
SUSTAINABLE EQUITY TEAM

## Health, Safety and Sustainability in the Pandemic

In the initial surge of the COVID-19 pandemic, analysts across our firm sought to assess how portfolio holdings were responding and addressing core concerns, including the health and safety of employees, and the maintenance of safeguards around supply chains to avoid exploitation.

### Health and Safety Due Diligence

To better understand company responses pertaining to workplace practices, one of our investment teams leveraged big data to cross-reference public statements from companies against third-party information on employee feedback regarding companies' human capital management and engagement efforts. This gave the team insight into worker sentiment regarding management responsiveness. To further supplement the data from these sources, the team also sent select portfolio companies a questionnaire with COVID-related questions on health and safety, hazard pay, shift adjustments and economic issues.

In light of the extreme challenges of the period, the responses we received to the questionnaire suggested that generally, companies were attempting to take positive actions. Among the examples of positive action, is a U.S. railroad that set up furlough boards to adjust workforce without layoffs and planned to add extra benefits for workers, believing that retention will be an important issue as recovery takes hold and a U.S. bank that provided critical frontline employees with a 20% wage premium. However, since many policies lacked discussion of contractors or contingent employees, we encouraged companies to clarify their positions on these issues.

### Looking Beyond Frontline Workers

At the outset of the pandemic, our investment teams were concerned that the crisis could worsen labor exploitation, particularly among businesses in the consumer sector that often rely on third-party suppliers operating in regions where there are reports of forced labor. The teams conducted virtual meetings with companies, including high-risk sectors such as apparel and footwear, to better understand their commitment to sustainable production despite limitations imposed by COVID-19. They found that many companies were rapidly adapting with extra measures designed to promote worker safety and fair labor practices within their supply chains. For example, despite temporary disruptions, one global athleisure company resumed its on-site audits where possible, and it continues to monitor local conditions on an ongoing basis.

### Taking Lessons From Our Outreach

We were pleased to see many of our portfolio companies' commitment to health and safety and sustainable supply chains in the midst of COVID-19. While there are challenges to creating a positive labor force management plan during a pandemic, we found that companies with preexisting constructive employee relationships and policies were well positioned to support workers and minimize disruptions during the pandemic. Furthermore, our investment teams who had assessed similar themes before the crisis were able to gauge the credibility of pledges that companies had made, which helped to inform subsequent engagements with those companies.



**KEI OKAMURA**  
DIRECTOR OF JAPAN  
INVESTMENT STEWARDSHIP  
JAPANESE EQUITIES TEAM

## NB Japan Equity: Can Engagement Drive Progress?

In Japan, the largest companies are typically the focus of investors, especially when it comes to engagement. The NB Japan Equity Engagement team invests in small to mid-size companies that we believe have strong business fundamentals and attractive growth outlook that many investors have seemingly passed by. Given our knowledge of the market and local presence, we have an enhanced ability to find companies that would often be overlooked and that we believe would benefit from engagement and the adoption of sustainable business practices.

### Building the Case

Once we initiate a position in a company, we set an engagement objective and a customized strategy to periodically and on ad-hoc basis address capital management and financially material ESG issues, typically employing a milestone system to monitor progress being made. A key point in this process is presenting our case to the company—to clear away any outdated misperceptions about ESG and emphasize the potential financial benefits to the business of committing to sustainable business practices. During our engagements with management, we provide a list of issues that we believe should be prioritized and warrant their focus with a view to strengthening the business and improving performance. A smaller company may have more limited resources, so our focus on financially material issues can encourage discourse that may be more strategically relevant for such companies and help with resource allocation in embracing ESG.

### Sustainability in E-Commerce

In engaging with a provider of sales promotional services to e-commerce sites, we identified two key issues tied to sustainability: the resilience of its IT systems and employee- and management-level diversity. By outlining

potential risks tied to data breaches, we were able to make the case for improved disclosure of the controls in place and the appointment of an executive to oversee firmwide cybersecurity initiatives. On diversity, we commended the company for its appointment of a female executive, and suggested it consider creating a gender diversity policy focused on providing a supportive work environment and set up an evaluation system to help promote more women to management positions as we believe companies without comprehensive diversity programs will struggle to recruit qualified employees and will be at a competitive disadvantage. We continue to monitor the company's progress closely.

### The Key to Success

In engaging with companies, meeting with senior leaders is crucial, because, if convinced, they can use their authority to clear the way for change, especially where mid-level managers may be reluctant to move forward. We believe the case for sustainability can be compelling, and presenting our ideas in a cogent fashion, backed by data and experience, can help lay the groundwork for long-term investment success.



## ENGAGEMENT CASE STUDY

**ISSUE:** Capital and Compensation

**CATEGORY:** Governance

**ASSET CLASS:** Equity

**STRATEGY:** Focus Fund

**SECTOR:** Consumer Cyclical

# Bringing Capital Discipline to an Industry Aggregator

**Background:** LKQ Corporation is the world's largest auto parts recycler and a longtime holding. As an aggressive industry consolidator, the company historically enjoyed significant growth and competitive advantages, but was somewhat undisciplined in its use of capital. Over time, its portfolio of businesses became unwieldy, while its stock became stuck in a pattern of dashed expectations and disappointment. In 2017, the departure of its CEO provided a new opportunity for us to engage with the company.

**Scope and Process:** Over several years, we had regular meetings and calls with senior management, asking questions on pivotal issues and providing our views on how to enhance business practices. We also consulted middle management, former employees, competitors and customers (as well as a large activist investor in the company) to gain more understanding of its governance and operations. Based on this due diligence, we made several requests over time, including the reduction of financial leverage, better executive compensation alignment, a fresher and more diverse board, a clearer plan to improve profit margins, more disciplined M&A and a general capital allocation strategy.

**Outcome and Outlook:** We have enjoyed a collaborative and constructive relationship with management, which has been receptive to our ideas. Since 2017, there have been 12 board membership changes (total additions and exits) and management enhancements to broaden skillsets and perspectives. In 2019, the company made significant upgrades to its executive compensation plan and field-level incentives, including closer alignment to stakeholder interests. In recent quarters, execution has improved and with reduced M&A activity, debt ratios have declined.

LKQ's business is highly relevant to a world where environmental sustainability is growing ever more important. We continue to engage with the company to help with its strategic goals as it seeks to deliver for stakeholders.



**JOHN SAN MARCO, CFA**  
SENIOR RESEARCH ANALYST  
GLOBAL EQUITY RESEARCH



## VOICE OF THE CLIENT

A Conversation with Merrill Lynch Wealth Management  
and Bank of America Private Bank

# Aligning Value with Values

Merrill Lynch Wealth Management and Bank of America Private Bank provide investment solutions for thousands of financial advisors and their clients. We spoke to Anna Snider, Head of Chief Investment Office Due Diligence supporting Merrill Lynch Wealth Management and Bank of America Private Bank, about investors' growing awareness that they can marry their values with their risk management and return expectations, and how her firm works to give them the knowledge and tools to help pursue that goal.

**How do you communicate the complex ideas, challenges and opportunities of sustainable investing, impact investing and environmental, social and governance (ESG) analysis to such a large and diverse client base?**

**Anna Snider:** I think the first thing to say is that our sustainability team within Wealth Management reports straight to the Chief Investment Officer. That sends out a clear signal that we believe sustainability, impact and ESG are directly linked to investment risk and return. Clients increasingly want to express their values through the way their capital works in society, and sending out that signal offers some reassurance that they can do that without feeling they are compromising their risk-management and potential return expectations.

We find that it helps to use the "PPPP" framework, developed by The International Business council of the World Economic Forum (IBCFWF), of which our CEO Brian Moynihan is President, in tandem with the "ABC" framework created by the Impact Management Project, to which we serve as an advisor. PPPP sets out the

four pillars of Principles of Governance, Planet, People and Prosperity for corporate disclosure, which we find helpful for identifying and categorizing the main issues that clients want to address with their capital. ABC stands for Avoid Harm, Benefit Stakeholders and Contribute Solutions, and this is a good way to assess the roles that different investment tools can play in achieving different sustainability goals. Bring the two together, and you can start to identify your objectives and the investment tools that are designed to help you get there.

In addition, conversations between financial advisors and their clients are critical to this effort. We have long recognized that it is our responsibility to make investors aware that they can talk to their advisors about aligning their capital with their values, and to encourage this. We also have a responsibility to educate advisors about the investment tools available to meet that demand. We are here to foster that conversation.

**What do you look for related to ESG when you select a fund manager, and are there any “red flags” you look out for?**

**Snider:** First and foremost, we are looking for a good investment manager. That sounds flippant, but we believe a genuinely integrated approach to ESG and sustainability is one of the characteristics of a good investment manager: the two things go hand-in-hand. That said, there is a higher standard for explicitly labelled ESG, sustainable or impact solutions, and the red flags are relatively easy to spot. We often see firms with very smart ESG teams, but very little evidence that the information they provide is anything more than an afterthought for portfolio managers and their processes. Of course, different managers are at different stages of the integration journey, so that isn't necessarily intentional “greenwashing” — but if we see outright mischaracterization, that is a problem.

**In September 2020, your firm formally committed to promoting diversity and inclusion at the businesses it works with on its investment platform. What does that mean for you, in practice?**

**Snider:** That commitment represents a multi-faceted approach to promoting diversity across the investment industry. It builds on our own decision, in the second quarter of last year, to begin assessing our asset management partners on the diversity of their ownership, board membership and senior management. In practice we go beyond these commitments and we look at the diversity of individual portfolio management teams, for two reasons: we believe there is enough empirical research to show that diverse teams tend to make better decisions; but we do not always see commitments to diversity at senior management levels trickling down to those portfolio management teams.

**Is there growing demand for sustainable products outside of equities, and do you find the same level of provision and sophistication across all asset classes?**

**Snider:** Investor demand outside of equity products, including multi-asset solutions, is a key trend. I would say that provision and sophistication is not lower or higher outside equities, but more complex. In fixed income, for example, you have a rapidly growing market in green and social-impact

bonds, and municipal bonds have always been an important asset class for impact investors. Corporate bond managers increasingly recognize their critical role as providers of new capital with a say on use of proceeds. On the other hand, we are still figuring out how this should work in the sovereign markets. Similarly, there is a lot of scope for impact in private equity, debt, real estate and infrastructure, but wide dispersion of practice. Alternative asset managers may have been slow to adapt, but, as with many things, when they do focus on these issues, they can do so with great sophistication. •

**What do you see as the most notable trend in ESG and sustainable investing right now?**

**Snider:** Undoubtedly, the most tangible trend is how a wave of policy, regulatory and accounting initiatives is meeting the development of data science and artificial intelligence. That promises both to standardize the way we record and report ESG metrics and vastly improve the information that goes into that reporting. We think the end result will be more seamless integration of ESG into corporate and investment processes, but also the end of investors using the excuse that ESG is confusing or non-rigorous.

But perhaps the most exciting trend is the way that this thinking has suddenly gone mainstream over the past two or three years. Rather than a single catalyst, there has arguably been a series of positive and negative things: schoolchildren protesting about climate change, international accords on carbon emissions, the inequalities revealed by coronavirus, the sudden outbreak of devastating wildfires around the world, the emergence of headline-grabbing companies at the forefront of sustainable solutions, the increasing availability of investment tools. Add it all together, and we've rapidly gone from not seeing the connection between sustainability and our portfolios at all, to wondering whether it's possible to connect them, to talking about the practical options that can make it happen.

*Merrill Lynch Wealth Management and Bank of America Private Bank spoke with Neuberger Berman in New York on January 14, 2020.*



## VOICE OF THE CLIENT

A Conversation with The Transport for London Pension Fund

### One-Way Ticket to Sustainability

The TfL Pension Fund manages almost £12.4 billion (\$17 billion) for employees of Transport for London, London's public transport authority. We spoke to Head of Investments, Padmesh Shukla, CFA, about the importance of the U.N. Sustainable Development Goals and the way the Fund is transitioning to a low-carbon portfolio.

**You started your career as a development economist, so it is no surprise to find the U.N. Sustainable Development Goals (SDGs) at the heart of the TfL Pension Fund's approach to sustainable investing. But the same is increasingly true for many asset managers and asset owners. Why do you think that is?**

**Padmesh Shukla:** I was a postgraduate researcher under Professor Jeffrey Sachs at the Harvard Centre for International Development, working on the Millennium Goals. You could say I was involved with the SDGs 15 years before they became the SDGs! I could not have imagined even in my wildest dreams that private capital would embrace it the way we see now. When we were defining the Fund's ESG framework, I found the SDGs really useful as a reminder that investing with purpose is about more than just climate risk and the usual environmental, social and governance (ESG) metrics. Investment in education and health, for example, are still the most important foundations for development. Likewise, two billion people still don't have access to adequate sanitation and the lack of decent jobs is pervasive even in developed countries. The SDGs keep these issues in the foreground and provide real life context to our investments.

The other reason huge pools of capital are anchoring to the SDGs is simply that 193 countries have adopted them. As a result, they are likely to make a material difference to financial returns over time, so it makes sense to align with them rather than re-invent the wheel.

**Climate change risk is an important consideration, nonetheless, and the Fund has made substantial progress on cutting carbon emissions in its portfolio, as well as implementing a thermal coal exclusion policy. What are the investment beliefs underpinning this?**

**Shukla:** Our investment beliefs recognize climate change as a major risk that needs to be accounted for. The Fund's Carbon Intensity is down over 60% since 2016, but our trustees are committed to going a lot further, based on a credible and transparent decision-making framework. Thermal coal was excluded in 2019, and oil extraction is another sector we are tracking closely from a stranded asset perspective. For other carbon-intensive sectors, our strategy is one of engagement and providing long-term capital to sustainable businesses models rather than

blindly disinvesting from particular sectors. The first reason for that is the need to run a diversified and economically balanced portfolio. The second reason is that we keep all of the SDGs in mind: it would be questionable to exclude sectors such as steel and cement, for example, that are crucial to the delivery of essential infrastructure in the poorest parts of the world and green infrastructure in ours. And the third reason is that companies in high-emission sectors, such as utilities, mining and even natural gas, have an important role to play in our transition to a low-carbon economy. Over time we aim to tilt toward the leaders and winners in that transition, hopefully without having to disinvest from any sector.

As I mentioned, the one exception to our disinvestment approach is thermal coal. The trustees accept that coal is a stranded asset with no role to play in the energy transition. There was discussion, however, over the terms of exclusion. We decided not to invest in companies that derive more than 30% of their revenues from extraction or utilization of coal: not too high to be meaningless but high enough not to exclude companies that need our capital to finance their ongoing transition away from coal.

#### **What are the challenges of investing sustainably and integrating ESG analysis across all parts of the fund's portfolio?**

**Shukla:** One thing that is often seen as a challenge, but ought not to be, is bondholder engagement. Buying a stock does not provide new capital, but debt refinancing does, and that gives investors considerable leverage every few years. That's an important realization for pension funds that are reliant on fixed income.

The real challenge is that relevant data often isn't there, especially once you go outside public equity and bond markets. Private equity managers have the most demanding institutional investor base and the most influence over the companies in which they invest, which are often industry-leading on ESG practice without many even realizing it, just because it's the right thing to do for long-term operational reasons alone. So while private equity could be leading in ESG and sustainability reporting, too often we find it lagging other asset classes on this front. The exemplary private equity managers use ESG holistically to build a competitive advantage, bringing it to the heart of their vision, strategy,

and governance. We are collaborating with these managers to develop reporting that is consistent but also relevant to each asset class—because the issues are different between, say, private equity and real estate.

Without relevant data you can take counterproductive actions. That is also why we use multiple data providers and lenses. As we know, correlation of the outputs of the major ESG data providers is close to zero, not because the data is poor but because the methodologies differ: having multiple touch points informing ESG decisions enables us to verify things from different angles.

#### **Your own Annual Report on Sustainable Investing is very detailed. What's the Fund's philosophy on communicating these matters to beneficiaries and other stakeholders?**

**Shukla:** More and more of our members, particularly but not exclusively the younger cohort, want to understand what their capital is delivering for the real world. At the same time, different stakeholders have different needs, so we make our Report accessible at different levels: a simple summary of things achieved and still to be achieved; a strategic story for those who want to understand what we are doing today in the broader and longer-term contexts; and a host of detail and case studies for those who take a deeper interest.

The most important thing is to convey that sustainability, investing for purpose and ESG risk management follow on naturally from our investment beliefs, and are integrated into every aspect of our strategy as a pension fund over the long term. That's important right now, when members read about how great ESG must be because ESG funds delivered fantastic returns in 2020. If and when the short-term dynamics behind that reverse, none of us want our beneficiaries to arrive at the opposite conclusion about sustainable investing.

*The Transport for London Pension Fund spoke with Neuberger Berman in London on December 30, 2020.*



## VOICE OF THE CLIENT

A Conversation with Nippon Life  
Insurance Company

# A Long History of Mutualism

The Nippon Life Insurance Company is a global business comprising domestic and international insurance and asset management businesses, with assets totaling almost JPY70 trillion (\$665 billion). We spoke to Toshihiro Nakashima, Chief Investment Officer, Managing Director and Member of the Board of Directors, about the company's plans to further integrate ESG investing across every asset class, increase its impact investing and its individual and collaborative engagement efforts.

**How would you describe the steps Nippon Life has taken to strengthen ESG investment and financing? Among the decisions your company has made, are there any in particular that stand out?**

**Toshihiro Nakashima:** As a life insurer, Nippon Life is by nature a medium- to long-term investor. It has also played a role in Japan's economy and society for a very long time: one year after its foundation, in 1890, we invested in bonds issued by the Osaka Railway Company, the first corporate bonds issued in Japan. The founding principles of our business are "co-existence, co-prosperity and mutualism." We believe that ESG investment and financing, which supports the sustainable growth of our investee companies, has much in common with our history and our medium- to long-term investment policy, which gives consideration to a balance of profitability, security, and the common good.

More recently, we signed the United Nations Principles for Responsible Investment (PRI) in

February 2017, and in the same year we set out our first Medium-Term Management Plan, which set targets for ESG investment and financing. We are now active investors in green bonds and social bonds, have made progress on integrating ESG factors into investment and financing decisions and also into our engagement efforts. In 2018, we prohibited new investment in coal-fired thermal power generation operations whether domestic or foreign and in 2019, we became the first insurance company in Asia to adopt the Equator Principles for environmental and social risk management in development projects. In 2020, we began impact investing with an aim to generate positive social impacts while earning financial returns.

We believe that ESG risks can have a significant impact on the sustainability of companies and lead to changes in industrial structures, and that ESG is essential for Nippon Life to mitigate asset management risk and improve profitability.

**Nippon Life's Medium-Term Management Plan (2017 – 2020) set forth a quantitative target of JPY700 billion for ESG investment and financing across its group companies. Could you tell us about your plans for ESG in the new Plan for 2021 – 2023?**

**Nakashima:** The quantitative target of JPY700 billion was achieved about one year ahead of schedule. The previous Management Plan integrated ESG factors for some assets such as stocks and corporate bonds. In the 2021 – 2023 Medium-Term Management Plan, we plan to expand that to all assets, integrating ESG factors into the traditional investment and financing process.

While there are differences in the sources of ESG information and in the ways ESG factors are reflected, we regard five principles as common across all asset classes.

The first is the importance of broadening the scope of what counts as an “ESG” issue when evaluating investee companies’ activities. For example, there seems to be some general disagreement over whether to categorize themes such as digital transformation as ESG-related or not. We believe that anything to do with corporate strategy or working conditions is a potential ESG factor to be incorporated into investment decision making.

The second is the importance of materiality, or contribution to corporate value. We do not overlook any ESG initiatives within companies, but we might exclude those that do not contribute to corporate value from our evaluation, and we believe that ESG activities that raise costs but do not enhance returns are unsustainable. The third principle is aligned with the second: we believe ESG factors should be evaluated by investment managers rather than dedicated ESG specialists.

The fourth is the importance of engagement. Divestment does not contribute to solving social or environmental issues. After thoroughly assessing their situation through dialogue, we prefer to support companies over the medium and longer term rather than expecting all ESG issues to be addressed immediately. With coal-fired power generation, for example, we initially took a cautious stance, given the characteristics of Japan and its energy mix, and took our decision to prohibit new investments in response to growing international concern about climate change, and particularly the 2015 Paris Agreement. At present, however, we still do not exclude investment and financing for companies that do not directly link

their use of funds to new coal-fired power generation projects because we acknowledge that many are moving forward with their response to climate change and we prefer to support their efforts through engagement and monitoring their progress.

Nippon Life invests in approximately 1,500 listed companies in Japan and has engagement dialogues with 800 of them. We believe it is important to engage as a bondholder as well as a shareholder, and the application of Japan’s Stewardship Code was extended to cover domestic corporate bonds when it was revised in March 2020. Bond investors do not have voting rights, but we believe that bondholder dialogue can produce results that are very specific to this asset class: for example, on a number of occasions we have encouraged investee companies to the issue ESG bonds, which we have subsequently invested in; following our advice, some ESG-bond issuers have disclosed the use of the proceeds. Those dialogues have not only contributed to sustainability, but also broadened the opportunity set for sustainable investors.

The fifth principle is the promotion of ESG initiatives across group companies by using the know-how and evaluation expertise of Nissay Asset Management (NAM). While the correlation between ESG and investment performance is gradually becoming understood, not all asset managers have a proven ESG track record—NAM can point to more than a decade of ESG performance assessment. We believe that this is the strength of our group company.

### **Does Nippon Life consider the UN Sustainable Development Goals (SDGs) in its impact investment process?**

**Nakashima:** The philosophy behind the SDGs accords with the spirit of our founding principles of “co-existence, co-prosperity and mutualism.” We place particular importance on three themes: “Realize a society that does not create poverty and inequality,” “Build a society of good health and long lives” and “Realize a sustainable global environment.” We have positioned “ESG Investment and Financing” as a means of supporting these goals in the investment and financing business, and our 2017 – 2020 target of JPY700 billion in ESG investment and financing stipulated that “the proceeds of the investment and financing will be directly used to support efforts to achieve the SDGs.” For example, in September we invested in a health and medical venture fund that plans to make investments with the

expectation that they contribute to the achievement of SDG 3, the “Good health and well-being of all people.” Metrics to measure impact are being gradually established, and there are many technical issues in calculating both impact and the economic returns associated with impact investing—the SDGs help to provide a common language.

**How does Nippon Life emphasize collaboration within the financial industry and cooperate in pursuit of ESG, social sustainability, and its impact goals?**

**Nakashima:** We would highlight our collaboration with the Life Insurance Association of Japan (LIAJ). Since 1974, LIAJ has been surveying companies and investors, and one result of those surveys has been the establishment of the Stewardship Working Group, whose members started collaborative engagements in 2017. These efforts are gradually achieving positive changes, including the “disclosure of ESG information through consolidated reports” and “corporate disclosure on climate change.” For this fiscal year, the Stewardship Working Group will work to address Nippon Life’s initiatives on climate change comprehensively. We intend to continue industry collaborations such as these to help create a sustainable society.

**Japan is now considered a leader in responsible and sustainable investing and the new administration under Prime Minister Suga has been promoting this theme further. How and why do you think that Japan has evolved in this area so quickly in recent years?**

**Nakashima:** When the new administration was established in 2020, Prime Minister Suga declared a target of net-zero emissions, to be achieved by 2050. Nippon Life welcomes this policy move. In addition, we believe the COVID-19 pandemic has accelerated positive change. Having said that, while movements to address climate change and digital transformation might seem abrupt, their roots are deep in Japan. As a resource-importing country, Japan has overcome past crises by significantly enhancing energy efficiency, for example. Japan shows its underlying strength when we firmly collaborate, and Nippon Life will continue its ESG initiatives to help sustain these positive moves.

*Nippon Life responded to written questions from Neuberger Berman from Tokyo during January 2021.*







**JENNIFER SIGNORI**  
MANAGING DIRECTOR  
ESG AND IMPACT INVESTING

## Engagement in Private Equity

Neuberger Berman's engagement on ESG issues has increasingly extended to the private equity universe, where we believe maintaining a dialogue with clients and private equity managers is an important part of our role in the ecosystem. However, engagement within private equity can take on a somewhat different "look" from other asset classes.

Our ESG due diligence, informed by our Manager ESG Scorecard for fund investments and NB Materiality Matrix for direct co-investments into companies, serves as a starting point for engagement with general partners (GPs). We connect with GPs in seminars and one-on-one settings to provide guidance and support to improve ESG integration policies and practices. More and more, our clients are interested in the work we are doing with GPs, both in our role as an extension of their team and to promote broader understanding and adoption of ESG integration.

For example, we hosted a webinar in December 2020 on "What Does Becoming a UN PRI Signatory Really Entail?" to streamline information flow and offer a forum to answer questions from GPs. Afterward, various GPs said they were able to draw on our presentation materials to inform the decision to become PRI signatories. In one-on-one settings, we often help GPs sift through the "noise" of ESG frameworks, terminologies, industry associations and service providers, and share our experience in developing our approach to ESG integration. More broadly, we disseminate our insights and information through participation on industry advisory boards and working groups—particularly on timely topics like ESG-related regulations, climate analysis, and diversity and inclusion.

The role we can play in the private equity ecosystem is directly connected to the scale of the platform and the partnerships we've been able to build with leading GPs. We have 540+ of active fund commitments, exposure to over 5,200 active underlying portfolio companies, and sit on over 230 Limited Partner Advisory Committees (LPACs).<sup>1</sup> Many of our GP partners also recognize the importance of ESG factors as a part of their investing activities.

Private equity is experiencing a sea change, where some of the largest, most sophisticated asset owners have become leaders in cutting-edge thinking in ESG and sustainable investing. Private equity managers may have been slow to adopt ESG standards, but have been moving quickly and dramatically over the past couple of years. We anticipate the pace of adoption to accelerate, and plan to partner with managers and clients to continue advancing rigorous solutions for a changing environment.

<sup>1</sup>Fund commitments and Limited Partner Advisory Committee (includes observer seats) as of December 31, 2020. Active portfolio companies for PIPCO and Secondaries through September 30, 2020.

## Collaborations and Engagements with the Industry

We recognize that we have a responsibility to improve the functioning of capital markets as a whole by encouraging the broader implementation of ESG investing activities. We believe this can best be achieved by working collaboratively with clients and others in the investment industry, including by engaging with individual companies and whole industries, conducting joint research on ESG topics, and supporting the creation and adoption of industry-standard ESG disclosures.

While we support many highly impactful groups and initiatives, each year we seek to particularly focus our efforts where we feel our leadership can make a unique and significant difference.



We continue to actively contribute to the PRI's work by showing ongoing support for the ESG in Credit Risk and Ratings Initiative and have seen a significant positive response from credit agencies as a result. In 2020, we continued to serve as a member of PRI's Private Equity Advisory Committee (PEAC), a collaborative group that advises the PRI on its private equity initiatives. We also hosted a virtual General Partner engagement series in partnership with the PRI on current topics related to integrating ESG factors in private equity investing, including practical insights on what becoming a PRI signatory entails. Additionally, we were a member of the PRI EU Taxonomy Practitioners Working Group, meeting regularly throughout the year to collaborate on implementation with peers, contributing a case study to the final Testing the Taxonomy report and presenting our findings as part of a panel at the digital membership conference in October 2020.

We are proud to have been named to the 2020 Leaders' Group for our efforts to assess, manage and disclose climate risk and opportunity across our investment strategy. Only 20 asset managers were awarded this designation of the 2400+ investment manager PRI signatories.



Neuberger Berman is a proponent of the SASB, which aims to develop and maintain standards for public company ESG disclosures using a rigorous process of evidence-based research. The Standards identify a number of ESG and sustainability topics that most directly impact long-term value creation. As a founding member of the SASB Alliance and the SASB Standards Advisory Group, we continue to be involved with SASB in a number of ways. Our Chief Investment Officer of Equities and Head of ESG Investing serve as members of the Investor Advisory Group (IAG), we have investment team members on several of the SASB Standards Advisory Groups, and we are members of the APAC Working Group of the IAG. In 2020, we introduced three companies to join the IAG and contributed to SASB's effort to globalize its standards by providing market-specific feedback from our global investment professionals. Additionally, we spoke at the SASB Foundation Board to provide an investor perspective on potential consolidation of reporting standards.



Neuberger Berman is a Research Funding Partner of the TPI, which is a global asset-owner led initiative that assesses companies' preparedness for the transition to a low carbon economy by encouraging companies to set practical targets and increase disclosure. Our support has helped the TPI team to broaden coverage and continue making their important analysis a public good. We have incorporated this analysis into some of our proprietary ESG ratings and will continue to leverage this tool in our investment processes.

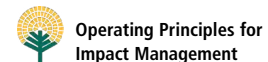
#### **IMPACT MANAGEMENT PROJECT**

Neuberger Berman is a member of the Advisory Board of the IMP, which is a global network facilitating an industry standard for impact measurement and management. We utilize the framework in our impact investing strategies. In 2020 we continued to advocate for other industry bodies to adopt IMP as its preferred framework for impact management. We also continue to engage in dialogue with the IMP on best practice and implementation, and have applied the IMP framework to our investment processes across a range of impact investing strategies at the firm.



Neuberger Berman is a signatory of the UN Global Compact and is committed to aligning our operations with universal principles on human rights, labor, environment and anti-corruption, and to taking actions that advance societal goals. In 2020, Neuberger Berman submitted its second Communication on Progress (COP) demonstrating the firm's commitment to implement the Ten Principles and qualified for the Global Compact Advanced Level.<sup>1</sup>

<sup>1</sup> Global Compact Active COPs meet minimum requirements, including a statement by the Chief Executive expressing continued support for the UNGC and renewing the participant's ongoing commitment, a description of practical actions the company has taken or plans to take to implement the Ten Principles of the UN Global Compact and a measurement of outcomes.



## Collaborative Engagements



### Ceres

Neuberger Berman is a member of the Ceres network of investors and companies, who tackle the world's biggest sustainability challenges, including climate change, water scarcity and pollution, and human rights abuses. Through the Climate Action 100+ initiative,<sup>2</sup> we have continued to work with companies as part of the campaign, and while much work remains, we're pleased with improvement in both the oversight of climate issues and the reduction of actual emissions. We hope our continued pressure and expertise sharing will accelerate the progress as the campaign continues.

**Progress update:** One of the companies we have been engaging with began aligning its environmental reporting with the Task Force on Climate-related Financial Disclosures and appointed its first-ever Chief Sustainability Officer.



We joined the Science-Based Targets (SBT) engagement campaign led by CDP to encourage companies globally to set science-based targets and commit to net-zero emissions by 2050. In 2020, this included being a signatory on letters sent to over 1,800 companies globally.

**Progress update:** As of January 2021, 15 companies had signed 1.5°C and net zero commitments and an additional 33 companies committed to work toward establishing SBTs.<sup>3</sup>

### Asset Owner-Coordinated Christchurch Call to Action

Spearheaded by the New Zealand Superannuation Fund, the Christchurch Call to Action is a collaborative engagement effort focused on the need for social media companies to strengthen controls to prevent the live streaming and distribution of extremist content and enforce codes of conduct on their platforms.

**Progress update:** As a direct response to this engagement effort, Facebook updated the charter of its Audit & Risk Oversight Committee to explicitly include review of content-related risks that violate its policies, and it will move not just to monitor or mitigate such violations, but to prevent them.

### NGO-Coordinated Microplastic Pollution Reduction Effort

In partnership with the Marine Conservation Society, Neuberger Berman along with a number of leading global investment management companies and asset owners have launched an effort to engage with the manufacturing industry to address the specific and growing problem of microplastic pollution from synthetic microfibres entering the water ecosystem. We are proud to be the first North American-based asset manager to join this effort.

**Progress update:** Since launching in Q4 2020, letters outlining the importance of the topic and the need for further engagement have been sent to all companies included in the effort.

<sup>2</sup>Climate Action 100+ is an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

<sup>3</sup>CDP Science-based Targets Campaign Mid-term Report.

## '2020 ESG Investing Challenge'

In the fall, we wrapped up our second consecutive year running the ESG Investing Challenge. This year, we expanded our partnership beyond Columbia Business School (CBS), to NYU Stern Business School and Northwestern University's Kellogg School of Management in Chicago. We were thrilled with the student interest we received and the engagement from the firm's professionals as judges and student mentors.

As we continue to broaden our ESG efforts, the goal of the virtual challenge was to empower students with real-world experience to incorporate sustainability within robust investment analyses.

For this year's theme, we chose COVID-19, given the pandemic's preeminent impact on the world in which we live. During the event, business students identified investments with the potential to meet dual objectives: positive impact and financial performance. Eleven student teams submitted an investment pitch for a company of their choice, and then worked with assigned mentors from various parts of our firm to solidify their stock pitch/valuation and connect the theme to their investment thesis. After that, the judges met virtually to deliberate and ultimately selected five finalist teams who presented on multiple stocks.

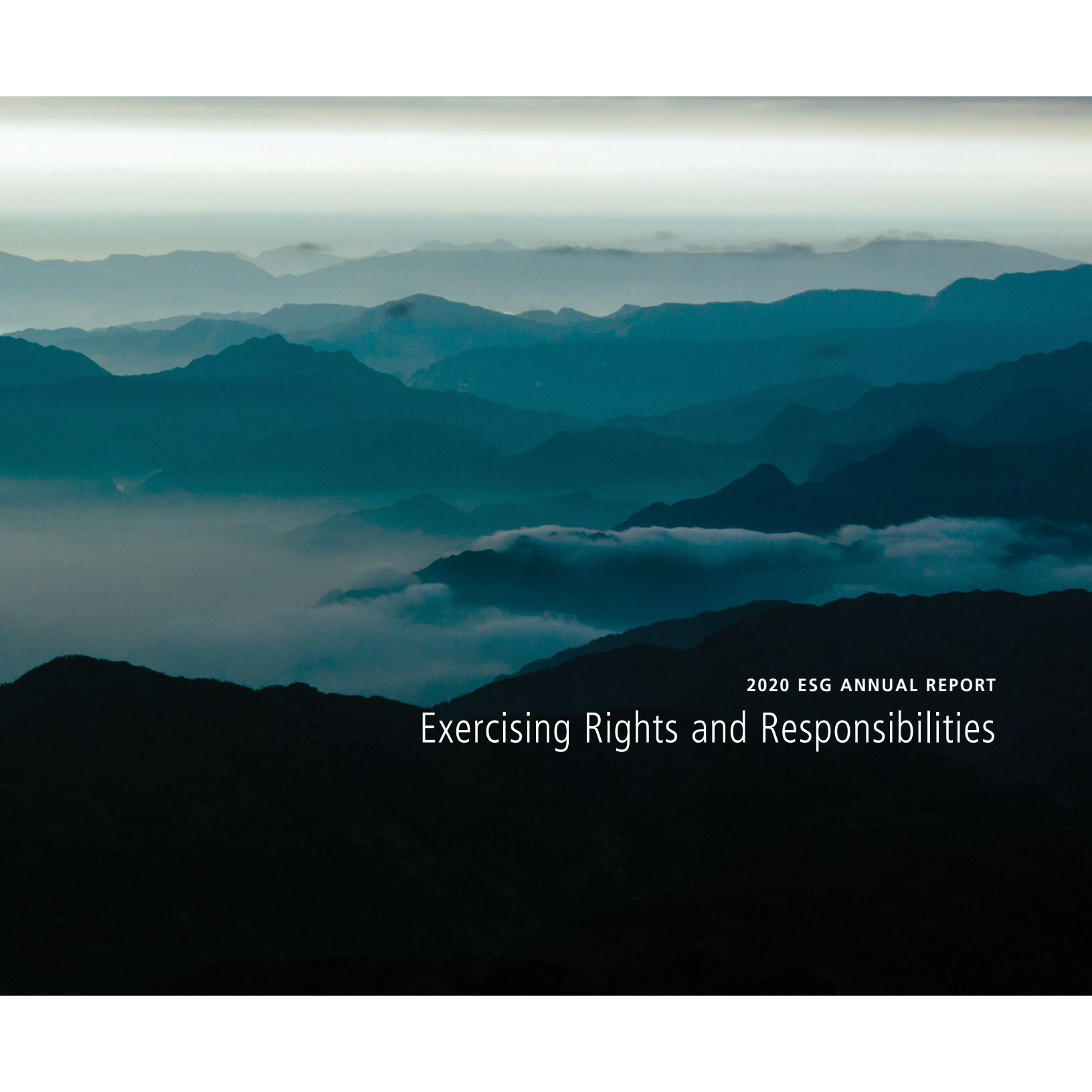
While we were highly impressed overall by the submissions, analysis and presentations, the winning team who presented on Teladoc stood out. The team centered their thesis on Teladoc's business model as a high impact, virtual healthcare services platform that addresses the implications of COVID-19 by protecting first responders and bringing medical care access to rural America, highlighting their coverage in all 50 states. They also conducted comprehensive primary research, including the distribution of a survey to customers to better understand perceptions of telehealth during the pandemic, and held phone conversations with doctors, nurses and industry experts to help form their strong investment thesis. The winners of the contest each received a cash prize, and an equivalent donation was made to a nonprofit organization based on individual team choice.

We look forward to continuing this effort next year, potentially expanding the competition to other MBA programs on an international scale.



**The winning team of the 2020 ESG Investing Challenge, Team Teladoc:**  
Songqing Jiang, Nick DiGeronimo, Levente Merczel and Bill Ledley.





2020 ESG ANNUAL REPORT

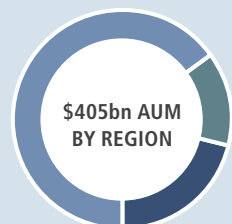
# Exercising Rights and Responsibilities

## Global Perspective and Local Investment Presence

36	CITIES
25	COUNTRIES
18	PORTFOLIO MANAGEMENT CENTERS
674	INVESTMENT PROFESSIONALS WORLDWIDE
595	CLIENT PROFESSIONALS WORLDWIDE



- 68%** Pension Funds, Sovereign Wealth Funds and Other Institutions
- 18%** Financial Institutions, RIAs and Advisors
- 14%** Private Client



- 65%** Americas
- 14%** EMEA
- 21%** Asia Pacific

As of December 31, 2020.



**ANDREW A. JOHNSON**  
SENIOR DIVERSITY AND  
INCLUSION LEADER

## Firm Stakeholder Metrics

As stewards of our clients' capital, we advocate for the highest standards of conduct and disclosure from the companies in which we invest. As a firm, we continually strive to raise our own standards, an effort which has become increasingly important amidst the global pandemic and social justice uprisings.

2020 was a year of deep challenges. When COVID-19 forced all employees to work from home and manage new personal and professional pressures, it became more important than ever for employers to prioritize the overall well-being of their employees. At Neuberger Berman, our employees' health and well-being was of utmost concern, and proactive engagement played a significant role in shaping the course. It was an iterative process of continually soliciting and acting upon feedback in order to share best practices for working effectively from home, while balancing the personal and professional challenges of doing so.

As the impacts of inequality reached an inflection point for society later in the year, many companies stepped up to help address these challenges. We believe that an institution's response to these events and continued promotion of equity in the long term will have lasting implications for employee and community relationships—a potentially key differentiator in the months and even years to come. At our firm, we built upon our previous efforts to foster an equitable, diverse and inclusive workplace by continuing to address—and not shy away from—challenging topics. During 2020, the firm's Employee Resource Groups, including the NB Black Experience, were crucial in maintaining internal dialogue around key issues. The firm, its employees and directors also donated more than \$1 million to the NAACP Legal Defense Fund—the single largest fundraising campaign in our history.

We recognize continued momentum is critical. To demonstrate our progress as a responsible corporate citizen across all facets of our work and operations, we will continue to measure and report relevant metrics associated with our employees, client portfolios, environmental impact and community engagement.

## FIRM ASSETS UNDER MANAGEMENT \$405bn

### MULTI-ASSET CLASS SOLUTIONS

#### PUBLIC MARKETS \$315bn

##### EQUITIES

###### FUNDAMENTAL

Global  
U.S.  
EAFE / Japan  
Emerging Markets  
– China  
Thematic Strategies  
MLPs

###### QUANTITATIVE

Global  
U.S.  
Emerging Markets  
Custom Beta

\$115bn

##### FIXED INCOME

Global Investment Grade  
Global Non-Investment Grade  
Emerging Markets  
Municipals  
Multi-Sector  
Currency

\$179bn

##### HEDGE FUNDS & LIQUID ALTERNATIVES

###### FUNDAMENTAL

Hedge Funds  
Liquid Alternatives

###### QUANTITATIVE

Commodities  
Options  
Global Macro  
Risk Parity  
Risk Premia

\$19bn

##### REAL ESTATE

Global  
U.S.  
Long/Short – Almanac

\$2bn

#### PRIVATE MARKETS \$90bn

##### PRIVATE EQUITY

Primaries  
Co-Investments  
Secondaries  
Specialty Strategies  
Alternative Asset Manager Stakes – Dyal

\$73bn

##### PRIVATE CREDIT

Private Debt  
Credit Opportunities  
Special Situations  
Residential Loans  
Specialty Finance  
European Private Loans

\$10bn

##### SPECIALTY ALTERNATIVES

Insurance-Linked Strategies  
Late Stage Pre-IPO  
SPACs

\$3bn

##### PRIVATE REAL ESTATE

Private Real Estate – Almanac  
Real Estate Secondaries

\$4bn

ESG INTEGRATION | GLOBAL RESEARCH CAPABILITIES | DATA SCIENCE

Information is as of December 31, 2020.



Since 1939, these values have grounded us in service to our clients and our communities. These principles inform the initiatives and innovations that we have pursued—from our deepening integration of environmental, social and governance (ESG) investing and our growing data science capabilities, to our work in improving and maintaining the diversity of our workforce—and with hard work, they can continue to guide us in the future.

Learn more about Neuberger Berman’s business principles in our [Annual Report](#).

CLIENT PORTFOLIO METRICS	2018	2019	2020
Teams with access to environmental, social and governance (ESG) research	100%	100%	100%
Assets managed with consistent and demonstrable ESG integration	56%	58%	80%
Shareholder meetings voted (#/%)	4,894/99%	4,738/100%	4,774/100%
<b>Total number of engagement meetings with corporate management teams</b>			
Number of equity engagements held	1,324	1,173	2,213
Number of credit engagements held	1,728	901	1,453
% AUM engaged (public equity)	62%	68%	70%
Percentage of UCITS and mutual funds with 3+ Globes on Morningstar Sustainability Ratings	50%	73%	68%
Median stock turnover ratio for equity mutual funds	39%	37%	43%
Number of adverse final judgments in legal proceedings relating to marketing communications of investment products	0	0	0

COMMUNITY METRICS	2018	2019	2020
Corporate Charitable Giving (Inclusive of foundation-giving, employee gift-matching, disaster relief, and business related charitable giving)	\$2,553,479	\$2,965,108	\$2,852,968
<b>Firm-sponsored Volunteerism<sup>1</sup></b>			
Employee volunteer hours	5,738	5,759	323
Employee volunteer participation (#) (not unique)	1,861	1,833	147
Unique volunteer participation	64%	58%	6%
Firm and regional headquarter locations participating in volunteerism	100%	100%	100%
Number of projects	166	147	26
<b>Beneficiaries</b>			
Organizations reached through giving	752	614	780
Organizations reached through volunteerism	111	115	21
Number of children/youth/students impacted through giving and volunteerism	496,557	1,176,025	563,499
Number of employees sitting on charitable boards	407	246	317
U.S. Minority Women-owned Business Enterprise (MWBE) suppliers	5%	5%	5%

<sup>1</sup> COVID-19 restrictions limited our employees' capability to engage in volunteer activities during 2020.

EMPLOYEE METRICS	2018	2019	2020
<b>Global</b>			
Total employees, full-time	2,036	2,178	2,305
Total employees, part-time	44	43	40
Senior investment professional retention rate (MD/SVP)	95%	95%	97%
Employees with access to benefits (full-time)	100%	100%	100%
Percentage of firm owned by employees	100%	100%	100%
Employees with firm ownership (#/%)	~500/~25%	~500/~24%	~550/~23%
Portfolio Managers whose compensation is tied to multi-year performance	100%	100%	100%
Employees with access to skills-based training	100%	100%	100%
Employees with access to promotion opportunities	100%	100%	100%
Employees with access to educational assistance	100%	100%	100%
<b>Staff Diversity (women %)</b>			
Total staff	35%	37%	37%
Senior staff (VP+)	26%	28%	28%
New hires (% women, three-year average)	39%	40%	40%
<b>U.S.</b>			
Total U.S. employees	1,578	1,690	1,732
Employees with 15% 401K firm contribution (no required match or vesting)	99%	99%	99%
<b>Staff Diversity (ethnic minority %)</b>			
Total staff	29%	31%	31%
Senior staff (VP+)	20%	22%	21%
Ethnic minority hiring (% of new hires, 3-year average)	35%	38%	39%

ENVIRONMENTAL METRICS <sup>1</sup>	2018	2019	2020
<b>Global</b>			
Employees using public transportation	88%	89%	10%
GHG emissions from business travel (Metric tons CO <sub>2</sub> e)	5,500	5,000	889
GHG emissions offset from estimated global travel	100%	100%	100%
<b>NY Headquarters</b>			
Square footage as percentage of total global office space	64%	58%	57%
LEED certifications	Silver	Silver	Silver
Total energy used (gigajoules)	48,499	43,003	38,362
Electricity used (gigajoules)	21,508	21,911	19,552
Steam used (gigajoules)	26,991	21,092	18,810
GHG emissions from energy used (Metric tons CO <sub>2</sub> e)	3,420	2,655	2,369
Total water used (million gallons)	8.6	8.4	6.5
Waste recycled (diversion rate)	47%	53%	59%

Note: As an employee-owned private firm, this report is not intended as a communication to investors, however the Sustainability Accounting Standards Board (SASB) standards for Asset Management & Custody Activities have helped inform this report. The SASB disclosure topics below align closely with our stakeholder metrics as noted.

1. Transparent Information & Fair Advice for Customers
  - i) Number of adverse final judgments in legal proceedings relating to marketing communications of investment products
2. Employee Diversity & Inclusion
  - i) Global Staff diversity metrics
  - ii) U.S. Staff diversity metrics
3. Incorporation of Environmental, Social, and Governance ("ESG") Factors in Investment Management & Advisory
  - i) Assets managed with consistent and demonstrable ESG integration
  - ii) Total number of engagement meetings with corporate management teams including both equity and credit

<sup>1</sup>In previous years Neuberger Berman reported on the portion of energy the firm has controlled within the building. This year the reporting was updated and applied retroactively to include Neuberger Berman's portion of common energy and utility consumption within the building. Going forward Neuberger Berman will continue to include the additional maintenance load that was not previously disclosed.

Source: Neuberger Berman. Data for the calendar year 2020.



## Approach to Proxy Voting

We believe that proxy voting is an integral aspect of investment management. Accordingly, proxy voting must be conducted with the same degree of prudence and loyalty accorded any fiduciary or other obligation of an investment manager. Neuberger Berman has developed custom Proxy Voting Guidelines that comprehensively lay out our voting positions, including the potential financial impact on a company from corporate governance, environmental and social issues. These Guidelines are updated as deemed appropriate and reviewed at least on an annual basis. Additionally, our Proxy Voting Policies and Procedures (together with the Proxy Voting Guidelines) detail the governance of our process that is designed to reasonably ensure that Neuberger Berman votes proxies prudently and in the best interest of its advisory clients for whom Neuberger Berman has voting authority.

Neuberger Berman seeks to vote all shares under its authority so long as that action is not in conflict with client instructions. There may be circumstances under which Neuberger Berman may choose to not vote a client proxy, such as when Neuberger Berman believes voting would not be in clients' best interests (e.g., not voting in countries with share-blocking or meetings in which voting would entail additional costs). NB understands that it must weigh the costs and benefits of voting proxy proposals relating to securities and make an informed decision with respect to whether voting a given proxy proposal is prudent and solely in the interests of the clients. Neuberger Berman's decision in such circumstances will take into account the effect that the proxy vote, either by itself or together with other votes, is expected to have on the value of the client's investment and whether this expected effect would outweigh the cost of voting.

## Split Voting

As part of our Proxy Voting Procedures, if a client provides vote instructions on a specific voting matter, we vote their shares consistent with the client's instructions when voting their proxies, whether or not such client directions differ from Neuberger Berman's custom Voting Guidelines and regardless of whether the client is invested in a segregated or pooled account.

In the event that a senior investment professional at Neuberger Berman believes that it is in the best interest of a client or clients to vote proxies in a manner inconsistent with Neuberger Berman's Voting Guidelines, the investment professional will submit in writing to the Proxy Voting Committee the basis for his or her recommendation. The Proxy Committee will review this recommendation in the context of the specific circumstances and with the intention of remaining consistent with our proxy voting responsibilities and Governance & Engagement Principles.

## Vote Disclosure

Recognizing the importance of transparency of our voting activities, in addition to providing our Guidelines and Procedures via our website, we publicly disclose all voting records of our registered, co-mingled funds (Undertakings for Collective Investment in Transferable Securities [UCITS] and U.S. registered funds) on a quarterly basis. Neuberger Berman cannot publicly disclose vote level records for separate accounts without express permission of the client. However, we publicly disclose aggregate reporting on at least an annual basis for all votes cast across co-mingled and separate accounts.

As discussed earlier, we launched the NB Votes advance proxy vote disclosure initiative in 2020 to publicly disclose and explain the firm's voting rationale and intentions at select shareholder meetings. The NB Votes initiative is an opportunity to communicate the firm's expectations on a variety of topics and to demonstrate the nuanced judgment that goes into vote decisions. It improves the overall transparency on our approach to proxy voting, which is an area of interest to clients, as well as companies, regulators and market participants more broadly.

## Securities Lending Program

Some Neuberger Berman products may participate in a securities lending program. Where a security on loan is subject to a proxy event and a determination has been made that the shares on loan may have a meaningful impact on the vote outcome and the potential value of the security, a portfolio manager, in consultation with relevant investment professionals, will restrict the security from lending, or will instruct the lending agent to use best efforts to recall the security so that we may vote such shares. Neuberger Berman maintains the list of securities restricted from lending and members of the ESG Investing team receive daily updates on upcoming proxy events from the custodian. As of December 31, 2020, our leased securities through our mutual funds and UCITS funds securities lending program represented less than 0.1% of our total equity assets.

## Oversight of Proxy Voting Activities

Neuberger Berman has designated a Governance & Proxy Committee ("Proxy Committee") with the responsibility for: (1) developing, authorizing, implementing and updating Neuberger Berman's policies and procedures; (2) administering and overseeing the governance and proxy voting processes; and (3) engaging and overseeing any third-party vendors as voting delegates to review, monitor proxies and/or apply our custom Guidelines. The application of our custom Voting Guidelines is audited on a quarterly basis to ensure accuracy. Further, our internal audit team audits our proxy voting policies and procedures on an annual basis in an effort to ensure their soundness and identify opportunities for improvement.

Neuberger Berman has engaged Glass Lewis as its advisor and voting agent to: (1) provide research on proxy matters; (2) vote proxies in accordance with Neuberger Berman's custom Voting Guidelines or as otherwise instructed and submit such proxies in a timely manner; (3) handle other administrative functions of proxy voting; (4) maintain records of proxy statements and other solicitation materials received in connection with proxy votes and provide copies of such proxy statements and other solicitation materials promptly upon request; and (5) maintain records of votes cast. While we utilize research from proxy advisors as supplementary data to help inform our analysis, our voting decisions are determined by our custom Voting Guidelines and proprietary research.

## Managing Conflicts of Interest and Proxy Voting Activities

Neuberger Berman is ultimately owned by Neuberger Berman Group LLC, which is a private, independent, employee-controlled investment manager. While Neuberger Berman manages a complete range of different asset classes, investment management is its only business. In the normal course of business, as in any large financial institution, situations resulting in potential or actual conflicts of interest may arise. Neuberger Berman is committed to managing these conflicts of interest to prevent abuse and protect clients, employees and counterparties.

Integrity, fairness, impartiality and primacy of clients' interests occupy a leading place in our ethical rules and values. Neuberger Berman has established policies and other internal controls that are designed to identify and mitigate potential conflicts.

While conflicts of interest may arise in different areas of the business, there is a specific manner of handling conflicts of interest in proxy voting activities. Neuberger Berman will cause proxies to be voted in accordance with Neuberger Berman's custom Voting Guidelines or, in instances where a material conflict has been determined to exist, Neuberger Berman will defer to independent third-party vendors as voting delegates. Neuberger Berman believes that this process is reasonably designed to address material conflicts of interest that may arise in conjunction with proxy voting decisions. Potential conflicts considered by the Proxy Committee when it is determining whether to deviate from Neuberger Berman's Voting Guidelines include, among others: a material client relationship with the corporate issuer being considered; personal or business relationships between the portfolio managers and an executive officer; director, or director nominee of the issuer; joint business ventures; or a direct transactional relationship between the issuer and senior executives of Neuberger Berman.

## Exercising Rights and Responsibilities within Fixed Income

The thorough review of credit documentation is an important component of Neuberger's credit process. We examine structural elements embedded within the issuers' credit agreements and indentures. While financial maintenance covenants are part of this analysis, we also look to ensure there are limitations on the incurrence of senior, *pari passu* and junior debt, the ability of an issuer to pay dividends, restrictions around the

use of asset sale proceeds, affirmative covenants related to reporting requirements and restrictions on broader payment and value transfers outside of the restricted group. Additionally, we thoroughly examine the security package seeking to confirm that we have a pledge on the most valuable assets of the company. In respect to the amendment process, we evaluate the impact of an amendment on an issuer's credit profile as well as the compensation received from approving the amendment.

Neuberger Berman engages with capital markets participants in respect to new issue documentation and pushes back on weaknesses identified in the documentation, when possible. Neuberger Berman believes engagement with management teams is also critical in identifying material ESG factors as credit documentation generally provides a range of flexibility to an issuer in respect to capital allocation and business strategy. Engagement with respect to capital allocation provides an opportunity to better appreciate an issuer's financial and operating strategy, as well as points of potential risks which could be material to the credit profile of the issuer.

For example, in recent years, we identified an issuer in which credit documentation flexibility, coupled with governance concerns at the issuer's parent, led to weakness in the issuer's trading levels due to market concern the equity owners would extract value from the issuer. Based upon our ongoing engagement with the management team and their commitment to conservative capital allocation policies and a strong ratings profile, we encouraged the issuer to proactively strengthen the credit documentation in its indentures to alleviate market concerns. The issuer ultimately enhanced structural bondholder protections and its governance framework, which was a positive development for the issuer's credit profile.



## Bringing Transparency and Accountability to Proxy Voting

In 2020, we launched NB Votes, an advance proxy vote disclosure initiative in which our firm announces our voting intentions in advance of the annual general meetings (AGMs) of a select group of companies in which we invest on behalf of clients. We sought to include a broad range of proposals in the Initiative with a balance of votes in support of and against the recommendations of management to enable us to share our analysis and expectations on a variety of matters. In 2020, we disclosed key votes at 31 of our portfolio companies and each vote disclosed was categorized into one of our nine overarching key governance and engagement principles.

Through the initiative, we are seeking change at company, industry and market levels, monitoring four key objectives to assess our effectiveness:

- Positive actions taken by NB Votes target companies
- Positive actions taken by companies in the same sector as NB Votes targets
- Large asset manager peers begin preannouncing proxy votes systematically and openly
- Elevation of nuanced judgment in proxy voting decision-making across market as a whole

### Holding Boards Accountable

We hope that making our votes public will accelerate our engagement efforts with companies where we feel more action is needed and help management teams drive positive change. This year, we held boards accountable on areas requiring improvement, and worked with them to help strengthen their relevant policies and practices. For example:

- At Boeing, we voted against the historical chair of the audit committee due to concerns over the depth of oversight in the committee's Enterprise Risk Management framework. While the director reelection proposal passed, support was significantly lower than the average director election approval rate of 95% for Russell 3000 constituents in 2019.<sup>1</sup> Importantly, we were effective in signaling our concerns and were able to focus our engagements on specific issues of risk management and board oversight. Moreover, in light of our votes and engagement, the company has expressed willingness to work to address the areas of concern and have requested continued engagement in the future.

### Communicating Expectations

NB Votes enables us to communicate our expectations of companies on various issues and our logic as to why certain companies either succeeded or failed in meeting those expectations. For example:

- On the topic of executive compensation, we supported an executive compensation proposal at CSX Corporation that attracted 75% support from shareholders. Although some raised concerns over the severance

<sup>1</sup> Source: Kumar, Rajeev, "Director Election Analysis: Trends and Observations in Recent Results," Georgeson, March 11, 2020..

package paid to the chief financial officer upon his termination, after thorough analysis and engagement with the company, we determined that the package was appropriate given his significant contribution in the transition to a refreshed management team. The board provided substantial disclosure on the package, allowing shareholders to evaluate the link between executive compensation and performance. Furthermore, we believe the package had an appropriate structure, and utilized health and safety metrics tailored to the business to appropriately measure performance.

- When evaluating shareholder proposals requesting reporting on gender and racial diversity, a company's current disclosures on its workforce composition and related initiatives are an important component of our analysis. This analysis led to our support of a shareholder proposal to enhance diversity reporting by Marriott International. Although the company has taken various steps to promote diversity this year, we supported the proposal to signal our expectation of further disclosures and the need to better understand the company's workforce demographics and approach to human capital management. While the proposal didn't receive majority support, the company has since provided more disclosure on the racial diversity of its U.S. employees.
- On the topic of climate change risk reporting, we did not support a shareholder proposal asking for additional disclosure on greenhouse gas (GHG) reduction targets at Royal Dutch Shell. We believe that the company has sufficiently addressed the issue through existing GHG reduction goals, including a net-zero goal for Scope 1, 2 and 3 emissions by 2050, as well as interim targets that go beyond those set by peer companies. In contrast, we supported shareholder proposals at Exxon and Chevron, calling for more disclosure of potential climate change risks to physical assets on the Gulf Coast, given the limited existing disclosure around the results of physical risk modeling on company assets and facilities.

## Nuanced Judgment

We believe NB Votes could help offset the perception among some commentators that asset managers may formulaically "robo-vote" based solely on the views of a proxy advisor. At Neuberger Berman, our proxy voting decisions are based on the analysis of our investment professionals and our proprietary proxy voting policy, not the recommendations of a proxy advisory firm. We also believe it can contribute to improvement in the functioning and credibility of the proxy voting system as a whole. Through the Initiative, we have shown the nuanced judgment required to evaluate (and differentiate) similar-looking management and shareholder proposals. For example:

- On the topic of gender pay equity reporting, we disclosed our support for management in opposing a shareholder proposal at Adobe, but took the opposite position and supported the same proposal at Cigna because of differences in the quality of current disclosures and performance on gender pay parity. Adobe has demonstrated its commitment to pay parity by articulating its process and continuously improving its disclosure, including announcing an ethnic pay parity initiative in 2016 and its achievement of global gender pay parity in 2018.

Nuanced judgment is also important when evaluating proposals in different markets. Proxy proposals vary significantly by market due to regulation, and in response, we draw on both our global and local resources to address key issues. For example:

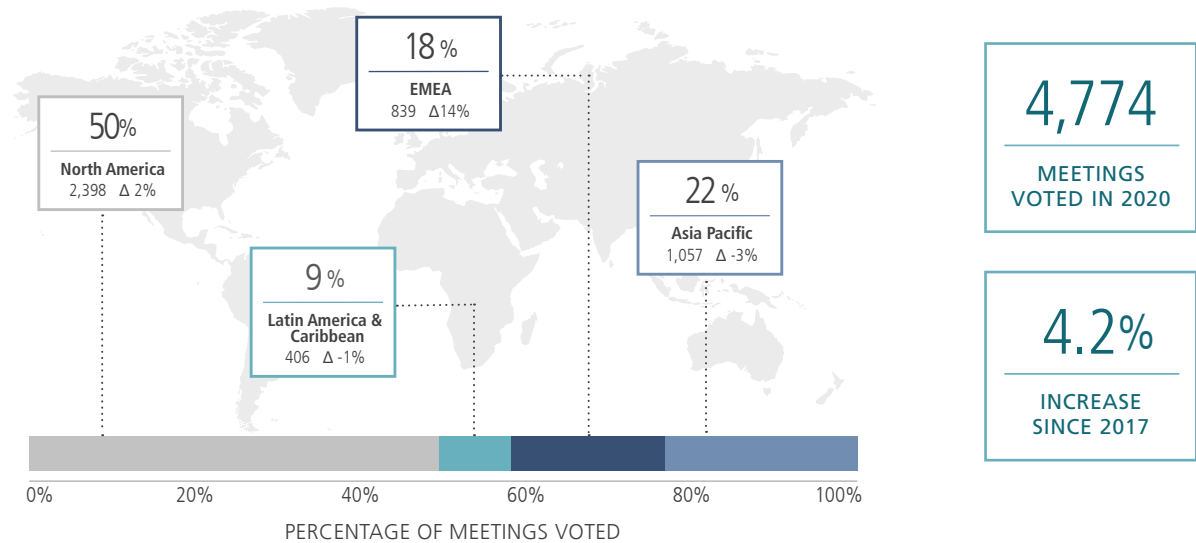
- In Japan, after a productive engagement with Okinawa Cellular, we decided to support management's decision to adjust capital management policies in order to reduce cash build-up. While capital deployment proposals are not common in the U.S., they are in Japan. Our local team was essential in understanding the nuances of Japan-specific proposals and engaging with our portfolio companies to communicate our expectations.

COMPANY	PRINCIPLES	PROPOSAL	NB	SHAREHOLDER SUPPORT %
Thermo Fisher Scientific Inc.	Strategy	Election of Directors	For	95%
Detsky mir PJSC	Strategy	Board Size	Against	24%
Sherwin Williams Company	Incentives	Advisory Vote on Executive Compensation	For	95%
Univar Solutions Inc.	Incentives	Advisory Vote on Executive Compensation	Against	81%
CSX Corp.	Incentives	Advisory Vote on Executive Compensation	For	75%
Rollins, Inc.	Board Independence	Elect Henry B. Tippie	Against	88%
Cognex Corp.	Board Independence	Elect Patrick A. Alias	Against	78%
Starwood Property Trust Inc.	Board Independence	Elect Strauss Zelnick	For	86%
Bristol-Myers Squibb Co.	Board Independence	Elect Michael W. Bonney	Against	81%
Lennar Corp.	Board Independence	Elect Scott D. Stowell	Against	64%
SK Kaken Co. Ltd.	Board Independence	Election of Directors (Top Management)	Against	85%
Stanley Black & Decker, Inc.	Shareholder Representation	Shareholder Proposal Regarding Right to Act by Written Consent	Against	51%
Raytheon Technologies Corp.	Shareholder Representation	Shareholder Proposal Regarding Simple Majority Vote	For	94%
HCA Healthcare Inc.	Shareholder Representation	Adoption of Right to Call Special Meetings	For	99%
CVS Health Corp.	Shareholder Representation	Shareholder Proposal Regarding Reducing Ownership Threshold Required to Act by Written Consent	Against	16%
Home Depot, Inc.	Shareholder Representation	Shareholder Proposal Regarding Reducing Ownership Threshold Required to Act by Written Consent	Against	19%
Facebook, Inc.	Shareholder Representation	Shareholder Proposal Regarding Recapitalization	For	27%
Netflix, Inc.	Shareholder Representation	Election of Directors	Against	60%
Americold Realty Trust	Shareholder Representation	Elect Mark R. Patterson	For	86%
IHS Markit Ltd.	Capital Deployment	Advisory Vote on Executive Compensation	For	97%
Ricoh Company, Ltd.	Capital Deployment	Elect Hidetaka Matsuishi	For	99%
Okinawa Cellular Telephone Company	Capital Deployment	Allocation of Profits/Dividends	For	99%
General Electric Company	Transparency and Communication	Ratification of Auditor	Against	89%
CoreLogic, Inc.	Transparency and Communication	Election of Dissident Nominees	For	Mixed
Boeing Company	Risk Management	Elect Lawrence W. Kellner	Against	74%
Royal Dutch Shell Plc	Environmental	Shareholder Proposal Regarding GHG Reduction Targets	Against	14%
Chevron Corp.	Environmental	Shareholder Proposal Regarding Report on Risks of Gulf Coast Petrochemical Investments	For	46%
Exxon Mobil Corp.	Environmental	Shareholder Proposal Regarding Report on Risks of Gulf Coast Petrochemical Investments	For	24%
Adobe Inc.	Social	Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Against	12%
Cigna Corp.	Social	Shareholder Proposal Regarding Median Gender Pay Equity Report	For	21%
Marriott International, Inc.	Social	Shareholder Proposal Regarding Diversity Reporting	For	30%

# Meetings Voted

In 2020, the number of meetings voted on behalf of our clients is consistent year over year, seeing a 1% increase from the prior year. We continue to see a steady growth in number of meetings voted in the EMEA region (up 14% since 2017) and Japan (up 46% since 2017) driven by efforts to diversify risks across new sectors and market capitalizations, as well as reaching into new investing opportunities.

## 2020 Meetings Voted by Region and Percentage Increase Since 2017



	2017	2018	2019	2020	$\Delta$ Since 2017
<b>MEETINGS VOTED</b>	<b>4,583</b>	<b>4,894</b>	<b>4,738</b>	<b>4,774</b>	<b>4%</b>
<b>North America</b>	2,340	2,423	2,425	2,398	2%
United States	2,101	2,043	2,061	2,025	-4%
<b>Latin America &amp; Caribbean</b>	412	421	403	406	-1%
Brazil	163	136	147	142	-13%
<b>Asia Pacific</b>	1,091	1,134	1,071	1,057	-3%
Japan	193	226	219	281	46%
South Korea	140	220	132	134	-4%
<b>EMEA</b>	735	916	839	839	14%
United Kingdom	162	173	176	171	6%
South Africa	70	65	59	65	-7%

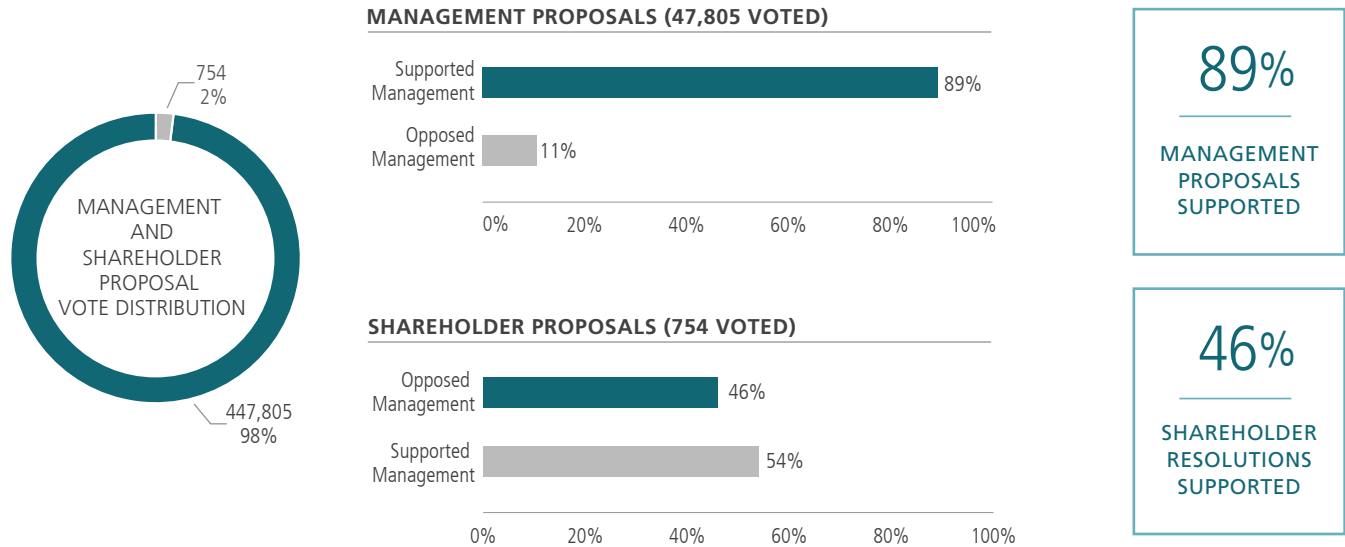
# Voting Statistics

In our consideration of the voting decision, we look to balance the expectation that we set a high bar for board effectiveness while acknowledging the information asymmetry between shareholders and company management. This means that we must, at times, begin with the assumption that management and the board are carrying out their duties faithfully; however, it does not mean that we are shy about voicing our concerns through engagement and voting. We feel it is important to reiterate that our public voting policy, and not deference to management, is always our default position.

We find ourselves opposing many proposals that are either unclear in their alignment with shareholder interests or at odds with our judgment of the best course for the company. This is reflected in both the 89% of management proposals that we supported in the last year and the 11% we opposed. Some of the main areas of opposition involved management compensation and share issuances without a clear case for the dilution.

In 2020, we continued to engage in enhanced dialogues with companies and critically reviewed shareholder resolutions. Improved quality of shareholder resolution enabled engagements to prioritize the most material issues.

## Management and Shareholder Proposal Vote Distribution for 2020



Source: Neuberger Berman. Data for the calendar year 2020.

# Management Proposals

Management Proposals	Supported Management		Opposed Management	
<b>AUDIT-RELATED</b>	6,130	95%	337	5%
Appointment of Auditor	680	96%	31	4%
<b>BOARD-RELATED</b>	25,231	90%	2,855	10%
Election of Directors	22,297	91%	2,335	9%
Ratification of Board Actions	578	94%	39	6%
Related Party Transactions	193	92%	17	8%
<b>CAPITAL MANAGEMENT</b>	2,779	84%	511	16%
Authority to Issue Shares	783	78%	221	22%
Increase in Authorized Common Stock	63	91%	6	9%
<b>CHANGES TO COMPANY STATUTES</b>	1,643	87%	250	13%
Adoption of Majority Voting for the Election of Directors	7	87%	1	13%
Amend Articles, Constitution, Bylaws	371	81%	89	19%
Elimination of Supermajority Requirement	58	100%	0	0%
<b>COMPENSATION</b>	5,001	84%	944	16%
Advisory Vote on Executive Compensation	1,356	80%	335	20%
Stock Option Plan	152	80%	39	20%
<b>MERGERS AND ACQUISITIONS</b>	505	97%	18	3%
Divestiture/Spin-off	61	97%	2	3%
Merger/Acquisition	185	96%	8	4%

Source: Neuberger Berman. Data for the calendar year 2020.

The above table profiles broad categories and select examples of our voting activity on management proposals in 2020. Each case is unique, but the high-level picture reflects our views on issues such as director elections, share issuances and executive remuneration, and how often those proposals met our expectations. The particular positions that led to our opposition on these issues are articulated in our Proxy Voting Guidelines, but are most commonly a reflection of concerns on the clarity of disclosure or the structure of executive compensation plan or capital management practices of a company.

# Shareholder Proposals

Shareholder Proposals	Supported Management		Opposed Management	
<b>ENVIRONMENTAL</b>	43	57%	32	43%
Climate Change	8	38%	13	62%
Sustainability Report	0	0%	1	100%
<b>SOCIAL</b>	61	39%	97	61%
Race and/or Gender Pay Equity Report	3	23%	10	77%
Reviewing Political Spending or Lobbying	9	15%	52	85%
Report on EEO-1 Data <sup>1</sup>	0	0%	5	100%
<b>GOVERNANCE</b>	249	56%	193	44%
Eliminating Supermajority Provision	2	17%	10	83%
Separation of Chair and CEO	13	27%	35	73%
Right to Act by Written Consent	28	44%	35	56%
Declassification of the Board	1	14%	6	86%
Majority Vote for Election of Directors	0	0%	9	100%
Linking Compensation to Sustainability	6	50%	6	50%
Board Diversity Policy/Report	1	17%	5	83%

Source: Neuberger Berman. Data for the calendar year 2020.

While the overall number of shareholder proposals we voted on remained relatively consistent year-over-year, we continued to support resolutions that are both material across many sectors and have a high level of standardization. For example, we supported proposals pertaining to sustainability reporting, workforce composition data leveraging EEO-1 data, pay equity reporting and board diversity reporting at a higher rate, signaling to companies the importance of providing disclosure on material ESG topics. Additionally, given the potential reputational impact of the use of company funds in relation to trade associations and political processes, we continued to support a high percentage of resolutions pertaining to political spending or lobbying activities.

<sup>1</sup>The U.S. Equal Employment Opportunity Commission collects workforce data (EEO-1 data) from employers with more than 100 employees on an annual basis.



# Monitoring the Progress and Effectiveness of Our Stewardship Efforts

## Serving the Best Interests of Clients and Beneficiaries

Reflecting on the past year, we are delighted by the growth in mandates, strong performance of investment strategies and outcomes of our stewardship efforts. We hosted a number of virtual client roundtables throughout 2020 that provided opportunities to educate on emerging ESG topics, provide updates on our stewardship and integration approaches, and gather feedback. We have also closely monitored the questions and topics of focus included in RFPs and DDQs from clients and incorporate these observations into our stewardship activities and reporting. One area of feedback in prior years was for more transparency around our vote decisions. In response to this feedback, we launched NB Votes in 2020, a new initiative where we publish our vote intentions and supporting rationale at select meetings. We also increased the publication frequency of our vote records for our U.S. mutual funds and Irish UCITS funds, to quarterly. We have been pleased by the positive feedback from clients on these enhancements and continue to explore opportunities to deepen our engagement with them and incorporate their feedback into our activities.

## Governance Structures and Processes

Our commitment to continuous improvement includes reviewing the effectiveness of our governance structures and processes. Our committee structures, responsibilities and membership are reviewed on at least an annual basis. In 2020, as a result of this review, we refreshed the members of our ESG Committee to include broader asset class and

geographic representation. Other enhancements include increasing the frequency with which we disclose our vote records to quarterly, the implementation of additional practices to ensure that our custom Proxy Voting Guidelines are applied correctly, the creation of an ESG Product Committee, and the inclusion of relevant ESG metrics in the compensation methodology for many of our investment professionals.

## Ensuring Our Reporting is Fair, Balanced and Understandable

Providing our clients with high-quality, informative reporting is a critical component of our stewardship activities. We strive to include case studies of our stewardship efforts, both where we have not yet achieved our objective as well as where we have been successful. For example, since engagement efforts are rarely binary and can often span multiple years, we continue to enhance our engagement tracking capabilities to capture the incremental progress a company has made and various escalation methods utilized. Additionally, as part of our sustainability-linked corporate revolving credit facility, our borrowing costs will be higher or lower depending on our performance against various key ESG metrics, including engagement with portfolio companies on ESG issues, alignment with clients, increasing diversity at the management level, and maintaining “A” or higher ratings as measured by the UN-supported PRI. We provide these metrics to our lender for its evaluation, in the belief that transparency and accountability on our performance against them is an important part of leading change in our industry.



2020 ESG ANNUAL REPORT

# Appendix



## The U.K. Stewardship Code

We believe the U.K. Stewardship Code sets forth industry-leading expectations and disclosure standards for investment stewardship practices that investors globally can strive toward.

At Neuberger Berman we take our responsibility to comply with the Code very seriously. We believe that good stewardship and responsible investment will provide our clients with better long-term investment performance, thus enhancing the value that accrues to the ultimate beneficiary. This report is intended to describe how Neuberger Berman applies each of the 12 principles of the Code and to supplement this information with further details on stewardship, governance and responsible investing. The following guide shows where within this report we address each principle. The Board of Directors of Neuberger Berman Europe Limited have reviewed and approved this report and the adherence with the principles of the U.K. Stewardship Code.

**DIK VAN LOMWEL**

HEAD OF EMEA AND LATIN AMERICA

**Principle 1:** Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Pages 3 – 4, 6 – 8, 12, 20 – 22, 25 – 35, 50 – 55, 67

**Principle 2:** Signatories' governance, resources and incentives support stewardship.

Pages 3 – 5, 7 – 8, 10 – 12, 20 – 22, 25 – 35, 50 – 55, 57

**Principle 3:** Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.<sup>1</sup>

Page 58, 70

**Principle 4:** Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Pages 3 – 4, 7 – 8, 20 – 22, 45 – 48

**Principle 5:** Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Pages 10 – 15, 29, 57, 67

**Principle 6:** Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Pages 3 – 4, 7 – 8, 11 – 12, 23, 25 – 35, 44, 50 – 55, 57, 59 – 61, 67

**Principle 7:** Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Pages 3 – 4, 7 – 8, 10 – 19, 29 – 35, 45

**Principle 8:** Signatories monitor and hold to account managers and/or service providers.

Pages 29, 57, 67

**Principle 9:** Signatories engage with issuers to maintain or enhance the value of assets.

Pages 13 – 15, 17 – 22, 25 – 35, 44, 58

**Principle 10:** Signatories, where necessary, participate in collaborative engagement to influence issuers.

Page 45 – 48

**Principle 11:** Signatories, where necessary, escalate stewardship activities to influence issuers.

Pages 17 – 22, 29 – 35

**Principle 12:** Signatories actively exercise their rights and responsibilities.

Pages 3 – 4, 25 – 35, 57 – 65

<sup>1</sup> Further information can be found in the [Conflicts of Interest Policy](#).

## Neuberger Berman's PRI Assessment Scores

As a result of continued progress over the last several years, Neuberger Berman, for the first time, has received top scores across all categories in the most recent U.N.-supported Principles for Responsible Investment (PRI) assessment report of Environment, Social and Governance (ESG) integration efforts. See below for a summary scorecard by asset class and by year.

	2020		2019		2018		2017	
	Neuberger Berman	Peer Median	Neuberger Berman	Peer Median	Neuberger Berman	Peer Median	Neuberger Berman	Peer Median
01. Strategy & Governance	A+	A	A+	A	A+	A	A	A
<b>Indirect – Manager Sel, App &amp; Mon</b>								
07. Private Equity	A+	A	A+	A	A+	C	B	B
<b>Direct &amp; Active Ownership Modules</b>								
10. Listed Equity – Incorporation	A+	A	A+	B	A+	B	A	A
11. Listed Equity – Active Ownership	A+	B	A+	B	A	B	B	B
12. Fixed Income – SSA	A+	B	A+	B	A+	B	A	B
14. Fixed Income – Corporate Non-Financial	A+	B	A+	B	A+	B	B	B

For illustrative and discussion purposes only. PRI grades are based on information reported directly by PRI signatories, of which investment managers totaled 1,924 for 2020, 1,119 for 2019, 1,120 for 2018 and 935 for 2017. All signatories are eligible to participate and must complete a questionnaire to be included. The underlying information submitted by signatories is not audited by the PRI or any other party acting on its behalf. Signatories report on their responsible investment activities by responding to asset-specific modules in the Reporting Framework. Each module houses a variety of indicators that address specific topics of responsible investment. Signatories' answers are then assessed and results are compiled into an Assessment Report. The Assessment Report includes indicator scores, summarizing the individual scores achieved and comparing them to the median; section scores, grouping similar indicator scores together into categories (e.g. policy, assurance, governance) and comparing them to the median; module scores, aggregating all the indicator scores within a module to assign one of six performance bands (from E to A+). Awards and ratings referenced do not reflect the experiences of any Neuberger Berman client and readers should not view such information as representative of any particular client's experience or assume that they will have a similar investment experience as any previous or existing client. Awards and ratings are not indicative of the past or future performance of any Neuberger Berman product or service. Moreover, the underlying information has not been audited by the PRI or any other party acting on its behalf. While every effort has been made to produce a fair representation of performance, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for damage caused by use of or reliance on the information contained within this report. Information about PRI grades is sourced entirely from PRI and Neuberger Berman makes no representations, warranties or opinions based on that information.

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