

MFDF Webinar – SUSTAINABLE INVESTING AND MUTUAL FUNDS: AN OVERVIEW

Speaker: Ingrid Dyott Fourth Quarter 2017

Biographies

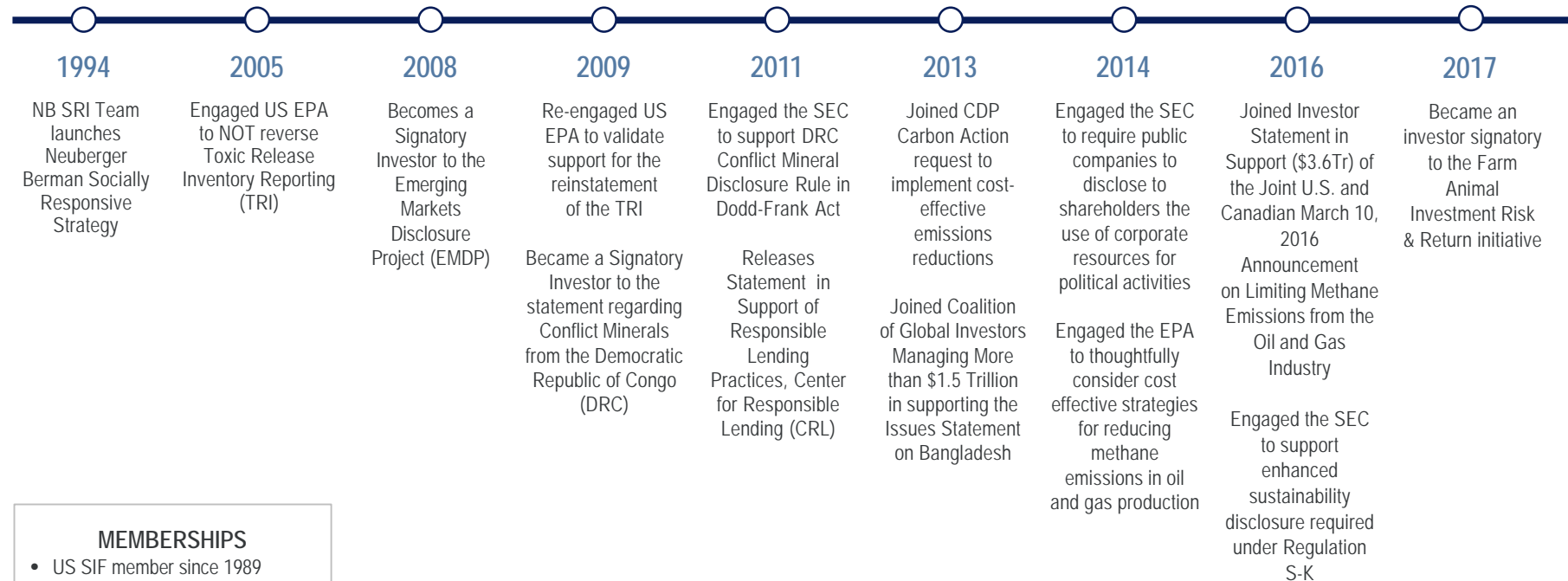


Ingrid S. Dyott, Managing Director, joined the firm in 1997. She is Co-Portfolio Manager of the of the Core Equity and SRI strategies. Prior to joining the firm, she worked at the Council on Economic Priorities, a research firm specializing in corporate social and environmental analysis. Ingrid serves on the Board of the Arbor Brothers Foundation. Ingrid earned a BA from Bowdoin College and an MBA from Columbia University.

A Long History of ESG Investing

Investment Team with 20+ years of advocacy and participation

INVESTOR INITIATIVES



MEMBERSHIPS

- US SIF member since 1989
- ICCR affiliate member since 2004
- CDP signatory since 2004
- CDP Water since 2010
- CDP Forests since 2013
- PRI since 2012
- FAIRR since 2017

This material is intended as a broad overview of the portfolio managers' current style, philosophy and process and is subject to change without notice. Portfolio managers' views may differ from those of other portfolio managers as well as the views of Neuberger Berman.



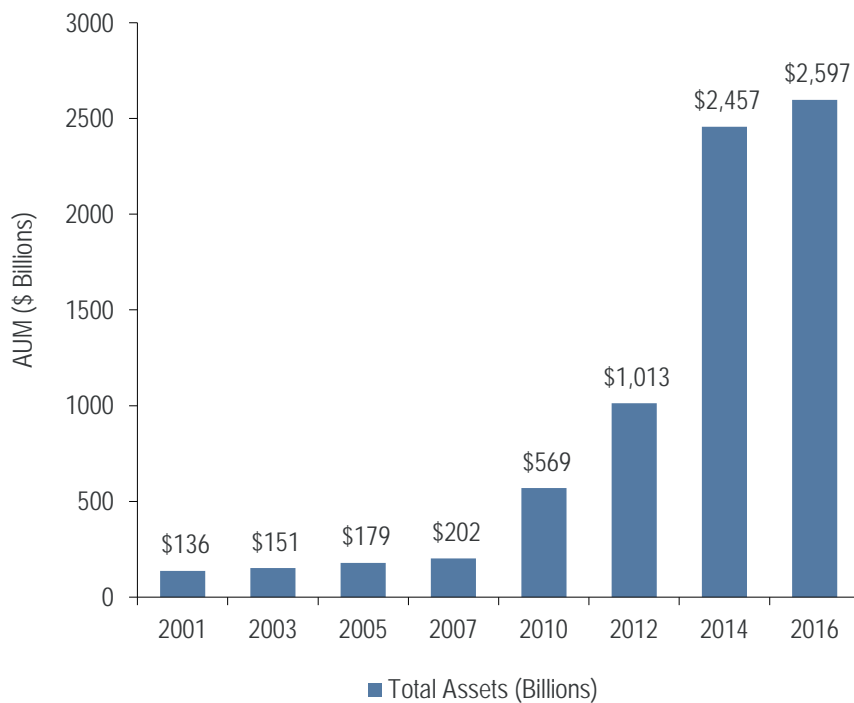
A Multitude of Perspectives—and Investment Opportunities

COMMUNITY INVESTING CSR (CORPORATE SOCIAL RESPONSIBILITY) ETHICAL
SOCIALLY RESPONSIVE/RESPONSIBLE SUSTAINABLE/SUSTAINABILITY
MISSION-RELATED INVESTING **INTEGRATION** PROGRAM-RELATED INVESTING (PRI)
IMPACT INVESTING ESG (ENVIRONMENTAL SOCIAL AND GOVERNANCE)
GREEN/CLEAN-CLIMATE CHANGE TRIPLE BOTTOM LINE MICROFINANCE

ESG Investing Has Evolved

A changing landscape, including a range of products, themes, and strategies

SIGNIFICANT GROWTH OF ESG INVESTMENT AUM¹



A VARIETY OF OPTIONS NOW EXIST

Exclusionary	Focused on negative screening only, in order to comply with an investment's social mandate
Impact Investing	Attempts to address a specific social or environmental issue by investing to make a positive impact
Third Party Overlays	Overlays a pre-set list of companies based on third party ESG scores
ESG Integration	Integrates Environmental, Social and Corporate Governance (ESG) factors into traditional financial analysis

¹Source: The Forum for Sustainable and Responsible Investment: As of December 31, 2016

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What are ESG factors?

Measure of a company's sustainability



Why Do ESG Factors Matter?

Implications for sustainable growth and profitability

ENVIRONMENTAL IMPACT



Environmental Management System ⇒ Minimize Penalties, Liabilities and Contingencies

Water management ⇒ More efficient use of resources & reduced costs

Clean tech innovations ⇒ Product Innovation & Competiveness

WORKPLACE POLICIES



Employee Health & Safety ⇒ Lower Turnover, absenteeism/Higher productivity

Labor Relations ⇒ Lower Risk & Business Interruption

Employee & Board Diversity ⇒ Attracting and Retaining Talent

For illustrative and discussion purposes only. Investing entails risks, including possible loss of principal. See Additional Disclosures at the end of this presentation, which are an important part of this presentation.

Why Do ESG Factors Matter?

Implications for sustainable growth and profitability

COMMUNITY IMPACT



Human Rights policy ⇒

“Right to Operate”

Multi-stakeholder outreach ⇒

Heightened Product Visibility, Customer Loyalty

Biodiversity ⇒

Improved Corporate Image

SUSTAINABLE SUPPLY CHAINS



Supplier standards ⇒

Efficiency gains

Sustainable sourcing ⇒

Reliability (minimized supply disruption)

Focus on quality ⇒

Reduced regulatory risk

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Why Do ESG Factors Matter?

Implications for sustainable growth and profitability

PRODUCT INTEGRITY



Life-cycle analysis ⇒ Sustainable customer value proposition

Focus on product quality ⇒ Product safety, fewer recalls

Innovative product solutions ⇒ Addressing unmet needs in the marketplace

GOVERNANCE & DISCLOSURE



Independent, diverse board ⇒ Improved Oversight, Increased Accountability

Executive compensation ⇒ Management aligned with shareholder interest

Political Spending ⇒ Enhanced Transparency & Disclosure

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NB SRI Mutual funds Approach at Neuberger Berman

Core equity strategy focused on bottom-up fundamental research with ESG integration

Actively managed, with a defined focus on quality companies:

- Best-in-Class companies
- Sustainable advantaged growth
- High ROIC
- Top quartile balance sheet
- Leadership in ESG characteristics

Incorporate ESG criteria to uncover or validate investment ideas, including:

- ✓ Environmental Impact
- ✓ Workplace Policies
- ✓ Community Impact
- ✓ Sustainable Supply Chains
- ✓ Product Integrity
- ✓ Governance & Disclosure

Fundamental Analysis Integrating ESG Criteria

ESG analysis enables us to better identify or validate high quality businesses

Evaluate Three Key Elements for Each Investment Candidate		Incorporate ESG Criteria to Validate Investment Decision	
RESEARCH FOCUS	SEEK TO DETERMINE	KEY ESG CRITERIA	IMPLICATIONS FOR SUSTAINABLE GROWTH
Industry	<ul style="list-style-type: none"> Understand secular/cyclical growth dynamics Characterize end-market competitive dynamics Measure the company's total and served markets 	Environmental Impact	<ul style="list-style-type: none"> Environmental Management System Water management Clean tech innovations
Management	<ul style="list-style-type: none"> Track record of success Incentives consistent with business plan Incentives of management aligned with shareholders 	Workplace Policies	<ul style="list-style-type: none"> Employee Health & Safety Labor Relations Employee & Board Diversity
Company	<ul style="list-style-type: none"> Understand business model, management strategy and customer value proposition Determine the source and sustainability of the company's competitive advantage Quantify potential ROIC and earnings power for the business 	Community Impact	<ul style="list-style-type: none"> Human Rights policy Multi-stakeholder outreach Biodiversity
		Sustainable Supply Chains	<ul style="list-style-type: none"> Supplier standards Sustainable sourcing Focus on quality
		Product Integrity	<ul style="list-style-type: none"> Life-cycle analysis Focus on product quality Innovative product solutions
		Governance & Disclosure	<ul style="list-style-type: none"> Independent, diverse board Executive compensation Political Spending

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Is a Performance Tradeoff Necessary?

Studies show that ESG factors can help companies perform



High Sustainability Companies Outperform
Low Sustainability Companies on Measures of
Stock Market and Accounting Performance¹

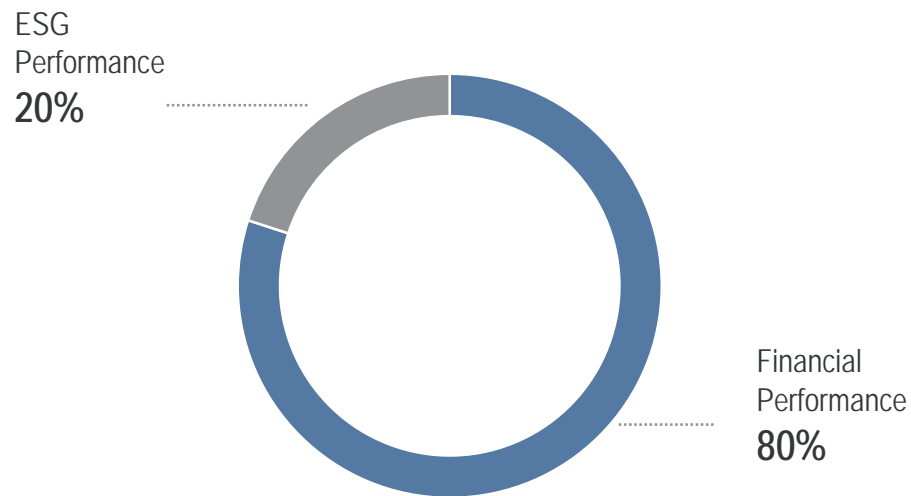
1. Robert Eccles, Ioannis Ioannou, George Serafeim, Harvard Business School, "The Impact of Corporate Sustainability on Organizational Processes and Performance," 2012, http://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf.

Note: High sustainability companies are defined as those that give the Board of Directors responsibility for sustainability, tie executive compensation to ESG metrics, audit and disclose this non-financial information, among other factors.

An Increasingly Acknowledged Hallmark of Quality

In determining its list of the best-performing CEOs, Harvard Business Review weights ESG performance at 20% and financial performance at 80%

Evaluating the Best Performing CEOs in the World



Source: Harvard Business Review, "The Best-Performing CEOs in the World," November 2015, <https://hbr.org/2015/11/the-best-performing-ceos-in-the-world>