NEUBERGER | BERMAN

Rachlin Energy Transition & Infrastructure (ETI) Portfolio

PORTFOLIO MANAGERS: Douglas A. Rachlin, Helen Ryoo, CFA, Paolo R. Frattaroli, Robert J. Russo ("Group")

Performance Highlights

The Rachlin Energy Transition & Infrastructure (ETI) Portfolio (Portfolio) posted a positive return in the third quarter of 2024, outperforming its benchmark, the Alerian MLP Index (AMZ).

Market Context

The energy midstream sector continued to perform well through the third quarter of 2024 after reporting another round of strong earnings and increasing dividends. While lower crude oil and natural gas prices have weighed on the share prices within the S&P Energy Index, the midstream subsector has performed much better on a relative basis. Despite lower commodity prices, increased volume and throughput of products driven by strong demand helped many of our holdings record higher quarterly earnings and led to continued share price appreciation.

Interest rates began falling earlier in the year in anticipation of the Federal Reserve's 0.50% reduction announced in September, providing further support for dividend-paying stocks, such as midstream equities. The 10-year Treasury yield has declined from a peak of 4.70% in April to 3.74% on September 30. We expect lower interest rates will provide additional tailwinds for our portfolio's holdings including utilities and renewable energy YieldCos, whose sector performance has improved markedly following a difficult year in 2023.

We believe the rise in midstream stock prices has been due to stronger fundamentals and increased investor interest in the space. Investor sentiment has improved due to recognition of the vital role energy infrastructure plays in electric power generation as well as America's expanding role in exporting our energy products to Asia and Europe. We should also note, today's leading midstream companies are sporting very healthy balance sheets and ample dividend coverage. In our opinion, dividend coverage is the best it has historically been. Companies are also retaining significant cash flow after paying dividends and meaningfully investing in new growth projects and, in certain cases, buying back their own shares.

Portfolio Review

The factors behind our Portfolio's significant outperformance versus the Alerian MLP Index are two-fold. First, the Portfolio has always focused on midstream c-corps vs. the benchmark owning traditional MLPs. We believe increased institutional investor interest in midstream stocks has led to c-corps generally posting better returns than traditional MLPs year-to-date. Over the past decade, many MLPs have converted from a partnership to a c-corp structure. As a result of these conversions, the Alerian MLP Index holds only 19 names today versus over 40 a decade ago.

The other factor behind our very strong relative performance this year is the Portfolio's concentration in a select number of holdings. We have always favored concentrated investments in our highest conviction names. We believe to outperform over long periods of time, it is important to differentiate investments from a targeted benchmark or index. We have always strived to own high-quality companies with strong balance sheets while avoiding companies that we felt whose businesses carried higher uncertainty of success. As we are fully aware, concentration could also contribute to meaningfully underperformance if we get our selection of securities wrong. Over the 28-year history of the Team, we have certainly had our share of clunkers. However, our strategy of portfolio concentration has been a major contributor to our long-term record.

Over the past couple of years, we have added exposure to the Delaware Basin of the Permian—the fastest growing oil production region in the US. We believe the Permian will continue to grow even through various commodity cycles given its low-cost reserves and proximity to market centers. While building infrastructure to support production growth has been challenging in many regions of the U.S., the Permian is competitively advantaged because the takeaway pipelines are being built across Texas and Louisiana where the regulatory environment has been more favorable for infrastructure developers. Given the strong production growth, there are several long-haul pipelines being constructed out of the Permian supporting basin growth for many years to come. The basin is also connected to growing international demand markets for

U.S. energy including crude oil, natural gas liquids, and natural gas.

Utilities and renewable YieldCos although a smaller part of our portfolio, have benefitted from tailwinds in today's markets, adding to the recent relative outperformance versus the Alerian MLP Index. Declining interest rates have supported higher valuations for these two groups. And importantly, the need for more power generation as well as the need to upgrade the infrastructure supporting our country's electrical grid should necessitate growing investment in this space. A September 25th Wall Street Journal headline *"AI Demand Spurs Big Tech Scramble for Clean Energy"* is an example of how the surge in artificial intelligence (AI) and data center spending may speed development for clean energy. The article summarized the opportunity by stating that technology companies are already the biggest purchasers of wind and solar power. A search on a generative AI platform like ChatGPT uses at least 10 times the energy as a standard search on Google. Morgan Stanley estimates, emissions from the global build-out of data centers between now and 2030 could equal about 40% of the entire U.S. economy's annual emissions. We believe such a mega trend is going to support the need for more cleaner-burning natural gas as well as help renewable energy production gain an increased market share.

To further support our thesis, the U.S. Energy Information Administration (EIA) projects a 38% rise in electricity demand over the next two decades partially driven by the forthcoming buildout in data centers. Natural gas accounted for 43% of the country's electricity usage in 2023 and is expected to play a major role for at least the next couple of decades to meet the demands of the growing appetite for power generation. We believe all forms of energy will be needed to support these dynamics, but renewable energy will be the energy of choice for many companies (especially those in the technology sector) that have pledged to achieve lower carbon emissions.

Outlook

Domestic and International energy consumption is poised to meaningfully grow over the next decade. Expanding markets for U.S. LNG exports combined with additional demand for energy (traditional and renewable) to meet the needs from domestic power generators bode quite well for continued investment opportunities for midstream equities. Much improved balance sheets and dividend coverage ratios have led to healthier and more stable financial metrics and provide leading midstream businesses with the capacity to continue to invest their capital on highly attractive return growth projects. The utility and renewable energy equities inside our portfolio are also well positioned to capitalize on the expanding power needs inside the U.S. In our opinion, the opportunity for both midstream and the utility and renewable sectors may be as great as we have witnessed in a very long time. It is encouraging to observe the change in investor sentiment this year towards these sectors. In our opinion, solid growth prospects and competitive dividend yields should help garner further investor interest.

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Investing in the stocks of even the largest companies involves all the risks of stock market investing, including the risk that they may lose value due to overall market or economic conditions. Mid-capitalization stocks are more vulnerable to financial risks and other risks than larger stocks. They are generally less liquid than larger stocks, so their market prices tend to be more volatile. Investing in foreign securities involves greater risks than investing in securities of U.S. issuers, including currency fluctuations, interest rates and political conditions. Uncertainty in the markets and international events may cause markets to fluctuate dramatically.

Small- and mid-capitalization stocks are more vulnerable to financial risks and other risks than stocks of larger companies. They also trade less frequently and in lower volume than larger company stocks, so their market prices tend to be more volatile. Large-cap stocks are subject to all the risks of stock market investing, including the risk that they may lose value.

Due to investment in a limited number of sector, industry, or sub-sector of the market, the Portfolio’s performance will be especially sensitive to developments that significantly affect those sectors, industries, or subsectors. An individual sector, industry, or sub-sector of the market may be more volatile, and may perform differently, than the broader market. The industries that constitute a sector may all react in the same way to economic, political or regulatory events.

Master Limited Partnerships (MLPs) are limited partnerships that are publicly traded and which have the tax benefits of a limited partnership and the liquidity of a publicly traded company. As an income producing investment, MLPs could be affected by increases in interest rates and inflation. The total market capitalization of the MLP universe is approximately $500 billion (Sources: Bloomberg and Alerian). Investors should consider relative exposure and liquidity in this asset class before making an investment.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.

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