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Neuberger Berman Emerging Markets Equity ADR Portfolio

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Performance Highlights

For the third quarter of 2024, the Neuberger Berman Emerging Markets ADR strategy posted a positive return but underperformed the MSCI Emerging Markets Index (Net). The strategy remains well ahead of the benchmark year-to-date.

Market Context

Major global equity markets posted positive returns during the third quarter of 2024. EM equities climbed 8.7% (in USD), as represented by the MSCI Emerging Markets (EM) Index (Net). This return beat both the rising US market (+5.9%), as represented by S&P 500 Index, and non-US developed markets (+7.3%), as represented by the MSCI EAFE Index (Net).

During the third quarter, markets experienced significant shifts influenced by global economic trends and policy changes. Investors reacted positively to the US Federal Reserve's initiation of its rate-cutting cycle, alongside similar actions by other central banks like the European Central Bank and the Bank of England. In Asia, China's new stimulus measures bolstered market confidence, leading to strong performance in the region, while Japan faced challenges due to its own rate adjustments. Brent Crude oil prices dropped 17% (in USD) on concerns that the demand/supply outlook would be less favorable going forward as the global economy slows while the threat of more supply increases. Overall, a more favorable environment for diversified portfolios emerged as inflation cooled and interest rates decreased.

The Chinese stimulus measures boosted that geography (+23%) into second place for the period, only behind Thailand (+29%), where a new leader was installed after a long period of uncertainty. Turkey was the weakest market (-13%) followed by Korea (-6%). By sector, the Chinese-heavy Consumer Discretionary (+25%) and Health Care (+22%) segment rallied the most. IT corrected (-3%) after a strong YTD run, while Energy edged lower (-0.5%) hurt by the lower oil price.

Data Source: Bloomberg

Portfolio Review

The portfolio trailed the index during the period. Stock picking across Industrials, Materials and Financials was additive, while IT, Health Care and Communication Services security selection was weak. By country, retreating off-benchmark EM-linked US-domiciled semiconductor holdings and China positioning were the main drivers of poor relative returns due to weak stock picking. The best comparative performers were in Brazil and Korea.

Year-to-date the strategy is well ahead of its benchmark. IT has been the best-performing sector on a relative basis with the semiconductors sub-sector the key driver. Consumer Staples has been the worst performer, held back by weak stock selection. As with the quarter Korea has been the best-performing market so far this year, while Mexico has been the main headwind.

BEST AND WORST PERFORMERS FOR THE QUARTER[1]

Best Performers	Worst Performers
Tencent	Micron
Alibaba	Applied Materials
Meituan	ASML
Shinhan	Tencent Music
Embraer	Disco

[1]Reflects the best and worst portfolio performers for the quarter, in descending order, based on individual security performance and portfolio weighting. Positions may include securities that are not held in the portfolio as of 9/30/2024. Information is based upon a composite account and additional information regarding the performance contribution calculation methodology is available upon request. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. It should not be assumed that any investments in securities identified and described were or will be profitable.

Best Performers

Tencent, the Chinese online gaming giant, rose in concert with its broader local market after the supportive Chinese policy news.

Alibaba, the Chinese e-commerce leader, jumped with its broader local market after the announcement of supportive Chinese policies aimed to boost consumer spending.

Meituan, the Chinese online delivery service, rallied with its peers after the announcement of supportive Chinese policies aimed at boosting consumer spending.

Shinhan Financial, Korean lender, saw quarterly profit increase by a double-digit percentage in its banking and credit card divisions, with investors' hopes of continued rising profits driven by higher fees and lower credit costs.

Embraer, Brazilian jet manufacturer saw its strong cash flow growth lead to its bonds being upgraded to an investment grade rating, which speaks to the positive outlook for the firm.

Worst Performers

Micron, EM-linked US-listed memory semiconductor manufacturer, retreated on fears that semiconductor memory demand could soften next year.

Applied Materials, EM-linked US-listed semiconductor equipment supplier fell on concerns that their semiconductor memory manufacturing clients could suffer from less end-market demand. The position was trimmed during the quarter as conviction weakened.

ASML, Netherlands based lithography equipment manufacturer sank as the Dutch government-imposed restrictions on its ability to effectively operate its services business in China. The name was reviewed, and the position was sold after the team determined one of its growth drivers was likely to be delayed.

Tencent Music, the Chinese online music publisher fell following management commentary that the main growth driver of the business moving forward will be average revenue per user growth rather than subscriber growth. Investors questioned the shift given the weak consumption environment.

Disco, the Japanese semiconductor production equipment manufacturer fell due to concerns over the knock-on impact of Nvidia's Blackwall chip issues, plus the potential for further export curbs to China.

Outlook

The unexpected timing of the coordinated Chinese policy support announcement caught many global investors on the wrong foot given many had reduced their Chinese positions. This led to a large volume of investors bidding up Chinese equities at the end of September. The NB EME ADR portfolio is less underweight to that market compared to many peers, but the team is reviewing the positioning based on the initial set of policy guidance. The best opportunities, in our view, remain in consumer driven names which should see a greater impact from rising consumer confidence. But the portfolio remains underweight China. The concern remains that the stimulus will not be large enough to arrest the decline in consumer confidence to help put a floor on the real estate and stock markets. We continue to monitor news flow around the stimulus, particularly around the amount of stimulus, and will make decisions on a stock-by-stock basis based on the risk/reward presented. By sector, the broader cyclical Industrials sector ADR universe remains the largest underweight in favor of niche Consumer and IT segments. We believe this positions the portfolio well for a backdrop that does not offer a strong global economic cycle, but favors select fundamental growth segments – as market volatility is heightened due to ongoing policy announcements (e.g., will there be follow through on Chinese stimulus?), fast-moving geopolitical tensions, and the year-long series of national elections.

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Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned herein.

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Investing in foreign securities involves greater risks than investing in securities of U.S. issuers, including currency fluctuations, potential political instability, restrictions on foreign investors, less regulation and less market liquidity. Investing in emerging market countries involves risks in addition to and greater than those generally associated with investing in more developed foreign countries.

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An ADR, or American Depositary Receipt, is a security issued by a U.S. bank representing a specific number of shares of a foreign stock traded on a U.S. stock exchange and held in trust by that bank. ADRs allow U.S. investors to buy shares in foreign-based companies in U.S. dollars from domestic stock exchanges.

To the extent the Portfolio seeks to invest in securities of small-, mid-, or large-cap companies, it takes on the associated market capitalization risks.

The MSCI Emerging Markets (Net) Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of emerging markets. The index consists of the following 24 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the UAE. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. In June 2016, the benchmark was changed from the MSCI Emerging Markets (Gross) Index to the MSCI Emerging Markets (Net) Index. The benchmark was changed to better reflect how account returns are calculated.

The MSCI EAFE (Net) Index (Europe, Australasia and Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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

The MSCI Emerging Markets Momentum Index is based on MSCI Emerging Markets, its parent index, which includes large and mid-cap stocks across 24 Emerging Markets (EM) countries. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, the Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the UAE. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover.

The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

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