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Neuberger Berman Large Cap Value Portfolio

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Performance Highlights

For September, the Neuberger Berman Large Cap Value Portfolio (the "Portfolio") posted a net positive return and slightly underperformed its benchmark, the Russell 1000 Value Index (the "benchmark"), which returned 1.39% for the same period. For the third quarter of 2024, the Portfolio posted a positive return and underperformed its benchmark, which returned 9.43% for that period.

Market Context

Markets were largely risk-off throughout the third quarter of 2024, driven by anticipation of eventual rate cuts by the Federal Reserve ("Fed") and strong quarterly earnings. All sectors, except for energy, recorded gains for the quarter in both the S&P 500 Index and Russell 1000 Value Index. During the second-quarter earnings season, 63% of Russell 1000 Value companies reported actual revenues and earnings above estimates.

Retail sales in the U.S. unexpectedly rose in August, as a decline in spending at auto dealerships was offset by strong online purchases, suggesting the economy remained on solid footing. The retail sales report also revealed that consumer spending was slightly stronger than initially recorded in July. On a year-over-year basis, consumer spending remained solid, with some declines likely due to lower prices rather than reduced volume, particularly at gasoline stations where lower prices at the pump impacted sales.

However, robust online spending indicates that consumers are becoming more frugal, seeking deals and discounts on essentials and back-to-school items. This suggests consumer spending might be weaker than it appears. With the savings trending lower amid a cooling labor market, consumers have little choice but to tighten their budgets, posing the risk of a broader economic slowdown.

Consumer sentiment, on the other hand, marginally improved, with expectations much better than a year ago across a broad swath of the population. While sentiment remains below its historical average due to frustration over high prices, consumers are aware that inflation has continued to slow. Sentiment appears to be gaining momentum as expectations for the economy brighten following the Fed's rate cut.

Manufacturing activity contracted again in September due to continued sluggish demand, as firms remain hesitant to invest in capacity amid uncertainty over the Fed's monetary policy and the upcoming presidential election. The full impact of Hurricane Helene—massive disruptions to supply chains and production of plastics and steel, particularly along the Gulf Coast—is expected to be reflected in the ISM's October report.

Meanwhile, services activity expanded for the second consecutive month in August, though slow growth was noted. Ongoing high costs and interest-rate pressures were frequently mentioned as negatively impacting business performance and driving softness in sales and traffic.

Portfolio Review

The Portfolio slightly underperformed the benchmark in 3Q 2024. The Portfolio's sector allocation positioning contributed positively to relative performance while security selection detracted from performance.

From a sector allocation perspective, the Portfolio's relative performance during the month benefited from an overweight positioning in utilities and an underweight in energy. Relative performance was negatively affected by an underweight in consumer discretionary and real estate.

In terms of security selection, the Portfolio's relative performance benefited from its holdings in materials and consumer staples stocks. The Portfolio's security selection in the utilities and healthcare sectors negatively impacted its relative performance.

Outlook

At its September FOMC meeting, the Fed cut interest rates by 50 basis points (bps) amid mounting evidence that inflation is under control and labor market weakness. This rate cut is the first since the pandemic. Inflation currently stands at an annualized rate of 2.5% - its lowest since February 2021 and nearing the central bank's 2% target. Meanwhile, the unemployment rate has risen to 4.2%, and the 3-month average number of jobs added has fallen from 267,000 in the first quarter to 116,000 so far in the third quarter.

We continue to benefit from our defensive positioning for the year, with a substantial overweight in consumer staples, healthcare, and utilities, all of which continue to deliver strong performance.

Looking ahead, we foresee risks that could catalyze higher volatility, rapid deleveraging, and significant market disruptions, especially with the upcoming November presidential election.

We continue to monitor valuations and opportunities in the markets. The sectors we are currently seeing the most value in are defensive areas within Healthcare, Utilities and Consumer Staples sectors.

We believe market volatility will be heightened in this period and the movement between value and growth on any given day has already seen increased volatility year to date and we would expect that to continue.

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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.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the U.S. market. Any third party mark(s) appearing above is/are the mark(s) of its/their respective owner(s).

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.

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Relative performance to a benchmark security is the return of a security based on the Portfolio's over/under weighting of such position compared against the Portfolio's benchmark. **Absolute performance** of a security held by the Portfolio is the actual gain or loss the position achieves over a certain period independent of any benchmark or other standard. Position **underweight** refers to the Portfolio owning less of a security than is held in its benchmark, and conversely, position **overweight** refers to the Portfolio owning more of a security than is held in its benchmark. When a security that is underweight performs well, relative performance for the Portfolio versus the benchmark is worse, while when an underweight security performs worse, relative performance for the Portfolio versus the benchmark is better. When a security that is overweight performs well, relative performance for the Portfolio versus the benchmark is better, while when an overweight security performs worse, relative performance for the Portfolio versus the benchmark is worse.

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