

# Neuberger Berman Next Generation Connectivity (5G)

## Performance Highlights

Global equity markets experienced significant volatility in the third quarter of 2024. Our strategy focused on next-generation connectivity companies, maintaining a disciplined approach to valuation despite market fluctuations. The portfolio underperformed the benchmark (MSCI ACWI (Net) (All Country World Index) due to volatility in the Semiconductor and AI-related sectors. We continue to focus on companies with strong secular tailwinds, driven by AI infrastructure upgrades, higher performance data centers, the strategic importance of semiconductors, the proliferation of industrial IoT, and accelerating digitalization trends. We believe the next generation connectivity theme remains robust and visible, supported by these key drivers.

### Market Context

In the **Network Infrastructure** sector, the transformative potential of generative AI is increasingly evident, driven by substantial investments in data centers. Companies are focusing on developing advanced server solutions that, while initially costly, promise long-term savings and efficiency gains. This is fueling demand across the industry, with robust sales in next-generation technologies positioning revenues to exceed expectations. The commitment to growth in AI and high-performance computing (HPC) segments, along with advancements in industrial digitization technologies like robotics and digital twins, is enabling more efficient manufacturing processes and enhancing network performance.

Within **Connected Devices**, new product launches are leveraging cutting-edge processing technologies to deliver significant performance improvements. These innovations, coupled with AI-driven features, continue to attract strong consumer interest despite broader market challenges. The high-bandwidth memory market is experiencing robust sales, bolstered by strategic pricing and increased production capacity. This trend is expected to benefit semiconductor capital equipment vendors, with increased capital expenditures poised to boost production output in the coming years.

In the **Apps & Services** sector, companies are focusing on long-term growth potential despite near-term challenges. Strategies to enhance customer engagement and increase annual recurring revenue include innovative packages and AI integration across platforms. This approach is designed to improve user experiences and operational efficiencies, supporting projected revenue growth and margin improvements. As digital transformation accelerates, we believe that these companies are strategically positioned to leverage

emerging opportunities and drive sustained performance enhancements.

### Portfolio Actions<sup>1</sup>

#### Purchase

**Arista Networks (ANET):** During the quarter, we initiated a new position in Arista Networks, recognizing its strategic importance in data center networking and cloud computing infrastructure. We believe the company is well-positioned to benefit from the rising demand for high-performance network solutions driven by increased cloud adoption and AI advancements.

#### Sale

**DraftKings (DKNG):** We exited our position in DraftKings over the quarter, as part of our strategy to optimize the portfolio. This decision was driven by growth deceleration and intensifying competition within the online gaming and sports betting sector, prompting us to reallocate resources to opportunities with stronger growth potential and better earnings visibility.

### BEST AND WORST PERFORMERS FOR THE QUARTER<sup>2</sup>

Best Performers	Worst Performers
Meta Platforms Inc Class A	Renesas Electronics Corporation
Advantest Corp. Sponsored ADR	DexCom, Inc.
Coherent Corp.	Disco Corporation Un-sponsored
Xiaomi Corp. Un-sponsored ADR	G ARM Holdings PLC ADR
T-Mobile US, Inc.	ASML Holding NV ADR

<sup>2</sup> 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.

### **Outlook and Portfolio Strategy**

As we enter a rate cut cycle, macro uncertainty could persist. We continue to emphasize quality but are ready to capture tactical opportunities. Volatility remains, so we focus on areas with strong earnings tailwinds and visibility while maintaining our valuation discipline. The next generation connectivity theme is foundational to current and future technological innovations. We are optimistic about beneficiaries of the acceleration in AI, a strategic semiconductor industry, and rising digital adoption. We stress the importance of being nimble and plan to take advantage of market dislocations to enhance our portfolio with higher quality exposures where we see incremental positive outlook and validation of our investment theses.

<sup>1</sup> Represents the largest buy and sell for the quarter ended September 30, 2024, based on holdings' average percentage of net assets prior to sale or subsequent to purchase. 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

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The strategy's investments may be concentrated in a small number of investments and its performance may therefore be more variable than the performance of a more diversified strategy.

Emerging markets are likely to bear higher risk due to a possible lack of adequate financial, legal, social, political and economic structures, protection and stability as well as uncertain tax positions which may lead to lower liquidity. Companies across a wide variety of industries, primarily in the technology sector, are exploring the possible applications of next generation mobile internet and connectivity technologies. The extent of such technologies' versatility has not yet been fully explored. Consequently, the strategy's holdings will include equity securities of operating companies that focus on or have exposure to a wide variety of industries. The economic fortunes of the companies will be significantly tied to next generation connectivity technologies. Currently, there are few public companies for which next generation connectivity technologies represent an attributable and significant revenue or profit stream; accordingly, the Portfolio Managers will be seeking to identify and invest in companies where such revenues or profit streams seem like to develop in the future, and such technologies may not ultimately have a material effect on the economic returns of these companies.

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.

The Shanghai/Shenzhen-Hong Kong Stock Connect are relatively new trading programs, where many of the relevant regulations are untested and subject to change at any moment as well as not as active as exchanges in more developed markets which may affect the ability to sell your shares. Additional risks need to be considered and you should refer to the 'investment risk' section of the prospectus for details.

The benchmark, the MSCI ACWI (Net) (All Country World Index) the Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The index consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. 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. Effective June 2016, the primary benchmark was changed from the MSCI ACWI Index (Gross) to the MSCI ACWI Index (Net) to better reflect the holdings held in the composite. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. Any third party mark(s) appearing above is/are the mark(s) of its/their respective owner(s).

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