ticker

Relative Value Across the Global Fixed-Income Spectrum

Neuberger Berman Strategic Income Fund employs a relative-value strategy to find opportunities from high yield bonds to Treasuries across the globe. The fund uses dedicated sector specialist teams that formulate investment views to develop forward-looking ideas about the distribution of risk and return.

Thomas J. Marthaler, CFA, Managing Director, joined Neuberger Berman in 2006. Tom is a Portfolio Manager on multiple fixed income strategies. He is a member of the senior investment team that sets overall portfolio strategy for Global Investment Grade. Prior to joining the firm, Tom served as executive vice president and CIO for North American Fixed Income at ABN AMRO Asset Management, and its predecessor firm, Chicago Title and Trust. His career began in 1981 in fixed income and includes trading, research, portfolio management, client service and product management. He earned a BA from the University of St. Thomas and an MBA from Loyola University in Chicago. In addition, Tom has been awarded the Chartered Financial Analyst designation.

What is the background of the fund and its assets under management?

We are a multi-sector, fixed income mutual fund with a 12-year history. The mutual fund has approximately $2.2 billion in assets under management as of 6/30/2015, large enough to execute our strategy efficiently and work with the counterparties on the street we need to work with, but still small enough to navigate in and out of markets whenever we feel that's appropriate.

At Neuberger Berman, we have sector specialist teams who support the management of the portfolio. For example, we have dedicated professionals: some do high yield, others emerging markets, and some look just at Treasuries. They're subject matter experts who live and breathe their world all day long.

All the teams at Neuberger Berman use a tool we've developed to formulate sector specific investment views. We ask every team of specialists to describe risk and return for their part of the market. The high yield team, the bank loan team, the emerging markets team, etc. —they all give us forward-looking ideas about a distribution of risk and return.

This unique framework leads us to uncover opportunities and establishes a confidence level in all of our views, which in turn allows us to scale how much risk we want to take.

How would you define your investment philosophy?

We have a relative-value strategy and look to identify market mispricings. These occur throughout time, creating opportunities for us to implement our strategy and seek to meet our clients' return objectives. Our approach to relative value is about determining how much risk to take and then seeking returns comparable to the risk.

We are agnostic about where we go to get value. If we think making an interest rate decision is attractive, we might do that. In other market instances we might prefer to take credit risk. We go where we believe the opportunities are.

How does your investment process reflect this philosophy?

We look at a given point in time to identify the most efficient way to invest in fixed income, using the entire global spectrum of fixed income instruments as our opportunity set.

This allows us to go anywhere across fixed income to identify and exploit active investment opportunities to the best of our ability. Our goal is to achieve the highest risk-adjusted return possible at any point in time, given our views on the market and how much risk we think is appropriate to take.

When the financial markets melted down in 2008, our fund actually delivered positive returns. The 12-month return of the institutional share class (NSTLX) for the period ended 12/31/2008 was 4.03%.

"Our goal is to achieve the highest risk-adjusted return possible at any point in time, given our views on the market and how much risk we think is appropriate to take."

We achieved those results, in part, because of how we implement our strategy. By actively adjusting the amount of risk we take in the portfolio based on market opportunities, we can seek consistent long-term results. Our very active approach sets us apart from our competitors.

Which kinds of securities do you look for as a fixed-income fund with a relative-value strategy?

Today, we are very constructive on what we call the spread sectors. These include the fixed income sectors—such as non-investment grade, non-agency mortgages, emerging markets debt and CMBS. In our view, these sectors compensate us for the risk we're willing to take.

We're less excited about interest-rate risk. We have reduced the portfolio's sensitivity to changes in interest rates by selling futures contracts in the U.S. Treasury market. Relative to the benchmark, we're underweight Treasuries, and actually have negative contribution of duration from Treasuries in the portfolio. Core Europe (Germany and France) is another place we have negative contribution of duration. We're also underweight rates in Japan.

We argue the U.S., Core Europe and Japan are likely to see gradually higher interest rates because we anticipate strong economic growth across these three regions. As a result we want to be defensively positioned for those outcomes.

You are a global fund. What regions do you invest in?

We have flexibility to invest anywhere; while our portfolio is primarily U.S.-centric, we supplement that with opportunities we see in other markets.

For example, we have a long exposure in New Zealand. We anticipate rates to move gradually lower as its economy is slowing down. So that's a position we think makes sense to be overweight.

We also have a small overweight in Italy. As the European Central Bank implements quantitative easing, we ultimately anticipate they will achieve a convergence of interest rates between countries, bringing the spread differential between the core European countries like France and Germany much closer to Italy. We think Italy's a good place to be long, as rates fall slightly relative to Core Europe.

Fixed-income fund managers need a healthy skepticism regarding the Fed's transparency. How do you achieve that?

We do our own independent assessment of economic data and determine how interest rates may be affected. It's one of the hardest tasks we face as managers of a fixed income portfolio.

We watch the market for technical indicators that can significantly influence short-term interest rate volatility and undermine economic fundamental views. Obviously it's difficult to predict what economic trends will surface over any given time.

Central bank policy is also critically important. We try to anticipate where the Fed is headed and the impact its policy will have on the market. We believe that monetary stimulus matters and will ultimately result in stronger economic conditions—it's just taking longer for that transition to occur than we would have envisioned.

We look at all these factors together to objectively assess the path of interest rates. We think the U.S. economy shows signs of marked improvement, and conclude current interest rates are not sustainable. Over the next year, for example, we see the U.S. 10-year Treasury bond moving higher and the Fed increasing the target rate most likely at its next meeting in September.

Beyond that, we think things will get interesting. The cycle following that initial short-term interest rate hike will likely be very, very slow, and will probably extend until the end of 2017—maybe even into 2018. The fundamentals suggest gradual improvement, not only in the U.S., but also in the other major developed countries.

How do you select securities and manage your portfolio?

Our starting point as a relative value manager is to understand what's currently priced in the market. You can easily gather this information by turning on your favorite news channel to see real-time prices. These tell you what market participants consider fair values based on trading activity.

We look for views on expected return that differ from what's currently priced in the market. Are 10-Year Treasuries trading at fair value? Are they cheap? Or are they rich?

When our research team formulates ideas on factors that are not priced into the market, we think about these opportunities, and about how much risk we want to take. We also take relative value a step further, and ask, "How much confidence do we have in the views we've formulated?"

There are certain times you look at the market and are more confident than others. This is important when you're trying to decide how to allocate your portfolio. If you have two different asset classes that have similar expected returns, and one has more confidence than the other, certainly that's going to influence which one is more attractive.

Confidence is one way to measure that distribution of potential outcomes. We get that information by, among other things, asking our teams to answer open-ended questions every week that require them to address both the probable as well as extreme range of outcomes. Week-to-week those views could change, as they're influenced by new information in the market or by pricing changes. As such, the team constantly reassesses what it thinks will occur looking forward.

We view this information on a weekly basis through our proprietary asset allocation framework, which is based on the Black-Litterman model. This model looks at our investment views, combines them with historical performance, returns, volatility, and the correlation of those returns.

This optimizer tool is influenced by what we know about the past and our assumptions about the future, and it uses this information to come up with a range of portfolio solutions that seek to achieve the highest risk-adjusted returns.

When we get these optimized results, our senior team reviews and makes the final decisions on how to allocate the portfolio. Our process is unique because we're looking at risk and returns in a continuum of outcomes.

What is your benchmark?

Our benchmark is the Barclays U.S. Aggregate Bond Index but we characterize our strategy as benchmark aware. This means we acknowledge our benchmark, and we measure tracking error versus the benchmark, and we have a target risk budget—but we don't have any restraints that require us to replicate the benchmark. Today, for example, the absolute volatility of the portfolio and the benchmark are similar, but we believe our portfolio, comprised of both benchmark eligible bonds and expanded opportunity set, has higher potential return than a portfolio comprised only of benchmark eligible bonds.

The question we ask is, "If we introduce other asset classes not in the benchmark into the portfolio, could that potentially lead to a more efficient result?" Historically, that answer has been yes.

As a result, we have quite a bit of tracking error, meaning we have a significant difference in how our portfolio's constructed compared to the benchmark.

How do diversification and risk play a role in your portfolio construction process?

We are big believers in diversification. We don't want one decision to dominate our return. Looking back over the last 10 years, one of the reasons we've been able to achieve long-term success is because we believe in multiple sources of value-add.

The proprietary framework I described helps us decide how to achieve our optimal allocation based on how much risk we're willing to take. To estimate risk, we look at the potential tracking error of the portfolio relative to the benchmark. The second thing we evaluate is the actual absolute volatility of the portfolio.

Each of the factors that influence risk is partitioned in a risk report. For example, we know exactly how much of our risk is coming from interest rates, how much from exposure to high yield, and how much from any mortgage securities we own, etc. Most importantly, when we get together as a group, if we modify the portfolio, we know immediately what the implications will be for risk and return.

What is your allocation strategy?

From a global perspective, as of 6/30/15 about 86% of the portfolio was comprised of domestic exposure, while the non-U.S. exposure is split between global developed and emerging markets. Then we allocate across fixed income sectors for exposure to a number of asset classes: high yield, bank loans, emerging markets, non-agency mortgages; all of those would be out of benchmark. Also out of benchmark, we have some exposure to TIPS (Treasury Inflation-Protected Securities) and global developed market bonds.

To put some numbers on the weightings, as of July 31, 2015 about 60% of the portfolio right now is in benchmark, and about 40% is out of benchmark. We don't have a specific number in terms of how much we want to have in or out of benchmark. It's really about building the optimal portfolio at any point in time. In 2008, which was a much different environment, only about 20% of the portfolio was out of benchmark.

Neuberger Berman Strategic Income Fund

Company	Neuberger Berman Management LLC
Symbol	NSTAX (Class A) NSTCX (Class C) NSTLX (Inst Class)
Address	605 Third Avenue New York, NY 10158
Phone	800.366.6264
Website	www.nb.com

Source: Company Documents

Why not have the majority of the fund invested in TIPS?

We think it is appropriate to not have much Treasury exposure. We currently have only a small exposure to TIPS, which may provide an inflation hedge. Most of our exposure in governments is selling futures in Treasuries, so that means if interest rates go up, the value of those securities would increase.

How do you define and manage risk?

We have to understand the key components of risk affecting our strategy: credit risk, interest rate risk, the risk of pre-payments as it pertains to mortgage securities, and look at any currency risk. We know exactly what level of exposure we have at any point in time, and can compare that to expected returns, and adjust the portfolio accordingly.

It's also important that we look at tail risk. Tail risk is a surprise event, something that undermines the market and creates unexpected volatility.

In fixed income, it's crucial we understand how much tail risk we're taking. People like yield and income, and they just assume that fixed income will be safer than other asset classes. That's generally true, but we want to understand and estimate how much downside could occur at any point in time to make sure we're willing to accept that level of tail risk.

Tail risk is so important we've developed our own framework to estimate it. We look at information including Conditional Variance At Risk or CVaR at a 95% confidence level, and the "One in 20 Outcome," If something happens in the market and we get to an extreme type of repricing—like a 2008 type of event—how will that affect the downside of the portfolio?

If, as market prices change and the tail risks of the portfolio start to increase, that signals us we're probably not being properly compensated, and we're going to look to become more defensive in how we construct the portfolio.

That's what happened in 2007, and that helped us survive through the first half of 2008, which was obviously a very difficult market environment.

We think we've developed a framework to seek to estimate the downside risk to the portfolio and manage that risk according to our risk tolerance. T

ticker

An investor should consider Neuberger Berman Strategic Income Fund's investment objectives, risks and fees and expenses carefully before investing. This and other important information can be found in the Fund's prospectus and, if available, summary prospectus, which you can obtain by calling 877.628.2583. Please read the prospectus and, if available, the summary prospectus, carefully before making an investment. Investments could result in loss of principal. Mutual funds are not available to investors outside of the U.S.

Shares in the Fund may fluctuate based on interest rates, market condition, credit quality and other factors. In a rising interest rate environment, the value of an income fund is likely to fall. Lower rated debt securities (also known as "junk bonds") involve greater risks and may fluctuate more widely in price and yield, and carry a greater risk of default, than investment grade debt securities. They may fall in price during times when the economy is weak or is expected to become weak. Foreign securities involve risks in addition to those associated with comparable U.S. securities, including exposure to less developed or less efficient trading markets; social, political or economic instability; fluctuations in foreign currencies; nationalization or expropriation of assets; settlement, custodial or other operational risks; and less stringent auditing and legal standards. These risks may be more pronounced for emerging market securities, which involve additional risks and may be more volatile and less liquid than foreign securities tied to more developed economies. The Fund's performance could be affected if borrowers pay back principal on certain debt securities, such as mortgage- or asset-backed securities, before or after the market anticipates such payments, shortening or lengthening their duration. When-issued and delayed-settlement transactions (e.g., to-be-announced mortgage backed securities which involve a commitment by the Fund to purchase securities that will be issued at a later date) can have a leverage like effect on the Fund, which may increase fluctuations in the Fund's share price and may cause the Fund to liquidate positions when it may not be advantageous to do so to satisfy its purchase obligations. The Fund may also invest in senior loans and other debt securities, which also may be rated below investment grade. No active trading market may exist for many loans, loans may be difficult to value and many are subject to restrictions on resale, which may result in extended trade settlement periods and may also prevent the Fund from obtaining the full value of a loan when sold. Loans and other debt securities are also subject to interest rate risk and floating-rate loans may be more susceptible to adverse economic and business conditions and other developments affecting the issuers of such loans, which could reduce demand for such loans.

The Fund normally executes an above-average amount of fixed-income trading and has a high portfolio turnover rate, which may increase the Fund's transaction costs and may adversely affect the Fund's performance.

The Fund may invest in Underlying Funds, including funds in the Neuberger Berman fund family, and a portion of the Fund's investment performance will be directly related to the investment performance, risks and expenses of such Underlying Funds, which could result in the duplication of certain fees, including management and administration fees.

NB Strategic Income Fund Class A, C and Institutional - Total Returns

For Periods Ended June 30, 2015	Average Annualized					Expense Ratios	
At NAV	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since Inception**	**Gross**	**Total (Net) Expense**
NB Strategic Income Fund Class A	-0.42	3.64	5.29	6.58	7.06	1.29	1.19
NB Strategic Income Fund Class C	-1.12	2.92	4.54	6.01	6.58	2.02	1.89
NB Strategic Income Fund Institutional Class	-0.02	4.06	5.70	6.90	7.33	0.89	0.79
With Sales Charge							
NB Strategic Income Fund Class A	-4.66	2.14	4.38	6.58	6.67		
NB Strategic Income Fund Class C	-2.08	2.92	4.54	6.01	6.58		
Barclays U.S. Aggregate Bond Index	1.86	1.83	3.35	4.44	4.32		

Average Annual Returns (as of 12/31)

Year	Institutional Class	Barclays U.S. Aggregate Bond Index
2014	4.45%	5.97%
2013	0.78%	-2.02%
2012	12.03%	4.21%
2011	5.66%	7.84%
2010	11.00%	6.54%
2009	16.62%	5.93%
2008	4.04%	5.24%

ticker

Performance data quoted represent past performance, which is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Results are shown on a "total return" basis and include reinvestment of all dividends and capital gains distributions. Current Performance may be higher or lower than the performance data quoted. For performance data current to the most recent month-end, please visit www.nb.com/performance.

The inception date for the Strategic Income Fund Institutional Class is 7/11/03. The inception date for the Class A and Class C is 12/20/07. Performance of Class A and Class C prior to 12/20/07 is that of the Institutional Class which has lower expenses. The date used to calculate benchmark performance is that of the Institutional Class. *Average Annual Total Returns with sales charge reflect deduction of current maximum initial sales charge of 4.25% for Class A shares and applicable contingent deferred sales charges (CDSC) for Class C shares. The maximum CDSC for Class C shares is 1%, which is reduced to 0% after 1 year.*

Conditional Value (Variance) At Risk - CVaR A risk assessment technique often used to reduce the probability a portfolio will incur large losses. This is performed by assessing the likelihood (at a specific confidence level) that a specific loss will exceed the value at risk. Mathematically speaking, CVaR is derived by taking a weighted average between the value at risk and losses exceeding the value at risk.

Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Indices do not take into account any fees and expenses of investing in the individual securities that they track and individuals cannot invest directly in any index. Please note that indices do 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 these indices are prepared or obtained by Neuberger Berman Management LLC and include reinvestment of all dividends and capital gain distributions. The Fund may invest in many securities not included in the above-described indices

Total (net) expense represents the total annual operating expenses that shareholders pay (after the effect of fee waivers and/or expense reimbursement). Neuberger Berman Management LLC ("NBM") contractually caps certain direct expenses of the Fund (excluding interest, taxes, brokerage commissions, acquired fund fees and expenses, dividend expenses relating to short sales, and extraordinary expenses, if any; consequently, total (net) expenses may exceed the contractual cap) through 10/31/2021 for Class A at 1.15% of average net assets, Class C at 1.85% of average net assets and Institutional Class at 0.75% of average net assets. Absent such arrangements, which cannot be changed without Board approval, the returns may have been lower. Information as of the most recent prospectus dated 2/28/2015.

Projections May Not Materialize. The information in this Presentation may contain projections or other forward-looking statements regarding future events, targets (including target returns) or outlooks regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different than that shown here. The information in this Presentation, including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

This material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are as of the date herein and are subject to change without notice. This material is not intended to be a formal research report and should not be construed as an offer to sell or the solicitation of an offer to buy any security.

Not FDIC Insured. No Bank Guarantee. May Lose Value.

Neuberger Berman Management LLC, Distributor.