

Neuberger Berman Tax-Exempt Short Core Fixed Income Portfolio

PORTFOLIO MANAGERS: James Iselin, Stephen Leone, Peter Moukios, Jeffrey Hunn, Kristian Lind and Randy Gross

Performance Highlights

The Neuberger Berman Tax-Exempt Short Core Fixed Income Portfolio ("Portfolio") posted a negative return in the fourth quarter of 2024 but outperformed the benchmark.

Market Context

U.S. government yields moved higher across the curve on the month, and performance was mixed and mostly negative across fixed income markets. In December, the 2-year yield rose by 9 bps to 4.24%, the 10-year increased by 40 bps to 4.57%, and the 30-year increased by 42 bps to 4.78%. Intermediate yields across the other major developed countries were also higher on the month.

Despite some volatility after the hawkish Fed rate cut of December 18th and uncertainty around future policy shifts from Trump 2.0, valuations ended the month mixed across fixed income spread sectors but mostly tighter with a few exceptions. Non-investment grade credit markets posted mixed performance with senior floating rate loans benefitting from a demand-driven secondary rally and strong inflows again to the higher yielding asset classes, while U.S. high yield ended the month in slightly negative territory. Pan-European high yield bucked the trend within high yield with solid returns on the month. U.S. high yield corporate spreads widened by 18 bps to 292 bps. Senior floating rate loan spreads were unchanged to close the month at 424 bps, while U.S. investment grade corporate credit spreads widened by 2 bps to 80 bps and Pan-European IG corporate credit tightened by -6 bps to a level of 101 bps by month end. Global corporate investment grade spreads were unchanged over the month to close at 89 bps. Equity and credit markets also saw some drawdowns toward the end of the quarter despite stable corporate fundamentals and resilient economic activity.

The November 2024 U.S. employment report showed an increase in non-farm payrolls by 227,000, which is a significant improvement compared to October which was impacted by the hurricanes and related weather. Average hourly earnings rose by 0.4% month-over-month, consistent with the prior release and slightly above expectations. The unemployment rate increased slightly to 4.2% over the prior month's report and slightly above consensus. November inflation remained somewhat stable, with the headline Consumer Price Index (CPI) increasing by 2.7% year-over-year, while core CPI, excluding food and energy, remained unchanged at 3.3% year-over-year. U.S. retail sales increased by 0.7% month-over-month, showing stronger growth compared to the previous month.

U.S. economic activity continues to expand and inflation, while progressing towards the Fed's 2% target, remains slightly above it. Markets are expecting further rate cuts and the Fed remains committed to achieving maximum employment and a 2% inflation rate while paying close attention to the data as they move through the easing cycle. In addition, consumer spending has shown some resilience and corporate balance sheets remain relatively healthy. However, global uncertainties, such as potential trade tensions, geopolitical risks and uncertainty on the shift in policies as a result of Trump 2.0, pose possible challenges to sustained economic growth and inflation.

Investment grade U.S. municipal bond performance, as measured by the ICE BofA Municipal Securities Index, delivered a return of -1.05% during the fourth quarter. For the year, returns for that index were positive at 1.58%. Returns varied depending on curve positioning. For the quarter, 1-3 year munis generated a flat return of -.07% and the 3-7 year part of the curve returned -.95%. Longer maturities, in the 22+ year range, underperformed shorter bonds with a return of -1.39%. The Bloomberg Taxable Municipal Index meaningfully underperformed tax-exempts with a return of -3.57%.¹ Per Bloomberg, total municipal issuance (tax-exempt and taxable) for the quarter was \$127.4 billion or 26% higher than it was for the same quarter a year earlier. With regard to credit, BBB rated securities performed in line with AAA bond but slightly underperformed AA and A rated securities during the quarter. However, for the year BBB rated bonds significantly outperformed all of the higher rating categories. Revenue bonds and general obligations delivered comparable returns during the quarter and housing related credits underperformed.

Portfolio Review

The Tax-Exempt Short Core Fixed Income Portfolio posted a negative return in the fourth quarter of 2024 but outperformed the benchmark. The absolute level of duration was a drag on performance while positioning across the yield curve, security selection and trading effects were both modestly additive.

Outlook

The municipal bond market ended the year on a weaker note with AAA yields rising in December. The market selloff was driven by an array of factors including stronger economic data, expected pro-growth policies from the incoming Trump administration, and investors demanding more to own longer dated Treasury securities (term premium). Given the economic strength to end the year and an improved outlook for growth in 2025, the Fed and the market dialed back expectations for interest rate reductions in 2025. Muni supply continued to be elevated in the 4th quarter which further weighed on the market. For the year, AAA muni yields were higher on average by roughly 56 basis points with the “belly” of the curve (5-10 years) the weakest. Given the heavy supply, valuations relative to Treasuries improved from the frothy levels that existed to start the year. Despite the backup in rates, investment grade munis delivered mostly positive returns across the curve with shorter dated bonds performing the best. Given the higher yields that prevail in today’s market, there was ample income to cushion portfolio returns despite the YTD rise in yields.

Looking ahead, an important transition is taking place in the market. For years, interest rate moves were mostly driven by the actions of the Federal Reserve. With this easing cycle expected to come to an end sooner than market participants originally expected, the Fed is about to get out of the way. As a result, we believe that fiscal policy and the performance of the economy will have a much bigger impact on rates going forward. We are constructive on the muni market in 2025 for a few reasons. First, higher yields will protect portfolios from swings in interest rates. Intermediate investment grade munis entered the year yielding almost 3.40%. Secondly, supply is expected to approach record levels in 2025 which should lead to bigger concessions (i.e. higher yields) in order for new issues to clear the market. Finally, with our expectation for solid economic growth which may be above market consensus, the backdrop for

muni credit quality should be favorable. As previously mentioned, lower rated bonds outperformed in 2024 and as a result spreads are tighter. Given the abundance of bonds to choose from in 2025 due to our expectation for elevated supply and tighter spreads on lower rated bonds, we believe active management and security selection decisions will drive results in the new year.

¹Source: Bloomberg

This material is not intended to constitute research and is merely intended to articulate the thoughts of the Portfolio's portfolio managers regarding the activity of the Portfolio. The portfolio managers' views may differ from those of other portfolio managers as well as the views of Neuberger Berman Investment Advisers LLC ("NBIA") or its affiliates. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security. 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. Portfolio characteristics are subject to change without notice. Opinions expressed are current opinions as of the date hereof only. No part of this material may be copied or duplicated in any form, by any means, or redistributed without NBIA's prior written consent. This material is not intended to address every situation, nor is it intended as a substitute for the legal, accounting or financial counsel of your professional advisors with respect to your individual circumstances. Indices are unmanaged, and the figures for any index shown include reinvestment of all dividends and capital gain distributions and do not reflect any fees or expenses. Investors cannot invest directly in an index. We strongly recommend that these factors be considered before an investment decision is made. **Past performance is not indicative of future results, which may vary.**

The information in this material may contain projections, estimates, market outlooks or other "forward-looking statements" regarding future events, including economic, asset class and market estimates, outlooks or expectations, and is only current as of the date indicated. Due to a variety of factors, there is no assurance that such events, outlook, market behavior, and expectations will be achieved, and actual results may differ significantly from any views expressed. Information is based on current views and market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

This Portfolio is available only through a wrap fee or similar program sponsored by a third-party financial intermediary ("Financial Intermediary") that has engaged Neuberger Berman Investment Advisers LLC ("NBIA") to manage certain of the Financial Intermediary's client accounts on a discretionary basis or to provide the Financial Intermediary with recommendations in the form of model portfolio. Please refer to the GIPS® compliant composite presentation, which reflects NBIA's calculations with respect to the Portfolio that are not specific to any Financial Intermediary or client account ("Composite"). Portfolio information is based on the Composite and is subject to change without notice. Specific client account performance is reflected in the official books and records maintained by the Financial Intermediary or other custodian selected by the Financial Intermediary or client ("Custodian"). When the client account is held by the Custodian, foreign or otherwise, other than NBIA and/or its affiliates ("Neuberger Berman"), Neuberger Berman shall have no responsibility, liability, duty or obligation with respect to the selection of the Custodian, custody arrangements or the acts of the Custodian, information provided by the Custodian, omissions or other conduct of the Custodian, including investment by the Custodian of cash in the account, pricing, reporting functions, foreign exchange execution services, the security of data maintained by the custodian, whether electronically stored or otherwise, or the Custodian's failure to obtain and maintain adequate insurance for the account, including but not limited to that which is offered by the Securities Investor Protection Corporation or the Federal Deposit Insurance Corporation, nor for any fees, charges or expenses that may be owed to the Custodian.

A bond's value may fluctuate based on interest rates, market conditions, credit quality and other factors. There may be a gain or loss if bonds are sold prior to maturity. Of course, bonds are subject to the credit risk of the issuer.

The municipal securities market could be significantly affected by adverse political and legislative changes, the financial health of a municipality or the financial condition of municipal securities market, as well as uncertainties related to taxation or the rights of municipal security holders.

Third-party economic or market estimates discussed herein may or may not be realized and no opinion or representation is being given regarding such estimates. Target yields are based on current market conditions. There is no guarantee, and investors should not assume, that any estimates or target yields will be realized.

Through December 31, 2023, the Index consists of 50% ICE BofA 1-3 Year US Municipal Securities Index and 50% the ICE BofA 3-7 Year US Municipal Securities Index. From January 1, 2024 and onward, the Index consists of ICE BofA 1-5 Year US Municipal Securities Index.

ICE BofA 1-5 Year US Municipal Securities Index is a subset of ICE BofA US Municipal Securities Index including all securities with a remaining term to final maturity less than 5 years. ICE BofA US Municipal Securities Index tracks the performance of US dollar denominated investment grade tax-exempt debt publicly issued by US states and territories, and their political subdivisions, in the US domestic market. Qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule and an investment grade rating (based on an average of Moody's, S&P and Fitch). Minimum size requirements vary based on the initial term to final maturity at time of issuance. The index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month.

These benchmarks are unmanaged indices. NBIA advises according to the Portfolio characteristics which may differ from those of the benchmark. Additional disclosures for complete benchmark descriptions are available upon request.

Any third party mark(s) appearing above is/are the mark(s) of its/their respective owner(s).

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.

Neuberger Berman Investment Advisers LLC is a registered investment adviser. The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

2186500 © 2025 Neuberger Berman Group LLC. All rights reserved.