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PRIVATE WEALTH

Neuberger Berman – The Greene Group

All Cap Intrinsic Value "ACIV"

Market Context

During the second quarter and over the last eighteen months, a select group of the largest companies in the technology and communication services sectors, many of which are priced at high valuations, have generated most of the S&P 500 Index's ("S&P 500" or "the Index") returns. This has in turn created one of the most bifurcated markets in recent history, with the largest ten companies accounting for almost 37% of the market capitalization of the Index and an astonishing 70% of the year-to-date returns. Nvidia, which remains the standout performer due to its leading position in Artificial Intelligence ("AI"), has alone contributed over 30% of the S&P 500's six-month return. The stock appreciated 157% in the first six months and tripled in the past 12 months, leading it to briefly become the largest company in the world, surpassing both Apple and Microsoft. Although the Index ended the quarter close to its all-time high, it declined over five percent in April as interest rates increased over concerns that the Federal Reserve (the "Fed") would not lower rates as aggressively as originally anticipated. As rates declined, the S&P 500 resumed its upward climb and ended the quarter with gains of 4.3% and 15.3% for the second quarter and first six months of the year, respectively.

Performance for the broader markets, or the rest of the 490 companies in the S&P 500, have been vastly different. This is clearly illustrated when looking at the return of the equal weighted S&P 500 which lost 2.6% for the quarter and appreciated 5.1% for the first six months. Less than 20% of the S&P 500 stocks outperformed the Index compared to 50% during an average year. Furthermore, over the past year and a half, the S&P 500 appreciated 45.6% while the equal weighted index was up just 19.7%, with the average stock priced at roughly the same level as at the start of 2022.

Portfolio Review

Returns for client portfolios significantly lagged the S&P 500 for both the quarter and year-to-date periods but were more closely in line with the equal weighted index. It goes without saying that the current growth and momentum market environment poses challenges for value investors. Historically, returns for our strategy have performed well after periods similar to what we are currently experiencing.

As we have discussed in previous letters, the Fed is determined to bring inflation down to its goal of 2% without triggering a recession, creating a "soft landing", which historically has been difficult to achieve. Consequently, with employment remaining strong, the Fed has been reluctant to start cutting interest rates and the market is now anticipating only one or two rate cuts before the end of the year versus earlier expectations of nearly seven cuts. With the delayed effect of the Fed's previous tightening beginning to slow economic growth, it is uncertain whether the current level of earnings growth for the remainder of 2024 and 2025 can be achieved.

Recent market gains have been driven by both higher earnings growth and multiple expansion, mostly for large technology companies. Currently, earnings are expected to increase by double digits this year and next, which we believe is needed to support current elevated valuations of over 22 times this year's estimates for the S&P 500. While the equal weighted S&P 500 Index is trading at 17 times this year's estimates, these levels are higher than the longer-term historical average of 16 times. Valuations at these levels, particularly for large cap tech companies, provide little room for error. In addition, uncertainty around the results of the upcoming U.S. presidential election and geopolitical events, add incremental risk to this highly valued market.

AI will likely be an important investment theme for the foreseeable future. While many companies will benefit from this new technology, we have several key investments in the portfolio that are prime beneficiaries (*i.e.*, Apple, Alphabet (Google). Additionally, we have increased our investment in the Utilities sector over the last two years as AI requires a tremendous amount of electricity to run both its models and data centers. Our Utilities holdings operate in favorable state jurisdictions with guaranteed regulated rates of return and in most instances, can grow their regulated rate base 6-8% or more given increasing power demands, driven in part by AI. Importantly, these companies trade at reasonable valuations and pay attractive dividends that we believe are positioned to continue to grow.

The market's myopic view of AI at the expense of most other high quality franchise companies has created opportunities for our style of investing. During the second quarter, we initiated holdings in three "interrupted growth" companies – Lamb Weston Holdings (LW), AON PLC (AON), and Target Corporation (TGT).

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LW is the leading global producer of french fries and other frozen potato products. In our opinion, this market has an attractive growth profile with very few competitors capable of possessing the scale of LW. Revenue growth recently came under pressure as the company's changeover to a new Enterprise Resource Planning (ERP) system created disruption. The new system is now in place and the company is poised to accelerate its earnings growth through capacity additions and new customer wins. With the stock selling near historically low valuations, we see an excellent investment opportunity in this strong franchise company.

AON is a global leader in the risk and insurance brokerage consulting industry. Margins and earnings are predicted to be weak in 2024 due to the acquisition of NFP. This acquisition is expected to expand AON's business into the "mid-market" and add to the company's growth rate. AON is selling at a significant discount to its competitors, and we expect this discount to narrow as AON's growth accelerates over the next several years.

In the case of TGT, we took advantage of recent softness in sales (related to transitory merchandising missteps) to reestablish a position in this best-in-class retailer. Over the last several years, TGT has aggressively invested in its labor force, supply chain and omnichannel capabilities. These investments strengthened TGT's competitive position, putting the company on track for continued market share gains. Furthermore, with capex needs now reduced, free cash flow is set to increase which should allow TGT to accelerate the amount of cash returned to shareholders through its above average dividend yield and stock repurchase program.

In addition to these new investments, during the second quarter we added to our holdings in Bloomin' Brands Inc., Dollar Tree Inc., and Zimmer Biomet Holdings Inc. on price weakness. For taxable accounts, we doubled our position in Bristol-Meyers Squibb Company in order to facilitate a tax trade. We eliminated Itron Incorporated and BJ's Wholesale Club Holdings Inc. as they reached our target prices and trimmed our positions in The Allstate Corporation, Vertex Pharmaceuticals Inc. and AbbVie on strength.

Outlook

As we enter the second half of 2024, economic growth appears to be slowing. In addition, generally high equity valuations, uncertainty regarding the outcome of the upcoming presidential election, and geopolitical concerns over the wars in Ukraine and Israel, leave us guarded about the second half of the year. Notwithstanding these issues, we continue to find new investments in businesses selling at reasonable valuations. Importantly, our balanced portfolio has exposure to both the higher growth sectors of the economy and areas that are more defensive in nature. Over time, we believe these businesses will be more appropriately valued by the market allowing our portfolio to generate attractive returns going forward.

We appreciate your trust in our investment strategy and look forward to our next communication in the fall. In the meantime, if you have any questions please do not hesitate to reach out.

This material is intended as a broad overview of the portfolio managers' current style, philosophy and process. 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. Neuberger Berman is not providing this material in a fiduciary capacity and has a financial interest in the sale of its products and services. 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. This material is presented solely for informational purposes and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Third-party economic, market or security estimates or forecasts discussed herein may or may not be realized and no opinion or representation is being given regarding such estimates or forecasts. Certain products and services may not be available in all jurisdictions or to all client types. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results**.

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Intrinsic value reflects the team's analysis and estimates. There is no guarantee that any intrinsic values will be realized; security prices may decrease regardless of intrinsic values.

Representative portfolio information (characteristics, holdings, weightings, etc.) is based upon the composite or a representative/model account. Representative accounts are selected based on such factors as size, length of time under management and amount of restrictions. Client accounts are individually managed and may vary significantly from composite performance and representative portfolio information. 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, companies, sectors or markets identified and described were or will be profitable. Securities mentioned may not be held in all client accounts as investment objectives, tax considerations and other factors may vary from account to account.

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 weights 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. Investing in foreign securities involves greater risks than investing in securities of US issuers, including currency fluctuations, interest rates, potential political instability, restrictions on foreign investors, less regulation and less market liquidity.

The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

For additional information regarding the advisory services provided by Neuberger Berman Investment Advisers LLC ("NBIA"), please see NBIA's Form ADV Part 2A and Form CRS. For additional information and required disclosure regarding the brokerage services provided by Neuberger Berman BD LLC ("NBBD"), please see NBBD's Regulation Best Interest Disclosure Statement, Fiduciary Recommendation Disclosure for Covered ERISA and IRA Accounts, and Form CRS. All of the above disclosure documents are available at https://www.nbprivatewealth.com/en/disclosures/regulatory-disclosures.