

SPRING 2024



Aspire

Time to Make Your Money Move

With peak interest rates likely at hand, the current appeal of cash may prove fleeting.



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Skip to the End

WHEN THE NARRATIVE CHANGES, KEEP AN EYE ON ULTIMATE OUTCOMES.

Sometimes watching the economy and markets is like watching a TV show that keeps shifting plot lines. First, the economy is headed for recession, then a soft landing; inflation is transitory, then it is declining, then it is too sticky; the Federal Reserve is on pace for six rate cuts in 2024, then three, then two. As suggested by the outlook from Shannon Saccocia, CIO for Private Wealth (see page 2), it is generally best to focus on the ending, rather than the endless twists and turns along the way.

In this case, we think that despite recent disappointments, the Fed will be able to start cutting rates this year, even as the economy and corporate America continue to show resilience. This means that now could be a good time to put excess cash to work, whether in quality equities or in longer-duration bonds, before money market rates move into decline. (For more on how to “Make Your Money Move,” see our cover story on page 7.)

For most clients, a sensible approach will often include estate planning that is fully considered and integrated into investment strategy. On page 16, Sam Petrucci, our Head of Advice, Planning and Fiduciary Services, and David Herrmann, President and Head of Personal Trust, Delaware, explore “Dynasty Trusts” that can help grow family wealth across multiple generations.

Of course, you cannot ignore near-term events if they could have major ramifications for the long term. Along these lines,

on page 20, political scientist Sam Potolicchio offers his perspective on the current presidential horse race and issues that could affect the outcome.

Finally, I wanted to mention an important milestone for Neuberger Berman: the 85th anniversary of our founding in 1939 and the 15th year since our reemergence as an independent firm. Over that time, we have grown in terms of people, geography and capabilities, but remain dedicated to achieving success for clients. The past four years have been especially significant for the NB Private Wealth team as we have enhanced investment and planning solutions to help you achieve your goals and aspirations.

To mark the dual anniversary, in May, Neuberger Berman colleagues will again conduct our annual Celebration with Service, which unites and channels our energies for communities globally. After a pandemic-driven hiatus, the program has emerged even stronger, and this year will hold its largest-ever number of volunteer activities—including 90 in New York alone. Whether cleaning up a playground, tutoring children or helping in a senior center, our colleagues approach these activities with the same dedication that they apply to their day jobs, and we look forward to another successful chapter.

As always, thank you for the confidence you have placed in us. We look forward to serving you through whatever plot twists the markets reveal in the months and years to come.

Aspire to... LOOK AHEAD

SHANNON L. SACCOCIA, CFA
Chief Investment Officer—Private Wealth

MARKET OUTLOOK

Upshifting Into Traffic

WILL A STURDY U.S. ECONOMY POSTPONE THE RATE CUTS DESIRED
TO EXTEND MARKET GAINS?



Entering 2024, many investors believed that the global economy had likely avoided a deep contraction despite a significant move higher in central bank interest rates over the preceding two years. The sharp increases in inflation that justified higher rates created pressure on consumers and businesses, but the resilience of spending and profit margins cushioned the blow.

From a market perspective, the beginning of 2024 was seen by many as an inflection point. After a challenging 2022 and a roaring 2023—which closed out with a blistering risk-on rally—investors were anticipating a shift in equity-market leadership for this year, as thematic winners (such as artificial intelligence and weight-loss drug names) ceded their strength to companies in industries that could benefit from a steadier economy.

Initially, this thesis went unproven: January saw continued strong results for thematic plays, as outlooks for companies in other areas proved to be (likely appropriately) conservative, given potential changes in monetary and fiscal policy.

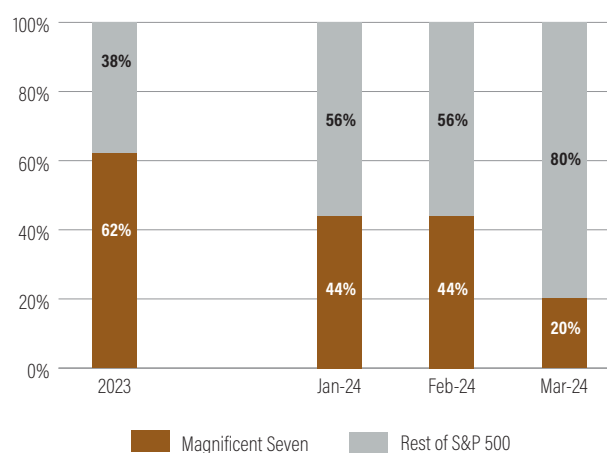
However, evidence of broadening performance came in February and, particularly, March, with the energy, financial and industrial sectors posting double-digit returns for the first quarter, besting the overall results for the S&P 500 Index. Non-U.S. developed markets and U.S. small-cap names posted solid performance in March as well, perhaps an indication of a potential a shift in momentum.

Bonds, for their part, were mixed to start the year. While yields rose on the reset in rate expectations due to changes in the economic outlook (more on this below), lower-quality outperformed higher-quality issues, and

shorter-term bonds held up better than longer-term counterparts. Crude oil, copper and gold all posted gains for the quarter—a reflection of improved growth prospects for the year.

A WIDENING MARKET

Contribution to S&P 500 Returns



Source: FactSet, as of March 31, 2024. The "Magnificent 7" stocks include Microsoft, Apple, Nvidia, Amazon, Alphabet, Meta Platforms and Tesla. For illustrative purposes only. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is not indicative of future results.**

Grumbling About Growth

Looking back to the start of 2023, a lack of confidence in the global economy led many investors to be positioned conservatively—making the resilience noted above something of a surprise for them, as noted in our *Solving for 2024* outlook. The consensus toward caution shifted as the year progressed, and, as a result, many investors started 2024 on a different footing. While signs of looming recession were evident in certain geographies and industries, continued U.S. strength acted as a foundation for a more constructive view on the global economy.

In addition, while the consumer was steady, manufacturing appeared underwhelming as demand shifted from goods to services, and more recently seemed to settle into near-term equilibrium. That said, manufacturing has recently been improving, with the S&P Global Manufacturing PMI “flash report” rising in March to its highest level since July 2022, in part due to a broad uptick in production across over 50% of reporting economies.

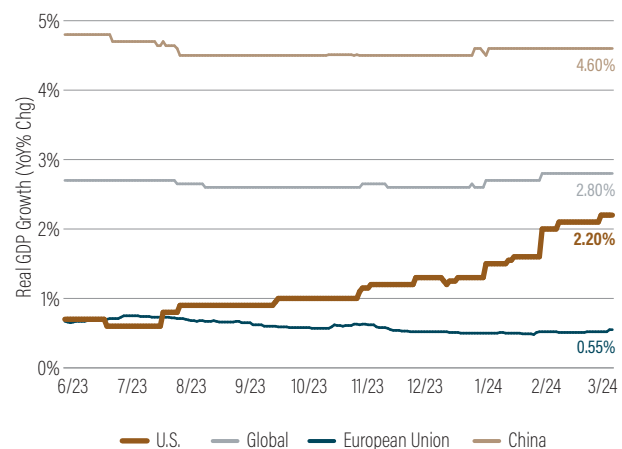
With this improvement in manufacturing and continued stability in consumer spending, the pendulum has now swung from apprehension about recession to fear of above-trend growth and its implications for already high interest rates. The risk-on rally enjoyed in late 2023 was due in no small part to expectations of more accommodative monetary policy across major economies, save Japan and China; evidence of continued growth even with “restrictive” policy in place could slow the normalization process.

Furthermore, while U.S. small business confidence has been more subdued of late, the Conference Board Measure of CEO Confidence has improved markedly,

and historically business confidence is positively correlated with hiring trends. Although lower “quit rates” and reduced job openings are pointing toward improvement in the supply-demand mismatch for U.S. labor, there could be concern about wages and labor shortages should a new wave of hiring result.

U.S. GROWTH OPTIMISM STANDS OUT

2024 Global Economic Growth Forecast



Source: Bloomberg, as of March 31, 2024. For illustrative purposes only. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is not indicative of future results.**

‘Transitory’ Times Two

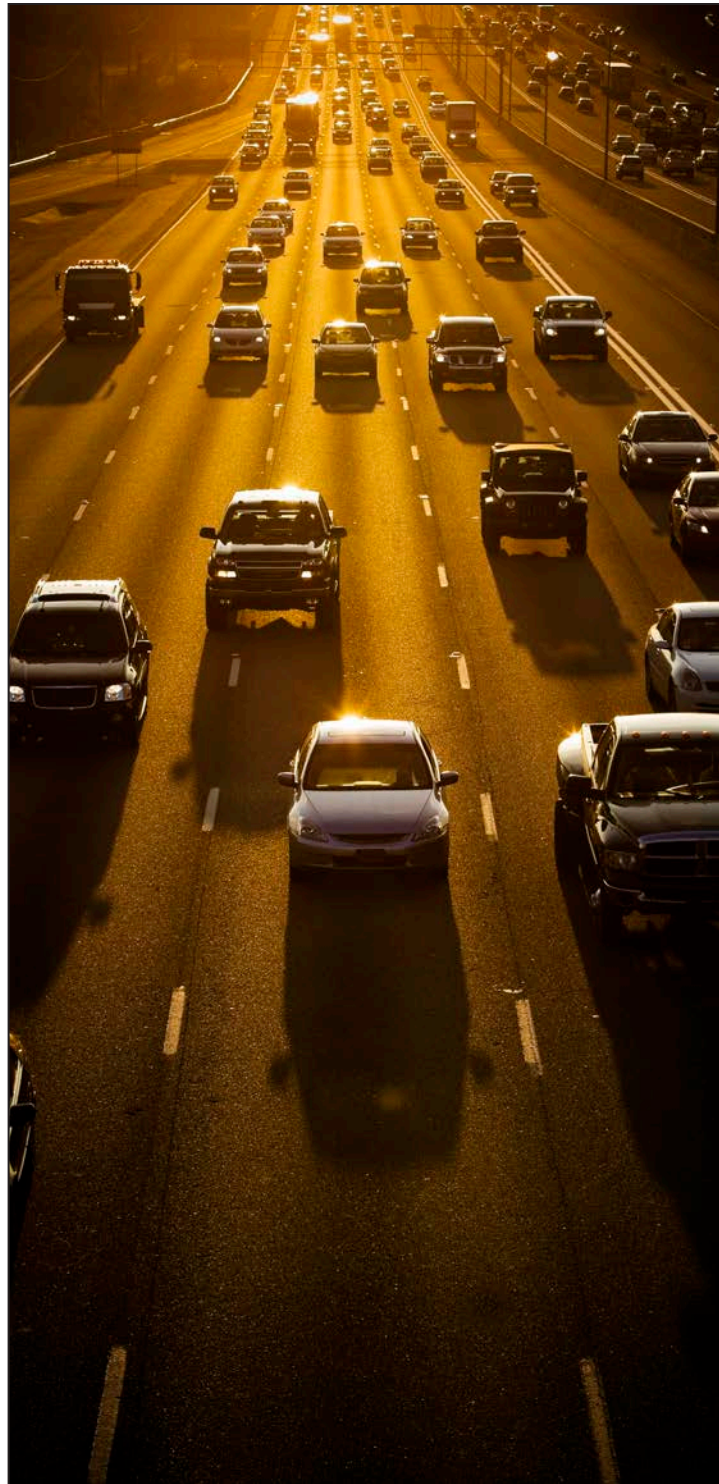
Central banks, however, are unlikely to pivot to easier policy just because growth is stronger than anticipated. Rather, the potential byproduct of that growth—inflation—is the key concern. The Federal Reserve has been vocal about getting inflation expectations back to its target rate of 2%, and reiterated that stance recently when considering the timing of rate cuts. As it stands, the market already expects about half the cuts that

it anticipated to start the year. The Bank of England and European Central Bank, too, have countered calls for rate reductions with the argument that the slowing of disinflation or, worse, a reacceleration in inflation, are risks they want to avoid.

The good news, in our view, is that there is little to dissuade these central banks from cutting rates in the coming months, as inflation continues to trend lower across Europe. The Fed faces a more complex situation, however, as both consumer and producer inflation have reaccelerated this year. The trend has come from different pockets—services, which include airline fares, medical care and insurance—as well as that perennial driver of headline inflation, energy costs. Shelter prices remain high as well, even as rents moderate in major U.S. housing markets.

We believe the question for investors is how structural, and therefore persistent, this recent reacceleration will turn out to be. Early in the pandemic, the Fed and other central banks characterized increases in input costs and consumer prices as transitory, justifying their slow response to resurgent inflation. Recent events including disruptions in the Suez and Panama canals and the Baltimore bridge disaster could compound the impact of services inflation by pushing up goods prices. Continued efforts to pass on costs to consumers in areas such as health care could also cause renewed pricing pressure.

All that said, this recent move seems unlike what we experienced in 2020 and 2021 globally; the knock-on effects of rapid restocking and hiring (or for many services businesses, rehiring) are not on the horizon. As a result, we agree with central banks that greater confirmation of inflation relief is likely needed to move to a more accommodative stance, the evidence for continued downward pressure on prices exists in other measures, the recent reacceleration in U.S. prices is transitory, and both inflation and policy rates will likely be lower at year-end than they are today.



Highlights 2Q 2024

FROM THE ASSET ALLOCATION COMMITTEE

Shannon is a member of the Neuberger Berman Asset Allocation Committee, whose views are presented below.

We have a relatively positive macroeconomic outlook given resilient growth and the likely trend lower in inflation and interest rates. Still, our asset-class views remain largely neutral, supporting maintenance of strategic asset allocations across stocks and bond markets.

Equities

In the U.S., we anticipate further broadening of equity-market performance, benefiting small and midcap companies and a balance between investment styles. Non-U.S. stocks are becoming more appealing given lower valuations and potential cyclical recovery in Europe and certain parts of emerging markets. In our view, Japan should continue to display performance momentum.

Fixed Income

We favor the deployment of excess cash toward short to intermediate maturities, but remain cautious on longer-dated bonds given uncertainty around secular inflation and elevated government debt. In our view, floating-rate loans and securitized credit offer opportunity, though high yield offers little income advantage over higher-quality corporates.

Private Markets

Private equity remains attractive, in our view, as policy rates peak and exit activity seems likely to pick up. While private credit managers may face renewed competition from reopening syndicated loan markets, yields are still appealing and deal flow remains healthy.

All views are over the next 12 months unless otherwise stated. See disclosures at the end of this publication, which include additional information regarding the Asset Allocation Committee and the views expressed.

The Destination, Not the Journey

With that backdrop, our views have not changed meaningfully since the start of the year. Back then, we shared the Fed's take that the road to 2% inflation could be bumpy, and believed that expectations for six or seven rate cuts this year were overblown—as they turned out to be. In equities, our emphasis on identifying companies outside of last year's winners, supported by earnings quality, free cash flow and strong balance sheets, may have appeared contrarian in January, but has turned out well given the more recent quality-led broadening in U.S. equity performance.

Economists spend many hours seeking to pinpoint the exact time when the Fed could begin cutting rates, but we think it's more important to focus on what to do with portfolios in the meantime, in this case putting excess cash to work. In particular, investors may consider locking in attractive bond yields by extending maturities, even if modestly, and without taking outsized credit risk.

We also favor capitalizing on opportunities in private markets, where investors sometimes hesitate to add to exposures due to a lack of information flow, particularly in private equity and real estate. However, this lack of price transparency can actually be an advantage, as it favors those who have been thoughtful and prescriptive in investment selection, as well as those who have capital to take advantage of periods of dislocation such as today.

In short, while the journey to lower rates and lower inflation may feel at times less than linear, we believe that investors should focus on building and adapting portfolios that can travel well and have the potential to help them reach their financial destination—whatever that may be.

See disclosures at the end of this publication, which are an important part of this article.



Aspire to... INVEST

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TIME TO MAKE YOUR MONEY MOVE

With peak interest rates likely at hand, the current appeal of cash may prove fleeting.

Investors moved roughly \$1.3 trillion into money market funds during 2023, bringing the total to nearly \$6 trillion—an all-time high. Many were looking for safety and certainty after the equity and bond sell-off of 2022. Some were reassessing their long-term asset allocations in the new, higher-yielding environment. All were “paid to be patient” with a high cash rate that has been ahead of inflation for nearly a year.

As short-term rates peak, however, we believe the opportunity costs of holding excess cash are growing. Keep in mind that before the rate hikes of 2022 – 2023, when the cumulative return of cash was 7.5%, that return was far lower—just 2.5% on a cumulative basis from 2009 – 2017. Although few anticipate a return to near-zero rate policy, we believe declines are likely from here. In this context, investors may intend to return to the asset allocation they had before 2022, or ease back into a more fixed income-oriented, higher-yielding long-term asset allocation—but either way, we believe it is time to make that money move.

In this article, we consider the issue of excess cash, focusing on three key questions:

- Is holding cash more attractive than locking in bond yields?
- Should you wait before buying more equities?
- Overall, where can you deploy excess cash?

IS HOLDING CASH MORE ATTRACTIVE THAN LOCKING IN BOND YIELDS?

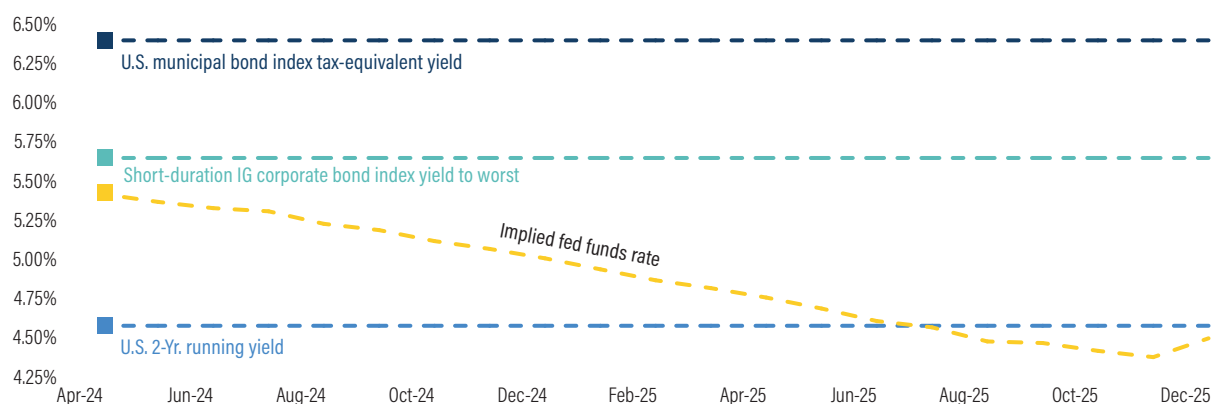
Today's cash rate is considerably higher than the pretax yields on U.S. Treasuries and municipal bonds, and slightly lower than for short-maturity investment-grade corporates. But many think cash rates are on their way down, from close to 5.5% today to below 4.5% by the end of next year. Investing in longer-maturity bonds today may provide the opportunity to enjoy elevated yields until the bonds mature.

Money market funds held nearly \$6 trillion at year-end—an all-time high

Even in two-year U.S. Treasuries, we believe there is now value in locking in current coupons—and we see still more value in locking in yields in the intermediate (four- to six-year) part of the curve.

CASH IS UNLIKELY TO OFFER TODAY'S RATES FOREVER

Implied Fed Funds Rate vs. Current Bond Yields



Source: Refinitiv, Neuberger Berman. Data as of April 16, 2024. Short-duration IG corporate bond index is the ICE BofA 1-3 Year U.S. Corporate Index. U.S. municipal bond index is the ICE BofA U.S. Municipal Securities Index. Tax equivalent yield is for an investor in the highest federal tax bracket. Current yields of the U.S. two-year Treasury are the coupon rate divided by the current bid price. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is not indicative of future results.**

The relative value case looks even stronger in municipal bonds, in our view, once tax advantages are taken into account. And cash now slightly trails the yield on short-maturity investment-grade corporate bonds. Investors are right to ask whether a growth slowdown would put corporate bond repayments at risk—but investment-grade defaults have been extremely rare and almost always have been more than offset by their yield advantage over Treasuries, even at levels akin to where they are today.

Unless cash rates decline far more slowly than the market anticipates, or short-maturity investment grade defaults rise substantially, we think bonds now look more attractive than cash. At inflection points like this, we believe active fixed income management can add value through selective yield curve and credit exposures.

Cash returned 7.5% cumulatively in 2022 – 23 but just 2.5% in 2009 – 2017

SHOULD YOU WAIT BEFORE MAKING NEW EQUITY INVESTMENTS?

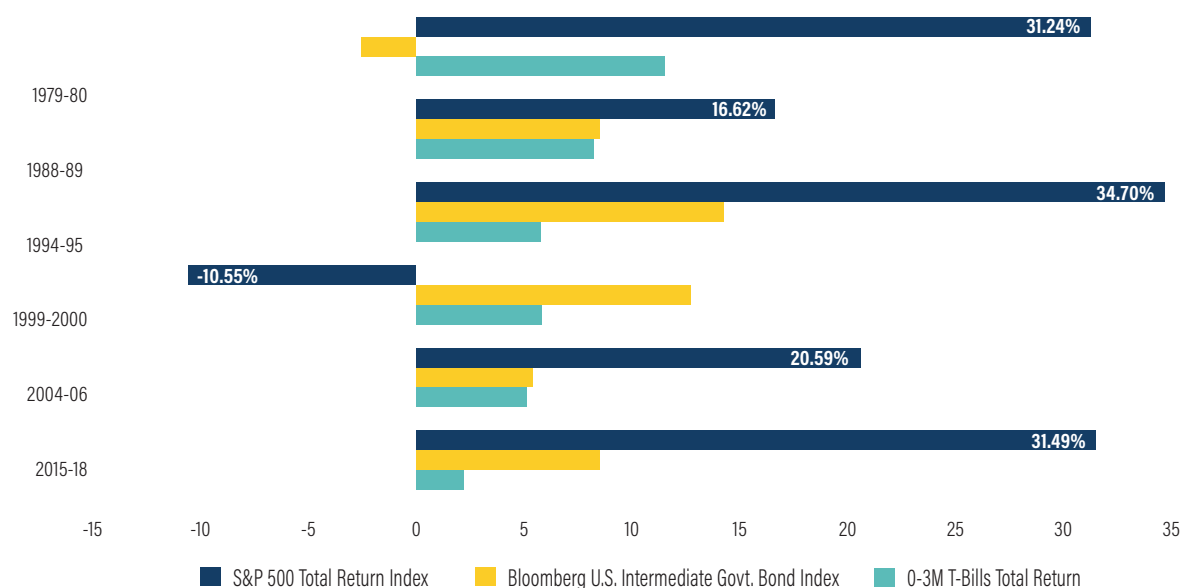
When cash is paying 5.5% and stock valuations are quite high, it can be tempting to wait for a market correction. However, as the well-worn saying puts it, “Investing is about time in the market, not timing the market.”

Over the long term, equity markets have tended to climb steadily, punctuated by sometimes deep and sharp declines. For example, the losses in the very worst months in the S&P 500 Index’s history have been markedly larger than the gains in the very best months, but overall, our research finds that there have been around 50% more positive months than negative months. The comparative rarity and sharpness of sell-offs is what makes them difficult to predict, and that is one reason why we think equity investors have generally been paid a premium to stay invested.

Thinking long term, therefore, it is difficult, in our view, to justify holding cash rather than stocks unless you believe

STOCKS HAVE PERFORMED WELL AFTER RATE HIKES

Return in 12 Months After Final Fed Rate Increase



Source: Bloomberg, Neuberger Berman. Data as of December 31, 2023. Historical trends do not imply, forecast or guarantee future results. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is not indicative of future results.**

Income Generation

MUNICIPAL BONDS AND SHORT-MATURITY CREDIT

After-tax yields enhance the appeal of municipal bonds relative to cash. Shorter maturities can capitalize on currently high shorter yields, but over a longer timeframe; they also make cash more readily available than longer bonds.

FLEXIBLE FIXED INCOME

Active managers have the ability to allocate to different parts of the fixed income market, across sectors, maturities, credit ratings and liquidity, depending on evolving market conditions.

Equity Exposure With Lower Volatility

QUALITY STOCKS

Strong competitive positions, stable earnings, low leverage and high free cash flow are often associated with lower price volatility. Sometimes excess corporate cash can be paid out as dividends or stock buybacks, or used to generate (currently high) cash returns.

Further Diversification

PRIVATE EQUITY

Private equity is not “marked to market” (repriced in real time), which means it is less volatile than public assets; it provides exposure to thousands of often high-quality, innovative companies that aren’t found on public stock exchanges.

PRIVATE CREDIT

Loans to private equity-sponsored companies are also less volatile. Private lending to smaller (but often high-quality) companies provides exposure that is increasingly unavailable via the high yield and loans markets.

COMMODITIES

Commodities generally respond to idiosyncratic supply-and-demand dynamics, and while prices for energy and industrial metals can correlate with broader economic activity, other commodities exhibit very different sensitivities. In particular, commodities tend to perform well during unexpected spikes in inflation (regardless of the broader growth backdrop), when equities and bonds tend to underperform.

that the economy is likely to stagnate indefinitely, or that valuations are so high that equities don’t add any value over other assets. Moreover, it’s worth considering that since 1979, equities have generally performed well relative to bonds and cash both during rate increases and once the weight of an interest-rate hiking campaign has been lifted, with the exception of the dot-com bubble era (see display on page 9).

WHERE CAN YOU DEPLOY EXCESS CASH?

Although you may be a raging bull at this point, it’s also possible that you remain relatively cautious in the face of high equity valuations and uncertain ramifications of still-tight monetary policy. Assuming that you are persuaded that holding cash is no longer optimal, where can you put that money to help achieve your investment objectives? For purposes of discussion, we’ve framed those objectives as (1) income generation (with modest price volatility and diversification), (2) equity exposure with lower volatility and (3) further diversification, and provide (at left) possible solutions within each category.

TIME TO ACT

Yields on cash and money market funds have become far more compelling over the past two years. Today, however, interest rates appear to have peaked. Given the potential declines from here, we think that bonds may now look more attractive than cash, while equities remain appealing despite stretched valuations, given their tendency to outperform after tightening cycles and over the long haul. That said, caution is often an asset, and investors may consider looking at areas of the market with risk-mitigation characteristics to help weather what remains an uncertain economic and market climate.

See disclosures at the end of this publication, which are an important part of this article.

Aspire to... DIVERSIFY



Private Credit Is Gaining Steam

LOUAY MIKDASHI

Head of Multi-Sector Private Credit

JONATHAN SHAHRABANI

Chief Operating Officer, Global Research Strategies

A VAST MENU OF PRIVATE CREDIT ARRANGEMENTS NOW HELPS FINANCE NEARLY EVERY ASPECT OF THE ECONOMY.

As traditional lenders have retrenched in the wake of the Global Financial Crisis and, more recently, on the back of a spate of regional bank failures, suppliers of private credit have increasingly filled the vacuum. Today, private credit in its myriad forms is no longer just an intriguing alternative asset class, but arguably a foundational pillar of the financial system—offering what we consider attractive opportunities for investors.



Key Takeaways

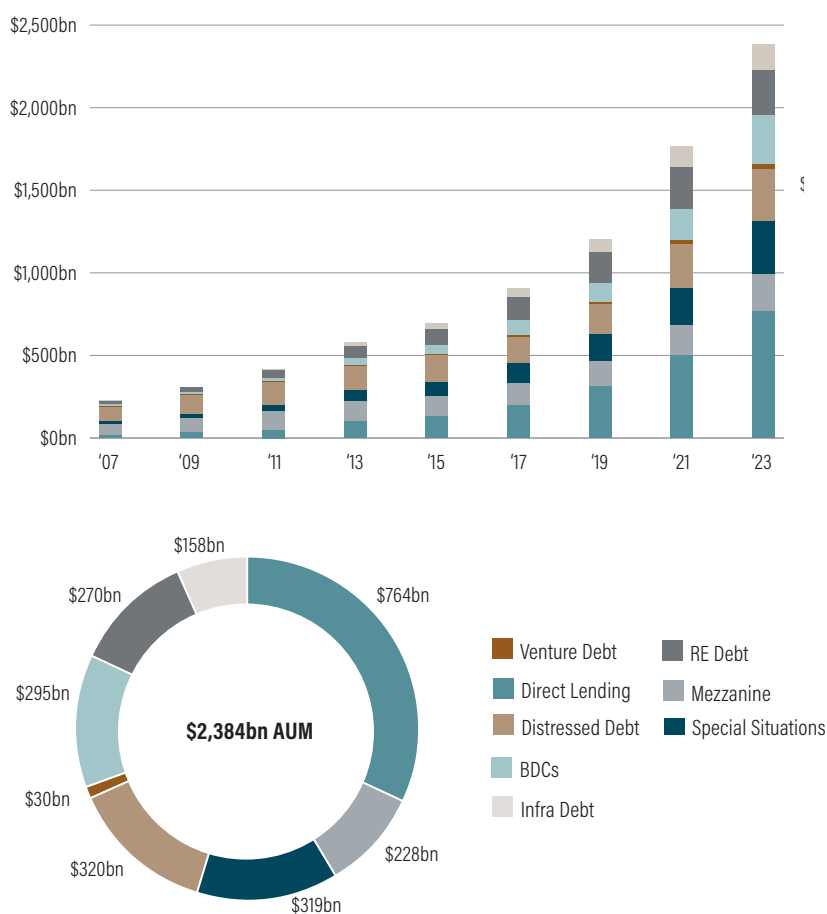
- Private credit has moved well beyond the borders of traditional corporate lending—a market now in excess of \$2 trillion—into myriad forms of asset-backed and opportunistic financing.
- Tightening banking standards are forcing banks to meet stricter regulatory capital requirements and spurring partnerships with private credit providers.
- Additional players represent shifting market share, in our view, and not a bubble.
- Private credit offers attractive income and return potential within a diversified portfolio.

A Vast Menu of Credit

In 1899, the American Telephone and Telegraph Company issued what may have been the first “private placement memorandum,” and the modern private credit market was born. But private placements were just the beginning. Today, a vast menu of private credit arrangements now finances nearly every aspect of the economy, with a market that has expanded from \$230 billion in the wake of the 2008 Global Financial Crisis to north of \$2 trillion today (see display).

PRIVATE CREDIT HAS SEEN EXPLOSIVE GROWTH ACROSS THE ECONOMY

Global Private Lending, Assets Under Management

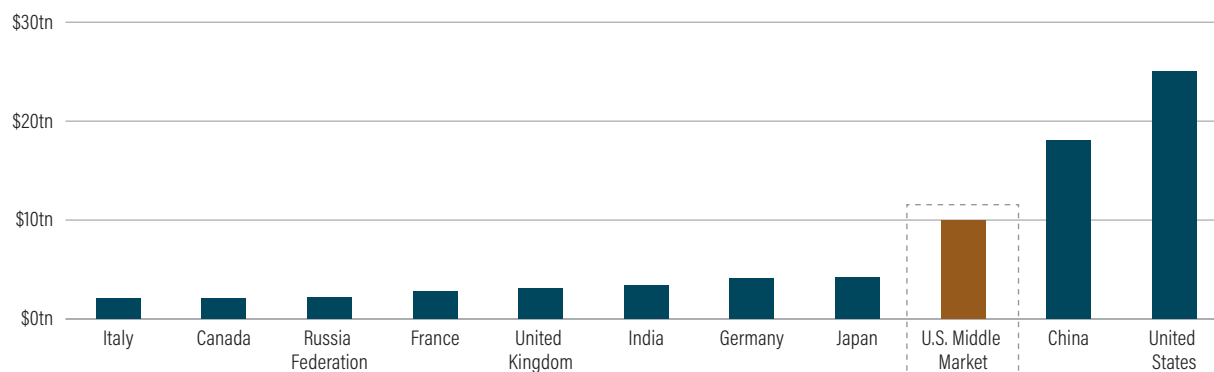


Source: Preqin, Goldman Sachs Global Investment Research, as of December 31, 2023.

Traditionally, much of the private credit market has consisted of corporate lending, which mainly focuses on financing acquisitions led by private equity managers. But with stunning growth has come increased specialization beyond corporate lending, including various forms of asset-backed and “opportunistic” financing. Asset-backed lending includes consumer credit, commercial and residential mortgages, equipment leasing, project finance and fund finance; opportunistic lending covers all other niche segments, from insurance-linked securities to litigation funding. Taken together, the total market for private credit could reach \$5.4 trillion by 2027.¹ In particular, we think the large U.S. middle market could yield attractive opportunities for selective private credit providers.

MIDSIZED COMPANIES REPRESENT A MAJOR OPPORTUNITY

GDP by Country, Middle-Market Revenues



Source: National Center of the Middle Market, “Middle Market Update,” August 9, 2023; The World Bank, 2022. Middle-market companies are defined as those with between \$10 million and \$1 billion in revenue.

Evolving Regulation

Private credit has been a major beneficiary of bank regulation since the Global Financial Crisis, and we believe it will likely continue to experience significant growth in the wake of “Basel III Endgame,” a regulatory standard that will be phased in over the next few years. If implemented as proposed, Basel III Endgame would compel large U.S. banks to increase common equity capital requirements against so-called risk-weighted assets (RWAs) by upwards of 20%.² While we think the final rule will likely be softened, its ultimate impact could still be material—and indeed many banks have since gone on “RWA diets” that reduce their exposure to certain loans and sectors, while some have partnered with private capital providers to offload non-investment grade risk.

¹ Source: Goldman Sachs Global Investment Research, as of December 31, 2023.

² Source: U.S. Federal Reserve, July 18, 2023.

Redrawing the Financial Map

Amid the tightening regulatory regime, traditional bank lenders and private credit providers are forging a productive symbiotic relationship. At the same time, some observers worry about perceived opacity and light regulation of private credit markets. While it appears that some areas of the market may face stiffer competition, however, we believe that, on the whole, selective private capital providers are maintaining reasonable levels of risk, but are also helping to bolster the overall stability of the financial system.

First, unlike most banks, which rely on funding from deposits (which can be short-term in nature), most private credit strategies are “match-funded,” meaning that their assets and liabilities have similar maturity profiles. We believe this reduced asset-liability mismatch makes private capital providers logical holders of longer-term assets.

Second, in our experience, private credit funds often take on less balance sheet risk by employing either modest leverage—up to one times equity capital or none at all, compared to the typical 10 times for traditional banks.

Third, we believe private credit arrangements can be more transparent than critics suggest. Take Business Development Companies (BDCs), a roughly \$300 billion sector that invests primarily in direct loans.³ As regulated investment companies, BDCs must disclose, via quarterly public filings, not just the composition of their portfolios, but also their valuation methods and investment performance. Although banks must adhere to rules set by the Federal Reserve and other regulators,

their disclosures tend to address the broader health and credit quality of their balance sheets rather than specific details on individual loans.

Is a Bubble Brewing?

As the market for private credit expands, some investors wonder whether a bubble has begun to inflate. However, while we’ve seen a crop of new entrants, we believe this is more indicative of shifts in market share than evidence of a bubble.

Consider, to start, the pronounced supply-demand imbalance between private equity sponsors and private credit providers. The amount of unallocated private equity capital is nearly twice that of private debt.⁴ We believe this disparity underscores not only the unmet demand for debt financing, but also the ability of private credit markets to absorb additional inflows without unsustainably inflating asset prices.

Next, we think demand for credit could remain strong well into this year—especially within the middle market, which often relies on private credit—and could continue to offer fertile ground for prudent lending. To illustrate, the National Center for the Middle Market estimates that 65% of midsize companies expect year-over-year revenue growth—and about 60% expect to expand their workforces—through the second quarter of 2024.⁵ Private equity-backed middle market firms, in particular, continue to post strong performance. During the first two months of 1Q 2024 (the latest data available), earnings within this segment grew by 11% year-over-year, while revenues increased 5%. The technology sector continued to be a standout performer, with earnings and revenue growth of 26% and 8%, respectively.⁶

³ Source: Keefe, Bruyette & Woods, “Inside the Private Credit and Non-Bank Lending Market: A Comprehensive Examination of the BDCs and Direct Lending Industry”, October 2023.

⁴ Source: Prequin, as of December 31, 2023.

⁵ Source: National Center for the Middle Market, Mid-Year 2023 Middle Market Indicator.

⁶ Source: Golub Capital, data through the first two months of 1Q 2024.

Importantly, loan losses in the middle market are low on a historical basis, and have remained below thresholds observed during the COVID-19 pandemic.⁷ We believe that challenging period provided a meaningful (albeit brief) stress test, revealing private credit's potential durability in the face of unprecedented economic volatility. Rising/ elevated interest rates over the last 18 months have further tested that resilience, yet strong performance has generally persisted in the market. Meanwhile, private equity sponsors have played a pivotal role in bolstering the financial stability of their portfolio companies. By injecting additional equity, they have enhanced liquidity and provided a cushion against downturns.

In our view, sponsors' proactive approach is a testament to the strengthening relationship between private equity and private credit, wherein both parties have a vested interest in the success and solvency of their investments.

Conclusion: Building Momentum

Looking ahead, we expect the burgeoning market for private credit to continue to expand and evolve, driven by shifting regulation, deepening partnerships with traditional lenders, and continued potential for attractive risk-adjusted returns. The remarkable rise of private credit reflects its important long-term role across an ever-changing financial landscape, and reinforces its potential benefits to investors.

“We expect the burgeoning market for private credit to continue to expand and evolve, driven by shifting regulation, deepening partnerships with traditional lenders, and continued potential for attractive risk-adjusted returns.”

⁷ Source: Proskauer, "Proskauer's Q3 2023 Private Credit Default Index Highlights the Resilience of Private Credit in a Turbulent Economy," October 24, 2023.

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TRUST PLANNING

Crossing the Generational Frontier

WE SEE “DYNASTY TRUSTS” AS A KEY PLANNING TOOL WITH MULTIPLE ADVANTAGES AS YOU CONSIDER YOUR FAMILY’S WEALTH AND WELL-BEING OVER TIME.

The largest wealth transfer in history has already begun, with more people becoming billionaires recently because of inheritance than for any other reason, according to estimates.¹ This has reinforced interest in estate planning that can transfer wealth tax-efficiently, while providing flexibility to ensure that it is a support for—and not a burden on—future generations.

¹ Source: UBS, Billionaires Ambitions Report 2023.





In our view, a key tool in this regard is the discretionary, multi-generational trust, also known as a Dynasty Trust, which can remain in existence for centuries, supporting your family according to your wishes and beliefs.

Dynasty Trusts have recently been central to many of our planning conversations, particularly in light of the scheduled post-2025 rollback of currently elevated federal exemption amounts to previous levels.

POTENTIAL TAX SAVINGS

Why create a Dynasty Trust? The key reason is often potential **wealth transfer savings**.

Many affluent individuals worry about estate tax issues in relation to their immediate children, but for those with more assets, this may extend to generations down the line. Employing a Dynasty Trust in a jurisdiction like Delaware at current exemption levels, a married couple can transfer up to roughly \$27 million, during life or at death, that avoids federal gift, estate and generation-skipping transfer tax.

Keep in mind that, assuming no action by Congress, that amount will be cut by more than half after 2025, when many provisions of the 2017 Tax Cuts and Jobs Act are set to expire. If placed in a Dynasty Trust this year, the entire \$27 million will have the potential to last for several generations. Over that time, it can sit outside of your family's estates, and be invested and used for various purposes without further threat from wealth transfer taxes.

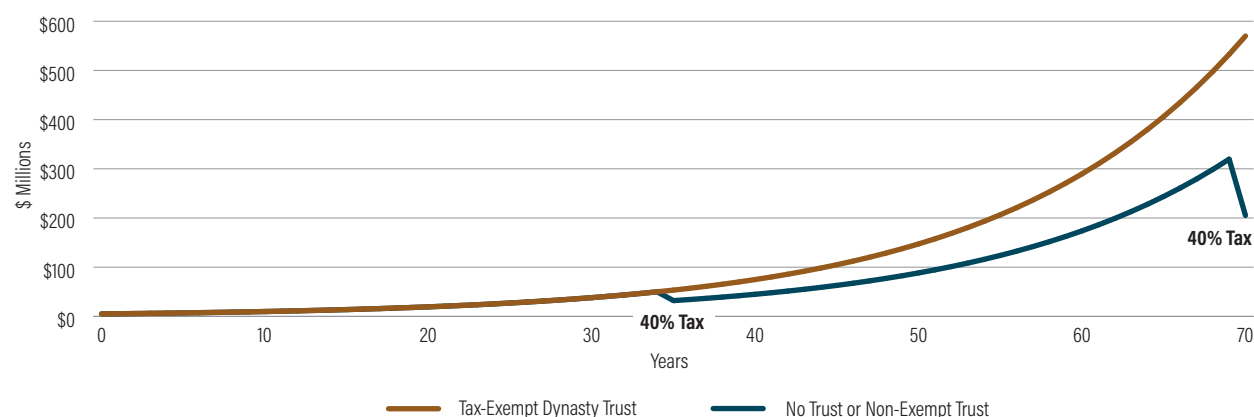
The display below highlights the potential results achieved using a Dynasty Trust that is never subject to transfer tax versus an account or trust that is subject to such taxes for each generation. Assuming a 7% annual return, a hypothetical Dynasty Trust initially worth \$5 million and without transfer tax would grow to \$53 million over 35 years and to \$570 million over 70 years, compared to \$32 million and \$205 million, respectively, for the regular account taxed at a 40% rate at 35 and 70 years—roughly corresponding to generational transitions.

State tax savings. Beyond transfer taxes, locating a trust in certain jurisdictions can offer state income tax savings as well. For example, Delaware does not tax the accumulated income of a resident non-grantor trust (including interest, dividends and capital gains) unless the trust has a Delaware beneficiary. This can allow significant income tax savings and portfolio growth when compared to subjecting the same trust to other states' income tax regimes.

A trust creator living in New York may take advantage of Delaware law by locating a Dynasty Trust in Delaware and avoiding New York's high income tax rates. In this case, the creator would name a Delaware trustee for the trust and ensure that it does not own property located in New York, has no New York source income and does not otherwise have a New York fiduciary. Similarly, locating a trust in Delaware may avoid California's high income

DYNASTIC ADVANTAGE

Hypothetical Transfer Tax Savings: Growth of \$5 Million Over 70 years



Source: Neuberger Berman. Assumes a 7% annualized rate of return and application of a 40% generation-skipping tax to the "no trust or non-exempt trust" scenario at the start of years 35 and 70.

tax rates by not having a California fiduciary and drafting the trust in a manner that avoids having non-contingent California beneficiaries. It is important to note that distributions to trust beneficiaries may pass out portions of the trust's current taxable income or even prior years' income in certain states, including New York and California, to the trust's beneficiaries when distributions are made to those beneficiaries who live in such states.

ACCESS, PROTECTION, CONTROL AND PRIVACY

Beyond the compelling math associated with transfer tax savings, as well as state income tax savings, we believe there are other reasons to consider a Dynasty Trust:

Prudent beneficiary access. A frequent concern for clients is the impact that money will have on their children, even as adults. You may believe it will reduce your children's initiative or distort their values; or more basically, you may feel that your children may have difficulty or do not have the capacity to handle the assets they may receive. In traditional trusts, this may lead to the establishment of age hurdles such as 25, 30 or 35 years, when children receive their legacies based on the assumption that they are "ready." However, with a Dynasty Trust, the assets may remain within the trust in perpetuity, used for specified purposes such as health, education, maintenance and/or support, or at the discretion of the trustee, who can consider the circumstances of the beneficiaries when making decisions—for example, purchase of a first home, money to start a business, etc.

Creditor protection. The concept of a "spendthrift" trust is well established, in which family members can only receive trust assets at the discretion of the trustee, thus protecting them from potential creditors or those who might take advantage of them. There's a typical assumption that these trusts are for the irresponsible, unsophisticated or vulnerable. However, those parents with an array of doctors, lawyers or investment bankers as offspring may be reluctant to place guardrails around family money because they feel their children know what they are doing. In such situations, we may say, "You trust your children, but

do you trust a potential creditor such as a future spouse?" That tends to change the discussion, as clients recognize potential vulnerability associated with divorce, among the other hazards that their children may face, including other potential unforeseen liabilities or creditors.

Investment control. A potential benefit of Dynasty Trusts within jurisdictions like Delaware is investment control and flexibility, whereby the creator of a trust may separate the investment function from administrative duties associated with the trustee. A separate investment advisor (often initially the grantor of the trust) would have exclusive responsibility for trust investments, and have the ability to invest more broadly, in assets such as private partnerships or concentrated positions.

Privacy. You may be concerned that heirs will be influenced by knowing that they are beneficiaries of a trust. Unfortunately, most states require the trustee to inform the beneficiaries about the trust. In certain jurisdictions, however, you can create a trust that defers the date when beneficiaries will be informed of its existence—providing peace of mind that they won't know about it until they are mature and ready to handle the news and the potential access to wealth. Dynasty Trusts may come with other privacy advantages, such as the sealing of trust records.

EYE ON THE DETAILS

For those who live outside a state that provides for Dynasty Trusts, there are, of course, technical requirements in establishing such a trust or converting an existing trust to take advantage of a particular state's laws. Typically, the trust needs to have sufficient connections to the new state, including the use of a resident trustee, and should avoid certain ties to the individual's home state. Working with advisors with extensive knowledge of broad estate planning issues and the intricacies of laws across jurisdictions can help facilitate the process of creating a Dynasty Trust as you seek to achieve important goals for you and your family in the coming decades and beyond.

Aspire to... ENGAGE

GLOBAL VOICES

U.S. Election: Age, Cash and Conflict

A POLITICAL OBSERVER GIVES JOE BIDEN THE EDGE, BUT THINKS PLENTY
COULD HAPPEN BEFORE NOVEMBER.

SAM POTOLICCHIO, PhD

Executive Director, Center for Global Leadership



The two major candidates for the upcoming presidential election appear to be set, with Democratic incumbent Joe Biden facing off against Republican Donald Trump once again. In some ways, the contest is unique, with the oldest candidates in history and the first currently indicted former president seeking reelection. It's also the first presidential rematch since 1956, and involves widely differing visions for the country on immigration, taxation, social issues and defense. Into this tempest, we invited political scientist Sam Potolicchio to assess the dynamics of the race.

Thanks for joining us, Sam. This is an extraordinary election, in terms of the candidates, the divided electorate and meaningful policy differences. Fortunately, you have the credentials to provide some predictive insights.

Back in 2016, I decided that Trump would win simply by looking at history, and the fact that except for George H.W. Bush's victory in 1988, no single party since the era of Franklin Delano Roosevelt had managed to achieve a third term. Despite the polls and mechanics of the race, I just didn't think that Americans would let the Democrats stay in office.

As gratifying as that call was, fast-forward to 2024 and there are fewer precedents like this to go by to give us analytical leverage. One tongue-in-cheek metric? Presidential rematches. We have had six of these in history. In these matches, the taller man has won five out of six elections—advantage Trump; and challengers have won four out of six—also advantage Trump; but the older candidates have won four out of six times—advantage Biden, although given the oxygen about Biden's age, it's hard to imagine this being a plus!

Does either Trump or Biden have the edge? Both face unique challenges, to be sure.

If forced to wager all my money on either of these men, I would put it on Biden. But the state of the race is pretty disturbing for him at the moment—for two reasons.

First, there's the polling. If you look at the final polling average in Wisconsin in 2020, Biden had almost a seven-percentage-point lead¹ but he ultimately won by only 0.7%.² In Florida, he was up by about a point, but lost by 3.3%.³ In the last two elections, Trump consistently outperformed his local and national polling against Biden and Hillary Clinton—and he's winning in the polls right now. If he outperforms those numbers by three to five points, this isn't even a close race.

Second, you are seeing significant realignment, particularly among Hispanic and Black voters, in Trump's favor. He won Latinos by six points in a recent *New York Times*/Siena poll, and was supported by 23% of the Black vote compared to Biden's 66%.⁴ That sounds like a wide gap, but keep in mind that Clinton won 91% of Blacks in 2016⁵ and Biden won 92% in 2020.⁶ Polls of such subgroups tend to have a greater margin of error than the overall poll result, but it's clear that Biden has to do better than recent surveys suggest.

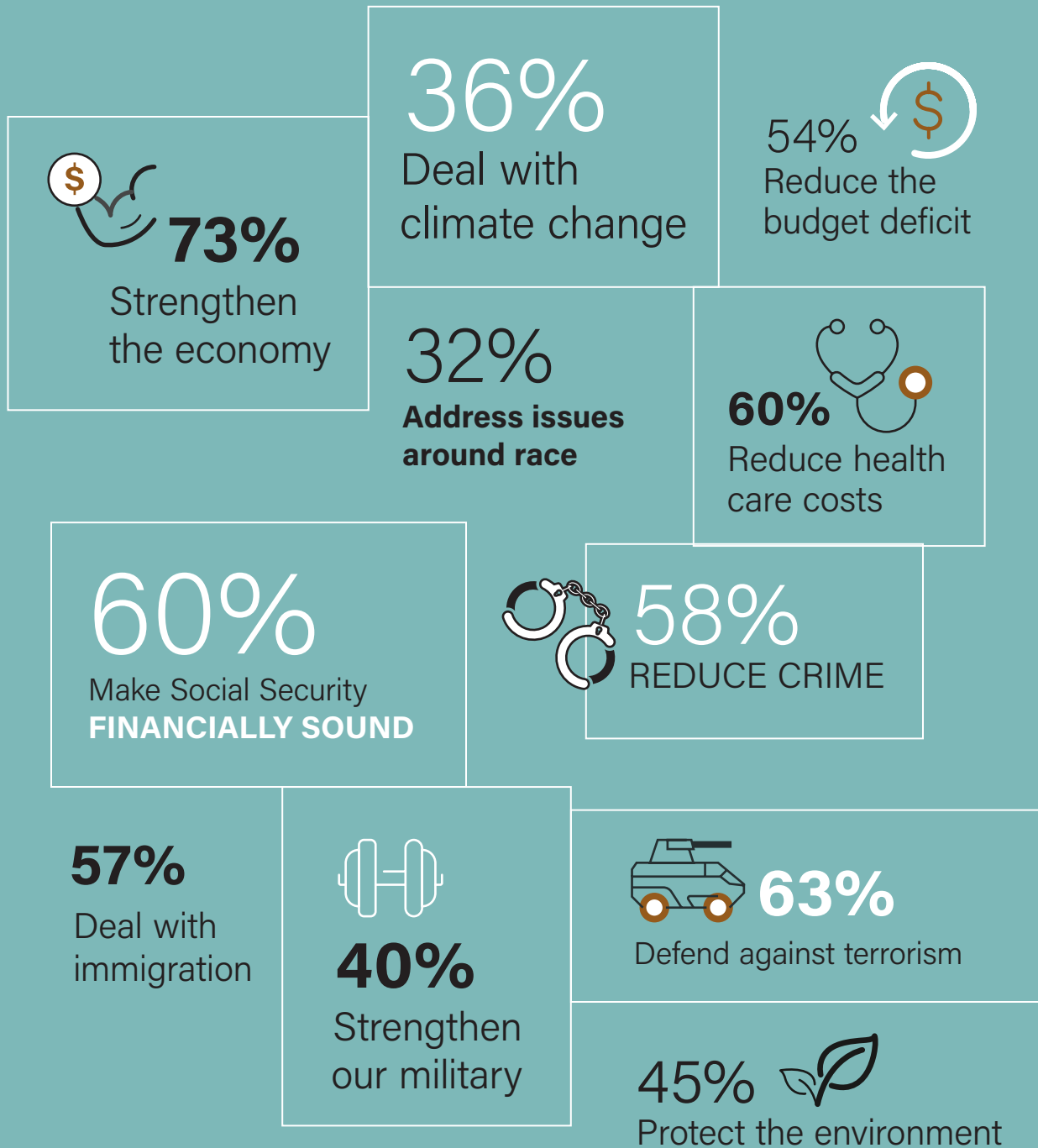
So far, things don't sound so great for Biden. What about the age issue?

By definition, it is not getting any better for the president! Yet his State of the Union speech, although it didn't give him a polling bounce, did display what's called a fighter's countenance. Ronald Reagan neutralized the age issue through humor, and I thought Biden struck a similar vein when he said that "the issue facing our nation isn't how old we are, it's about how old our ideas are." If

Sources: ¹ FiveThirtyEight, June 28, 2018; ² NBC News, November 3, 2020; ³ *USA Today*, April 3, 2024; ⁴ *The New York Times*, March 5, 2024; ⁵ *The New York Times*, August 30, 2016; ⁶ Pew Research Center, June 30, 2021.

What Do Americans Want?

Percentage of U.S. adults who say _____ should be a top priority of the president and Congress this year.



Source: Pew Research Center survey, January 16 – 21, 2024.

he can continue to show physical vigor and make this case for ideas and optimism, that plays to his advantage, especially with the presidential pulpit during the inevitable exogenous events that will occur before November.

You mentioned polling, but in the primaries, Trump actually underperformed voting projections.

Yes, and that points to another plus for Biden. Remember, Nikki Haley did almost 30% better⁷ in Virginia than expected, 25% better in Michigan,⁸ and so on. The way that I read the polls is that Trump is probably close to his support ceiling. In addition, many of Haley's Republican primary voters seem unlikely to go for Trump in November, nor will he draw the independents that she could have attracted as a general election candidate.

In fact, given his weakness in the moderate suburbs, we may see a replay of the 2022 midterm results, when Republicans underperformed widely. Unlike the GOP, Democrats have been pretty successful in attracting moderate candidates, and despite a general leftward tilt, Biden remains bolted onto the moderate middle of his party.

How about the economy? Biden's ratings there remain quite low.

That's true, and the residual impacts of inflation continue to hit pocketbooks. Still, the U.S. economy is actually a bright spot among our global peers, and historically it's been very difficult to beat an incumbent president during an economic expansion. If growth improves from here, that makes the math worse for Trump.

On the other hand, Americans tend to give the former president credit on the border and crime, as well as for the more peaceful international scene prior to 2021. Biden, for his part, benefits when it comes to health care, and, importantly, the abortion issue, which has rallied a large cross-section of moderate women, who will be a key group in swing-state contests.

How could Donald Trump's legal troubles affect the election? It's like he's playing Whac-A-Mole, but so far pretty successfully.

Legal issues definitely helped Trump consolidate his base of support and force out GOP rivals including Florida Gov. Ron DeSantis, who initially looked quite promising. But that dynamic is largely within the Republican party.

Although it may seem surprising, about half of the country isn't yet familiar with Trump's legal issues, including with regard to January 6th. When voters are actually informed of Trump's statements, their opinion of him tends to drop noticeably. Once they start to tune in around convention time, and they see the ongoing court battles, that could have more impact. The dynamic could be magnified if Trump reacts too aggressively to legal developments, which is his tendency.

A related issue is money. Trump's campaign has been paying a large portion of his legal fees, and now has a huge cash disadvantage compared to Biden's team, which is enjoying successful fundraising with up to a two-to-one advantage in cash from small donors. In terms of organization, the Trump people have upped their game compared to 2020, but Biden will still likely have the edge.⁹

Will the choice of vice president make a difference to the race?

If you look at the literature, the choice of vice president usually does not matter—perhaps offering a slight home court advantage if you pick someone from a swing state—but it can influence how people judge the presidential candidate himself. Joe Biden's age makes things a bit different this time. Historically speaking, the vice president typically has had a 20 – 25%¹⁰ chance of becoming president due to death, assassination or resignation—but given Biden's age, that could increase

to over 50%¹¹ in the next term, looking at basic mortality rates, without even considering his health or the extreme stress associated with his job.

Kamala Harris has historically low polling numbers, but that's inextricably tied to Biden's approval-rating weakness, as well as her assignment to a series of no-win issues like the border crisis. On the plus side, she's ended the personnel dysfunction in her office and she's popular with minority and young voters, which are key constituencies for Biden. She also gave a speech at Davos on defense recently that reassured European counterparts as to her diplomatic competence.

Overall, it will be hard to judge Harris's impact until Trump makes his own choice—politics is, after all, about head-to-head matchups. There's South Carolina Sen. Tim Scott, who has an optimistic message and could help with inroads among Blacks and Hispanics; and other potential choices include South Dakota Gov. Kristi Noem, New York Rep. Elise Stefanik and former Democratic Rep. Tulsi Gabbard. To me, Nikki Haley would probably be the strongest choice in attracting moderate Republicans, independents and female voters, but that's currently a low-percentage outcome given her strained history with Trump. But Trump (as well as his former adversaries) always seems to surprise us.

People often talk about "October surprises" that upset election dynamics late in the race. Do you anticipate any such events this time?

I see three possible disrupters with major consequences. The first would involve Trump's legal battles, and the potential for damaging testimony on election interference or even a conviction, whether in Washington, DC regarding January 6th or in New York on criminal fraud charges. There are conflicting views as to whether any of the outstanding cases will ultimately succeed, but Trump seems to need a major streak of luck to emerge unscathed.

The second surprise, if a bit maudlin, is that one of these two candidates—the oldest two rivals in history—would die before election day. Biden has a 93% chance of survival and Trump has a 95%¹² chance. So, there is approximately a 1-in-10 chance that one of the candidates will no longer be with us.

Finally, you shouldn't discount the possibility of disruption by a third country, given the efforts we've seen in past elections. Social media manipulation, ballot system breaches, military provocation—all could be on the table.

How about third-party candidates? Could they have an impact?

They could be significant, not only in whether they get any votes, but how their presence and messaging affect the campaign. It's conventional wisdom that third-party candidates would hurt Biden. And that's probably the case with Jill Stein and Cornel West, who are more left-leaning, to the extent they garner support. It's much less clear how Robert Kennedy, Jr. could affect the race, given his idiosyncratic policy views on vaccines and other issues. In polling thus far, his presence typically hurts Biden's position relative to Trump by a few percentage points, but Trump surrogates have started attacking Kennedy, so who really knows how this will shake out. Kennedy's selection of his VP candidate seems aimed at gashing Biden more than Trump.

Are there any other underappreciated dynamics that could affect the race?

Interstate migration is one. A lot of people have been moving from blue to red states, which is making some traditional GOP enclaves more "purple." That seems to have affected 2020 results in Colorado, Arizona and Nevada, and could add to uncertainty in other states, including, ironically, Florida, which has transitioned to the Republican camp in recent elections.

Sources: ¹¹ The Hill, July 11, 2023; ¹² The Conversation, March 18, 2024.

Finally, the Democrats are favored to take the U.S. House and the Republicans to win the Senate. Do you agree with the consensus?

Amy Walter of *The Cook Political Report* has a great tagline describing Congressional elections: "Both incredible stability and volatility all at once." What she means is that there's so much entrenchment and division that it's hard for one party to get too much of an advantage, but that the close divide between the parties impels forecasting uncertainty. Party leadership has been flipping more frequently than ever before, with the Senate changing hands six times since 1994 and the House five times.

Among forecasters, about 16 GOP and 10 Democratic House seats are considered very competitive. If you blindly split all those positions between the parties, that should bring the Democrats into a narrow majority, helped by the newcomer status of many of the GOP incumbents. That said, these "endangered" Republicans have about three times as much cash as their challengers, making for competitive races. On the Senate side, Democrats are defending too many marginal seats to be confident of victory, and I think the GOP will likely take control there. However, the Republicans have a history of picking poor candidates, so it's always possible they will underperform.

Thanks for your time, Sam.

My pleasure.



About Sam Potolicchio, PhD

Dr. Sam Potolicchio was named one of "America's Best Professors" by the Princeton Review, the Future Leader of American Higher Education by the Association of Colleges and Universities, and was also profiled in a cover story on his leadership curriculum by *Newsweek Japan* as the "Best Professor in America." Sam is the Founding Executive Director of American Councils for International Education's Center for Global Leadership and President of the Preparing Global Leaders Forum.

Sam also teaches in Executive Education EMBA programs at the McDonough School of Business at Georgetown and at the Mannheim Business School (Germany). He is a visiting lecturer at the University of Bologna (Italy) and teaches two classes ("U.S. Political Systems" and "Preparing to Be President") to Georgetown University undergraduates.

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