Enhancing Fixed Income Menus to Meet Evolving Participant Needs

NEUBERGER | BERMAN

Today, over 50% of Americans working in the private industry have access to employer-sponsored defined contribution (DC) retirement plans.[1] DC plans have accumulated $9.6 trillion in assets as of December 31, 2020—a 109% increase since 2007[2]—and now represent 28% of all U.S. retirement assets. The growing importance of DC plans to Americans' retirement security has raised new concerns about whether plan menus, particularly their fixed income offerings, are positioned to meet evolving participant objectives.

Participants nearing retirement are faced with a growing challenge of generating income while managing investment risks. Plan sponsors are faced with providing a menu to help participants meet this challenge. In our view, many plan menus are in need of adding flexible fixed income options—namely multi-sector fixed income portfolios—that can better address this challenge.

[1] U.S. Bureau of Labor Statistics, March 2021.

[2] Defined Contribution Plan Participants' Activities, June 2021, ICI.

63% of 401(k) plan assets are held by participants in their **50s or 60s.**

Source: EBRI/ICI. 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2018, March 2021.

Participant profiles have evolved—so should plan lineups

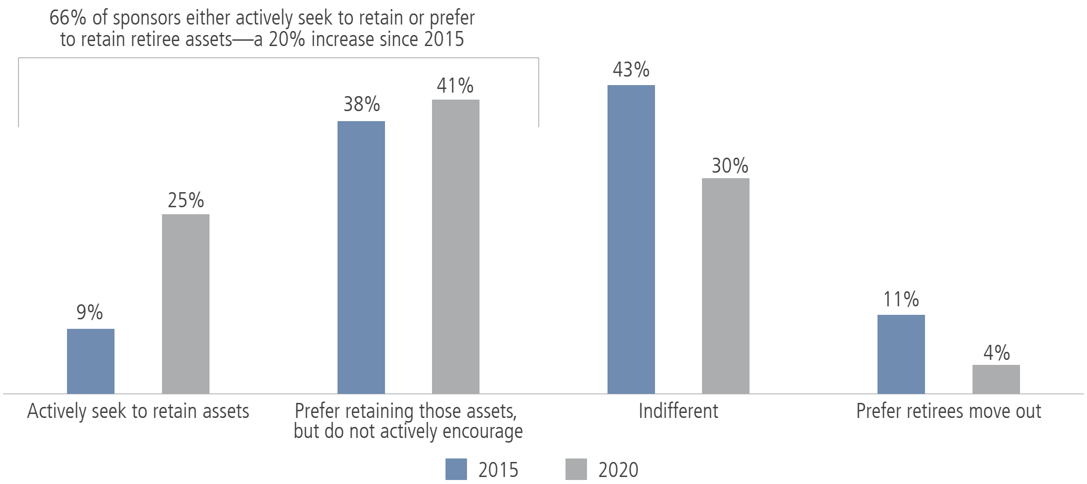
The demographic profile of DC plan participants has changed significantly over the past two decades. Twenty years ago, the bulk of participants were accumulators who needed investment options focused on growth to help them amass greater assets for retirement. Today, however, the majority of 401(k) assets are held by participants at or near retirement age, and their needs are very different.

Surprisingly, despite this meaningful shift in participant composition, plan menus have remained largely unchanged. On average, a typical lineup today consists of roughly 18 total investment options, with the majority of those options being equity funds and only two or three being fixed income and/or cash alternatives (e.g., stable value or money market funds).

Participants nearing retirement are limited in suitable fixed income options within their DC plans. In our view, plan menus with fixed income offerings constrained to only a core bond or stable value fund are unlikely to deliver the capital preservation and income generation that near-retirees are seeking, potentially putting the success of these participants' retirement outcomes at risk.

Additionally, plan sponsors' views on keeping participants in the plan post-retirement have changed over time. In the past, participants were expected to retire and roll their assets out of the plan. Now sponsors are looking to keep these participants in the plan and may need to adjust their investment options in order to improve participant retention.

Plan sponsors are increasingly focused on retaining assets in-plan



Source: PIMCO Defined Contribution Consulting Support and Trends Survey April 2015, June 2020.

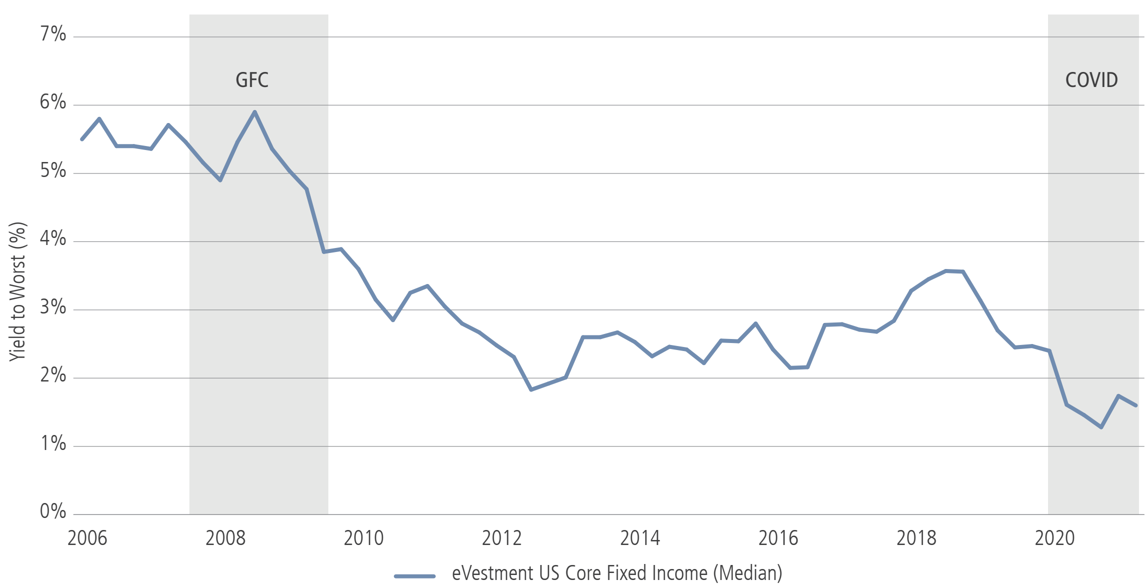
Retirees May Feel Target Date Retirement Funds Have Too Much Equity Exposure

Most target date fund series end and roll into some version of a target date retirement income fund. These funds usually still have an allocation to equities which can range anywhere from 35% to 65% depending on the target date fund manager. This level of equity exposure may be acceptable for recent retirees but those who are further into retirement may want to reduce equity exposure while still investing in a diversified fixed income portfolio where the allocation to fixed income sectors managed by a portfolio manager. Offering a multi-sector bond portfolio can be a good way to expand the choice of asset allocation portfolios for retirees that you are looking to keep in the plan post retirement.

Traditional fixed income offerings may not be sufficient anymore

In our view, the long-term market backdrop of slow growth, low inflation and low yields that we've become so accustomed to in fixed income is rapidly changing, and we believe investors need to be positioned for a different, more complex, fixed income environment going forward. Historically, plan sponsors have typically relied on a core fund to offer participants sufficient fixed income exposure, provide stability during risk-off environments and act as a ballast to a participant's broader asset allocation mix. However, following the global financial crisis (GFC), core funds have failed to consistently offer the same level of total return and income potential that they delivered prior to the crisis.

Core funds offer more modest income enhancement relative to pre-GFC levels



Source: eVestment, as of June 30, 2021. Based on monthly yield-to-worst of named Universe median.

How can plan sponsors enhance their plan lineups?

DC plan sponsors could consider revising their plan menus to offer more fixed income options that better align with their participants' desire for income and capital preservation, while also helping to protect against risks like interest rate volatility and inflation that participants face in retirement.

Fixed income option expansion

Average Fixed Income Menu	Role in Portfolio
Money Market / Stable Value Fund	Stability
Core / Core Plus Bond Fund	Balance

Expanded Fixed Income Menu	Role in Portfolio
Money Market / Stable Value Fund	Stability
Core / Core Plus Bond Fund	Balance
High Yield	Yield
Emerging Market Debt	Global exposure
Bank Loans	Yield
TIPS	Inflation protection

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While expanding a DC plan menu has many advantages, it also has a few risks. One potential risk is that too many investment choices can lead to investor paralysis. A study conducted by Columbia Business School professors, for example, found that for every 10 investment options offered, participation rates fell by 1.5 – 2%.[3] Another potential risk comes in the form of participant education as it relates to menu expansion. For example, while adding a series of single-sector funds to the plan lineup (e.g., a high yield bond fund or an emerging market debt fund) would provide participants with more options to access fixed income markets, knowing when and how to allocate to these funds could be a significant hurdle for participants.

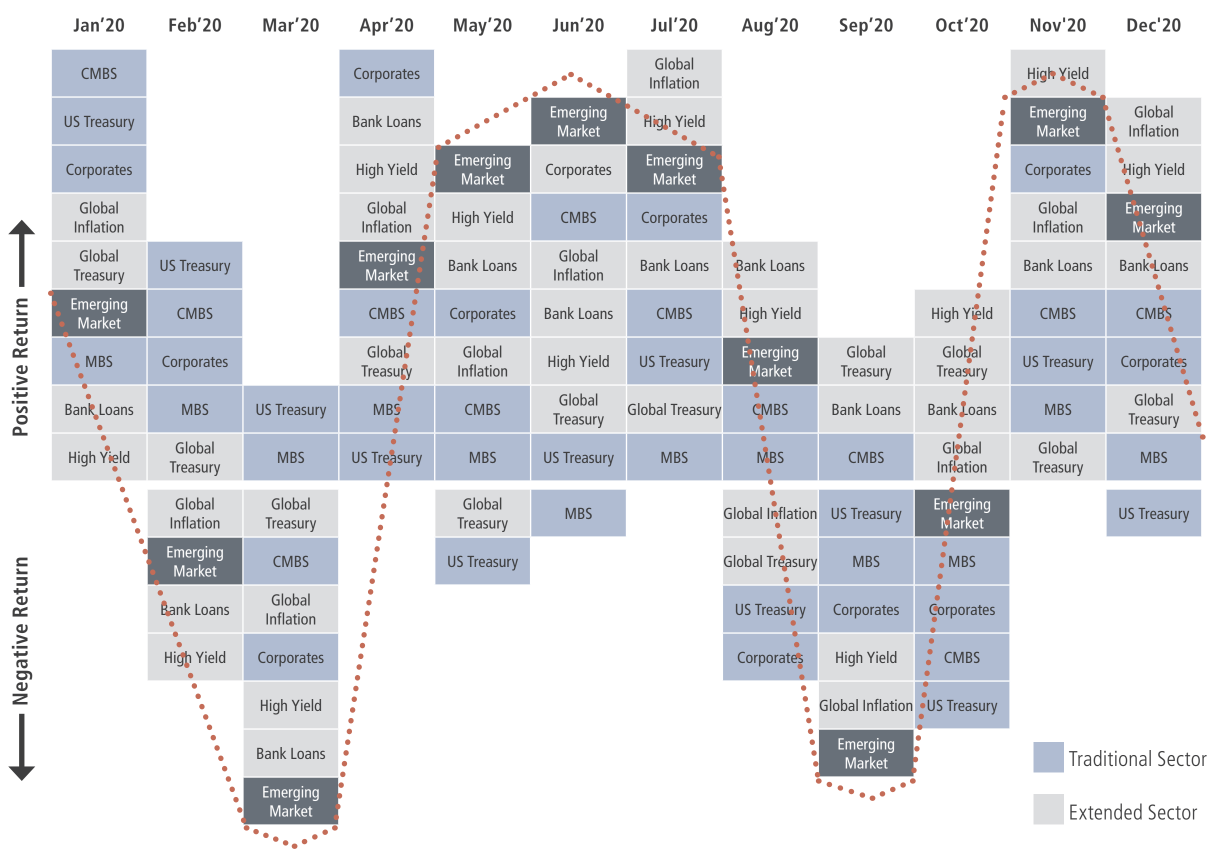
[3] Pension Research Council of the Wharton School of the University of Pennsylvania, Sheena S. Iyengar, Wei Jiang and Gur Huberman, *How Much Choice is Too Much?: Contributions to 401(k) Retirement Plans, 2003; Columbia University, The Effects of Choice Proliferation on Retirement Savings Behavior,* May 2008.

Investment opportunities can change quickly

Fixed income markets can change quickly. The chart below shows the best and worst performing fixed income sectors over calendar year 2020, highlighting emerging market debt as an example of a quickly changing sector. Given how quickly the market was moving, it would have been difficult for even the most knowledgeable and engaged participant to re-allocate their portfolio to avoid risks and take advantage of opportunities.

To help alleviate this difficulty, plan sponsors looking to upgrade their fixed income offerings, but wary of expanding and complicating their menu options, may want to consider adding a flexible multi-sector fixed income fund.

Participants may not react fast enough to take advantage of timely portfolio re-allocations



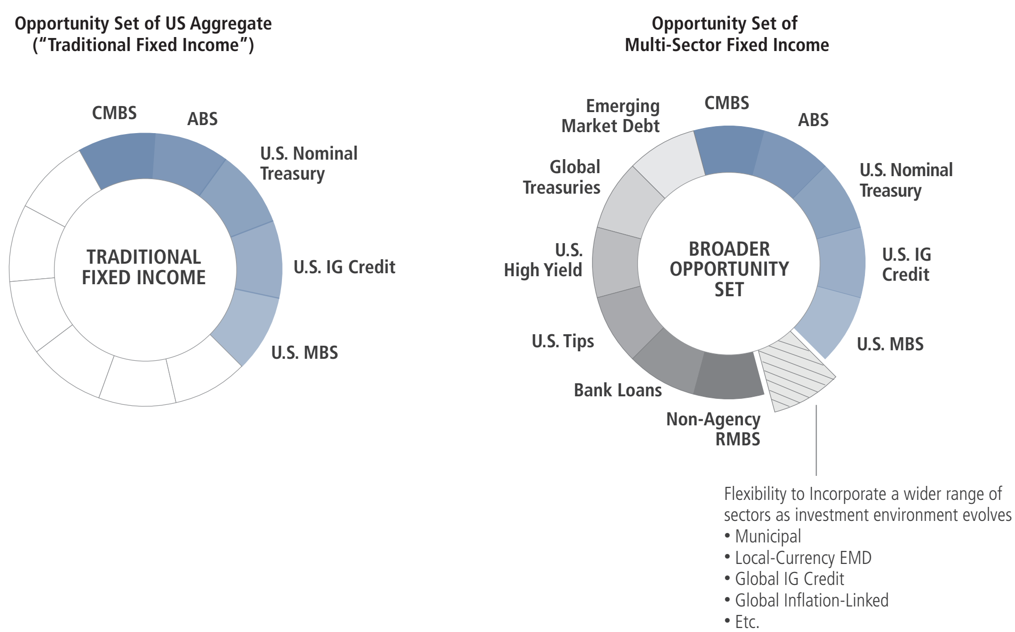
Monthly Returns Data as of June 30, 2021. Source: BofA US High Yield Constrained(High Yield), JPM EMBI Global Diversified Index (Emerging Market), Bloomberg Barclays Global Inflation-Linked Index - USD Hedged (Global Inflation Linked), Bloomberg Barclays Global Ex-Treasury Index - USD Hedged (Global Treasury), Bloomberg Barclays US Credit Index, Bloomberg Barclays US MBS Index (MBS), Bloomberg Barclays US CMBS: ERISA Eligible Index (CMBS), Bloomberg Barclays US Treasury Index (US Treasury), S&P/LSTA Leveraged Loans (Senior Floating Rate Loans). Indices are unmanaged, are not available for direct investment and are not subject to fees and expenses typically associated with managed accounts or investment funds. Past performance is not necessarily indicative of future results. As with any investment, there is the possibility of profit as well as the risk of loss.

Broaden and simplify the opportunity set with a multi-sector fixed income option

A better solution, in our estimation, is a multi-sector fixed income fund. Multi-sector funds tend to offer greater flexibility when it comes to integrating and shifting extended sectors, as well as managing duration. This can allow for a greater total return/yield outcome as compared to both core and core plus across shifting market environments. Another benefit of a multi-sector fund is that it passes sector allocation decision responsibility to an experienced fixed income manager, versus participants having to make those decisions on their own.

A multi-sector fixed income option puts the responsibility for opportunistic allocations—which might be made to account for rising rates or other market events—in the hands of an experienced fixed income manager rather than plan participants who may not be able to make such adjustments in a timely and effective manner on their own.

Shifting market environments demand a more extensive toolkit



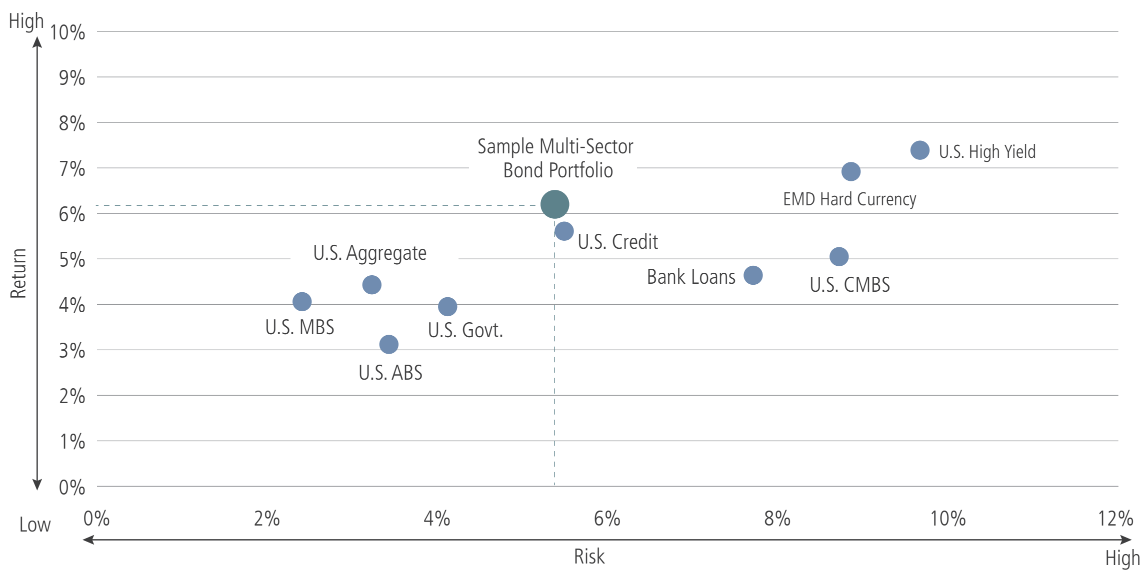
Source: Neuberger Berman.

Multi-sector fixed income solutions quickly adjust for changing market conditions

The portfolio managers of an active multi-sector strategy can look across markets for what they believe are attractive investment opportunities and add value through asset allocation, security selection, duration/yield curve positioning and currency management. As the chart below illustrates, we believe the ability to employ a greater variety of approaches through an active strategy may lessen participants' vulnerability to interest rate volatility and allow adjustments for changing market conditions, resulting in a potentially better risk/reward profile for participants.

Multi-sector portfolios have the potential to offer an attractive risk-return profile

15-Year Risk/Return Profile



Source: Neuberger Berman, Bloomberg Barclays, ICE BofAML, JPMorgan and S&P/LSTA, as of June 30, 2021. **Past performance is no guarantee of future results.**

Market environments change; how might your fixed income options respond?

Given how quickly market environments can change, it is important to think about the fixed income options your participants have access to in the plan, which may react differently in certain situations. The chart below illustrates the three major broad market fixed income universes and their historical relative performance over varying market environments since 2015. The important thing to highlight here is that different categories perform well in different market environments; there isn't a single solution fund for all market environments.

Multi-sector has outperformed during periods of rising interest rates and widening credit spreads, and also in periods when interest rates are falling and credit spreads are tightening. Core has historically been an out-performer in "risk-off" environments when interest rates are falling and credit spreads are widening. A core fund's focus on investment grade securities and higher duration and serves an important role as a ballast in a portfolio during these "risk-off" periods.

How will your fixed income fund respond?

CREDIT SPREADS

RATES	TIGHTER	WIDER
RISING	1. MULTI-SECTOR 2. CORE PLUS 3. CORE	1. MULTI-SECTOR 2. CORE PLUS 3. CORE
FALLING	1. MULTI-SECTOR 2. CORE PLUS 3. CORE	1. CORE 2. CORE PLUS 3. MULTI-SECTOR

Note: Based on quarterly median returns for the various eVestment Universes during the period 4Q 2015 through 1Q 2021. There were two quarters during this period in which rates fell while spreads were generally flat.

Rates proxy: yield of the 10 Year US Treasury note; Spreads proxy: option-adjusted spread of the Bloomberg Barclays US Credit Index. For illustrative and discussion purposes only. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. This material is not intended as a formal research report and should not be relied upon as a basis for making an investment decision. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. Historical trends do not imply, forecast or guarantee future results. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

We believe that the addition of a multi-sector fixed income product helps to:

1. Improve the diversification of participants' fixed income menus through a single-fund / single-cost solution
2. Enhance total return and income potential
3. Complement "traditional" core fixed income funds in an effort to best suit the needs of participants throughout their full investment lifecycles (in retirement; not just accumulation phase)

At the end of the day, the right fixed income solution comes down to what you / your participant's view of the world is going forward. It's our belief that complementing a core offering with a multi-sector product can enhance a participant's fixed income toolkit and return/income potential amidst a rapidly changing market environment.

Not all multi-sector fixed income strategies are the same

That being said, it's important to note that the multi-sector universe is a diverse peer group and not all multi-sector managers take the same approach. Some managers take a more diversified approach, while others tend to be less diversified, reflecting a persistent bias to a few select sectors. Less diversified managers may take large sector positions in high yield or securitized loans. Still others may add equities to the portfolio. So, it's important to understand the strategy and process being implemented when selecting a multi-sector manager.

Neuberger Berman Firm Overview

We've been partnering with intermediaries for over 80 years to help clients achieve their unique investment objectives.

- Access to insights from senior investment professionals
- Forums to facilitate the exchange of ideas
- Timely commentary and white papers
- Innovative investment solutions

We are 100% independent, employee-owned, with a singular focus on managing client assets.

617 Investment professionals worldwide

25+ Year average industry experience for lead PMs

96% Annualized retention rate of senior investment professionals at MD and SVP level

We are an active, research-driven manager with $433bn invested globally across Fixed Income, Equities and Alternatives.

$191bn Fixed Income	$80bn Private Equity
$137bn Equity	$25bn Hedge Funds

Our independence and compensation structure fosters alignment with clients.

600+	Employee owners
~$4bn	Invested by Neuberger Berman employees alongside clients[1]
100%	Deferred cash compensation directly linked to team and firm strategies

All information is as of June 30, 2021, unless otherwise indicated.

[1] Employee assets include current and former employees and their family members.

An investor should consider Neuberger Berman Core Bond Fund and 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.

Shares in the Fund may fluctuate, sometimes significantly, based on interest rates, market conditions, credit quality and other factors. In a rising interest rate environment, the value of an income fund is likely to fall. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors. 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, shortening or lengthening their duration, and could magnify the effect of rate increases on the security's price. When-issued/delayed-delivery securities 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. Leverage amplifies changes in the Fund's net asset value. Unexpected episodes of illiquidity, including due to market factors, instrument or issuer-specific factors and/or unanticipated outflows, may limit the Fund's ability to pay redemption proceeds within the allowable time period.

Derivatives can be highly complex, can create investment leverage and may be highly volatile, and the Fund could lose more than the amount it invests. Derivatives may be difficult to value and may at times be highly illiquid, and the Fund may not be able to close out or sell a derivative position at a particular time or at an anticipated price. The Fund's investments in derivatives create counterparty risk.

The Fund may also invest in senior loans, 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 prevent the Fund from obtaining the full value of a loan when sold. Current plans call for LIBOR to be phased out by the end of 2021. There are risks that a suitable substitute may not be in place by that time. The transition process, or a failure of the industry to transition properly, might lead to increased volatility and illiquidity in markets that currently rely on LIBOR and a reduction in the value of some LIBOR-based investments.

The COVID-19 health pandemic has negatively affected and may continue to affect the economies of many nations, individual companies and the global securities and commodities markets. This has impacted and may continue to impact the issuers of the securities held by the Fund.

Bloomberg 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. 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. The Fund may invest in many securities not included in the above-described index.

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