

# Neuberger Berman Fixed Income LLC

## Client Brochure

### March 28, 2013

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Chicago, Illinois 60603  
[www.nb.com](http://www.nb.com)

This Brochure provides information about the qualifications and business practices of Neuberger Berman Fixed Income LLC (“**NBFI**”). If you have any questions about the contents of this Brochure, please contact us at 312-325-7700 or by email at: [Brian.Lord@nb.com](mailto:Brian.Lord@nb.com).

NBFI is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). NBFI is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission (“**SEC**”). Registration as an investment adviser does not imply any particular level of skill or training.

Additional information about NBFI is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

## **Item 2: Material Changes**

The following is a summary of the material changes set forth herein that have been made to this Brochure since March 30, 2012. This Brochure will be updated at least annually and we may further provide other ongoing disclosure information about material changes as necessary.

Item No.	Description of Material Changes
5	5.A: New standard fee schedules for Global Credit, European Credit, Hard Currency – Emerging Market Debt, Local Currency – Emerging Market Debt and Corporate – Emerging Market Debt Mandates.
7	New Separate Account minimum account size for Bank Loan Mandates.
8	8.B: Updated types of investments that NBFIs may make on behalf of its clients. Updated description of Emerging Market Debt strategies. 8.C: Updated the risk disclosures section.
10	10.B: Clarified that with respect to certain accounts, NBFIs may rely on the exemption from CTA registration in CFTC Rule 4.14 (a) (8).

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## Item 4: Advisory Business

### A. Description of the Firm

Neuberger Berman Fixed Income LLC (“**NBFI**”) is a Delaware limited liability company formed in November 2002 and registered with the Securities and Exchange Commission (the “**SEC**”) in January 2003. NBFI’s principal office is located in Chicago, Illinois. NBFI is directly owned by Neuberger Berman Fixed Income Holdings LLC and Neuberger Berman AA LLC, which are subsidiaries of Neuberger Berman Group LLC (“**NBG**”).

NBFI is registered with the U.S. Commodity Futures Trading Commission as a Commodity Trading Advisor and is a member of the U.S. National Futures Association.

NBFI provides a wide range of investment management services to meet the needs of clients with diverse investment objectives. NBFI’s primary business is providing investment advice primarily to institutional clients with respect to fixed income securities and loans.

#### ***Indirect Ownership Background – Neuberger Berman Group***

NBG is a holding company the subsidiaries of which (collectively referred to herein as the “**Firm**” or “**Neuberger Berman**”) provide a broad range of global investment solutions – equity, fixed income and alternatives – to institutions and individuals through customized separately managed accounts, mutual funds and alternative investment funds. As of December 31, 2012, Neuberger Berman had approximately \$205 billion under management.<sup>1</sup>

On May 4, 2009, Neuberger Berman became an independent, employee majority-controlled asset management firm resulting from a management buyout from Lehman Brothers Holdings Inc. (“**LBHI**”), the then-owner of the businesses that now comprise Neuberger Berman. At the time of the management buyout, LBHI retained a 49% interest in Neuberger Berman.

As of March 14, 2013, NBG’s voting equity is owned 72% by NBSH Acquisition, LLC (“**NBSH**”), and 28% by LBHI and certain of its subsidiaries. NBSH is owned by certain portfolio managers, members of its management team, other senior key employees and their permitted transferees (the “**Management Members**”). NBG’s Board of Directors is comprised of seven members, including NBG’s Chief Executive Officer, who is required to be a member of the Board and serves as its Chairman. In addition, the Management Members have the right to appoint four Directors, two of whom are required to be independent as defined in the New York Stock Exchange Listed Company Standards. LBHI is entitled to appoint two Directors. The right to appoint four

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<sup>1</sup> Firm assets under management figures reflect the collective assets for the various affiliated investment advisers that are subsidiaries of NBG, including, but not limited to, NBFI, Neuberger Berman LLC, Neuberger Berman Management LLC, NB Alternative Fund Management LLC, NB Alternative Investment Management LLC, and NB Alternatives Advisers LLC.

members to NBG's Board of Directors enables the Management Members to appoint a majority of the Directors.

Neuberger Berman is headquartered in New York City, where the majority of its asset management services are performed. As of December 31, 2012, Neuberger Berman had approximately 1800 employees across 30 offices in 29 cities and 16 countries around the world.

As of December 31, 2012, approximately 300 employees owned an equity stake in the Firm. All of these employees have entered into agreements that provide strong incentives to continue with the organization, and have a number of restrictive covenants in the event the employee leaves the Firm.

NBFI's investment management services are discussed further below.

## **B. Types of Advisory Services**

NBFI currently provides the following types of advisory services:

### ***Separately Managed Accounts***

NBFI provides ongoing discretionary investment management services to institutional and individual clients with respect to assets held in the client's custodial account (collectively, "**Separate Accounts**") based on customized investment objectives or guidelines, time horizons, risk tolerances, policies and limitations of such clients.

### ***Private Investment Vehicles***

NBFI acts as the investment manager providing discretionary investment management services to affiliated and unaffiliated privately offered investment vehicles ("**Private Funds**").

Such funds are not registered under the U.S. Investment Company Act of 1940, as amended (the "**Investment Company Act**"), and their shares or interests, as applicable, are not registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Accordingly, the Private Funds are not publicly offered in the United States. Such Private Funds may or may not be continuously offered.

For a list of certain of the Private Funds, please refer to Section 7.B.(1) and (2) of Schedule D of Part 1 of NBFI's Form ADV which is publicly available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### ***Sub-Advisory Services***

NBFI acts as sub-adviser to the following (collectively, the "**Sub-Advised Accounts**"):

- affiliated U.S. registered open-end and closed-end investment companies (the "**NB Registered Funds**") (an affiliate of NBFI, Neuberger Berman Management LLC ("**NBM**"), acts as investment adviser to the NB Registered Funds);

- unaffiliated U.S. registered open-end investment companies (“**Third-Party Mutual Funds**”); and
- U.S. and non U.S. separately managed accounts and private investment vehicles (including non U.S. registered vehicles) managed by affiliated and unaffiliated advisers.

### ***Wrap Accounts***

NBFI provides advisory services through participation as a manager in third-party wrap programs (“**Wrap Programs**”). See Item 4.D.

The Separate Accounts, Private Funds, Sub-Advised Accounts and Wrap Accounts are collectively referred to herein as the “**Client Accounts**.”

### ***Non-Discretionary and Consulting Services***

In limited circumstances, NBFI provides non-discretionary investment management services to institutional and individual clients whereby it is required to consult with the clients before effecting any transactions for the client’s account (“**Non-Discretionary Accounts**”). For these accounts, NBFI has ongoing responsibility to select and make recommendations to a client as to specific securities or other investments that may be purchased or sold for a client’s account, and, if NBFI’s recommendations are accepted by the client, NBFI is responsible for arranging or effecting the purchase or sale of such securities or other investments.

NBFI also provides non-discretionary advisory and consulting services to institutional clients with respect to the valuation of mortgage loans and mortgage-backed and other asset-backed securities (“**Consulting Services**”). In addition, it has developed proprietary mortgage loan analytic software (the “**NBFI Software**”) used to analyze mortgage loans on an individual loan level basis and, collectively, on an aggregate basis by application of value and risk models and analytical metrics to loan portfolios of banks, mortgage insurers and other financial institutions. NBFI licenses and supports the NBFI Software for non-exclusive use to clients and, in connection therewith, provides installation and training on the use and application of the NBFI Software.

## **C. Client Tailored Services and Client Tailored Restrictions**

NBFI enters into discretionary and non-discretionary investment management agreements with its Separate Account clients. See Item 16. Clients may impose restrictions on investing in certain securities or other assets in accordance with their particular needs. However, NBFI may decide not to accommodate investment restrictions deemed unduly burdensome or materially incompatible with NBFI’s investment approach. From time to time, NBFI may be engaged to provide limited investment management services such as liquidating a client’s account.

For certain of NBFI’s large institutional Separate Account clients, NBFI offers customized multi-asset and/or multi-strategy investment management services that utilize the services of NBFI and its affiliates (“**Multi-Asset Mandates**”). Certain of such clients may impose restrictions on

investing in certain securities or other assets in accordance with their particular needs. Other clients may allow NBFI to determine, and change from time to time, the asset allocation among asset classes and Neuberger Berman investment strategies for their accounts based on the clients' investment objectives, tax considerations and other client specific factors. Clients may also have access to customized educational programs or participate in, or be involved in the selection of, Neuberger Berman investment management research projects.

NBFI enters into discretionary investment management agreements with the Private Funds. Services are performed in accordance with the terms of each such agreement. Each Private Fund may impose investment restrictions as it deems appropriate. Such investment restrictions are typically set forth in the offering memorandum ("**Offering Memorandum**") for each Private Fund.

In the case of the Sub-Advised Accounts, NBFI enters into a sub-advisory agreement with the investment adviser intermediary. The terms and conditions of these arrangements may vary, and any contact between NBFI and the ultimate client will typically take place through the relevant intermediary. Each Sub-Advised Account is managed in accordance with the investment objectives, policies and restrictions set forth in the sub-advisory agreement between NBFI and the investment adviser intermediary.

The investment guidelines of the Separate Accounts, Sub-Advised Accounts and Wrap Program Clients may restrict the ability of NBFI to invest in the NB Registered Funds or the Private Funds.

See Item 4.D for a description of client-tailored services and the restrictions on Wrap Programs.

#### **D. Wrap Programs**

NBFI participates as an investment manager in discretionary and non-discretionary Wrap Programs. A Wrap Program is an investment program where the clients of the Wrap Program sponsors (each, a "**Wrap Program Client**") generally pay to the sponsors one all-inclusive fee that covers investment management fees, trade execution, custodial services and other administrative fees. The sponsors of a Wrap Program (the "**Wrap Sponsors**") are typically broker-dealers, financial institutions or other investment advisers that establish, operate and administer the Wrap Programs. The Wrap Sponsors are responsible for determining the financial circumstances, investment objectives, risk tolerances and investment restrictions of each Wrap Program Client.

In discretionary Wrap Programs, the Wrap Sponsor typically selects or appoints NBFI as its sub-adviser to manage designated assets of its Wrap Program Clients in one or more investment strategies. In these discretionary Wrap Programs, NBFI has investment discretion over the designated assets in the accounts of the Wrap Program Clients. NBFI manages the accounts in accordance with the selected investment strategy and reasonable client-directed restrictions.

NBFI also participates in non-discretionary Wrap Programs. In these Wrap Programs, NBFI furnishes investment advice and recommendations to the Wrap Sponsors through the provision



of model portfolios. The Wrap Sponsors may use NBF's model portfolios and updates, either alone or together with other model portfolios, to manage the accounts of the Wrap Program Clients, although the Wrap Sponsors retain investment discretion over the accounts. NBF is solely responsible for managing its model portfolios.

The services provided by each of NBF and the Wrap Sponsors are described in the Wrap Sponsors' disclosure materials and the contracts Wrap Sponsors have with their Wrap Program Clients.

NBF does not generally communicate directly with Wrap Program Clients (including communications with respect to changes in a Wrap Program Client's investment objectives or restrictions), and all such communications generally must be directed through the Wrap Sponsor. Also, NBF does not provide overall investment supervisory services to Wrap Program Clients. NBF is not in position to recommend suitability of any Wrap Program to Wrap Program Clients.

Please refer to Section 5.I.(2) of Schedule D to Part 1 of NBF's Form ADV for a full list of the Wrap Programs in which NBF participates.

#### **E. Assets Under Management**

<b><u>Discretionary Amounts:</u></b>	<b><u>Non-Discretionary Amounts:</u></b>	<b><u>Date Calculated:</u></b>
\$78,388,813,970	\$11,498,153,415 <sup>2</sup>	12/31/2012

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<sup>2</sup> Excludes amounts representing client assets in non-discretionary Wrap Programs advised by NBF.

## Item 5: Fees and Compensation

### A. Fee Schedule

#### I. SEPARATE ACCOUNTS

Management fees for Separate Accounts are generally based on a percentage of the market value of the assets held in the Separate Account. NBFI's standard fee schedules are set forth below. See also Item 7 for minimum account size requirements.

NBFI may negotiate the Separate Account standard fee schedules from time to time for certain accounts based on a variety of factors including, but not limited to, the account size, investment objectives, whether or not the Separate Account involves a Multi-Asset Mandate and the type and number of other accounts a client has with NBFI, including other accounts with affiliates of NBFI. There may also be differences in fees paid by certain clients based on account inception dates. Unless otherwise agreed with the client, fees are typically adjusted to reflect material contributions to, and withdrawals from, the account.

NBFI may also charge performance-based fees on some of its Separate Accounts, subject to eligibility requirements under the Advisers Act. Such fee arrangements are negotiated with the client. Generally, these arrangements include a base fee based on a percentage of the market value of the assets held in the Separate Account plus a performance fee based on the account's performance exceeding a specified benchmark's performance over a specified time period.

<b><u>Type of Advisory Account/Service</u></b>	<b><u>Advisory Fee</u></b>
Core Bond	<ul style="list-style-type: none"><li>• First \$50 million: 30 bps;</li><li>• Next \$100 million: 25 bps;</li><li>• Next \$100 million: 20 bps;</li><li>• Next \$250 million: 15 bps; and</li><li>• Balance: 12 bps.</li></ul>
Core Plus Bond	<ul style="list-style-type: none"><li>• First \$50 million: 35 bps;</li><li>• Next \$100 million: 25 bps;</li><li>• Next \$100 million: 20 bps;</li><li>• Next \$250 million: 15 bps; and</li><li>• Balance: 12 bps.</li></ul>
Enhanced Index/Enhanced Mortgage	<ul style="list-style-type: none"><li>• First \$50 million: 10 bps;</li><li>• Next \$100 million: 8 bps;</li><li>• Next \$350 million: 4 bps;</li><li>• Next \$500 million: 3 bps;</li><li>• Next \$1000 million: 2.25 bps;</li><li>• Next \$500 million: 2 bps; and</li><li>• Balance: 1.75 bps.</li></ul>

<b><u>Type of Advisory Account/Service</u></b>	<b><u>Advisory Fee</u></b>
Passive Corporate	<ul style="list-style-type: none"> <li>• First \$50 million: 10 bps;</li> <li>• Next \$100 million: 8 bps;</li> <li>• Next \$350 million: 4 bps;</li> <li>• Next \$500 million: 3 bps;</li> <li>• Next \$1000 million: 2.25 bps;</li> <li>• Next \$500 million: 2 bps; and</li> <li>• Balance: 1.75 bps.</li> </ul>
Passive Index/Passive Government	<ul style="list-style-type: none"> <li>• First \$50 million: 8 bps;</li> <li>• Next \$100 million: 6.5 bps;</li> <li>• Next \$350 million: 3.2 bps;</li> <li>• Next \$500 million: 2.5 bps;</li> <li>• Next \$1000 million: 1.8 bps;</li> <li>• Next \$500 million: 1.6 bps; and</li> <li>• Balance: 1.4 bps.</li> </ul>
Liability Driven Investing	<ul style="list-style-type: none"> <li>• First \$50 million: 30 bps;</li> <li>• Next \$100 million: 25 bps;</li> <li>• Next \$100 million: 20 bps; and</li> <li>• Balance: 15 bps.</li> </ul>
Full Market High Yield	<ul style="list-style-type: none"> <li>• First \$50 million: 55 bps;</li> <li>• Next \$250 million: 45 bps; and</li> <li>• Balance: 35 bps.</li> </ul>
Short Duration High Yield	<ul style="list-style-type: none"> <li>• First \$50 million: 55 bps;</li> <li>• Next \$250 million: 45 bps; and</li> <li>• Balance: 35 bps.</li> </ul>
Bank Loan	<ul style="list-style-type: none"> <li>• First \$50 million: 55 bps;</li> <li>• Next \$250 million: 45 bps; and</li> <li>• Balance: 35 bps.</li> </ul>
TIPS	<ul style="list-style-type: none"> <li>• First \$100 million: 15 bps;</li> <li>• Next \$200 million: 10 bps; and</li> <li>• Balance: 8 bps.</li> </ul>
Investment Grade Credit	<ul style="list-style-type: none"> <li>• First \$50 million: 35 bps;</li> <li>• Next \$250 million: 25 bps; and</li> <li>• Balance: 20 bps.</li> </ul>
Crossover Credit	<ul style="list-style-type: none"> <li>• First \$100 million: 45 bps; and</li> <li>• Balance: 35 bps.</li> </ul>
Global Credit	<ul style="list-style-type: none"> <li>• First \$50 million: 40 bps;</li> <li>• Next \$250 million: 30 bps; and</li> <li>• Balance: 25 bps.</li> </ul>
European Credit	<ul style="list-style-type: none"> <li>• First \$50 million: 35 bps;</li> <li>• Next \$250 million: 25 bps; and</li> <li>• Balance: 20 bps.</li> </ul>

<b><u>Type of Advisory Account/Service</u></b>	<b><u>Advisory Fee</u></b>
Diversified Currency	<ul style="list-style-type: none"> <li>• First \$25 million: 100 bps;</li> <li>• Next \$50 million: 85 bps;</li> <li>• Next \$50 million: 75 bps; and</li> <li>• Balance: 50 bps.</li> </ul>
Diversified Currency High Alpha	<ul style="list-style-type: none"> <li>• First \$25 million: 130 bps;</li> <li>• Next \$50 million: 110 bps;</li> <li>• Next \$50 million: 85 bps; and</li> <li>• Balance: 65 bps.</li> </ul>
Global Fixed Income	<ul style="list-style-type: none"> <li>• First \$50 million: 40 bps;</li> <li>• Next \$100 million: 30 bps;</li> <li>• Next \$100 million: 25 bps; and</li> <li>• Balance: 20 bps.</li> </ul>
Hard Currency - Emerging Market Debt	<ul style="list-style-type: none"> <li>• First \$100 million: 55 bps;</li> <li>• Next \$150 million: 45 bps; and</li> <li>• Balance: 35 bps.</li> </ul>
Local Currency - Emerging Market Debt	<ul style="list-style-type: none"> <li>• First \$100 million: 60 bps;</li> <li>• Next \$150 million: 50 bps; and</li> <li>• Balance: 40 bps.</li> </ul>
Corporate - Emerging Market Debt	<ul style="list-style-type: none"> <li>• First \$100 million: 65 bps;</li> <li>• Next \$150 million: 55 bps; and</li> <li>• Balance: 45 bps.</li> </ul>
Short Duration	<ul style="list-style-type: none"> <li>• First \$50 million: 20 bps;</li> <li>• Next \$50 million: 15 bps;</li> <li>• Next \$150 million: 12 bps;</li> <li>• Next \$250 million: 10 bps; and</li> <li>• Balance: 8 bps.</li> </ul>
Enhanced Cash	<ul style="list-style-type: none"> <li>• First \$50 million: 17.5 bps;</li> <li>• Next \$50 million: 15 bps;</li> <li>• Next \$150 million: 12 bps;</li> <li>• Next \$250 million: 10 bps; and</li> <li>• Balance: 8 bps.</li> </ul>
Municipal/Tax Exempt	<ul style="list-style-type: none"> <li>• First \$50 million: 30 bps;</li> <li>• Next \$100 million: 25 bps;</li> <li>• Next \$100 million: 20 bps; and</li> <li>• Balance: 15 bps.</li> </ul>
Municipal Cash	<ul style="list-style-type: none"> <li>• First \$25 million: 25 bps;</li> <li>• Next \$25 million: 15 bps;</li> <li>• Next \$150 million: 10 bps; and</li> <li>• Balance: 8 bps.</li> </ul>

## **II. PRIVATE FUNDS**

Pursuant to NBFI's investment management agreement with each Private Fund, NBFI will receive a management fee and, in some instances, it or its affiliate will also receive a performance-based fee or incentive fee/allocation (collectively, "performance fee"). In certain Private Funds, NBFI or its affiliate will receive performance-based fees so long as a specified preferred return to investors is achieved subject to a "catch-up" and, in certain Private Funds, not subject to a clawback if other investments result in losses.

Investors should refer to the Offering Memorandum for each Private Fund for further information with respect to fees.

## **III. SUB-ADVISED ACCOUNTS**

Sub-advisory fees for the Sub-Advised Accounts are individually negotiated and vary depending on the account. NBFI's fees may be consistent with the basic fee information and terms described above for the type of client (e.g., Separate Accounts, Private Funds).

## **IV. WRAP ACCOUNTS**

NBFI generally negotiates its subadvisory fees with each Wrap Sponsor, subject to varying factors, including but not limited to, the Wrap Sponsor's program size and style, the services performed by the Wrap Sponsor, and other factors. Subject to these factors, NBFI's basic annualized fee schedule for a discretionary Wrap Program ranges between 0.25% and 0.35% of the Wrap Program Clients' assets allocated to NBFI annually. In a non-discretionary Model Portfolio Wrap Program, NBFI's basic annualized fee schedule ranges between 0.22% and 0.25% annually.

## **V. NON-DISCRETIONARY AND CONSULTING SERVICES**

Non-Discretionary Account fees vary but in general are consistent with the basic fee schedule described above for Separate Accounts.

NBFI generally charges a fixed fee for its Consulting Services. Such fees are individually negotiated. NBFI also charges license and support fees for the licensing of its NBFI Software. Such fees vary based on the scope and extent of the analysis and modeling desired by the client, enhancements to the NBFI Software to meet the needs of the client, the type of assets subject to analysis and the extent of training and support required.

## **B. Payment Method**

### ***Calculation and Payment of Fees:***

*Separate Accounts*—Management fees are generally accrued and paid in arrears on a quarterly basis. Performance fees, if any, are generally charged on an annual basis. For some accounts, management fees are charged quarterly in advance.

NBFI generally invoices clients for fees incurred.

If NBFI begins managing an account, or the account is terminated, during a quarter or other fee calculation period, the fee charged for such period will be pro-rated based on the portion of the period that NBFI actually managed the account.

*Private Funds*—Investors should refer to the applicable Offering Memorandum with respect to calculation and payment of fees.

*Sub-Advised Accounts*—Payment of fees varies depending on the type of account but in general are consistent with the basic fee information and terms described above for the type of client (e.g., Separate Accounts, Private Funds).

*Wrap Accounts*—Each Wrap Sponsor generally pays NBFI on a quarterly basis, either in arrears or in advance, as provided in the contract between NBFI and the Wrap Sponsor. NBFI does not invoice Wrap Program Clients. Each Wrap Sponsor calculates and remits payment for NBFI's fees. NBFI does not establish the value of securities held in these accounts, which is a function provided by the Wrap Sponsors.

*Non-Discretionary and Consulting*—Payment of Non-Discretionary Account fees vary but in general are consistent with the basic fee information and terms described above for Separate Accounts. The manner of payment for Consulting Services is individually negotiated.

#### ***Valuation for Fee Calculation Purposes:***

*Separate Accounts, Non-Discretionary Accounts and Sub-Advisory Accounts (excluding Private Funds)*—In general, management fees for Separate Accounts, Non-Discretionary Accounts and Sub-Advisory Accounts (excluding Private Funds) are based on a valuation of assets by the client's custodian. When the client and NBFI agree to use NBFI's valuation of the assets for fee purposes, NBFI may use independent third-party pricing services or broker quotes to value assets. When a third-party price is not obtainable, NBFI will use its fair valuation procedures to obtain an internally generated valuation, subject to applicable law.

*Private Funds*—Investors should refer to the applicable Offering Memorandum for more information with respect to the valuation of Private Fund assets.

### **C. Other Fees and Expenses**

In addition to the management fee and performance fee, if any, paid to NBFI, clients pay other fees associated with their accounts and investments. Such fees include the following:

*Custodial Fees*—Typically, Separate Account, Sub-Advisory Account and Non-Discretionary Account clients elect to have account assets held in the custody of a bank, trust company, broker-dealer or other qualified custodian selected by the client. The client bears any custodial fees associated with such account. To the extent that cash is held in such accounts and invested in a non-Neuberger Berman short-term investment vehicle for which fees are charged by the

qualified custodian, the fees so incurred by the client will be in addition to the fee payable to NBFi on the overall value of the account. See Item 15.

*Transaction-related Fees*—Client Accounts generally must bear all transaction-related fees, including brokerage commissions, concessions and mark-ups for transactions effected for the account. See Item 12.

*Additional Fees Related to Investments in Private Funds and NB Registered Funds*— Subject to the investment guidelines of a Separate Account, NBFi may invest Separate Accounts in non-affiliated investment companies and other pooled investment vehicles, including non-affiliated Private Funds (collectively, “**Non-Affiliated Funds**”). Subject to the investment guidelines of the Separate Account and applicable law, NBFi may invest Separate Accounts in the NB Registered Funds or affiliated Private Funds (collectively, “**Affiliated Funds**”).

Client assets that are invested in Affiliated Funds will not be subject to two levels of advisory fees. Either the advisory fee associated with the underlying Client Account will be waived or reimbursed or the advisory fee charged by the Affiliated Fund will be waived or reimbursed. However, Client assets that are invested in Affiliated and Non-Affiliated Funds will incur other fees and expenses associated with their investments in such funds. Mutual fund expenses are generally described in each such fund’s prospectus and Private Fund expenses are described in each Private Fund’s Offering Memorandum. These expenses will generally include brokerage and other transaction-related costs and the fees and expenses of other service providers to these funds such as custodians, transfer agents, administrators, valuation agents, directors, auditors and counsel.

In addition, the Affiliated and Non-Affiliated Funds may themselves invest in other funds as described in each fund’s Offering Memorandum, prospectus or other offering documents. To the extent an Affiliated or Non-Affiliated Fund invests in another underlying fund, it will bear the costs and expenses associated with an investment in that underlying fund.

*Other Product Additional Fees*—Certain NBFi clients may also be clients of NBFi’s affiliates. These clients may receive investment management services from NBFi and may receive other services from affiliates. NBFi and the affiliate will each charge their usual and customary fees to the client. This may result in total costs to the client that are higher than the client would have paid had it obtained all services from either NBFi or its affiliate alone or from other unrelated brokers and investment advisers.

*Other Fees*—Clients bear all other transaction and transfer related costs and expenses. Each of these additional charges may be charged to the client’s account or reflected in the price paid or received for a given security or other asset.

*Comparable Services*—NBFi believes that the charges and fees offered within its investment management services are competitive with alternative programs available through other firms offering a similar range of services; however, lower fees for comparable services may be available from other sources.

Clients that participate in Wrap Programs should be aware that services similar or comparable to those provided to them as participants in Wrap Programs may be available at a higher or lower aggregate cost elsewhere separately or on an unbundled basis. The overall cost to a Wrap Program Client that participates in a Wrap Program may be higher than the aggregate cost of paying NBFI's standard advisory fee for Separate Accounts, negotiating custody fees with a custodian and negotiating transaction charges with a broker dealer payable on a per transaction basis, depending upon the level of custody fees and the number of securities transactions in the Wrap Program Client's account. However, most Wrap Program Clients would not be eligible (due to the size of their accounts) for NBFI's Separate Account management services and, therefore, could not otherwise have their assets managed by NBFI. NBFI does not undertake any ongoing responsibility to assess for any Wrap Program Client the value of the services provided by the Wrap Sponsor.

#### **D. Prepayment of Fees and Refunds**

**Separate Accounts**—As described in Item 5.B., most Separate Account management fees are paid in arrears. Separate Account clients who pay fees in advance are entitled to pro-rata reimbursement of that portion of the quarterly (or other fee calculation period) investment management fee paid for any portion of the quarter (or other fee calculation period) remaining as of the date the investment advisory relationship terminates.

**Private Funds**—Investors should refer to the applicable Offering Memorandum for information regarding payment of fees, withdrawal and refund of fees (if applicable).

**Sub-Advised Accounts**— In the event NBFI is terminated any prepaid fees will be refunded according to the type of account and sub-advisory agreement.

**Wrap Accounts**—Each Wrap Sponsor generally pays NBFI on a quarterly basis, either in arrears or in advance, as provided in the contract between NBFI and the Wrap Sponsor. If paid in advance, the fees would be refunded on a pro-rata basis in the event NBFI is terminated from managing a Wrap Program Client's account.

NBFI's participation as a manager in discretionary Wrap Programs, or engagement to provide investment management services with respect to particular Wrap Accounts, typically may be terminated by the Wrap Sponsors at any time or by NBFI either at any time or after a predetermined notice period. In addition, Wrap Program Clients may indirectly terminate NBFI as the investment manager of their assets by terminating their relationship with the Wrap Sponsors, ending their participation in the Wrap Sponsors Wrap Programs, or requesting their assets be managed by another Wrap Program investment manager. NBFI's participation in non-discretionary Wrap Programs typically may be terminated either at any time, or after a 30- to 60-day notice period, by NBFI or the Wrap Sponsors. In each case, however, termination rights vary, so Wrap Program Clients and Wrap Sponsors should refer to the agreements governing their programs.



***Non-Discretionary Accounts and Consulting Services***—Payment of Non-Discretionary Account fees vary but, in general, are consistent with the basic fee information and terms described above for Separate Accounts. The manner of payment for Consulting Services is individually negotiated.

#### **E. Sales Compensation**

NBFI's products and strategies are marketed by the Firm's central salesforce which also markets the products and strategies of NBFI's affiliates. Certain members of the central salesforce are registered representatives of Neuberger Berman LLC ("**NB LLC**"), an affiliate of NBFI and a registered investment adviser and broker-dealer and member of the Financial Industry Regulatory Authority ("**FINRA**"). Subject to applicable law, certain members of the salesforce are entitled to a sales commission if NBFI is engaged to provide investment management services for a Separate Account client they have introduced to NBFI. NBFI may also utilize unaffiliated solicitors to assist in introducing Separate Account Clients. Subject to applicable law, NBFI would pay such solicitors a commission. The commission payable to the Firm's salesforce and unaffiliated solicitors is generally a percentage of the management fee paid to NBFI for a specified number of years, payable to the salesperson or third-party solicitor, as applicable, on the same basis as NBFI is paid, and, in the case of the Firm's salesforce, subject to the terms and conditions of the applicable Firm sales compensation plan and contingent compensation program.

NBFI may utilize affiliated and unaffiliated placement agents in offering affiliated Private Funds to investors. The U.S. placement agents are registered as broker-dealers with the SEC and are FINRA members, including NBFI's affiliate, NB LLC. Generally, the placement agent receives a portion of the management fee and performance fee (if any) earned by NBFI. See Item 10.C.1 and Item 14.B.

Given that the salespersons may market a wide range of products offered by NBFI and its affiliates with differing sales compensation, the salespersons may have an incentive to promote or recommend certain products over others based on the compensation to be received and not on the specific requirements or investment objectives of the client. NB LLC trains its employees, including members of this salesforce, regarding suitability and sales of securities products to investors. Salespersons are also required to undergo product specific training for all products that they market.

The Firm's central salesforce also markets the advisory products and services of NBFI for which certain members may not receive any direct compensation. Certain Firm employees who are not members of the central salesforce may be eligible to earn an account referral bonus for referring a client to NBFI.

Certain employees of NBFI or its affiliates who are registered representatives of NBM, an affiliate of NBFI and registered limited purpose broker dealer, and NB LLC, an affiliated broker-dealer, receive sales-based compensation for marketing and selling the NB Registered Funds. NBM serves as principal underwriter and distributor for the NB Registered Funds and may contract

with an affiliate or unrelated third party to serve as a sub-distributor. In connection with this function, the affiliate or third party may receive compensation in the form of commission revenue or related fees for acting as sub-distributor for certain classes of shares of the NB Registered Funds. In addition, certain affiliates of NBFi provide marketing and distribution services to unaffiliated investment companies. In such situation, these affiliates may receive fees from such investment companies related to marketing, distribution and servicing of the funds (so-called “12b-1 fees”).

NBFi does not generally execute securities transactions through its affiliated broker-dealers, NB LLC and NBM.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

“Performance-Based Fees” are fees that are based on a share of the capital gains or capital appreciation of the assets of an account. Examples of performance-based fees include:

- an incentive fee--fee is calculated as a percentage of a fund's profits, usually taking into consideration both realized and unrealized profits (sometimes referred to as incentive allocation or carried interest)
- high water mark--the manager receives performance fees only on increases in the net asset value of a fund in excess of the highest net asset value it has previously achieved
- hurdle rates---the manager does not charge a performance fee until the fund's annualized performance exceeds a benchmark rate, such as T-bill yield, LIBOR or a fixed percentage

NBFI charges performance fees in connection with certain of its Separate Accounts, Private Funds and Sub-Advised Accounts. It does not charge performance fees with respect to its Non-Discretionary Accounts or Wrap Accounts.

In addition, some of NBFI's portfolio managers are investment advisory personnel of one or more of NBFI's affiliated investment advisers. See Item 10.C.3 for a list of such affiliates. In such capacity, they may manage accounts for which they receive performance-based fees.

To the extent that NBFI and its portfolio managers manage accounts that charge only management fees and accounts that charge both management fees and performance-based fees, NBFI and/or its portfolio managers may have a conflict of interest in that an account with a performance-based fee arrangement will offer the potential for higher profitability when compared to an account with only a management fee. Performance-based fee arrangements may create an incentive for NBFI and/or its portfolio managers and salespersons to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Performance-based fee arrangements may also create an incentive to favor higher fee-paying accounts over other accounts in the devotion of time, resources and allocation of investment opportunities.

To manage these potential conflicts, NBFI has adopted a number of compliance policies and procedures. These policies and procedures include (i) the Neuberger Berman Code of Ethics (see Item 11), (ii) the NBFI Compliance Manual, (iii) trade allocation and aggregation policies which seek to ensure that investment opportunities are allocated fairly among clients and that all accounts are managed in accordance with their investment mandate, and (iv) allocation review procedures reasonably designed to identify unfair or unequal treatment of accounts. NBFI does not consider fee structures in allocating investment opportunities.

## Item 7: Types of Clients

NBFI provides investment advisory services to institutional clients, including registered investment companies, pension plans, trusts, charitable organizations, foundations, endowment funds, corporations, insurance companies, banks, other financial institutions, other business entities, unregistered investment vehicles, collateralized loan obligation vehicles, collateralized debt obligation vehicles and state and municipal entities and other governmental entities, as well as individuals. NBFI also serves as an investment adviser or subadviser to foreign-domiciled clients, including, without limitation, foreign investment companies not subject to the Investment Company Act.

Set forth below are the minimum account requirements for NBFI's accounts:

***Separate Accounts***--There is a minimum account size of \$50 million for all Separate Accounts, except for the following:

- Full Market High Yield, Short Duration High Yield, Bank Loan, Crossover Credit, Hard Currency – Emerging Market Debt, Local Currency – Emerging Market Debt and Corporate – Emerging Market Debt Mandates: \$100 million
- Municipal/Tax Exempt, Municipal Cash, Diversified Currency and Diversified Currency High Alpha Mandates: \$25 million

NBFI may lower an account minimum at its discretion. NBFI may negotiate higher minimum account sizes for Multi-Asset Mandates.

***Private Funds***--In general, investors in the Private Funds must be “accredited investors” under Regulation D under the Securities Act, and must qualify as “qualified purchasers” under Section 2(a) (51) (A) of the Investment Company Act. For those funds that charge a performance fee, investors must be eligible to enter into a performance fee arrangement under the Advisers Act.

The minimum investment required by an investor varies depending on the Private Fund and in each case is subject to waiver by NBFI or the Private Fund's general partner, managing member or equivalent entity. Investors should review the Offering Memorandum for each relevant Private Fund for further information with respect to minimum requirements for investment.

***Sub-Advised Accounts***—Minimum account requirements for Sub-Advised Accounts are established by the intermediary investment adviser.

***Wrap Accounts***—The minimum account size may vary by Wrap Program, as set up by the Wrap Sponsor for its Wrap Program Clients, but is typically \$100,000 - \$250,000. In certain Wrap Programs, the fees and services may be unbundled and NBFJ may enter into an investment advisory agreement directly with each client. For such unbundled accounts, the minimum account size is typically \$1,000,000.

***Non-Discretionary and Consulting Services***—The minimum account size for Non-Discretionary Accounts generally is consistent with the information described above for Separate Accounts. There is no minimum amount required in connection with Consulting Services.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Methods of Analyses**

#### ***Investments Analysis***

NBFI utilizes fundamental analysis in connection with the provision of its advisory services to its clients. Fundamental analysis involves the analysis of financial statements, the general financial health of issuers, and/or the analysis of management or competitive advantages.

Proprietary research is a crucial element of NBFI's investment process, and is the basis for virtually all of its investment decisions. NBFI's research discipline incorporates three broad steps: (1) understanding market expectations as they are priced, (2) developing its own outlook against which to evaluate market expectations, and (3) establishing a confidence level in its view that is supported by thorough fundamental analysis.

#### ***Sources of Information***

In conducting its investment analysis, NBFI utilizes a broad spectrum of information, including:

- financial publications
- inspections of issuer activities
- research materials prepared by NBFI's internal staff and others
- rating services
- annual reports, prospectuses, and filings with the SEC
- newspapers, magazines, websites, trade journals
- discussions and meetings with NBFI's staff of research analysts
- charts, statistical material and analysis
- issuer press releases, presentations and interviews (in person or by telephone)
- contact with affiliated and outside analysts and consultants
- personal assessment of the financial consequences of world events derived from general information
- such other material as is appropriate under the particular circumstances.

NBFI may also rely on the research and portfolio management of its affiliated investment advisers. See Item 10.C.3.

In addition, NBFI has developed and/or purchased quantitative-based tools and frameworks that it integrates directly into its investment management process. These tools and frameworks are based on fundamental investment concepts and relationships that are consistent with NBFI's philosophy.

With respect to the Private Funds, NBFI evaluates investments based on a variety of factors as described in the Offering Memorandum for each Private Fund.

With respect to its Consulting Services, NBFi utilizes the NBFi Software which uses proprietary models and provides tools for the analysis of mortgage loan portfolios. The NBFi Software also provides projections of variations, losses, prepayments and cash flows and allows the development of scenarios which explore alternative outcome horizons.

## **B. Investment Strategies**

***Investments in securities and other assets involve risk of loss that investors must be prepared to bear.***

NBFi offers advice on a wide range of securities and other financial instruments including:

- Corporate debt securities
- Asset-backed securities, including, without limitation, mortgage-backed securities
- Loan assets, including, without limitation, distressed debt
- Rule 144A securities
- Convertible bonds
- Commercial paper
- Certificates of deposit
- Money market instruments
- Municipal securities
- United States government securities
- Securities of non-U.S. issuers (including ADRs, EDRs and GDRs)
- Sovereign, quasi-sovereign and sub-sovereign securities
- Supranational securities
- Warrants
- GDP performance linked securities (also known as GDP warrants)
- Put and call options
- Swaptions
- Inflation-linked securities
- Exchange traded funds
- Securities traded over-the-counter
- Futures contracts on tangibles and intangibles and options thereon
- Listed and over-the-counter derivatives, including, without limitation, credit default swaps, interest rate swaps, currency swaps, total return swaps, commodity swaps, forward contracts and other synthetic exposure instruments
- Residential mortgage loans
- Trade claims
- Real estate investment trust (REITS)
- Credit-linked notes (CLN) and non-deliverable forward currency contracts (NDF)
- Equity securities
- Currencies
- Forward currency contracts

- Investments in registered and unregistered investment companies (including mutual funds)
- Sukuk (Islamic bonds)
- Other alternative investments

NBFI may invest in securities or loans denominated in currencies other than the US dollar. These assets may be issued by sovereign entities and corporations. NBFI may use investments in derivative instruments for hedging and non-hedging purposes. Such investments may only be entered into in accordance with a client's investment guidelines and applicable laws.

As financial markets and products evolve, NBFI may invest in other securities or instruments, whether currently existing or developed in the future, when consistent with client guidelines, objectives and policies and applicable law.

Subject to firm-wide policies on suitability and conflicts of interest and compliance with securities laws and regulations, the purchase and sale of securities and other financial instruments for client accounts is based upon the judgment of the individual portfolio manager or group supervising the particular account, who are encouraged to use those methods with which they have been successful.

The following is a summary of the principal investment strategies employed by NBFI. Certain material risks associated with these strategies are set forth in Section (C), below. This is a summary only. Clients should not rely solely on the descriptions provided below.

***Separate Accounts, Wrap Accounts and Non-Discretionary Accounts*** (Wrap Accounts may not be offered in all of the strategies set forth below):

NBFI provides investment management services based on a variety of fixed income strategies. Each has a specialty investment team devoted to it. Client Accounts are managed within these strategies and, when the client's portfolio can benefit by including additional resources in seeking to meet its investment objectives and the client agrees, across strategies. Multi-Asset Mandates combine certain of the fixed income strategies described below and may also utilize certain strategies of NBFI affiliated investment advisers. The investment teams work closely together to manage strategies that overlap different products. NBFI generally manages Client Accounts against published bond and loan market benchmarks as well as custom bond and loan market benchmarks in strategies designed to achieve unique objectives. Within each strategy, NBFI incorporates differing levels of risk management to meet client-specific needs. The strategies are:

- **Cash and Short Term Duration Strategies:** The focus is on investment strategies that utilize short-term instruments and bonds with durations of less than five years. The investment team that manages these strategies primarily manages client accounts with broader discretion to utilize securities with longer maturities.
- **Municipal Strategies:** The investment team manages strategies across the duration spectrum focusing on tax-exempt municipal securities with the investment objectives of



competitive after tax-returns, preservation of capital as well as the maintenance of sufficient liquidity to meet clients' needs. These securities are typically investment grade.

- **Non-Investment Grade Credit Strategies:** The investment team for these strategies focus on high yield bonds, leveraged loans, and distressed debt investing strategies. The high yield strategy focuses on investing in non-investment grade fixed income securities for Client Accounts that permit full discretion to invest across broad credit tiers as well as Client Accounts that are limited in terms of minimum credit rating. The leveraged loan strategy is applied to the management of structured investment products (e.g., CLOs), registered and unregistered funds and Separate Accounts as well as managing loan asset allocations in Separate Accounts. The distressed debt strategy seeks to provide investors with attractive risk-adjusted returns through long biased, opportunistic stressed, distressed and special situation investments in cred-related products. This strategy may invest with the intention of taking a control position in a company or as a non-control participant.
- **Investment Grade Strategies:** The investment team for these strategies focus on a universe of investment grade issuers. The strategies are utilized in Client Accounts that span a continuum from highly structured portfolios with tight risk constraints to those that provide broad discretion with less focus on tracking error variability, including exposure to below-investment grade investments in some cases.
- **Crossover Credit Strategies:** The investment team for this strategy focuses on investment grade credit, high yield bonds and leveraged loans. The crossover credit strategy invests in both investment grade and non-investment grade fixed income securities for Client Accounts that permit full discretion to invest across credit tiers as well as Client Accounts that are impose limitations in terms of minimum credit rating.
- **Structured Products Strategies:** Includes: (1) traditional portfolio management of asset-backed securities (including residential and commercial mortgage-backed securities) managed within registered and unregistered pooled vehicles and Separate Accounts, managed in accordance with client objectives and constraints and spanning from defensive buy/sell mandates to high-yield return objectives; (2) structured investments, including CDOs; and (3) nondiscretionary investment advisory and consulting services with respect to both asset-backed securities and whole loan mortgage portfolios.
- **Emerging Market Debt Strategies:** The focus of the investment team for these emerging market debt strategies is hard currency, local currency and corporate debt strategies. These strategies may be applied to the management of an entire Client Account or a portion of a Client Account invested in other NBFI or other affiliates' strategies. Derivative instruments are frequently utilized in these strategies. The hard currency strategy primarily invests in debt instruments denominated in core currencies such as U.S. dollars, Euro and Japanese Yen ("**Hard Currency**") and issued by issuers (sovereign, quasi-sovereign, sub-sovereign or corporate) which have their head office or exercise an overriding part of their economic activity in emerging market countries. The local

currency strategy primarily invests in debt instruments denominated in, or exposed to, local currencies and issued by issuers (sovereign, quasi-sovereign, sub-sovereign or corporate) from emerging market countries. The corporate debt strategy primarily invests in debt instruments issued by corporate issuers in emerging market countries, which may be denominated in Hard Currency or the currencies of such emerging market countries.

- **Global Bond Strategy:** The focus is on investment grade debt securities issued by governments and corporations from countries comprising the Organisation for Economic Co-operation and Development (OECD). Securities may be dollar and non-dollar denominated. This strategy may be applied to the management of an entire Client Account or a portion of a Client Account invested in other NBFIs strategies.
- **Diversified Currency Strategy:** The investment team within this strategy invests primarily in global liquid currencies (including, without limitation, Australian Dollars, Canadian Dollars, Swiss Franc, Euro, Sterling, Japanese Yen, Norwegian Krone, New Zealand Dollars, Swedish Krona and US Dollars) using a fundamentally driven, relative value approach. This strategy may be applied to the management of an entire Client Account or a portion of a Client Account invested in other NBFIs strategies. Derivative instruments are frequently utilized in this strategy.
- **Quantitatively Driven Strategies:** Includes a broad array of strategies that incorporate internally developed quantitative investment models that seek to exploit short-term and long-term investment opportunities.

**Private Funds**—The principal investment strategy for each fund is more particularly described in such Private Fund’s Offering Memorandum. Generally, the types of strategies offered are those described above. Prospective investors should carefully read each Private Fund’s Offering Memorandum and consult with their own counsel and advisers as to all matters concerning an investment in a Private Fund. In addition, the following strategy is offered:

- **Residential Loan Modification Strategy:** Through structured vehicles, which may invest in holding or grantor trusts or Real Estate Investment Mortgage Conduits (REMICs), NBFIs provides exposure to the troubled residential loan market. This strategy focuses on the purchase, modification and resale or refinancing of sub-performing or non-performing residential loans. The objective is to purchase pools of troubled loans at a discount to the unpaid principal balances, modify such loans to make them performing and then sell the performing loans at a profit either as whole loan pools or through securitizations. Inherent in the purchase of loan pools may be real estate that must be held for resale or leased for a period of time. This strategy involves the retention and supervision of mortgage loan servicers who work with borrowers on an individual level to achieve favorable loan outcomes. Generally, this strategy is implemented in vehicles that resemble in structure private equity funds that require capital commitments, have limited liquidity and may entail leverage.

**Sub-Advised Accounts**—Sub-Advised Accounts are managed in accordance with the particular type of client (e.g., Separate Accounts, Private Funds). The principal investment strategy for each NB Registered Fund and any unaffiliated registered fund is set out in such fund's prospectus and statement of additional information.

## C. Material Risks

***Investments in securities and other financial instruments involve risk of loss that investors must be prepared to bear.***

**Separate Accounts, Wrap Accounts, Private Funds and Non-Discretionary Accounts**—The following is a summary of the principal risks associated with the investment strategies used by the Separate Accounts, Wrap Accounts, Private Funds and Non-Discretionary Accounts, as discussed in Item 8.B. This is a summary only and not every strategy may invest in each type of security or other asset discussed below nor will all accounts be subject to all the risks below. Separate Account, Wrap Program and Non-Discretionary Account clients should review the investment guidelines associated with their account and should contact their client representative for more information about the strategies and risks present in their account. Private Fund investors should review the Offering Memorandum and other offering documents for further information relating to the strategies and risks associated with the particular fund.

- **Absence of Regulatory Oversight for Private Funds.** The Private Funds are not registered as investment companies under the Investment Company Act, and, accordingly, the significant investor protection provisions of the Investment Company Act (which provides certain regulatory safeguards to investors in registered investment companies), will not apply to investments in the Private Funds.
- **Asset-Backed Securities.** Asset-backed securities represent direct or indirect participations in, or are secured by and payable from, pools of assets such as, among other things, motor vehicle installment sales contracts, installment loan contracts, leases of various types of real and personal property, and receivables from revolving credit (credit card) agreements, or a combination of the foregoing. These assets are securitized through the use of trusts and special purpose vehicles. Credit enhancements, such as various forms of cash collateral accounts or letters of credit, may support payments of principal and interest on asset-backed securities. Although these securities may be supported by letters of credit or other credit enhancements, payment of interest and principal ultimately depends upon individuals or other borrowers paying the underlying loans, which may be affected adversely by general downturns in the economy. Asset-backed securities are subject to the same risk of prepayment associated with mortgage-backed securities.
- **Bank Loan Agents.** Bank loans are typically administered by a bank, insurance company, finance company or other financial institution (the “agent”) for a lending syndicate of financial institutions. In a typical bank loan, the agent administers the terms of the loan agreement and is responsible for the collection of principal and interest and

fee payments from the borrower and the apportionment of these payments to all lenders that are parties to the loan agreement. In addition, an institution (which may be the agent) may hold collateral on behalf of the lenders. Typically, under loan agreements, the agent is given broad authority in monitoring the borrower's performance and is obligated to use the same care it would use in the management of its own property. In asserting rights against a borrower, the Client Account normally would be dependent on the willingness of the lead bank to assert these rights, or upon a vote of the lenders to authorize the action.

If an agent becomes insolvent, or has a receiver, conservator, or similar official appointed for it by the appropriate bank or other regulatory authority, or becomes a debtor in a bankruptcy proceeding, the agent's appointment may be terminated and a successor agent would be appointed. If an appropriate regulator or court determines that assets held by the agent for the benefit of the purchasers of bank loans are subject to the claims of the agent's general or secured creditors, the purchasers might incur certain costs and delays in realizing payment on a bank loan or suffer a loss of principal and/or interest.

- **Call Risk.** When interest rates are low, issuers will often repay the obligation underlying a "callable security" earlier than expected, thereby affecting the investment's average life and perhaps its yield. Furthermore, the Client Account will likely have to reinvest the proceeds from the called security at the current, lower rates.
- **Collateralized Loan Obligations ("CLOs") and Collateralized Debt Obligations ("CDOs").** CLOs and CDOs issue classes or "tranches" that vary in risk and yield, and may experience substantial losses due to actual defaults, decrease of market value due to collateral defaults and disappearance of subordinate tranches, market anticipation of defaults, and investor aversion to CLO and CDO securities as a class. The risks of investing in CLOs and CDOs depend largely on the type of the underlying collateral.
- **Commodity Risk.** A Client Account with investments in physical commodity-linked derivative instruments may be subject to greater volatility than investments in traditional securities. The value of physical commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Because a Client Account may concentrate assets in a particular sector of the commodities market (such as oil, metal or agricultural products), it may be more susceptible to risks associated with those sectors.
- **Competition for Private Fund Portfolio Investments.** Identifying, completing and realizing attractive private equity investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that NBFJ will be able to locate, consummate and exit investments that satisfy a Private Fund's investment objectives or realize their values or be able to invest fully a Private Fund's committed capital.

- Counterparty Risk.** To the extent that a Client Account invests in over-the-counter or OTC derivatives, the Client Account is subject to a range of risks, including the credit risk of its derivative counterparty (i.e., counterparty default), the risk of the counterparty delaying the return of or losing collateral relating to OTC derivatives, or the bankruptcy of the counterparty. Although there are risks in the trading of listed derivatives which are settled by means of a clearing house, risks associated with OTC derivatives may differ materially from those involved in exchange-traded transactions that generally are backed by clearing organization guarantees, daily marking-to-market and settlements, and the segregation and minimum capital requirements applicable to the financial intermediaries participating on the exchange. OTC derivatives entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default, especially in instances where OTC derivatives are not collateralized. From time to time, the counterparties with which a Client Account effects transactions might cease making markets or quoting prices in certain of the instruments. In such instances, a Client Account might be unable to enter into a desired transaction or to enter into any offsetting transaction with respect to an open position, which might adversely affect its performance. Further, in contrast to exchange-traded instruments, forward or spot contracts generally do not provide a trader with the right to offset its obligations through an equal and opposite transaction. For this reason, a Client Account entering into forward or spot contracts must be required and able to perform its obligations under the contract.
- Credit Default Swaps.** Certain Client Accounts in accordance with their investment guidelines may purchase and sell credit derivatives — such as credit default swaps (or “CDS”) referencing single names, a basket or an index—both for hedging and other purposes. The typical CDS contract requires the protection seller (which is, in trade parlance, the “seller of protection” or the seller of the CDS) to pay to the protection buyer, (or the “**buyer of protection**”) a settlement amount, typically in cash, upon the occurrence of a “credit event”. A credit event is a failure to pay, default, bankruptcy, moratorium or restructuring of the debt referenced in the CDS, and the settlement amount generally is the difference between, in the case of a CDS referencing a single name, the notional amount of the contract and the value of a referenced bond or portfolio of securities issued by the reference entity (after the occurrence of a credit event) that the buyer of protection delivers to the protection seller (cash settlement is also a widely accepted form of CDS settlement). In return, for cash or physical settlement by the protection seller upon the occurrence of a credit event, the protection buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract.

As a buyer of protection under the terms of a CDS which calls for physical settlement, the Client Account may be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” In these and other instances involving a reference obligor (or issuer) default, or restructurings of debt underlying the CDS, there was at least in the past a lack of clarity over whether or not a “credit event” triggering the protection seller’s payment obligation had occurred and an inability to settle the CDS by physical delivery.

Industry committees have been formed to address these issues but the possibility of dispute over the existence or non-existence of a credit event still exists albeit in limited cases. If such a dispute were to occur, the Client Account may not be able to realize the full value of the CDS upon a default by the reference entity.

As a seller of CDSs, the Client Account may incur leveraged exposure to the credit of the reference entity and may be subject to many of the same risks they would incur if the Client Account was the holder of debt securities issued by the reference entity. CDSs synthetically replicate bond ownership. However, depending on the circumstances, if the Client Account is a party to a CDS, it will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In the past, the CDS buyer was able to exercise broad discretion to select which of the reference entity's debt obligations to deliver to the Client Account following a credit event and would in that case likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Client Account. Today, CDS buyers have more limited discretion to settle CDSs after the occurrence of a credit event. This is due to industry-wide efforts to bring about more effective settlement of CDS.

More recently, trade group-led efforts have attempted to minimize certain risks associated with CDS settlement. After February 2007, the International Swaps and Derivatives Association ("ISDA"), in an effort to standardize CDSs, reduce settlement risk and minimize difficulties previously associated with physical settlement, published templates to facilitate the settlement of CDSs referencing single-names. Settlement of single-name CDSs was then subject to industry-wide protocols published by ISDA which were designed to bring about cash settlement of most single-name CDSs; cash settlement is based on the final price of the obligations of the reference entity under the CDS as determined by an auction following the determination of a credit event by a committee led by ISDA. Five years later, in February 2012, ISDA published a new series of standard template documentation for trading CDSs based on an index (CDX and iTRaxx). The Client Account may enter into a single name, basket, or index-based CDS but many of the risks accompanying CDS (including settlement risk, risk that a credit event specified in the CDS may not be formally declared) may still exist as industry-led protections to minimize such risks are relatively new and untested.

**Credit Risk.** A Client Account could lose money if the issuer or guarantor of a security (including a security purchased with securities lending collateral), or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to honor its obligations. The downgrade of the credit of a security or of the issuer of the security held by the account may lessen its value. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

- **Currency Risk.** Currency fluctuations could negatively impact investment gains or add to investment losses. The value of Client Accounts invested in currencies may rise and fall due to exchange rate fluctuations in respect of the relevant currencies. Adverse

movements in currency exchange rates can result in a decrease in return and a loss of capital. The investments may be hedged. However, currency hedging transactions, while potentially reducing the currency risks to which a Client Account would otherwise be exposed, involve certain other risks, including the risk of a default by a counterparty. Where a Client Account engages in foreign exchange transactions which alter the currency exposure characteristics of its investments, the performance of such Client Account may be strongly influenced by movements in exchange rates as currency positions held by the Client Account may not correspond with the securities positions held. Where a Client Account enters into “cross hedging” transactions (e.g., utilizing currency different than the currency in which the security being hedged is denominated), the Client Account will be exposed to the risk that changes in the value of the currency used to hedge may not correlate with changes in the value of the currency in which the securities are denominated, which could result in losses in both the hedging transaction and the Client Account securities.

- **Dependence on the Investment Manager.** The performance of a Client Account depends on the skill of NBFJ and its portfolio manager(s) in making appropriate investment decisions. Any Client Account’s success depends upon NBFJ’s ability to develop and implement investment strategies and to apply investment techniques and risk analysis that achieve the account’s investment objectives. Subjective decisions made by NBFJ may cause the account to incur losses or to miss profit opportunities on which it may otherwise have capitalized.
- **Derivatives Risk.** Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset, reference or index. In implementing certain of its investment strategies, NBFJ may use derivatives as part of a strategy designed to reduce exposure to other risks or to take a position in an underlying asset. Derivatives may involve risks different from, or greater than, those associated with more traditional investments. Derivatives can be highly complex, can create investment leverage and may be highly volatile, which would result in the strategy losing more than the amount it invests. Derivatives may be difficult to value and highly illiquid, and the strategy may not be able to close out or sell a derivative position at a particular time or at an anticipated price. NBFJ is not required to engage in derivative transactions to achieve the foregoing purposes, even when doing so would be beneficial to the account.
- **Distressed Securities.** A Client Account where the strategy invests in distressed securities may be exposed to greater risks than if the strategy only invested in higher-grade securities. Distressed securities are those issued by companies that are, or might be, involved in reorganizations or financial restructurings, either out of court or in bankruptcy. As a result, it is often difficult to obtain information as to the true condition of financially distressed securities. In certain periods, there may be little or no liquidity in the markets for distressed securities or instruments. The prices of such securities may be subject to periods of abrupt and erratic market movements and above-average price volatility and it may be more difficult to value such securities. The account may lose a substantial portion of all of its investment in distressed securities or it may be required to accept cash or securities with a value less than the account’s original investment.

- Emerging Markets Risk.** Emerging markets are those of countries with immature economic and political structures. Securities issued in emerging markets have more risk than securities issued in more developed foreign markets. Investing in emerging markets may involve heightened and significant risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include, but are not limited to: (i) greater social, economic and political uncertainty including war; (ii) higher dependence on exports and the corresponding importance of international trade; (iii) greater risk of inflation; (iv) increased likelihood of governmental involvement in and control over the economies; (v) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (vi) the possibility of nationalization, expropriation, confiscatory tax policies and social instability; and (vii) considerations regarding the maintenance of a Client Account's securities and cash with non-U.S. brokers and custodians. Emerging market securities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international political circumstances. These factors may affect the level and volatility of securities' prices and the liquidity of the account's investments. Volatility or illiquidity could impair an account's profitability or result in losses. In addition, custodial and/or settlement systems may not be fully developed in emerging market countries, thereby exposing a Client's Account to the risk of a sub-custodian's failure with no recourse against the custodian
- Equity Market Risk.** Client Accounts invested in equity securities (e.g., common stocks, preferred stocks, convertible securities, rights, warrants and Depositary Receipts ("DRs")) are subject to market risks that may cause their prices to fluctuate over time. Historically, the equity markets have moved in cycles and the value of the strategy's securities may fluctuate substantially from day to day. Investments in income-producing equity securities are also subject to the risk that the issuer may discontinue paying dividends.
- Failure to Make Capital Contributions.** With respect to Private Funds that utilize investor capital calls, the consequences of defaulting on a capital call notice generally are material and adverse to the defaulting investor. In addition, if an investor fails to make a capital contribution when due and the capital contributions made by non-defaulting investors and short-term borrowings by the Private Fund are inadequate to cover the defaulted capital contribution, the Private Fund itself may be unable to pay its obligations when due. As a result, Private Funds may be subjected to significant penalties that could materially adversely affect the returns to the non-defaulting investors.
- Fixed-Income Securities.** Fixed-income securities include traditional debt securities issued by corporations, such as bonds and debentures and debt securities that are convertible into common stock and interests. The market value of fixed-income securities is sensitive to changes in interest rates. In general, when interest rates rise, the fixed-income security's market value declines and when interest rates decline, its value rises. Normally, the longer the remaining maturity of a security, the greater the effect of interest



rate changes on the market value of the security. In addition, changes in the ability of an issuer to make payments of interest and principal and in the market's perception of an issuer's creditworthiness affect the market value of fixed-income securities of that issuer.

Fixed-income securities may also be subject to yield curve risk. When the yield curve shifts, the price of a bond which was initially priced based on the initial yield curve will change. Yield curve risk is reduced by keeping the duration of the bond portfolio relatively short.

Additionally, fixed-income securities are subject to inflation risk, liquidity risk and reinvestment risk. Inflation risk is the risk that inflation will erode the purchasing power of the cash flows generated by debt securities. Fixed-rate debt securities are more susceptible to this risk than floating rate debt securities. Liquidity risk is the risk that certain fixed income securities may be difficult to sell at the time and at the price the account would like, which may cause the account to hold these securities for longer than it would like or to forego other investment opportunities. Reinvestment risk is the risk that when interest income from debt securities is reinvested, interest rates will have declined so that income must be reinvested at a lower interest rate. A decline in income could affect an account's overall return.

- **Foreign Securities.** Foreign securities can be more volatile and experience more rapid and extreme changes in price than domestic ("U.S.") securities. Securities markets of other countries are generally smaller than U.S. securities markets with a limited number of issuers representing fewer industries. In many countries, there is less publicly available and lower quality information about issuers than is available in the reports and ratings published about issuers in the U.S. and foreign issuers may not be subject to uniform accounting, auditing and financial reporting standards. Many foreign securities may be less liquid than U.S. securities, which could affect the investments under a strategy that utilizes these types of securities. The exchange rates between U.S. dollar and foreign currencies might fluctuate, which could negatively affect the value of the strategy's investments.

Foreign securities are also subject to higher political, social and economic risks. These risks include, but are not limited to, a downturn in the country's economy, excessive taxation, political instability, exchange control regulations and expropriation of assets by foreign governments. Adverse conditions in a particular region could negatively affect securities of countries whose economies appear to be unrelated or not interdependent. Compared to the United States, foreign governments and markets often have less stringent accounting, disclosure and financial reporting requirements.

- **Forward Contracts.** If Client Account investment guidelines permit, NBFJ may enter into forward contracts and options thereon which are not traded on exchanges and are generally not regulated on behalf of such account. There are no limitations on daily price moves of forward contracts. Banks and other dealers with which a Client Account may maintain accounts may require the Client Account to deposit margin with respect to such trading, although margin requirements are often minimal or non-existent. The

counterparties are not required to continue to make markets in such contracts and these contracts can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread (the price at which the counterparty is prepared to buy and that at which it is prepared to sell). Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit such forward trading to less than that which NBFI would otherwise recommend, to the possible detriment of a Client Account. Market illiquidity or disruption could result in major losses to a Client Account. In addition, a Client Account may be exposed to credit risks with regard to counterparties with whom they trade as well as risks relating to settlement default. Such risks could result in substantial losses to a Client Account.

- **Fraudulent Conveyance Considerations.** Various laws enacted for the protection of creditors may apply to certain investments that are debt obligations, although the existence and applicability of such laws will vary from jurisdiction to jurisdiction. For example, if a court were to find that the borrower did not receive fair consideration or reasonably equivalent value for incurring indebtedness evidenced by an investment and the grant of any security interest or other lien securing such investment, and, after giving effect to such indebtedness, the borrower (i) was insolvent, (ii) was engaged in a business for which the assets remaining in such borrower constituted unreasonably small capital or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could invalidate such indebtedness and such security interest or other lien as a fraudulent conveyance, subordinate such indebtedness to existing or future creditors of the borrower or recover amounts previously paid by the borrower (including to a Client Account) in satisfaction of such indebtedness or proceeds of such security interest or other lien previously applied in satisfaction of such indebtedness. In addition, if an issuer in which a Client Account has an investment becomes insolvent, any payment made on such investment may be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year) before insolvency.

In general, if payments on an investment are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured either from the initial recipient or from subsequent transferees of such payments. To the extent that any such payments are recaptured from a Client Account, the resulting loss will be borne by the client or investors in a fund, as applicable.

- **Futures.** NBFI may engage in regulated futures transactions. Trading in futures and options on futures involves significant risks, including the following: (i) futures contracts and options on futures are volatile in price; (ii) futures trading is highly leveraged; (iii) futures trading may be illiquid; (iv) the clearing broker, or “futures commission merchant” may misuse or lose collateral (“margin”) associated with the futures contracts; and (v) the clearing broker may default, file for bankruptcy or be insolvent for any

number of reasons including the default of a customer of the broker, and such event may lead to a loss within the Client Account of margin deposits made by the Client Account in the event of bankruptcy of a clearing broker with whom a Client Account has an open position in a futures contract or related option. Client Accounts may sustain a total loss of the futures contracts including the initial margin and any maintenance margin that it deposits with a broker to establish or maintain a position in the commodity futures market. If the market moves against NBF's position in a Client Account, such Client Account may be required to deposit a substantial amount of additional margin, on short notice, in order to maintain its position. If the Client Account does not provide the required margin within the prescribed time, its position may be liquidated at a loss, and the Client will be liable for any resulting deficit in its account. The high degree of leverage that is often obtainable in futures trading because of the small margin requirements can work against a Client Account, as well as for it. The use of leverage can lead to large losses. Foreign futures markets may have greater risk than domestic futures markets. Unlike trading on domestic commodity exchanges, trading on foreign commodity exchanges is not regulated by the US Commodities Futures Trading Commission ("CFTC") and may be subject to greater risks than trading on domestic exchanges. Futures markets may also be illiquid which could prevent NBF from promptly liquidating unfavorable positions and adversely affect trading and profitability.

- **General Risks of Owning Physical Assets.** From time to time, particularly with respect to the distressed debt and residential loan modification strategies, a Client Account may be involved in transactions which result in the Client Account owning physical assets (typically collateral for secured loans acquired by the Client Account) directly. In such cases, the Client Account will be subject to all the risks inherent in owning physical assets such as real estate. These risks may include, without limitation: general and local economic and social conditions; fluctuations in asset values; over-concentration in the physical asset, declines in the financial resources of the prospective purchasers or lessees for such assets; a drop in demand and/or an increase in the competition for such assets; storage, insurance and other maintenance costs; destruction, spoilage, impairment, damage, depreciation and obsolescence; changes in tax, environmental and other applicable laws and regulations, increasing the costs and/or restricting the use of such assets; environmental protection penalties and liabilities (including those attributable to the conduct of prior owners of such assets); increases in interest rates and, accordingly, of the cost of inventory as well as of the availability of financing in order to maintain such assets or to finance purchases of such assets; a shortage of financing (irrespective of interest rates); and/or increases in operating expenses which could adversely affect the value of such assets to a potential purchaser or lessee. There can be no assurance of the profitable ownership or operation of any physical asset. The cost of operating and/or maintaining an asset may materially exceed the income or sale proceeds generated by such asset, while such asset itself — as opposed to the loans formerly secured by such asset — may not generate any cash flow.
- **Hedging.** Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the hedging instrument and the Client Account's position being hedged; (ii) possible lack of a secondary market for closing out a

position in such instruments; (iii) losses resulting from interest rate, spread or other market movements not anticipated by NBFi; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Client Account's position; and (v) default or refusal to perform on the part of the counterparty with which the Client Account trades. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter derivatives transactions, such a strategy will be affected by implementation of the various regulations adopted pursuant to the Dodd-Frank Act.

- **Illiquid Securities Risk.** Illiquid securities are securities that are not readily marketable, and, as a result, may be more difficult to purchase or sell at an advantageous price or time. A Client Account could lose money if it cannot sell a security at the time and price that would be most beneficial to it. Further, the lack of an established secondary market may make it more difficult to value illiquid securities, which could vary from the amount the Client Account could realize upon disposition.
- **Increased Prepayment Risks with To-Be-Announced ("TBA") Mortgage-Backed Securities.** NBFi may sell TBA mortgage-backed securities it has committed to purchase on behalf of Client Accounts before those securities are delivered to the account on the settlement date. The account may also enter into a TBA agreement and "roll over" such agreement prior to the settlement date by selling the obligation to purchase the pools set forth in the agreement and entering into a new TBA agreement for future delivery of mortgage-backed securities. TBA mortgage-backed securities may increase prepayment risks because the underlying mortgages may be less favorable than anticipated by NBFi.
- **Junior Loans.** NBFi's loan strategy may utilize secured and unsecured subordinated loans and second lien loans ("**Junior Loans**"). Secured second lien loans are generally second in line in terms of repayment priority. A secured second lien loan may have a claim on the same collateral pool as the first lien or may be secured by a separate set of assets, such as property, plants, or equipment. Second lien loans generally give investors priority over general unsecured creditors in the event of an asset sale.

Junior Loans are subject to the same general risks inherent to any loan investment, including credit risk, market and liquidity risk, and interest rate risk. Due to their lower place in the borrower's capital structure, Junior Loans involve a higher degree of overall risk than senior loans of the same borrower.

- **Lack of Liquidity.** There is no public market for interests in the Private Funds. Substantial transfer restrictions typically exist with respect to such interests. Investors can only redeem all or any permissible part of their investments in accordance with the governing documents of the Private Fund, and may be subject to suspensions and other restrictions.
- **Leverage Risk.** Investments may be made in companies whose capital structures may have significant leverage. The use of leverage is a speculative technique that involves special risk considerations. To the extent a company in which a Client Account invests is

leveraged, its leveraged capital structure will increase the exposure of the company to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the company or its industry sector.

- **Litigation.** Foreclosures and reorganizations are contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. NBFJ anticipates that the Firm and/or Client Accounts that invest in distressed debt or the residential loan modification strategies may be named as defendants in civil proceedings relating to certain of such accounts' investments. The expense of defending against such claims and paying any resulting settlements or judgments will generally be borne by the relevant Client Account. Any indemnification obligations would adversely affect such Client Account's returns. With respect to Private Funds, indemnification obligations will generally survive the dissolution of the Private Fund, and may cause NBFJ to retain a material reserve from what would otherwise have been the winding-up proceeds distributed to investors.
- **Loan Interests.** Loans generally are subject to restrictions on transfer, and NBFJ may be unable to sell loans at a time when it may otherwise be desirable to do so or may be able to sell them only at prices that are less than their fair market value. NBFJ may find it difficult to establish a fair value for loans held by the Client Account. Loans normally are not registered with the SEC or any state securities commission or listed on any securities exchange. As a result, the amount of public information available about a specific loan historically has been less extensive than if the loan were registered or exchange traded. Bank loan interests may also not be rated by independent rating agencies. Therefore, investments in a particular loan may depend almost exclusively on the credit analysis of the borrower performed by NBFJ. Also, there is a risk that the value of the collateral securing a loan may decline after the Client Account invests or that the collateral may not be sufficient to cover the amount owed to the Client Account. Loans are also subject to the risk of a borrower defaulting, which may limit or delay the account's access to the collateral under bankruptcy or other insolvency laws. Additionally, if the account acquires a participation interest in a loan, it may not be able to control the exercise of any remedies that the lender would have under the loan and likely would not have any rights against the borrower directly. Loans purchased by an account may represent interests in loans made to finance highly leveraged corporate acquisitions, known as "leveraged buy-out" transactions, leveraged recapitalization loans and other types of acquisition financing. The highly leveraged capital structure of the borrowers in such transactions may make such loans especially vulnerable to adverse changes in economic or market conditions.
- **Lower-Rated Debt Securities.** Fixed income securities receiving below investment grade ratings may have speculative characteristics, and, compared to higher-grade securities, may have a weakened capacity to make principal and interest payments in adverse economic conditions or other circumstances. High-yield, high-risk, and lower-rated securities are subject to additional risk factors, such as increased possibility of default, decreased liquidity and fluctuations in value due to public perception of the issuer of such securities. In addition, both individual high-yield securities and the entire high-

yield bond market can experience sharp price swings due to a variety of factors, including changes in economic forecasts, stock market activity, large sustained sales by major investors or a high profile default.

- **Master Limited Partnerships (“MLPs”).** Investments in securities (units) of MLPs involve risks that differ from an investment in common stock. Holders of the units of MLPs have more limited control and limited rights to vote on matters affecting the partnership. For example, unit holders may not elect the general partner or the directors of the general partner and they have limited ability to remove a MLP’s general partner. MLPs may issue additional common units without unit holder approval, which would dilute existing unit holders. In addition, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of a master limited partnership, including a conflict arising as a result of incentive distribution payments. There are also certain tax risks associated with an investment in units of MLPs.
- **Model Valuations Risk.** Certain of the Private Funds’ investments, particularly those that invest in asset-backed securities and mortgage loans, will be based, in part, on complex models, including the NBF Software, that incorporate a range of different inputs. Inadequate or incorrect factual information, misstated assumptions, as well as unforeseeable changes in economic factors can cause these models to yield materially inaccurate valuations — even if the model is fundamentally sound. Moreover, there can be no assurance that NBF’s models are fundamentally sound or contain fully accurate data. The models used by NBF will typically require certain market forecasts that are based on analytical models and assumptions. There can be no assurance that such models are accurate or that assumptions are not oversimplified, which would adversely affect market forecasts leading to potential losses and cash flow insufficiencies.
- **Mortgage-Backed Securities.** Mortgage-backed securities represent “pools” of mortgages and other assets, including consumer loans or receivables held in trust. Investment in mortgage-backed securities poses several risks, including market and credit risk. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-backed securities, making them more sensitive to interest rate changes. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the return in a Client Account because the account may have to reinvest those funds at lower prevailing interest rates. Market risk reflects the risk that the price of a security may fluctuate over time. Credit risk reflects the risk that the strategy may not receive all or part of its principal because the issuer or credit enhancer has defaulted on its obligations. In addition to these risks, the recent events related to the United States housing market have had a severe negative impact on the value of some mortgage-backed securities and resulted in limited liquidity in the secondary market for mortgage-related securities.
- **Mortgage Loan Modification Risk.** Modification of troubled loans and real estate acquired with loan pools involve substantial risks including declines in the value of residential real estate, general economic conditions that contribute to declining home prices, deterioration of a borrower’s ability to keep payments current on a modified loan

or to refinance a loan, increases in the cost of property maintenance, taxes and insurance, natural disasters and casualty losses, borrower bankruptcies, moratoriums on foreclosures, zoning changes, incomplete or defective loan documentation, and fluctuations in interest rates. In addition, active federal and state government scrutiny and enforcement actions against mortgage loan holders and new legislation could adversely affect the ability to foreclose on a timely basis and impose conditions, restrictions and additional costs on loan modifications. The success of a loan modification program depends significantly on the ability of third party, unaffiliated servicers to follow modification guidelines, negotiate acceptable workout terms, provide delinquency notices, initiate foreclosure proceedings, monitor re-performing loans and liquidate real estate. . Some servicing agreements with third parties provide for incentive compensation as a percentage of cash flows or profits from a modified loan. These arrangements could lead to more aggressive and riskier servicing practices by the servicer that adversely affect the results of a loan modification and may lead to legal or regulatory actions.

- **Municipal Securities.** Municipal securities rely on the creditworthiness or revenue production of their issuers. Municipal securities may be difficult to obtain because of limited supply, which may increase the cost of such securities and effectively reduce a strategy's yield. Typically, less information is available about a municipal issuer than is available for other types of securities issuers. Additionally, because interest income on municipal obligations is normally not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates applicable to, or the continuing tax-exempt status of, such interest income. In addition, a Client Account that concentrates its investments in a particular state's municipal bonds may be affected significantly by economic, regulatory or political developments affecting the ability of that state's issuers to pay interest or repay principal. Any provisions of the state's constitution and statutes which limit the taxing and spending authority of the state governmental entities may impair the ability of the state's issuers to pay principal and/or interest on their obligations. Each state's economy may be sensitive to economic problems affecting particular industries. Future state or local political and economic developments, constitutional amendments, legislative measures, executive orders, administrative regulations, litigation and voter initiatives could have an adverse effect on the debt obligations of the state's issuers.
- **Necessity for Counterparty Trading Relationships.** Participants in the OTC markets typically enter into transactions only with those counterparties which they believe to be sufficiently creditworthy. There can be no assurance that NBFIs will be able to establish the necessary counterparty business relationships to permit it to effect transactions in the OTC markets. An inability to establish such relationships would limit its OTC activities and could require it to conduct a more substantial portion of such activities in the futures markets.
- **Participation in Control Situations.** From time to time with respect to distressed debt investments, subject to the applicable investment guidelines, NBFIs on behalf of a Client

Account will take control positions in an issuer in an effort to maximize value. Not only can control investments take an inordinately long period to exit, but also the investment manager's position of control can be highly resource-intensive and contentious. NBFI and the Client Account may be particularly vulnerable to being named as defendants in litigation relating to their actions while in control of an issuer and may, from time to time, come into possession of material non-public information concerning specific issuers. However, internal structures are in place to prevent misuse of such information. See Item 11.D.1.

- **Projections.** NBFI will make investments relying, in part, upon projections developed by itself concerning an issuer or its securities or other assets' future performance, cash flow, recovery value and other factors. Projections are inherently uncertain and subject to factors beyond the control of NBFI. The inaccuracy of certain assumptions, the failure of an issuer to satisfy certain financial requirements and the occurrence of unforeseen events could cause any such projection to be materially inaccurate.
- **Rating Agency Risk.** NBFI may purchase securities for Client Accounts rated by a rating agency. NBFI may use these ratings to determine whether to purchase, sell or hold a security. Ratings are general and are not absolute standards of quality. Securities with the same maturity, interest rate and rating may have different market prices. Credit ratings attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. In addition, rating agencies may fail to make timely changes in credit ratings. An issuer's current financial condition may be better or worse than a rating indicates.
- **Reliance on Corporate Management and Financial Reporting.** NBFI will select investments for Client Accounts in part on the basis of information and data filed by issuers of securities with various government regulators, publicly available or made directly available to NBFI by such issuers or third parties. Although NBFI will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, NBFI will not always be in a position to confirm the completeness, genuineness or accuracy of such information and data. NBFI is dependent upon the integrity of the management of such issuers and of such third parties as well as the financial reporting process in general. Client Accounts may incur material losses as a result of corporate mismanagement, fraud and accounting irregularities relating to issuers of securities or other assets they hold.
- **Recent Market Conditions.** The financial crisis in the U.S. and global economies over the past several years, including the European sovereign debt crisis, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets and the economy at large. Both domestic and international equity and fixed income markets have been experiencing heightened volatility and turmoil, with issuers that have exposure to the real estate, mortgage and credit markets particularly affected. It is uncertain how long these conditions will continue.



These recent market conditions have resulted in fixed income instruments experiencing unusual liquidity issues, increased price volatility and, in some cases, credit downgrades and increased likelihood of default. These events have reduced the willingness and ability of some lenders to extend credit, and have made it more difficult for borrowers to obtain financing on attractive terms, if at all. As a result, the values of many types of securities have been reduced, including, but not limited to, mortgage-backed, asset-backed and corporate debt securities. During times of market turmoil, investors tend to look to the safety of securities issued or backed by the U.S. Treasury, causing the prices of these securities to rise and the yield to decline.

The reduced liquidity in fixed income and credit markets may negatively affect many issuers worldwide. Illiquidity in these markets may mean there is less money available to purchase raw materials and goods and services, which may, in turn, bring down the prices of these economic staples. The values of some sovereign debt and of securities of issuers that hold that sovereign debt have fallen. These events and the potential for continuing market turbulence may have an adverse effect on Client Accounts. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region.

- **Recent Regulatory Events and Government Intervention.** The situation in the financial markets has resulted in calls for increased regulation, and the need of many financial institutions for government help has given lawmakers and regulators new leverage. The Dodd-Frank Act has initiated a dramatic revision of the U.S. financial regulatory framework and consumer credit markets that is now expected to unfold over several years. The Dodd-Frank Act covers a broad range of topics, including (among many others) a reorganization of federal financial regulators; a process intended to improve financial systemic stability and the resolution of potentially insolvent financial firms; new rules for derivatives trading; the creation of a consumer financial protection watchdog; the registration and additional regulation of hedge and private equity fund managers; and new federal requirements for residential mortgage loans. The Government or its agencies may acquire distressed assets from financial institutions and acquire ownership interests in such institutions. The implications of government ownership and disposition of these assets are unclear and such a program may have positive or negative effects on liquidity, valuations and performance of Client Accounts. Instruments in which Client Accounts may invest, or the issuers of such instruments, may be affected by the new legislation and regulation in ways that are unforeseeable. Most of the implementing regulations have not yet been finalized. Accordingly, the ultimate impact of the Dodd-Frank Act, including on the derivative instruments in which a Client Account may invest, is not yet certain.

Client Accounts are also subject to the risk of local, national and global economic disturbances based on unknown conditions in the market in which an account invests. In the event of such disturbances, issuers of securities held by a Client Account may suffer significant declines in the value of these assets and even terminate operations. Such issuers also may receive government assistance accompanied by increased control and restrictions or other government intervention. It is not clear whether the U.S.

Government will intervene in response to such disturbances and effect of any such intervention is unpredictable.

- **Repurchase Agreements and Reverse Repurchase Agreements.** In a repurchase agreement, the Client Account purchases securities from a bank that is a member of the Federal Reserve System or from a securities dealer that agrees to repurchase the securities from the Client Account at a higher price on a designated future date. Repurchase agreements generally are for a short period of time, usually less than a week. Costs, delays or losses could result if the selling party to a repurchase agreement becomes bankrupt or otherwise defaults.

A reverse repurchase agreement involves the sale of a security, with an agreement to repurchase the same or substantially similar securities at an agreed upon price and date. Whether such a transaction produces a gain for the Client Account depends upon the costs of the agreements and income and gains of the securities purchased with the proceeds received from the sale of the security. If the income and gain on the securities purchased fail to exceed the costs, the Client Account's value will decline faster than otherwise would be the case. Reverse repurchase agreements, as leveraging techniques, may increase a Client Account's yield; however, such transactions also increase the Client Account's risk to capital and may result in a client or investor's loss of principal.

- **Risks Associated with Lender Liability; Equitable Subordination.** In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively referred to as "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Client Accounts that invest in loans, particularly distressed debt, may become subject to allegations of lender liability and may be subject to significant liability if a claim of this type arises.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender: (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lender to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination." If a Client Account that invests in loans became subject to equitable subordination, it could result in substantial losses for the account.

- **Sector Risk.** By focusing more heavily in particular bond markets, strategies that focus on a particular sector or limited sectors bear much greater risks of adverse developments and price movements in these markets than an account that invests in a wider range of

bond markets. Individual sectors may move up and down more than the broader market. The instruments or industries that constitute a sector may all react in the same way to economic, political or regulatory events.

- **Short Sale Risk.** Short sales are subject to special risks. A short sale involves the sale by a Client Account of a security that it does not own with the hope of purchasing the same security at a later date at a lower price. An account may also enter into a short position through a forward commitment or a short derivative position through a futures contract or swap agreement. If the price of the security or derivative has increased during this time, then the account will incur a loss equal to the increase in price from the time that the short sale was entered into plus any premiums and interest paid to the third party. Therefore, short sales involve the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment. Also, there is the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the account.
- **Stripped Mortgage-Backed Securities Risk.** Stripped mortgage-backed securities (“SBMS”) are derivative multi-class mortgage securities issued by agencies and instrumentalities of the U.S. Government or by private originators of, or investors in, mortgage loans. They are typically structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. As such, these classes can be very sensitive to changes in interest rates and the rate of prepayments.
- **Stripped Securities Risk.** Stripped securities are the separate income or principal components of debt securities. These securities are particularly sensitive to changes in interest rates, resulting in greater fluctuations in price than other debt securities and traditional government securities with identical credit ratings.
- **Tax Risk.** Tax laws and regulations applicable to a Client Account are subject to change, and unanticipated tax liabilities could be incurred by investors as a result of such changes. Investors should consult their own tax advisors to determine the potential tax-related consequences of investing in a Separate Account or Private Fund.
- **Terrorism Risk.** The September 11, 2001 terrorist attacks, the war with Iraq and its aftermath, continuing occupation of Afghanistan by coalition forces and related events have led to increased short-term market volatility and may have long-term effects on United States and world economies and markets. A similar disruption of the financial markets or other terrorist attacks could adversely impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to a Client Account’s securities and adversely affect such account’s service providers and operations.
- **Trade Claims.** Certain Client Accounts that invest in distressed debt may acquire trade claims — i.e., amounts due from a company to its suppliers. Trade claims are not “securities” for regulatory purposes, and a Client Account, in investing in trade claims, will not have the protection of the securities laws. Trade claims are typically highly illiquid and may have a relatively junior position as compared to securities and other debt owed

by the issuer. There may be defenses to trade claims — for example, the services or products furnished not meeting specifications — of which NBFi may not be aware at the time of a Client Account's acquisition of such claims.

- **Uncertainties of Foreclosure Process.** With respect to Client Accounts that invest in distressed debt, NBFi generally concentrates on acquiring debt that is secured by assets that NBFi believes to have a value adequate to ensure payment of such debt. However, if it becomes necessary to foreclose on the assets underlying a loan acquired by a Client Account, significant uncertainty may arise as to the outcome of the proceeding. Bankruptcy judges have broad discretion as to how they deal with the claims of different creditors, and the claims of secured creditors may not — despite their legal entitlement — always be respected as a matter of policy. These Client Accounts may make investments in restructurings and workouts that involve companies that are experiencing, or are expected to experience, severe financial difficulties, which may never be overcome and may lead to uncertain outcomes. The Bankruptcy Courts have broad discretion to control the terms of a reorganization, and political factors may be of significant importance in the more high profile bankruptcies.

The foreclosure process with respect to the residential mortgage loan modification strategy may result in procedural delays and uncertainties in many jurisdictions. Federal, state and local laws and ordinances have considered or are considering, legislation or regulations that would hinder or delay foreclosure proceedings against defaulted mortgage borrowers, or limit a residential mortgage loan servicer's ability to take actions that are necessary or appropriate to preserve mortgage loan value. Judicial decisions also have imposed significant requirements and burdens on lenders that could result in delays and further expense. The inability to foreclose on defaulted borrowers when or as anticipated, or an increase of expenses for foreclosure proceedings, could result in increased costs, reduced collections and lower returns. In addition, any limitations on foreclosure are likely to cause delayed or reduced collections from mortgagors and generally increased servicing costs.

- **U.S. Government/Agency Risk.** U.S. Government/Agency Risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Not all U.S. government securities are backed or guaranteed by the U.S. government. Some U.S. government securities are supported only by the credit of the issuing agency, which depends entirely on its own resources to repay the debt, and are subject to the risk of default. For example, U.S. government securities issued by the Federal National Mortgage Association ("**Fannie Mae**"), Federal Home Loan Mortgage Corporation ("**Freddie Mac**") and Federal Home Loan Banks may be chartered or sponsored by Acts of Congress, their securities are neither issued nor guaranteed by the United States Treasury. Therefore, these securities are not backed by the full faith and credit of the United States. The maximum potential liability of the issuers of some U.S. government securities may greatly exceed their current resources, including their legal right to support from the U.S. Treasury. It is possible that these issuers will not have the funds to meet their payment obligations in the future.

In September 2008, the U.S. Treasury Department and the Federal Housing Finance Administration (“**FHFA**”) announced that Fannie Mae and Freddie Mac would be placed into a conservatorship under FHFA. The effect that this conservatorship will have on the entities’ debt and equities and on securities guaranteed by the entities is unclear. Since 2009, Fannie Mae and Freddie Mac have received significant capital support through U.S. Treasury preferred stock purchases and Federal Reserve purchases of their mortgage backed securities. While the Federal Reserve’s purchases have terminated, the U.S. Treasury announced in December 2009 that it would continue its support for the entities’ capital as necessary to prevent a negative net worth through at least 2012. While the U.S. Treasury is committed to offset negative equity at Fannie Mae and Freddie Mac through its preferred stock purchases through 2012, no assurance can be given that the Federal Reserve, U.S. Treasury, or FHFA initiatives discussed above will ensure that Fannie Mae and Freddie Mac will remain successful in meeting their obligations with respect to the debt and mortgage-backed securities they issue beyond that date. In addition, Fannie Mae and Freddie Mac also are the subject of several continuing class action lawsuits and investigations by federal regulators over certain accounting, disclosure or corporate governance matters, which (along with any resulting financial restatements) may adversely affect the guaranteeing entities. Importantly, the future of the entities is in serious question as the U.S. government reportedly is considering multiple options, ranging from nationalization, privatization, consolidation, or abolishment of the entities.

- **When-Issued and Delayed Delivery Transactions Risk.** When-issued and delayed-delivery transactions occur when securities are purchased or sold by the strategy with payment and delivery taking place in the future to secure an advantageous yield or price. These transactions may expose the strategy to counterparty risk of default as well as the risk that securities may experience fluctuations in value prior to their actual delivery. Purchasing securities on a when-issued or delayed-delivery basis can involve the additional risk that the price or yield available in the market when the delivery takes place may not be as favorable as that obtained in the transaction itself.
- **Whole Loans Risk.** Certain Private Funds may acquire whole loans — as opposed to commercial mortgaged-backed securities whose payment flows are dependent on payments of the underlying loans. When the Private Fund holds a whole loan, NBFJ will be responsible for dealing directly with the issuer — which can both consume valuable investment adviser resources which could be more profitably employed in other investments as well as subjecting the Private Fund to all the uncertainties, expenses and adversary proceedings which surround foreclosures in general.

## **Item 9: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or potential client's evaluation of the firm or the integrity of the firm's management in this item. NBFJ has no items to disclose.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. Registration as a Broker-Dealer or Registered Representative**

NBFI is not a registered broker or dealer. Some of NBFI's management personnel are registered representatives with FINRA through their affiliation with NBFI's registered broker-dealer affiliates, NB LLC and NBM. In such capacity, subject to applicable law, they may receive sales commissions in connection with the sale of interests in affiliated Private Funds and NB Registered Funds. See Item 5.E.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor or Associated Person**

NBFI is registered as a Commodity Trading Advisor ("CTA") with the Commodity Futures Trading Commission ("CFTC"). With respect to certain accounts, NBFI relies on CFTC Rule 4.7(c), which entitles it to relief from certain reporting and disclosure requirements on the basis that it provides trading advice to "qualified eligible persons" ("QEPs") who meet certain investor criteria. With respect to other accounts, although it is registered as a CTA, NBFI relies on the exemption from CTA registration in CFTC Rule 4.14(a)(8), and so it does not act as a registered CTA, nor is it required to comply with certain CFTC regulations, with respect to those accounts. In addition, NBFI is exempt from the CFTC requirements that apply to registered CTAs and Commodity Pool Operators ("CPOs") with respect to its management of certain accounts for certain pooled investment vehicles because it has claimed applicable exemptions for its management and operations of those accounts and pooled vehicles under CFTC Rules 4.13(a)(3) and 4.14. Certain of NBFI's management personnel are registered with the National Futures Association ("NFA") as principals and associated persons of NBFI. These individuals may also be registered with the NFA as principals and associated persons of affiliates of NBFI.

### **C. Material Relationships**

NBFI currently has certain relationships or arrangements with related persons that are material to its advisory business or its clients. Below is a discussion of such relationships/arrangements and conflicts that arise from them.

#### **1. Broker-dealer, municipal securities dealer, or government securities dealer or broker**

NBFI is affiliated with NB LLC, a U.S. registered broker-dealer, and NBM, a U.S. registered limited purpose broker-dealer. NBM is the principal underwriter and distributor for the NB Registered Funds, and NB LLC acts as a sub-distributor for the NB Registered Funds and certain affiliated Private Funds and Sub-Advised Accounts.

In providing investment management services to its clients, NBFi may draw upon the trading and research resources of NB LLC and the operational and administrative resources of NBM. NBFi may use security analyses and research reports prepared by NB LLC's dedicated research department or of other affiliated entities.

NBFi may utilize placement agents in offering certain affiliated Private Funds to investors. These placement agents may include NB LLC or an unaffiliated registered broker-dealer. See Item 5.E. and Item 14.B. Officers of NB LLC may also solicit Separate Account clients for NBFi.

In addition, NBFi employees may also be officers and/or registered representatives of NB LLC and/or NBM. In such capacity, they may sell or provide similar services as the services offered by NBFi. The existence of these relationships may create the appearance of a conflict of interest. See Item 11.B.7 and Item 11.D.6.

NBFi does not generally execute securities transactions for any of its clients through NB LLC or NBM. See Item 11.B.3.

The Firm has established policies and procedures reasonably designed to prevent the misuse by the Firm and its personnel of material information regarding issuers of securities that has not been publicly disseminated. See Item 11.D.1.

## **2. Investment Company or other pooled investment vehicle**

NBFi acts as a sub-adviser to certain of the NB Registered Funds. An affiliate of NBFi acts as the adviser to the NB Registered Funds. NBFi also acts as an adviser or sub-adviser, as applicable, to the Private Funds where a related party may be a general partner, managing member or the adviser. Management persons of NBFi may act as directors or officers of Private Funds advised by affiliates. In addition, NBFi serves as a sub-adviser to foreign investment vehicles (both private and regulated) advised by Neuberger Berman Europe Limited ("**NB Europe**"), an affiliate of NBFi.

Subject to the investment guidelines and applicable law, NBFi may invest Client Accounts in Affiliated Funds. See Item 5.C regarding additional fees and expenses associated with investments in Affiliated Funds.

NBFi has a conflict of interest to the extent that it recommends or invests Client Accounts in the Affiliated Funds (rather than in unaffiliated mutual funds or Private Funds) because the Firm may benefit from increased subscriptions to the Affiliated Funds (i.e., larger funds) and, with respect to investing Client Accounts in the NB Registered Funds, certain affiliates of NBFi receive commission revenue for distributing such funds.

Neither NBFi nor its related persons are obligated to allocate any specific amount of time or investment opportunities to a particular Private Fund or NB Registered Fund. Because NBFi may receive a performance fee in connection with its management of a Private Fund, NBFi may be incentivized to devote a disproportionate amount of time and resources to the Private Fund at the expense of other accounts that are charged only a management fee. NBFi and its related persons intend to devote as much time as they deem necessary for the management of each



account, and will allocate investment opportunities between Private Funds and other accounts managed in a similar strategy in accordance with NBFI's trade allocation policy described in Item 12.B.

### **3. Other investment adviser or financial planner**

NBFI has relationships that are material to its investment management business with the following affiliated investment advisers (**the "Advisory Affiliates"**).

#### SEC-Registered Advisers:

Neuberger Berman Management LLC  
Neuberger Berman LLC  
NB Alternative Fund Management LLC  
Neuberger Berman Asia Limited

#### Non-SEC-Registered Advisers:

Neuberger Berman Europe Limited  
Neuberger Berman East Asia Limited  
Neuberger Berman Australia Pty Limited

In providing investment management services to its clients, NBFI may draw upon the portfolio management, trading, research, operational and administrative resources of these affiliates. Subject to the written consent of the client and the regulatory status of the affiliate, NBFI may engage one or more of these affiliates as subadvisors. Depending upon the strategy, investment professionals from such affiliates may have decision-making roles. Such personnel of the Non-SEC-Registered Advisers involved in NBFI's advisory activities are deemed "associated persons" of NBFI with respect to such activities and are subject to certain NBFI policies and procedures as well as supervision and periodic monitoring by NBFI.

A number of NBFI personnel involved in portfolio management at NBFI are also officers of some of these Advisory Affiliates and provide investment management services to clients of such affiliates. Neither NBFI nor its related persons are obligated to allocate any specific amount of time or investment opportunities to a particular client. NBFI and its related persons intend to devote as much time as they deem necessary for the management of each client's account and will allocate investment opportunities in accordance with NBFI's trade allocation policy. See also Item 6 and Item 11.D.6. with respect to side-by-side management issues.

NBFI may act as sub-adviser to certain Separate Accounts of NB LLC, NB Alternative Fund Management LLC ("**NBAFM**"), NB Europe and Neuberger Berman Asia Limited. NBFI also executes trades through third-party brokers for NBAFM. In addition, NBFI may serve as sub-adviser to foreign investment vehicles (both private and regulated) advised by NB Europe and Neuberger Berman East Asia Limited. The Advisory Affiliates may act as sub-advisers to certain Separate Accounts of NBFI.

Certain employees of NB Europe, Neuberger Berman East Asia Limited, Neuberger Berman Australia Pty Limited and Neuberger Berman Asia Limited may provide marketing and/or client-related services in connection with NBFi products.

The views and opinions of NBFi, and those of these Advisory Affiliates and their research departments, may differ from one another. See Item 11.B.7.

**4. Futures commission merchant, commodity pool operator, or commodity trading advisor**

NB LLC is registered as a CTA, CPO and Futures Commission Merchant. Employees of NB LLC in their capacity as registered representatives of NB LLC solicit prospective investors to invest in Private Funds or Separate Accounts sponsored or managed by NBFi. NB LLC employees may also associate with NBFi and Advisory Affiliates of NBFi to market and solicit certain products that trade commodity interests. See Item 10.C.1 and Item 10.C.3 for a description of NBFi's relationship with NB LLC. NBAFM is registered as a CTA and CPO. See Item 10.C.3 for a description of NBFi's relationship with NBAFM.

**5. Banking or thrift institution**

NBFi is affiliated with Neuberger Berman Trust Company N.A. and Neuberger Berman Trust Company of Delaware N.A. (together, the "**NB Trust Companies**"). The NB Trust Companies provide comprehensive fiduciary and wealth management services to high net worth individuals, families and their related entities, including investment management, custody, tax planning, trustee and executor services, planned giving and philanthropic advisory services. In addition, Neuberger Berman Trust Company N.A. provides investment management, custody, and other fiduciary services to institutional clients. The NB Trust Companies may appoint NBFi to manage certain assets of clients of the NB Trust Companies.

**6. Accountant or accounting firm**

None.

**7. Lawyer or law firm**

None.

**8. Insurance company or agency**

None.

**9. Pension consultant**

None.

**10. Real estate broker or dealer**

None.

## **11. Sponsor or syndicator of limited partnerships**

Affiliates of NBFI act as the general partner with respect to certain Private Fund entities managed by NBFI. See Item 10.C.2. Further information about the partnerships where affiliates of NBFI serve as the general partner is available in Section 7.B.(1) and (2) of Schedule D of Part 1 of NBFI and its affiliated SEC-registered investment advisers' Form ADVs.

## **12. Administrator**

Capital Analytics II LLC, an affiliate of NBFI, acts as administrator to at least one of its Private Funds.

### **D. Selection of Other Investment Advisers**

NBFI may engage other affiliated advisers to act as sub-advisers for its Separate Accounts (including, without limitation, with respect to Multi-Asset Mandates) or the Private Funds. In connection with the selection of potential sub-advisers, NBFI makes recommendations and/or selections of underlying investment managers for these accounts.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics**

In order to address conflicts of interest, NBFi has adopted a Compliance Manual and the Neuberger Berman Code of Ethics and Code of Conduct (the “**Conflicts Procedures**”). The Conflicts Procedures are applicable to all of NBFi’s officers, members, and employees (collectively, “**Employees**”). The Conflicts Procedures generally set the standard of ethical and professional business conduct that the Firm and NBFi require of its Employees. The Conflicts Procedures consist of certain core principles requiring, among other things, that Employees: (1) at all times place the interests of clients first; (2) ensure that all personal securities transactions are conducted in such a manner as to avoid any actual or potential conflicts of interest or any abuse of an individual’s position of trust and responsibility; (3) refrain from taking advantage of their positions inappropriately; and (4) at all times conduct themselves in a manner that is beyond reproach and that complies with all applicable laws and regulations.

As discussed further below, the Conflicts Procedures include provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other topics. All Employees must acknowledge the terms of the Code of Ethics annually, or when they are amended.

In addition, the Conflicts Procedures impose certain additional requirements on Access Persons (as defined in the Conflicts Procedures) who are advisory persons. The Conflicts Procedures also require Access Persons to report personal securities transactions on at least a quarterly basis or as otherwise required and provide the Firm with a detailed summary of certain holdings (initially upon becoming an Access Person and annually thereafter) over which such Access Persons have a direct or indirect beneficial interest.

Clients may obtain a copy of the Code of Ethics by contacting Brian Lord, NBFi’s Chief Compliance Officer, at 1-312-325-7707.

### **B. Participation or Interest in Client Transactions**

NBFi may participate or have an interest in client transactions as described below. NBFi makes all investment management decisions in its clients’ best interests.

#### **1. *Principal and Agency Transactions:***

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from, or sells any security to, an advisory client. A principal transaction would occur if NBFi bought securities for its own

inventory from an NBFI advisory client or sold securities from its inventory to an NBFI advisory client.

If an adviser, its affiliates or their respective principals own a substantial equity interest in an account managed by the adviser, transactions involving that account and another client could be characterized as a principal transaction. For example, if NBFI, its affiliates or principals have a substantial equity interest in a Private Fund, the transfer of securities from such Private Fund's account to an NBFI Separate Account could be a principal transaction.

A principal transaction presents conflicts of interest which may include the adviser or affiliate earning a fee or earning (or losing) money as a result of the transaction.

NBFI and its related persons do not generally engage in principal transactions with NBFI's clients. Subject to the rules and regulations under the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), if NBFI were to engage in such affiliated principal transactions for Separate Accounts, NBFI would disclose the transaction to the client and obtain the client's consent in accordance with Section 206-3 of the Advisers Act. With respect to Private Funds, NBFI may engage in such transactions as described in each fund's particular offering documents. In such instances, NBFI will comply with applicable federal law, as well as any requirements imposed by the funds themselves. The potential conflicts of interest are disclosed in the fund's offering documents.

An "agency cross transaction" is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. An agency cross trade would occur if securities are purchased or sold between one of NBFI's discretionary client accounts through NB LLC and a non-discretionary account client for which NB LLC acts as broker. NBFI does not intend to engage in agency cross transactions.

## **2. *Cross Transactions***

Generally, with the exceptions set forth below, it is NBFI's policy not to engage in buying or selling of securities from one client account to another (typically referred to as a "cross trade"). The vast majority of trades made for client accounts will be executed through the open market or with reference to an independently established market price. NBFI may engage in cross trading under limited circumstances. However, NBFI will only do so when it believes it is in the best interest of both clients. In such circumstances, neither NBFI nor its affiliates will receive transaction-based compensation from the trade. In certain situations, specific consent for each such transaction may be required from both parties to the transaction. Where an NB Registered Fund or a Third-Party Mutual Fund is involved, the transaction will be executed in accordance with the provisions of Rule 17a-7 under the Investment Company Act.

## **3. *Affiliated Brokers***

NBFI is affiliated with NB LLC and NBM. NBFI does not generally execute transactions for its clients' accounts through NB LLC or NBM; however, NBFI utilizes the trading desk of NB LLC to

execute equity securities transactions (including exchange-traded funds) with third-party brokers for a limited number of Client Accounts. See Item 12.B. In the event NBFI were to execute a transaction on behalf of its clients with NB LLC or NBM as broker, NBFI would only do so if it had received prior written authorization from the client and only in accordance with all applicable laws and regulations, including ERISA. Such transaction would only be executed if NB LLC or NBM provided best price and best execution under the circumstances. See Item 12.A.

#### **4. *Financial Interests in Securities or Investment Products***

From time to time, employees of NBFI and its related persons who are registered representatives of NB LLC, a registered investment adviser and broker-dealer, may recommend to NBFI's clients that they buy or sell securities in which NBFI or a related person has a financial interest or may recommend an investment in an Affiliated Fund.

Furthermore, NBFI may invest Client Accounts in securities or other assets of companies with which NBFI or its affiliates has a business relationship, whether client, broker, vendor or investment consultant.

NBFI has a conflict of interest to the extent that it recommends or invests Client Accounts in the Affiliated Funds (rather than in unaffiliated mutual funds or private funds) because the Firm may benefit from increased subscriptions to the Affiliated Funds (i.e., larger funds) and, with respect to investing Client accounts in the NB Registered Funds, certain affiliates of NBFI receive commission revenue for distributing such Funds. See Item 5.C. and Item 10.C.2.

NBFI's policies and procedures together with its investment process seek to ensure that all accounts are managed consistent with their investment objectives and guidelines and consistent with NBFI's fiduciary obligations.

#### **5. *Employee Investment in NBFI Products***

Employees of NBFI or its affiliates may be investors in the Private Funds and/or the NB Registered Funds or Third-Party Mutual Funds managed by NBFI or an affiliate. Any such investments are made in conformity with the Conflicts Procedures (see below) which have procedures regarding the use of confidential information and personal investing. The Firm may waive fees for employees.

#### **6. *Buying and Selling Securities That Are Recommended to Clients***

NBFI may recommend to clients investments in which Neuberger Berman, its affiliates or employees are also invested. Key personnel of NBFI may be invested directly in the Private Funds and the performance fee distributions and management fee payable by such Private Funds may be separately negotiated by NBFI.

NBFI provides investment advisory services to various clients which may differ from the advice given, or the timing and nature or action taken, with respect to any one account. NBFI, its affiliates and employees (to the extent not prohibited by the Code of Ethics), and clients of NBFI or its affiliates may have, acquire, increase, decrease, or dispose of securities or interests

(including interests in Affiliated Funds) at or about the same time that NBFi is purchasing or selling securities or interests (including interests in Affiliated Funds) for a Client Account which are or may be deemed to be inconsistent with the actions taken by such persons.

## **7. *Other Interests in Client Transactions***

NBFi employees and officers may also be officers, employees and/or registered representatives of NB LLC, NBM or any of the Advisory Affiliates. In such capacity, they may sell or provide similar services as the services offered by NBFi. The views and opinions of NBFi, NB LLC, NBM or any of the Advisory Affiliates and their research departments, may differ from one another. As a result, client accounts may hold securities or other investment products for which each of these entities may have a different investment opinion or outlook at the time of their acquisition or subsequent thereto.

NBFi provides Consulting Services and licenses and supports the NBFi Software to clients ("**Consulting Services Clients**"). See Item 4.B. During the consulting period and for the term of any license, NBFi and/or its affiliates may use similar or identical information derived from their independent use of the NBFi Software to advise Client Accounts with respect to investments in mortgage loans and/or securities backed by or based upon, directly or indirectly (including synthetically), mortgage loans or other asset-backed securities held or insured by Consulting Services Clients or in which the Consulting Services Clients otherwise have an interest (an "**Interest**"). NBFi and/or its affiliates may place orders to buy and sell such positions for Client Accounts, or give advice and recommendations with respect to positions where a Consulting Services Client may have an Interest, based on NBFi's and/or its affiliates' independent use of the NB Software prior to or simultaneously with any report or other work product generated or provided by NBFi to any Consulting Services Client, or by such Consulting Services Client through its use of the NB Software, or any action or decision made by such Consulting Services Client in reliance upon such reports and other work product. Such orders placed by NBFi and/or its affiliates may compete or be inconsistent with orders or actions taken by the Consulting Services Clients in reliance on such reports or work product generated by NBFi and the NBFi Software, or may result in a Client Account of NBFi or an affiliate taking the opposite side of a Consulting Services Client order. In addition, NBFi and its affiliates may give advice and recommendations to, and act as agent, including with respect to efforts to commute exposure on behalf of, Client Accounts holding positions in which Consulting Services Clients have an Interest, and take actions on behalf of such Client Accounts that may differ from or be the same as or similar to, any advice and/or recommendations which NBFi or any of its affiliates may provide to Consulting Services Clients.

## **C. Personal Trading**

NBFi, or one or more of its affiliates, including employees, from time to time, may invest for their own account directly or through a Private Fund or NB Registered Fund in equity, fixed income, derivatives or other investments in which NBFi may also invest on behalf of Client Accounts. Moreover, NBFi and its affiliates and their respective employees may buy, sell or hold securities while entering into different investment decisions for one or more Client Accounts. All such investments are made in accordance with the Conflicts Procedures.

It is the Firm's policy to monitor and in some cases prohibit personal securities transactions for NBFI, its affiliates and their respective employees. The Conflicts Procedures contain employee trading policies and procedures that are closely monitored by the Legal and Compliance Department. Key aspects of the employee trading policies and procedures include:

- (a) a requirement for securities accounts to be maintained at NB LLC or other approved entities;
- (b) an employee price restitution policy;
- (c) prohibitions against employee participation in certain IPOs;
- (d) prohibitions against trading on the basis of material non-public information;
- (e) pre-approval requirements for certain security transactions such as private placement offerings;
- (f) a minimum holding period of 30 days for most personal securities transactions; and
- (g) annually affirming in writing that (i) all reportable transactions occurring during the year were reported to the Firm; (ii) all reportable positions were disclosed; (iii) all newly opened securities accounts and/or private placements were disclosed; and (iv) that the employee has read, understood and complied with the Code of Ethics.

The price restitution policy attempts to address the potential conflict that could arise from employees owning the same securities as clients, or where the accounts of both enter the market at the same time. Subject to certain exclusions, employee trades that are executed on the same day and in the same security as a client's account are reviewed to ensure that the employee does not receive a better price than the client. In the event that the employee does receive a better price, the employee's price is "switched" to that of the client's and the cash difference in the execution price is disgorged from the employee account. Disgorged proceeds are often allocated to client accounts in the form of revised execution prices. In some instances, however, a revised execution price may not be feasible and the proceeds will either be remitted to client accounts or donated to charity.

As stated in the Conflicts Procedures, it is the policy of Neuberger Berman for its SEC-registered advisers to prohibit insiders, that is, the employees of such advisers and certain of their close relatives, to effect transactions in anticipation of transactions in such securities by client accounts.

## **D. Other Conflicts of Interest**

### **1. Non Public Material Inside Information/Insider Trading**

The Firm has implemented policies and procedures (the "**MNPI Procedures**") that are reasonably designed to prevent the misuse by the Firm and its personnel of material information regarding issuers of securities that has not been publicly disseminated ("**material non-public information**"). The MNPI Procedures are designed to be in accordance with the requirements of the Advisers Act and other federal securities laws. In general, under the MNPI Procedures and applicable law, when the Firm is in possession of material non-public information related to a publicly-traded security or the issuer of such security, whether acquired unintentionally or otherwise, neither the Firm nor its personnel are permitted to render investment advice as to, or



otherwise trade or recommend a trade in, the securities of such issuer until such time as the information that the Firm has is no longer deemed to be material non-public information.

In the ordinary course of operations, certain businesses within the Firm may seek access to material non-public information. For instance, the loan and distressed debt businesses within NBFI may utilize material non-public information in purchasing loans and other debt instruments. From time to time, NBFI portfolio managers may be offered the opportunity on behalf of applicable clients to participate on a creditors or other similar committee in connection with restructuring or other “work-out” activity, which participation may provide access to material non-public information.

The MNPI Procedures address the process by which material non-public information may be acquired intentionally by the Firm. When considering whether to acquire material non-public information, the Firm will attempt to balance the interests of all clients, taking into consideration relevant factors, including, but not limited to, the extent of the prohibition on trading that may occur, the size of the Firm’s existing position in the issuer, if any, and the value of the information as it relates to the investment decision-making process. The intentional acquisition of material non-public information may give rise to a potential conflict of interest since NBFI may be prohibited from rendering investment advice to clients regarding the public securities of such issuer and thereby potentially limiting the universe of public securities that NBFI may purchase or potentially limiting the ability of NBFI to sell such securities. Similarly, where the Firm declines access to (or otherwise does not receive) material non-public information regarding an issuer, NBFI may base its investment decisions with respect to loan assets of such issuer solely on public information, thereby limiting the amount of information available to NBFI in connection with such investment decisions. In determining whether or not to elect to receive material non-public information, the Firm will endeavor to act fairly to its clients as a whole. The Firm reserves the right to decline access to material non-public information, including declining to join a creditors or similar committee.

In connection with loan assets held by NBFI’s clients, NBFI has engaged a third-party vendor to administer the loan amendment process with respect to issuers for which NBFI will not accept material non-public information.

## **2. *Gifts/Gratuities/Entertainment***

Firm employees, wherever located, are prohibited from providing business gifts or entertainment that are excessive or inappropriate or intended to inappropriately influence recipients.

Subject to applicable law, the Firm allows personnel to provide limited business gifts and entertainment to personnel/representatives of clients or prospective clients as detailed in more specific Firm policies and procedures. However, the Firm prohibits providing business gifts or entertainment that are excessive or inappropriate or intended to cause such personnel/representatives to act against the best interests of their employer, the client they represent or those to whom they owe a fiduciary duty.

In addition to the above prohibitions, the Firm imposes restrictions on providing gifts and entertainment to particular types of clients or client representatives, such as government officials at all levels and representatives of U.S. Labor Organizations. Furthermore, other public, as well as private, institutions may have their own internal rules regarding the acceptance of gifts or entertainment by their personnel and other representatives. Neuberger Berman personnel are reminded to be aware that institutions with whom they deal may have certain additional restrictions.

In addition to these requirements, which apply to all Firm personnel, different regions may have regulatory rules and requirements relating to business gifts and entertainment specific to their region. Separate Firm policies and procedures specify how personnel subject to this requirement are to comply with it.

Accepting gifts or entertainment from clients, prospective clients, employees or agents of clients, outside vendors, suppliers, consultants, and other persons or entities with whom the Firm does business may also create actual or apparent conflicts of interest. Subject to applicable law, the Firm does not prohibit personnel from accepting all business-related gifts or entertainment. However, neither Firm personnel, immediate family members, nor other household members may accept any gift or entertainment that is significant in value or impairs, or appears to impair, employee ethics, loyalty to the Firm, or ability to exercise sound judgment. Furthermore, Firm personnel may not accept gifts or entertainment that are, or may be perceived as being, compensation from someone other than the Firm. Firm personnel may not solicit gifts or entertainment, and may not give any gifts or entertainment to anyone who solicits them.

### **3. *Political Contributions***

Due to the potential for conflicts of interest, the Firm has established policies and procedures relating to political contributions which are designed to comply with applicable federal, state and local law. All employees are required to seek preapproval before making any political contribution.

### **4. *Outside Business Activities***

Certain types of outside affiliations or other activities may pose a conflict of interest or regulatory concern to the Firm. Therefore, the Firm prohibits certain activities, and requires employees to disclose outside activities to the Firm in writing so that responsible personnel may assess the compatibility of the outside affiliation or activity with their role at the Firm. "Outside affiliations" include relationships in which Neuberger Berman personnel serve as an employee, director, officer, partner or trustee of a public or private organization or company other than the Firm (paid or unpaid), including joint ventures, portfolio investment companies, non-profit, charitable, civic or educational organizations. These relationships may or may not be related to employment with the Firm. Employees registered in the U.S. may also have to update their regulatory filings to reflect outside affiliations. Generally, Firm employees do not have to disclose affiliations which involve little or no personal responsibility or exposure on their part and have minimal potential for adversely affecting the Firm's image or creating conflicts of interest. Firm personnel are not required to disclose affiliations of family members unless they

are aware that an immediate family member's affiliation with a company or organization may result in a conflict of interest between the employee and the Firm or the employee and a client of the Firm.

Firm personnel are generally prohibited from being employed by another company or from engaging in other activities that could interfere or conflict with their service at the Firm. Firm personnel are prohibited from being employed by, or serving on a board or in an advisory position with, any public company or with other firms in the financial services industry. Furthermore Firm personnel are prohibited from entering into independent non-Firm related business relationships with clients, vendors, or co-workers. Exceptions to these prohibitions may only be made in writing on a case-by-case basis by the Legal and Compliance Department.

Firm personnel may serve, under certain limited circumstances, as an executor, trustee, guardian or conservator, with prior approval from the Legal and Compliance Department, irrespective of whether such service is personal in nature. If the party is in one of these categories, the relationship requires prior approval. Brokerage accounts under control of the employee as a result of their service as an executor, trustee, guardian or conservator must be disclosed in accordance with the Firm's Code of Ethics, even if the relationship is personal. The Firm generally permits employees to engage in philanthropic, charitable or other similar pursuits, subject to certain limitations and with prior approval from the Legal and Compliance Department.

## **5.     *Outsourcing/Service Providers***

The Firm conducts appropriate due diligence on any outside vendor that provides products or services to the Firm and enters into an appropriate contract. The Firm's relationships with outside vendors are managed so that appropriate controls and oversight are in place to protect the Firm's interests, including safeguarding of private and confidential information regarding the Firm's clients and employees.

## **6.     *Side by Side Management of Different Types of Accounts***

NBFI and its personnel may have differing investment or pecuniary interests in different accounts managed by NBFI, and its personnel may have differing compensatory interests with respect to different accounts. Similarly, NBFI personnel who are dual employees with an Advisory Affiliate may have different interests with respect to accounts managed for NBFI and accounts managed for the Advisory Affiliate.

NBFI faces a potential conflict of interest when (i) the actions taken on behalf of one account may impact other similar or different accounts (e.g., where accounts have the same or similar investment strategies or otherwise compete for investment opportunities, have potentially conflicting investment strategies or investments, or have differing ability to engage in short sales and economically similar transactions) and/or (ii) NBFI and its personnel have differing interests in such accounts (e.g., where NBFI or its related persons are exposed to different potential for gain or loss through differential ownership interests or compensation structures) because NBFI may have an incentive to favor certain accounts over others that may be less profitable. Such conflicts may present particular concern when, for example, NBFI places, or

allocates, securities transactions that NBFI believes could more likely result in favorable performance, engages in cross trades or executes potentially conflicting or competing investments.

To mitigate these conflicts, NBFI's policies and procedures seek to ensure that investment decisions are made in accordance with the fiduciary duties owed to such accounts and without consideration of NBFI's (or such personnel's) pecuniary, investment or other financial interests. NBFI has policies and procedures designed to allocate investment opportunities fairly among Client Accounts.

In addition, certain side-by-side managed accounts or portfolios may acquire both long and short positions in securities of an issuer (i.e., "long/short" strategies). A short sale involves the sale of a security that the acquirer does not own in the expectation of purchasing the same security (or a security exchangeable therefore) at a later date at a lower price. To make delivery to the buyer, the acquirer must borrow the security, and the acquirer is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the acquirer. In contrast to taking a long position in a security, when a manager sells a security short, he/she is typically doing so with the expectation that the security will decline in value. Depending on a number of conditions, including, but not limited to, the security's liquidity and general economic conditions, shorting a security may also have the added consequence of adversely impacting its market price. As a result, managers who manage long/short products may have potential conflicts of interest were they to short a security in which they were also long for another client and/or in another product. NBFI has adopted policies and procedures which would permit such transactions, under certain circumstances.

Notwithstanding the above, the views and opinions of NBFI, its portfolio managers and other employees and those of its affiliates and research departments may differ from one another, as well as from their respective Chief Investment Officers and the Neuberger Berman Investment Strategy Group. As a result, products managed by NBFI or its affiliates may hold securities or pursue strategies that reflect differing investment opinions or outlooks at the time of their acquisition or subsequent thereto.

See Item 12.B regarding trade allocation and aggregation policies.

## Item 12: Brokerage Practices

### A. Criteria for Selection of Broker-Dealers

#### In General—Brokerage Selection

Generally, where NBFi has discretionary authority for an account, NBFi has discretion to purchase and sell securities and to select the broker-dealer. NBFi looks to the overall quality of service provided by the broker and will consider many factors when making a selection for execution. It is NBFi's policy to use its best efforts to obtain the best price on every trade given all the relevant circumstances. In addition to price, traders will also consider the size of the transaction, liquidity of both the security and the market, the broker's ability to provide and/or find liquidity, time limitations, and confidentiality of the transaction. NBFi will also utilize electronic trading networks when they can provide liquidity and price improvement over and above what is available through traditional methods for execution.

NBFi utilizes the trading desks of its affiliate, NB LLC, for certain trade execution services relating to equity securities (including exchange-traded funds) for its Client Accounts. NB LLC may aggregate orders for such NBFi Client Accounts with their respective client orders for the same security or financial instrument. In aggregating NBFi Client Accounts with those of NB LLC's other clients, NB LLC may not be able to fill all participating client orders. NB LLC may need to decide which clients will receive an allocation or how much of the executed order will be allocated across the participating clients. This may result in a conflict of interest for NB LLC where participating clients include accounts that are charged performance fees or represent a sizable part of either firm's assets under management. See Item 12.B.

**Wrap Accounts:** NBFi may utilize the relevant Wrap Sponsor for brokerage, as use of the Wrap Sponsor may achieve best execution due to certain lower negotiated fees (i.e., brokerage fees are often included in the overall fee paid by Wrap Program Clients to the Wrap Sponsor and therefore no additional brokerage fees may be incurred when brokerage is directed to the Wrap Sponsor). NBFi receives no additional compensation for such use. NBFi will only direct such brokerage where it believes it can achieve best execution (although there can be no assurance that it can be obtained) taking into account any lower fees due to the Wrap Program. Wrap Program Clients should consider whether or not the participation in a Wrap Program may or may not result in certain costs or disadvantages to the client as a result of possible less favorable executions.

NBFi may enter into agreements with certain Wrap Sponsors whereby NBFi will only provide its model portfolio to the program sponsor. The Wrap Sponsor would be responsible for executing portfolio transactions for the accounts of the Wrap Program Clients.

When transmitting orders for discretionary Wrap Program Clients or providing the model portfolio to the Wrap Sponsors, NBFi rotates its order entry in what it deems to be a fair and orderly manner.

## **Research and Other Soft Dollar Benefits**

Soft dollars refers to the practice of using a portion of the commissions generated when executing client transactions to acquire useful research and brokerage services from broker-dealers. In general, NBF's policy is to not direct soft dollar credits for fixed income transactions to individual brokers or dealers on behalf of its clients; however, Client Accounts that transact in equity securities, where permitted, may participate in soft dollar transactions through NBF's use of NB LLC's trading desks. In addition, certain Client Accounts may indirectly benefit from soft dollar arrangements that NB LLC has in place.

## **Brokerage for Client Referrals**

NBF does not enter into agreements with, or make commitments to, any broker-dealer that would bind NBF to compensate that broker-dealer, directly or indirectly, for client referrals (or sale of fund interests) through the placement of brokerage transactions.

## **Directed Brokerage**

Clients may have particular brokerage requirements or requests including directed brokerage, use of emerging brokers, or prohibition of specific brokers. NBF will review all requests to determine whether NBF believes such proposals may be disadvantageous to the client. NBF will discuss any concerns with the client. As a general practice, NBF does not engage in directed brokerage transactions. Any brokerage requirements or requests may have an adverse impact on NBF's ability to achieve best execution for such client. In addition, such request may prevent the client from trade aggregation, which may allow more favorable execution.

## **Other Fees in Connection with Trading**

In an effort to achieve best execution of portfolio transactions, NBF may trade securities for client accounts by utilizing electronic marketplace or trading platforms. Some of these electronic systems may impose additional service fees or commissions. NBF may pay these fees directly to the provider of the service or these fees may be included in the execution price of a security. NBF's intention is that it will only use such systems and incur such fees if it believes that doing so helps it to achieve best execution for the applicable transaction, taking into account all relevant factors under the circumstances. For example, NBF may consider the speed of the transaction, the price of the security, the research it receives and its ability to effect a block transaction.

## **Errors**

NBF has adopted policies and procedures for correcting errors. The policies and procedures require that all errors affecting a client's account be resolved promptly and fairly. The intent of the policy is to restore a client account to the appropriate financial position considering all relevant circumstances surrounding the error.

## **B. Aggregation of Orders/Allocation of Trades**

### ***Aggregation:***

NBFI will frequently aggregate trades (buys and sells) for a client with other NBFI clients, and may also aggregate trades with clients of its affiliates, when it determines that such aggregation should result in more favorable trade execution.

This aggregation of orders could lead to a conflict of interest in the event an order cannot be entirely fulfilled and NBFI is required to determine which accounts should receive executed shares and in what order.

NBFI utilizes the trading desks of its affiliate, NB LLC, for certain equity securities transactions (including exchange-traded funds) for its Client Accounts. There may be occasions when NBFI decides to purchase or sell the same security or financial instrument for several Clients Accounts at approximately the same time. If NBFI utilizes the trading desks of NB LLC, NB LLC may (but is not obligated to) combine or aggregate such orders in order to secure certain efficiencies and results with respect to execution, clearance and settlement of orders. NB LLC may elect to combine NBFI Client Account orders with orders entered for the same security for its clients or clients of other affiliated advisors that utilize its services. This aggregation of orders across client accounts could lead to a conflict of interest in the event an order cannot be entirely fulfilled and NB LLC is required to determine which accounts should receive executed shares and in what order. Clients should also refer to NB LLC 's Brochure for further information regarding its aggregation and allocation procedures. Neither NB LLC nor NBFI is obligated to include every Client Account in an aggregated trade. Orders will be aggregated and allocated in a manner designed to ensure that over time no particular client or account is favored and that participating clients are treated in a fair and equitable manner. Neither NB LLC nor NBFI will receive additional compensation or remuneration of any kind as a result of the aggregation of client trades.

### ***Allocation of Investment Opportunities:***

NBFI strives to add value in client accounts while minimizing return dispersion across accounts with similar investment mandates. The NBFI Trade allocation policy requires that all clients are treated in a fair and equitable manner throughout the trade allocation process and each client has the ability to participate in investment decisions when deemed appropriate.

There are no specific limitations on the securities or other investments to be bought or sold or the amount of such securities or other investments to be bought or sold for a particular account, unless a client's guidelines state otherwise. When determining allocations, and ultimately the amount of securities or other investments to be bought or sold, considerations are given to client suitability and guidelines, cash availability, strategy and/or product considerations, issuer and/or sector exposure, and de minimis allocation.

NBFI may face conflicts of interest when allocating investment opportunities among its various clients. For example: (i) NBFI receives different advisory fees from different clients; (ii) the performance records of some clients are more public than the performance records of other clients; and (iii) NBFI and its affiliates, owners, officers and employees have invested substantial amounts of their own capital in some client accounts (notably the Private Funds), but do not invest their own capital in every client's account. The majority of NBFI' clients pursue specific investment strategies, many of which are similar. NBFI expects that, over long periods of time, most clients pursuing similar investment strategies should experience similar, but not identical, investment performance. Many factors affect investment performance, including but not limited to: (i) the timing of cash deposits to, and withdrawals from, an account; (ii) the fact that NBFI may not purchase or sell a given security on behalf of all clients pursuing similar strategies; (iii) price and timing differences when buying or selling securities; and (iv) the clients' differing investment restrictions. NBFI's trading policies are designed to minimize possible conflicts of interest in trading for its clients.

NBFI considers many factors when allocating securities or other investments among clients, including, but not limited to, the client's investment objectives, applicable restrictions, the type of investment, the number of shares purchased or sold, the size of the account, and the amount of available cash or the size of an existing position in an account. Clients are not assured of participating equally or at all in particular investment allocations. The nature of a client's investment style may exclude it from participating in many investment opportunities, even if the client is not strictly precluded from participation based on written investment restrictions.

NBFI attempts to allocate limited investment opportunities, including initial public offerings ("IPOs"), among clients in a manner that is fair and equitable when viewed over a considerable period of time and involving many allocations. NBFI maintains policies and procedures to allocate securities in fixed income IPOs and in secondary offerings. The factors taken into account in allocating of IPO securities include whether the account's investment objectives fall primarily within the market capitalization of the issuer of securities to be allocated, cash available and legal restrictions on the account. Once those requirements are met, the securities are generally allocated on a *pro rata* basis based on the assets under management of each account. NBFI normally does not participate in IPOs for its Wrap Fee Program Clients, which may cause these accounts to be invested differently than similarly individually Separate Accounts.

The Legal and Compliance Department is responsible for monitoring and interpreting these policies. Any exceptions to these policies require the prior approval of the Legal and Compliance Department.



## **Item 13: Review of Accounts**

### **A. Periodic Reviews**

NBFI's portfolio managers review accounts on a periodic basis, consistent with an account's needs. Certain accounts may require daily review, while others may require less frequent review. In reviewing accounts, portfolio managers take into consideration both client objectives and goals, and the manager's investment thesis for the total portfolio, as well as for particular securities and other assets.

Portfolio managers and traders are responsible for ensuring that the portfolio is in compliance with internal guidelines, as well as guidelines established by the client. As such, the investment professionals responsible for trading are the first step in maintaining compliance with investment guidelines and investment policy. Because portfolio managers can access online portfolio data, which is updated daily for each portfolio, they are able to "drill down" from sector to individual security in order to assess compliance with client guidelines.

While NBFI looks to the portfolio managers as the first step in the compliance process, NBFI recognizes the need for additional, independent oversight. The Firm's Asset Management Guideline Oversight (AMGO) Department serves as an independent supervisory group responsible for ensuring that portfolios are managed in accordance with client investment guidelines.

The number of Client Accounts supervised by each portfolio manager varies depending upon a particular manager's workload and can change from time to time. A portfolio manager may be responsible for managing Separate Accounts, Private Funds, Sub-Advised Accounts and Non-Discretionary Accounts of NBFI or an affiliated advisory firm. The process relating to the review of the accounts of an affiliated advisory firm would be governed by the policies of such affiliate.

In addition to the practices outlined above, the Firm's Legal and Compliance Department perform periodic reviews of the portfolio activities as well as coordinate, where necessary, with the Sub-Advised Account client or its fund accounting designee to provide periodic reviews and reporting to the client as required.

### **B. Non-Periodic Reviews**

Other than the periodic review of accounts described above, a review of individual accounts will also be triggered by anomalies (e.g., performance of an account is not in line with composite performance or abnormal market conditions).

## C. Client Reports

**Separate Accounts and Non-Discretionary Accounts**—NBFI will provide periodic reports to its Separate Account and Non-discretionary Account clients regarding the status of their accounts based on the needs of the individual client. Such reports may vary among client accounts based on size and type of account or client. Clients will generally also receive reports from their respective qualified custodians no less frequently than quarterly. When required by the client, a confirmation is sent to such client on the next business day following the execution of a transaction in the client's account. Statements are also sent each month in which there is activity in the account. In addition to the reports described above, clients may periodically meet with their NBFI representative.

**Private Funds**—Investors in Private Funds receive such reports as described in the Private Fund's Offering Memorandum (or as otherwise negotiated with NBFI). Generally, annual audited financial statements of the Private Fund will be prepared in accordance with U.S. Generally Accepted Accounting Principles (or "GAAP") and distributed to investors. Investors may also receive quarterly reports containing information on the Private Fund's portfolio holdings, valuation of their interests in the Private Fund and cash distributions. These reports may include or be accompanied by information with respect to the performance of the Private Fund, other information about the investor's account and general market information. Private Fund investors will also receive certain tax-reporting information (e.g., Form K-1).

**Sub-Advised Accounts**—Investors and/or the client receive such reports as required by the intermediary investment adviser to the account and as required by applicable law or regulation.

**Wrap Accounts**—Wrap Program Clients receive such reports as provided by the Wrap Sponsors.

## **Item 14: Client Referrals and Other Compensation**

### **A. Compensation by Non-Clients**

Not Applicable.

### **B. Compensation for Client Referrals**

Subject to applicable law, certain employees of NBFI and its affiliates are eligible to earn an account referral commission for referring a potential client to NBFI that engages NBFI to provide investment management services.

From time to time, in accordance with applicable law, NBFI may retain and compensate third parties for introducing new investment advisory clients to NBFI. The compensation to such parties generally represents a percentage of the management and incentive fees (if any) paid by the client to NBFI. Clients do not pay a higher fee than they would otherwise pay due to the solicitor's involvement in the introduction.

NBFI sponsors educational events where its representatives meet with institutional consultants and/or their clients. Typically, NBFI neither charges a participation fee nor pays for the expenses of the participants. NBFI may also participate in educational programs sponsored by consultants. NBFI may pay a fee to participate in such programs. Both of these types of events provide NBFI with an opportunity to meet with consultants and/or their clients. Any fees paid by NBFI are from its own resources, which include the management fees received from its clients. Clients should confer with their consultant regarding the details of the payments their consultant may receive from NBFI. In addition, affiliates of NBFI actively seek to educate broker-dealers and other financial intermediaries in connection with the firm's registered fund business. NBFI may benefit from such activity as it subadvises certain NB Registered Funds.

## Item 15: Custody

### **Separate Accounts, Non-Discretionary Accounts**

Generally, neither NBFI nor its affiliates will maintain physical possession of the funds or securities that a client maintains in a Separate Account or Non-Discretionary Account. The assets in a Separate Account or Non-Discretionary Account typically are deposited with a bank, trust company, broker-dealer or other qualified custodian (“**Qualified Custodian**”) selected by the client. Under the investment management agreement, NBFI generally invoices the Separate Account or Non-Discretionary Account client and the client directs its custodian to pay NBFI. In limited circumstances, NBFI will have custody due to certain control it may have over a client’s custodial account with a Qualified Custodian. In those instances, the Qualified Custodian will send quarterly, or more frequently, account statements directly to the client. Clients should carefully review those statements. NBFI provides quarterly (or more frequent) account statements to its clients. Clients should carefully read and compare any account statements received from NBFI against account statements received from their Qualified Custodian.

### **Private Funds**

Neither NBFI nor its affiliates will maintain physical possession of the funds, securities or other assets of any Private Fund. Physical custody of the assets of a Private Fund will be maintained with a Qualified Custodian selected by NBFI, an affiliate or the third-party adviser to such Private Funds (as applicable), in its exclusive discretion, which selection may change from time to time generally without the consent of investors in the Private Fund.

Although NBFI or its affiliates will not have physical possession or custody of any Private Fund assets, under Rule 206(4)-2 of the Advisers Act (the “**Custody Rule**”), an adviser has “constructive” custody if it has the authority to possess client assets by withdrawing funds on a client’s behalf. With respect to affiliated Private Funds, NBFI or its affiliates, by virtue of acting as general partner or managing member of such fund or similar capacity, has the authority to withdraw funds or securities from the Private Fund. Accordingly, NBFI is deemed to have “constructive” custody over the assets in an affiliated Private Fund.

In order to comply with the Custody Rule, generally these affiliated Private Funds undergo an annual audit performed by an independent accounting firm registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB). The audited financial statements, prepared in accordance with GAAP, are distributed to all investors in each Private Fund within 120 days of the end of the fund’s fiscal year.

**Sub-Advised Accounts**—Sub-Advised Accounts are custodied in accordance with the particular type of client (e.g., Separate Accounts, Private Funds).

**Wrap Accounts**—NBFI does not maintain physical possession of the funds or securities that a Wrap Program Client transfers to a Wrap Program. The assets in a Wrap Program Client’s account are typically custodied with the Wrap Sponsor or a Qualified Custodian selected by the Wrap Sponsor.

NBFI's services do not include participation in the Wrap Sponsor's selection of the Qualified Custodian, the structuring of custody arrangements, or supervision of the Qualified Custodian. NBFI assumes no liability with respect to the acts, omissions or other conduct of the Qualified Custodian of the Wrap Sponsor. If the Qualified Custodian invests otherwise uninvested cash in a Wrap Program Client custodial account, NBFI does not participate in such investment decisions and is not liable with regard to such investments.

## Item 16: Investment Discretion

**Discretionary**—Subject to any investment guideline as a client may from time to time communicate to NBF, NBF enters into investment management agreements with its clients that give NBF authority, without obtaining specific client consent, to buy, sell, hold, exchange, convert or otherwise trade in any fixed income securities, loans and other financial instruments, including, without limitation, derivatives. NBF's discretionary authority is derived from an express grant of authority under each Separate Account's or Private Fund's investment advisory agreement with NBF and each sub-advisory agreement for a Sub-Advised Account. With respect to many of such agreements, NBF is also given the authority to execute agreements or other documents on behalf of the client to effectuate NBF's duties under the investment management agreement. In addition, NBF's discretionary authority generally allows NBF to exercise any right incident to any securities or other assets (e.g., the right to vote) held in the account and to issue instructions to the client's custodian for the account for such purposes, as NBF deems necessary and appropriate in the management of the account. From time to time, NBF may be engaged to provide limited investment management services such as liquidating a client account. For certain of NBF's large institutional Separate Accounts, NBF offers Multi-Asset Mandates. See Item 4.C.

Purchases and sales must be suitable for the particular client and limitations may be imposed as a result of instructions from the client. Clients may limit NBF's authority by prohibiting or limiting the purchasing of certain securities or other assets or industry groups. In addition, clients may further limit NBF's authority by restricting the use of certain brokers or by requiring that a portion of client's transactions be executed through a client's designated broker. See Item 12.A.

The Firm, itself, may place restrictions on trading in certain securities or other assets in client accounts. Legal or regulatory considerations or Firm risk management policies may necessitate that the Firm restrict trading in certain issuers. NBF will not be able to trade in any securities on the Firm restricted list on behalf of any client accounts, except with approval by the Firm's Legal and Compliance Department.

For example, pursuant to the Firm's policies and procedures on the handling of material non-public information, when the Firm is in possession of material non-public information related to a publicly-traded security or the issuer of such security, whether acquired unintentionally or otherwise, neither the Firm nor its personnel are permitted to render investment advice as to, or otherwise trade or recommend a trade in, the securities of such issuer until such time as the information that the Firm has is no longer deemed to be material non-public information. As such, there may be circumstances which will prevent the purchase or sale of securities for Client Accounts for a period of time. See Item 11.D.1.

**Wrap Account**—Please refer to Item 4.B for a discussion of NBF's discretionary authority for Wrap Program Accounts.

**Non-Discretionary**—With respect to a small number of clients, NBFI has ongoing responsibility to select securities or other investments that the account may purchase and sell based upon the client's needs; however, at the client's request, NBFI may be required to consult with the client before effecting any such purchases or sales for the client's account.

## Item 17: Voting Client Securities

NBFI generally has voting power with respect to securities in all of its accounts other than Non-Discretionary Accounts. With respect to some Separate Accounts and Sub-Advised Accounts, the client has not delegated voting power to NBFI. NBFI has implemented written Proxy Voting Policies and Procedures (the “**Proxy Voting Policy**”) that are designed to reasonably ensure that NBFI votes proxies prudently and in the best interest of its advisory clients for whom NBFI has voting authority. The Proxy Voting Policy also describes how NBFI addresses any conflicts that may arise between its interests and those of its clients with respect to proxy voting.

The NB Proxy Voting Committee (“**Committee**”) is responsible for developing, authorizing, implementing and updating the Proxy Voting Policy, overseeing the proxy voting process, and engaging and overseeing any independent third-party vendors as voting delegate to review, monitor and/or vote proxies. In order to apply the Proxy Voting Policy noted above in a timely and consistent manner, the Committee utilizes Glass, Lewis & Co. LLC (Glass Lewis) to vote proxies in accordance with the NB Proxy Group’s voting guidelines.

For socially responsive clients, NBFI has adopted socially responsive voting guidelines. For non-socially responsive clients, NBFI’s guidelines provide that it adopt the voting recommendations of Glass Lewis. NBFI retains final authority and fiduciary responsibility for proxy voting. NBFI believes that this process is reasonably designed to address material conflicts of interest that may arise between NBFI and a client as to how proxies are voted.

In the event that an investment professional at Neuberger Berman believes that it is in the best interest of a client or clients to vote proxies in a manner inconsistent with the NBFI’s proxy voting guidelines or in a manner inconsistent with Glass Lewis recommendations, the Committee will review information submitted by the investment professional to determine that there is no material conflict of interest between Neuberger Berman and the client with respect to the voting of the proxy in that manner.

If the Committee determines that the voting of a proxy as recommended by the investment professional presents a material conflict of interest between Neuberger Berman and the client or clients with respect to the voting of the proxy, NBFI: (i) takes no further action, in which case Glass Lewis votes such proxy in accordance with the proxy voting guidelines or as Glass Lewis recommends; (ii) discloses such conflict to the client or clients and obtain written direction from the client as to how to vote the proxy; (iii) suggests that the client or clients engage another party to determine how to vote the proxy; or (iv) engages another independent third party to determine how to vote the proxy.

Clients may obtain a copy of the Proxy Voting Policy or obtain information about how NBFI voted their specific proxies by contacting their Client Service Representative.

***Class Action Lawsuits***—From time to time a security held in a client’s Separate Account may become the subject of a class action lawsuit. Generally, the custodian for the Separate Account handles any decision to file a claim to participate in a class action settlement. From time to time, NBFI may directly receive notice of a class action relating to a security held in a Separate



Account. In those cases, NBFI will determine whether it has authority to act with respect to the class action process based on the investment management agreement for the Separate Account.

With respect to registered funds and unaffiliated Private Funds, unless otherwise agreed with NBFI, typically the fund's custodian or other third-party agent engaged by the fund will handle the class action process and file claims. With respect to affiliated Private Funds, typically the fund's custodian or other third-party agent engaged by the Private Fund, at the direction of NBFI, will handle the class action process and file claims.

NBFI will not act on behalf of its clients as a lead plaintiff in a class action lawsuit.

## **Item 18: Financial Information**

### **A. Prepayment of Fees (Six or more months in advance)**

Not Applicable

### **B. Impairment of Contractual Commitments**

NBFI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

### **C. Bankruptcy Petitions**

NBFI has not been the subject of a bankruptcy proceeding.