

INVESTMENT PERSPECTIVE: On the Path to a Cleaner Energy Economy

July 2010

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In our view, the emerging clean energy sector has the potential to create millions of well-paying jobs, expand the growth of a myriad of companies, inject billions of dollars into the U.S. economy, and create new opportunities for investment. This sector could also help reduce our oil dependence, enhance our security and protect our environment. That said, transforming our energy future entails a comprehensive clean energy and climate policy, something the U.S. still lacks. However, we are seeing signs of movement, particularly in the wake of the monumental oil spill in the Gulf of Mexico.

The adversity surrounding the BP oil spill is serving as a lever for President Barack Obama and U.S. Senate leadership to reignite and reorient U.S. energy policy towards more environmentally conscious energy sources. This unfortunate event has already emboldened environmentalists as well as many sympathetic federal and state regulators to push for greater action on comprehensive energy reform. With as much as 60,000 barrels per day estimated to be flowing into the gulf—and tens of millions of gallons released to date—this is the largest oil spill in the history of the U.S.; and economic and environmental costs continue to mount.

We believe Washington will implement reactive policy measures directed towards offshore drilling and the oil industry as a whole (including new liability provisions and safety measures), but the question remains whether the spill will catalyze further changes in the country's policies relating to energy independence, jobs, and the environment.

A 2010 passage of an all-inclusive energy and climate policy continues to be an uphill battle, in our view, given the overall complexity of the legislation and the narrow Congressional window prior to midterm elections. However, smaller energy-only or sector-specific bills—with a national renewable electricity standard as a focal point—remain viable options and could bode well for cleaner energy and climate change-related investments, especially as the policy would work in conjunction with the continued flow of energy-related stimulus funding.

CONGRESS WEIGHS CLIMATE LEGISLATION

After numerous fits and starts—including the recent lost endorsement from one of its original authors, Senator Lindsey Graham (R-SC)—Senators John Kerry (D-MA) and Joe Lieberman (I-CT) unveiled their latest effort at comprehensive energy and climate change legislation, entitled the American Power Act, back in May 2010. As previously predicted, the bill calls for a multi-sector approach to regulating greenhouse gas emissions (17% reduction by 2020, 83% reduction by 2050) that begins with utilities

and transportation and is followed by heavy manufacturing a few years later; utilities and manufacturing would be covered by a cap-and-trade system while transportation would likely be subject to a carbon fee.

The proposal also provides a broad array of incentives for areas such as nuclear, carbon capture and storage, natural gas and offshore drilling in order to balance out the more controversial cap-and-trade elements. This compromise approach would have been a great starting point a year ago—and could set the stage for future negotiations—but there are still a number of difficult issues outstanding (e.g., offshore drilling, implicit gas tax, trade tariffs and allowance allocations). In addition, the overall endeavor remains complex and ambitious within the existing, highly politicized environment.

Moreover, despite the EPA's relatively favorable economic analysis of the American Power Act (it found that the bill would only add slightly to average household costs), the Senate's Democratic leadership still appears to be divided on how to move energy policy forward this summer (i.e., with or without a climate agenda) as they continue to grapple with the task of achieving a filibuster-proof 60 votes. Majority Leader Reid has requested that the Senate's committee chairmen develop energy bill provisions prior to July 4 to set the stage for the chamber's debate later this summer. "Energy-only," sector-specific cap-and-trade, and narrower "spill bill" proposals also remain viable alternatives.

EPA AND THE STATES CONTINUE TO MOVE FORWARD

Generally speaking, the Obama administration has made it clear that a nationwide, legislative approach is the preferred route for regulating greenhouse gas emissions. However, with minimal Congressional progress to date, the Environmental Protection Agency (EPA) has started taking various environmental actions by targeting areas such as coal ash, mercury and motor vehicle and stationary greenhouse gas emissions, to name a few. The EPA's authority to regulate greenhouse gases under the Clean Air Act emerged after the 2007 Supreme Court decision in *Massachusetts v. EPA* and continued moving forward after the agency finalized its "endangerment finding" last year, declaring that greenhouse gases threaten public health and welfare. These actions helped lay the groundwork for new fuel economy and emissions standards as well as the recently announced tailoring rule for stationary sources (e.g., power plants and large industrial facilities), which is scheduled to take effect in 2011. Importantly, the administration's ability to move forward unilaterally through the EPA's command-and-control approach represents a key weapon to try to force legislative action. That said, there continues to be significant pushback on EPA authority, including the recently defeated Senate resolution to strip the agency of this power as well as a number of court battles and legal suits, which are expected to play out for years to come.

With regard to the regional and state actions, there are currently programs such as the Regional Greenhouse Gas Initiative, where 10 Northeastern and Mid-Atlantic states have capped and plan to reduce carbon dioxide emissions from the power sector by 10% by 2018, as well as state renewable portfolio standards (RPS), which require electric utilities to supply a specified minimum amount of customer load with electricity from eligible renewable energy sources. Currently, 29 states plus the District of Columbia have state renewable portfolio standards, while another seven have state renewable portfolio goals. The details of these RPS targets vary significantly by state, but we believe they

should help create substantial market demand; after all, renewable energy sources (excluding conventional hydroelectric power) only contributed about 3% of total U.S. net electric generation in 2008.

GLOBAL STIMULUS PROVIDES TAILWIND

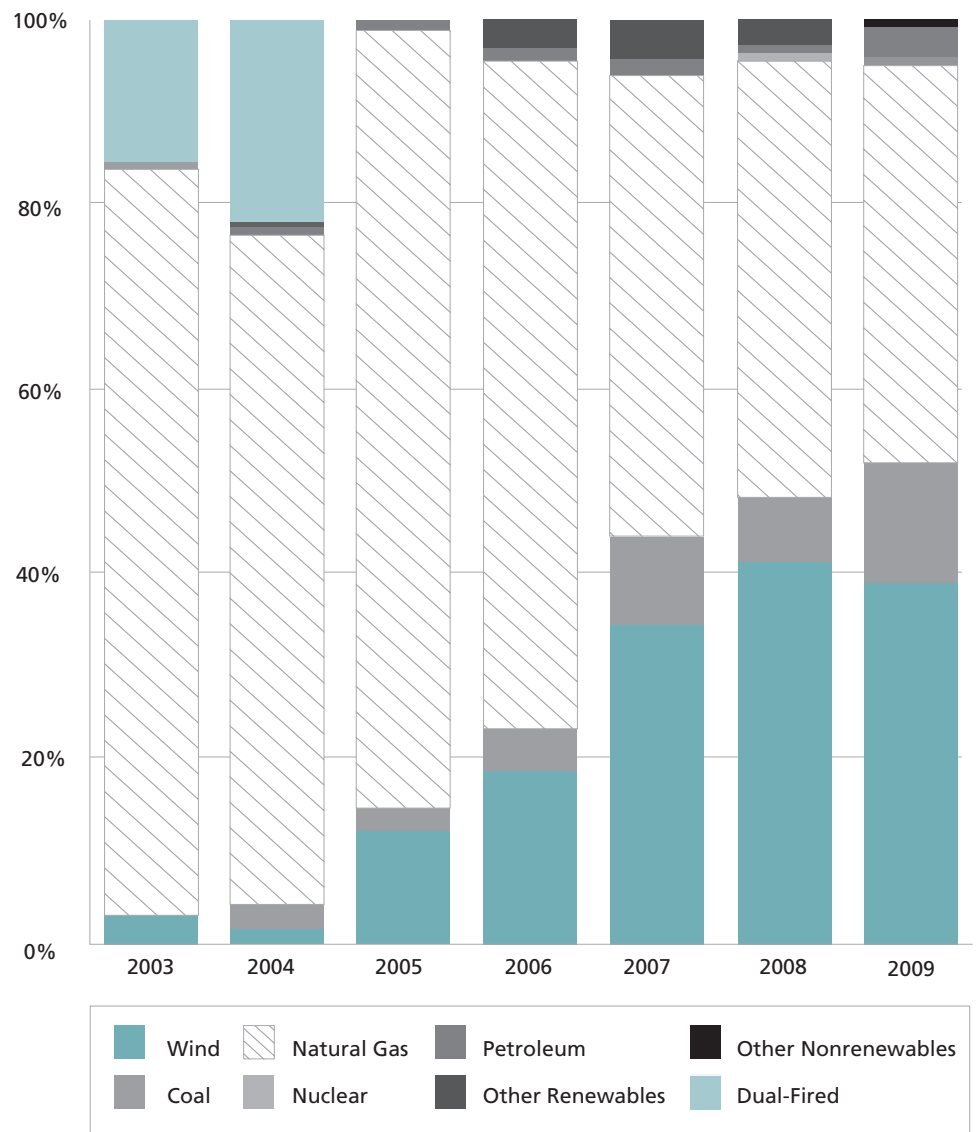
Clean energy is a worldwide industry and is expanding significantly on a global scale. For instance, hundreds of billions of “green stimulus” dollars have been allocated to climate change themes around the world, the bulk of which should reach businesses in 2010 and 2011. Within the U.S., over \$30 billion of the \$787 billion stimulus bill was allocated to the Department of Energy (DOE) in order to benefit sectors such as smart grid, building energy efficiency, clean coal, batteries and alternative energy, to name a few. Interestingly—but perhaps not surprisingly—while Treasury Department grant programs have proceeded relatively smoothly, actual DOE stimulus fund disbursements have been slower than anticipated, due to personnel/resource shortages, tough financing and budget environments, and overall bureaucratic red-tape (many different federal and state agencies are involved). In fact, it is estimated that only about \$4.5 billion has been spent to date with the remainder being either awarded and unspent or not yet awarded. Ultimately, while the slower fund deployment may have penalized some companies and industries in 2009 and early 2010, we believe the overall magnitude of the available spending programs could serve as a tailwind for climate change and alternative energy-related companies (such as smart grid firms) in the second half of 2010 and 2011.

INVESTMENT OPPORTUNITIES ABOUND

On a global scale, we have started to witness the powerful pursuit of cleaner alternative energy sources as well as a renewed focus on infrastructure development, both of which we believe could help lead to one of the most profound economic transformations in history. For instance, nuclear energy is a key beneficiary that represents the only scalable, carbon-free source of base load dependable power; and there are currently over 500 nuclear reactors on order, planned, or proposed globally. In the U.S., President Obama’s latest budget proposal has called for a near-tripling of nuclear loan guarantees from \$18.5 billion to \$54 billion. On the renewables front, wind power represents one of the more competitive priced alternative energy sources. Led by China and the U.S., 2009 was another record year, as more than 38 gigawatts (GW) of new wind power capacity was installed, bringing the total installed global capacity up to 158.5 GW (32% annual growth). Since 2005, more than 90% of all new U.S. generation capacity has been provided by a combination of wind power, other renewable sources and natural gas (see Figure 1). Finally, the evolution to a digital, information-rich “smart” electric grid is another area of investment appeal for utilities and equipment providers, which is supported by positive regulatory and political support. This includes \$3.4 billion in U.S. DOE smart grid grants and a European Union directive mandating the replacement of 80% of all electric meters with smart meters by 2020. In total, substantial worldwide automation opportunity for smart metering remains, as only about 9% of the world’s 2.7 billion meters are automated (see Figure 2).

FIGURE 1: PERCENTAGE OF NEW U.S. CAPACITY ADDITIONS

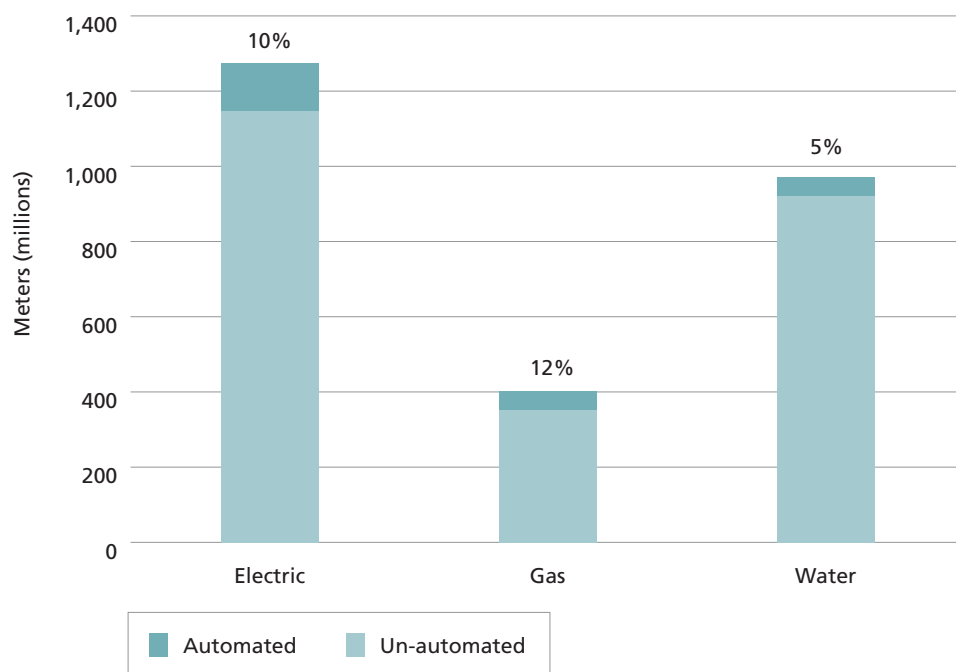
Wind power provided 39% of all new U.S. generating capacity installed in 2009



Source: American Wind Energy Association.

FIGURE 2: GLOBAL ADVANCED METERING PENETRATION

Only 9% of 2.7 billion meters worldwide are automated



Sources: IMS Research Worldwide Meter Market 2007 Edition; Scott Report on International Deployments of AMR 7th Edition and Itron Management estimates.

LONG-TERM POSITIVE TRAJECTORY REMAINS INTACT

In summary, we see “greener” regulatory and political initiatives in the U.S. and globally. While health care and financial reforms were the highest and most immediate priorities of this administration, the Deepwater Horizon oil spill has provided President Obama and Congress with an opportunity to reignite their commitment for decisive climate and energy action, providing the type of environmental stewardship that many countries have been waiting to see from the U.S. This could be welcome news for some portions of the corporate sector as well, where incremental clarity on policy relating to greenhouse gas requirements would be beneficial for long-term planning.

A certain degree of policy uncertainty is inevitable and there is general acknowledgement that there is no one “silver bullet” solution. As such, the desire for an increasingly diversified, clean and secure energy mix could provide myriad investment opportunities across cleaner energy (natural gas, nuclear, clean coal, wind and solar) and energy efficiency themes (smart grid, transportation and building efficiency)—most of which still have billions of dollars in “stimulus tailwind” and could benefit from favorable incentives and rising demand for years to come.

An investor should consider the Climate Change Fund's investment objectives, risks and fees and expenses carefully before investing. This and other important information can be found in each fund's prospectus, which can be obtained by calling 800.877.9700. Please read it carefully before making an investment. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Climate change-related companies may be particularly susceptible to such factors as environmental protection regulatory actions, changes in government standards and subsidy levels, changes in taxation, and other domestic and international, political, regulatory and economic developments. Such companies may also be significantly affected by the level or pace of technological change in industries focusing on energy, pollution and environmental control. Because society's focus on climate change issues is relatively new, there could be significant changes of emphasis and direction, and rapid technological change, rendering even new approaches and products obsolete.

Foreign stocks are subject to more risks than comparable U.S. stocks. This is in part because some foreign markets are less developed and foreign governments, economies, laws (including tax laws), and securities firms may be less stable. Additional risks include, but are not limited to, exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, social, political or economic instability, and differing auditing and legal standards. As a result, foreign stocks can fluctuate more widely in price than comparable U.S. stocks, and they may also be less liquid. Changes in currency exchange rates bring an added dimension of risk. Currency fluctuations could erase investment gains or add to investment losses. To the extent that the Fund emphasizes small-, mid- or large-cap stocks, it takes on the associated risks. At times, large-cap stocks may lag other types of stocks in performance, which could cause a fund holding those stocks to perform worse than certain other funds. Small- or mid-cap stocks may fluctuate more widely in price than the market as a whole; underperform other types of stocks or be difficult to sell when the economy is not robust or during market downturns; be more affected than other types of stocks by the underperformance of a sector emphasized by the Fund. In addition, smaller companies in which the Fund may invest are often more volatile and less liquid than the stocks of larger companies; and these companies: may have a shorter history of operations than larger companies; may not have as great an ability to raise additional capital; and may have a less diversified product line, making them more susceptible to market pressure. Securities purchased in initial public offerings (IPOs) may be very volatile, rising and falling rapidly, often based, among other reasons, on investor perceptions rather than on economic reasons.

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