

SRI

Socially Responsive Investing

VISIONS

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Prudent Investing Relies on Disclosure

The Neuberger Berman SRI Team has long been a committed shareholder among the responsible investor community, with a deep appreciation for the value of disclosure and the material impact a company's social/environmental performance record can potentially have on its bottom line. Integrating business and social research into our long-term fundamental analysis has always been a key component of our investment process and due diligence practices since the strategy's inception in 1991. We pay particular

attention to relevant Environmental Social and Governance (ESG) factors affecting a business and continue to seek companies that demonstrate a commitment to enhanced transparency, encouraging them to improve upon their methods of corporate social responsibility/sustainability reporting. Companies have responded by participating in a number of voluntary initiatives that have emerged over the past several years, such as the UN Global Compact and the Global Reporting Initiative (GRI) which provide investors with an enhanced level of disclosure and transparency.

While there has been much progress in this area, there is a considerable lack of consistent and comparable data, which

The Language of "Integration"

COMMUNITY INVESTING CSR (CORPORATE SOCIAL RESPONSIBILITY) ETHICAL
 SOCIALLY RESPONSIVE/RESPONSIBLE SUSTAINABLE/SUSTAINABILITY
 MISSION-RELATED INVESTING **Integration** PROGRAM-RELATED INVESTING (PRI)
 IMPACT INVESTING ESG (ENVIRONMENTAL SOCIAL AND GOVERNANCE)
 GREEN/CLEAN—CLIMATE CHANGE TRIPLE BOTTOM LINE MICROFINANCE

Over the past several years, socially responsive investing has broadened beyond its early, narrow focus of "avoiding" the stocks of companies engaged in the production of tobacco, gambling, alcohol, nuclear power and weapons to include companies seeking to do better in the areas of the environment, the workplace and the community.

More recently, the notion of "integrating" socially responsive criteria into mainstream investing has increasingly gained popularity

as investors have begun to realize that a company's environmental, social and corporate governance (ESG) records are not just important to idealistic investors, but represent key considerations that can have a significant impact on a company's bottom line. The illustration above represents many of today's industry terms for this general practice—though each has a unique meaning, they all represent the language of integration, or the convergence of financial and ESG factors when analyzing a company.

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makes it challenging to create a baseline for tracking ESG performance within companies, across sectors and the broader market. Adding to a general lack of quality information are inconsistencies in reporting relevant indicators and metrics, the timing and release of reports and an overall lack of companies that report basic ESG data. Many companies are currently required to collect and release certain existing ESG indicators to their respective regulatory bodies such as the Equal Employment Opportunity Commission (EEOC) and/or collect data for their own internal business operations. In these instances, where little to no additional costs would be incurred by the company, we have encouraged them to make the data readily available to the investment community. We believe the best option going forward is to support a standardized method of ESG reporting requirements that incorporate a consistent set of measurable and observable metrics subject to a predictable reporting schedule.

A Step in the Right Direction

Numerous initiatives over the years, seeking to encourage/improve sustainability reporting have undoubtedly increased the availability of a company's economic, environmental and social performance information. These initiatives, in the form of reporting frameworks and guidelines are, in our opinion, a move in the right direction, but they have also brought to light the realization that although more and more public companies are voluntarily supplying information above and beyond the financials required by the SEC and other governing bodies, no ESG reporting standard currently exists to which companies are held accountable. Compliance with many of these initiatives is by and large voluntary, and driven primarily by network-based organizations such as the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP), the Social Investment Forum (SIF), and the United Nations' Principles for Responsible Investment (PRI) and Global Compact.

To illustrate, consider sustainability reports based on the GRI framework. These reports can be used to benchmark organizational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organizational commitment to sustainable development; and compare organizational performance over time. These are useful guidelines, but adhering to them is strictly voluntary, as is the case with other similar types of initiatives such as the Carbon Disclosure Project, or (CDP),

an independent not-for-profit organization which holds the largest database of corporate climate change information in the world.

In response to increased demand for ESG data, the CFA Institute Centre for Financial Market Integrity recently published a report entitled Environmental, Social and Governance Factors at Listed Companies: A Manual for Investors, available online at http://www.cfainstitute.org/aboutus/press/release/08releases/20080625_01.html). The manual seeks to help investors understand factors that may influence the future performance of a company that aren't reported on balance sheets, income statements or in management discussions. Among other things, the manual provides a list of environmental, social and governance, or ESG, factors that investors can evaluate and how they can acquire relevant data and performance indicators that have been made available to investors.

Neuberger Berman SRI Team Initiatives

Neuberger Berman SRI has participated in and supported various initiatives in recent years that have helped advance the movement towards increased ESG transparency:

- **1989:** Became a member of the Social Investment Forum (SIF)
- **2004:** Joined 475 other 'Signatory Investors' in committing to support the Carbon Disclosure Project (CDP)
- **2005:** Engaged the EPA urging them not to reverse their Toxics Release Inventory (TRI) reporting requirements. Again in 2009, Neuberger Berman SRI validated their support for the reinstatement of the TRI reporting requirements
- **2008:** Became a signatory of the Emerging Markets Disclosure Project (EMDP)

Our Perspective

Neuberger Berman SRI has actively supported several disclosure initiatives over the past several years. One area of focus relates to changes in the Toxics Release Inventory (TRI) legislation that occurred in the December 2006—July 2009 period. For nearly twenty years, the TRI reporting program required companies in many industries to file annual reports on their toxic emissions. The program is part of Congress' 1986 Emergency Protection and Community Right-to-Know Act (EPCRA). The TRI reporting had been instrumental in encouraging industries covered under EPCRA to dramatically reduce pollution.

Quantitative environmental performance data, such as that provided in the TRI, can play a critical role in our evaluations and analyses of corporate performance. For example, TRI data can help identify companies that have a competitive advantage in using materials more efficiently than their competitors. The data can also alert us to companies that are at greater risk of liability claims from pollutant releases. TRI data are not only instrumental in constructing our analysis of a company's business risks, they often provide a good starting point for meaningful dialogue with company managements focused on business strategies, operational practices and their consequences.

In December of 2006, the TRI Burden Reduction Rule weakened disclosure. Companies were able to produce ten times the amount of toxic wastes before detailed reporting was required. The most dangerous class of chemicals—Persistent Bioaccumulative Toxins (PBTs)—for the first time ever were exempted from detailed reporting. Along with other concerned stakeholders, we urged the Environmental Protection Agency (EPA) to reverse these changes that, in our opinion, made it more difficult to track standardized emissions data. In April of 2009, the EPA

reinstated full TRI reporting requirements which became effective on July 1, 2009.

Conclusion

Throughout our years of experience, Neuberger Berman SRI has found what gets measured gets managed and that transparency drives accountability. As a result, we believe the best option going forward is to pursue a standard method of reporting requirements which reconciles the variations that currently exist in ESG data reporting including varying metrics and timing. We are careful to note that standardized ESG reporting requirements should not place an added financial burden upon a company's resources. As responsible investors, we continue to work in the best interest of our clients to identify potential risks and opportunities by incorporating ESG factors into our investment analysis. ■

Leaders in ESG Disclosure

The companies listed below represent companies that are considered leaders in the area of ESG disclosure.¹

Praxair Inc. (NYSE: PX)

Praxair Inc. is one of the largest industrial gas suppliers globally and a participant in the Carbon Disclosure Project (CDP). In its latest report, Praxair discloses the company's environmental impact and discusses the environmental risks and opportunities relating to its business. The report also highlights new products and applications in development, which will allow the company to improve productivity, energy efficiency and environmental performance. As a compliant participant of the CDP, Praxair has so far been successful in communicating its environmental management system and strategies to address investors' concerns on climate change issues. The company was also included in the CDP's 2008 Carbon Disclosure Leadership Index.

Millipore (NYSE: MIL)

Millipore is a Life Science leader providing cutting-edge technologies, tools and services for bioscience research and biopharmaceutical manufacturing. Millipore reports ESG data in accordance with the GRI G3 Sustainability Reporting Guidelines. Millipore's first sustainability report included environmental, social, and economic performance data collected in 2006, 2007 and 2008, which will continue to be reported on a yearly basis. The company's Sustainability Initiative encompasses a range of programs focused on reducing consumption of nonrenewable resources, eliminating waste, and adopting behavioral changes that support long-term sustainability. The report also provides the investor community with information on management's approach to governance, in addition to environmental and social responsibility, while highlighting some of the ways in which it applies innovative research, development, and production expertise to advance life science.

¹ As of 6/30/09, the companies referenced were held in the Neuberger Berman Socially Responsive Fund and Neuberger Berman Socially Responsive Portfolio. Holdings are as of the date indicated and are subject to change without notice. This list does not constitute a recommendation to buy, sell or hold a security. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. Individual account holdings may vary. It should not be assumed that any investments in securities identified or discussed were or will be profitable.

An investor should consider Neuberger Berman Socially Responsive Fund's investment objectives, risks and fees and expenses carefully before investing. This and other important information can be found in the Fund's prospectus, which must precede or accompany this material. Please read the prospectus carefully before you invest or send money.

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Investing in securities entails risk, which may be subject to but not limited to the following: This strategy is subject to multiple social [and environmental] criteria. Having an investment objective that targets socially responsible investments may limit the number of investment opportunities more than is customary; the investment manager may pass up opportunities to buy certain securities when it is otherwise advantageous to do so, or may sell certain securities for social [or environmental] reasons when it is otherwise disadvantageous to do so. Equity portfolios are subject to the basic stock market risk that a particular security or securities in general, may decrease in value. Past performance is not indicative of future results.

Holdings referenced herein reflect those of the manager's composite of accounts under his / her management as well as holdings within the SRI Fund and were not selected on the basis of performance. Rather they were selected because they represent companies that we have invested in that are considered leaders in the area of ESG (Environment, Social and Governance) disclosure. Specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients. Individual account holdings may vary. It should not be assumed that any investments in securities identified or discussed were or will be profitable.

