



NEUBERGER BERMAN

# Global Corporate Credit ESG Engagement Report

September 2023

NEUBERGER | BERMAN

In recent years a variety of market-disrupting events have underscored the importance of active ownership and the analysis of financially material environmental, social and governance (ESG) factors in fundamental credit research and investment decision-making. In our view, asset managers who leverage their relationships with issuers are best positioned to manage these ESG risks and take advantage of ESG opportunities. As highlighted in our prior engagement reports, Neuberger Berman views direct issuer engagement as a critical tool to mitigate portfolio risks while generating long-term sustainable returns.

---

## Contributors

### **JONATHAN BAILEY, CFA**

Global Head of ESG and Impact Investing

### **RACHEL YOUNG**

Co-Director of Non-Investment Grade Credit Research

### **STEVE FLAHERTY, CFA**

Director of Investment Grade Credit Research

### **JOHN AMOASI, CFA**

ESG Specialist, Emerging Markets Debt

### **SAVANNAH IRVING**

Senior Engagement Analyst, Fixed Income

### **EMILY BOND**

Engagement Analyst, Fixed Income

## Our Approach: Engaging on ESG Topics to Reduce Credit Risk

Neuberger Berman believes that properly managing material ESG risk factors reduces credit risk. Our approach to ESG analysis focuses on financial materiality for each sector and we evaluate companies on ESG factors that could create credit risk for their business or industry. We also consider sustainability risks to seek to identify financially material risk that relates to ESG issues. These risks can impact the value of an investment or issuer in a number of ways depending on the nature of individual investments, for example, through physical damage to assets, policy or technological changes impacting the economics of the investment or through changes in consumer preferences. This allows us to engage on these risks to promote their responsible and proper management.

As an active manager, engagement is core to Neuberger Berman's investment process. We believe that engaging is an essential part of long-term active ownership and that engaging on ESG topics can improve issuers' performance and reduce their risk profile. As a firm, we embed stewardship and engagement responsibilities within our investment teams to integrate related insights into the investment process and inform investment decisions. This serves to deepen the integration of engagement insights into our internal proprietary ESG rating system, the NB ESG Quotient. This rating is built using sector-specific criteria, which focuses on the ESG issues that are the most material to credit risk in each industry. We believe insights from the NB ESG Quotient and our focused engagement efforts are important in identifying material credit risk factors that influence issuers' long-term costs of capital and drive value creation on behalf of our clients.

THE FIXED INCOME INVESTOR HAS A FAR BIGGER VOICE AT THE TABLE TODAY THAN EVER BEFORE DUE TO PRESSING GLOBAL CHALLENGES AND THE CAPITAL THAT COMPANIES WILL NEED TO DRAW UPON TO TRANSITION PRODUCTS, SERVICES, SUPPLY CHAINS AND INFRASTRUCTURE.

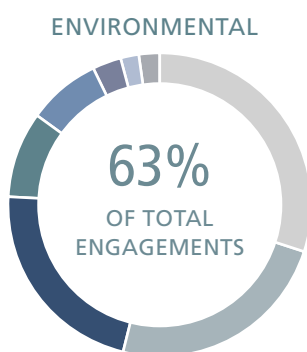
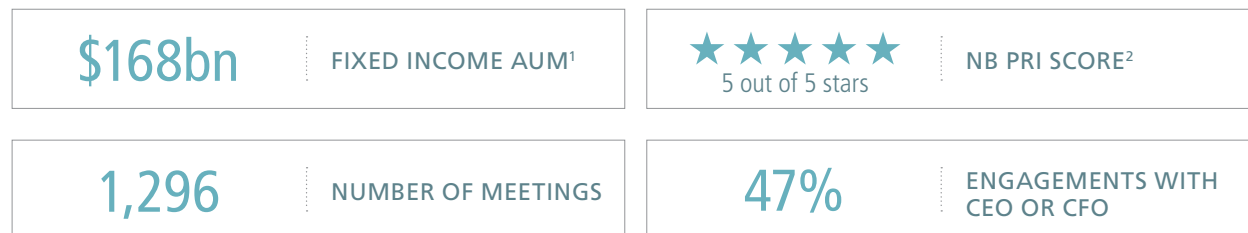




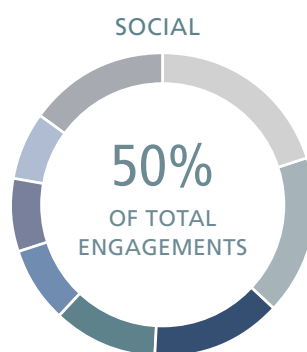
Over the course of the last year, we have utilized our established relationships with issuers in both developed and emerging markets to engage meaningfully with a number of management teams on financially material issues such as diversity, climate change and community relations. While the broad range of topics we cover presents differing challenges and complexities, we consider transparency and accountability to be a key starting point for companies. Moreover, we encourage issuers to align their disclosures with external frameworks such as the UN Sustainable Development Goals (SDGs), the Task Force on Climate-Related Financial Disclosures (TCFD), and the International Sustainability Standards Boards (ISSB) IFRS S1 (General Requirements) and IFRS S2 (Climate-related Disclosures). As part of the IFRS Standards, the SASB standards are, in our view, a crucial tool for companies to identify material sustainability issues to report on and develop appropriate disclosures.

At Neuberger Berman, we focus on incremental progress on material issues by providing guidance and support to issuers at all stages of their ESG journeys through our engagement efforts. As an active manager, we prefer to engage rather than divest, and through our engagement strategy we assist companies in determining the appropriate disclosures and goals to increase our confidence in their financial futures. Where lacking or limited in scope, we also challenge companies to reduce their risk profiles by setting clear objectives and holding them accountable through our engagement process. Further, our in-house management of engagement relationships is key to our strategy and is led by our credit analysts who maintain extensive knowledge of individual issuers and sectors.

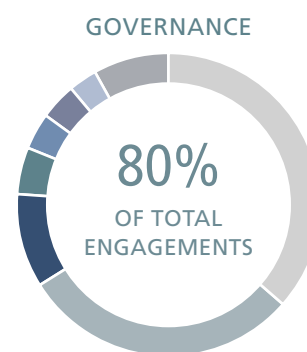
# Summary of Our Engagement Efforts: Highlights



- Climate risk management
- Green Opportunities
- Environmental/Climate Reporting
- Waste and water management
- Pollution and Mitigation Management
- Physical climate risk
- Biodiversity and deforestation
- Other



- Diversity of workforce
- Community/Government Relations
- Human Capital Management
- Labor Relations
- Health and Safety
- Accessibility and affordability
- Supply chain management
- Other



- Long-term Business Strategy
- Capital Structure
- Risk Management
- Diversity of Board or Management
- Compensation Structure
- Board Independence and Quality
- Disclosure and Financial Controls
- Other

Source: Neuberger Berman. Data as of July 1, 2022 – June 30, 2023.

<sup>1</sup> As at June 30, 2023.

<sup>2</sup> PRI grades are based on information reported directly by PRI signatories, of which investment managers totalled 3,404 for 2021. For more information on the PRI grades please see Additional Disclosures at the end of this piece.

# Engagement Areas in Focus

IN NOVEMBER 2021, NEUBERGER BERMAN BECAME A SIGNATORY TO THE NET ZERO ASSET MANAGERS INITIATIVE (NZAMI). WE HAVE SET AN INTERIM TARGET FOR ASSETS WHERE CLIENTS HAVE DIRECTED US TO MANAGE THE ACCOUNT IN LINE WITH NET ZERO BY 2050.



## 1 CLIMATE TRANSITION

As an asset manager with a long-term perspective, Neuberger Berman recognizes the impact of climate change and that the transition toward global net-zero emissions is well under way. We consider climate change to be a systemic and financially material risk that will continue to impact companies across many sectors and geographies. Furthermore, where this poses a financially material risk, we believe we have a responsibility to actively engage with sectors and companies that may be misaligned with the broader global climate transition.

For many of our clients, the climate impact of their portfolio is an important consideration in conjunction with investment performance. Many investors recognize that, to achieve a net-zero portfolio without sweeping divestments from high-emitting sectors, they and their asset managers can engage with companies to monitor and encourage credible strategies for alignment. Fundamental credit research capabilities and insights are particularly important in informing corporate engagement programs as well. These interactions allow us to better gauge the materiality and effectiveness of climate action plans, and we are then able to incorporate those insights into our proprietary tool – the Net-Zero Alignment Indicator. In a positive feedback loop, the evolving scores generated by the Indicator then help us to focus engagement on issuers' specific areas of weakness.

### Priorities of our engagement on climate change:

- Encourage issuers to disclose Scope 1, Scope 2 and material Scope 3 emissions in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) guidelines.
- Encourage issuers to establish science-based emissions reduction targets certified by a credible third party, such as the Science Based Targets initiative (SBTi).
- Understand the credibility and ambition of issuer climate transition plans and emissions management and reduction strategies.
- Integrate material climate risks and opportunities into our investment thesis for issuers with outsized exposure to energy transition risks while tracking management responsiveness and progress toward goals.

### Climate Transition engagement in practice:

Because emissions are a material risk for its sector, we engaged with a natural gas exploration and production company on disclosing its emissions totals and establishing reduction targets. Additionally, we encouraged the issuer to increase transparency around its climate transition plans by aligning its reporting with TCFD, which we consider a best-in-class climate reporting framework. We held four engagement meetings in 2022, including with the issuer's CEO, CFO and COO. The issuer published its Scope 1 and Scope 2 emissions data and established a goal to reduce absolute Scope 1 emissions and its Scope 1 emissions intensity by 50% by 2035. The issuer also published a TCFD and SASB index in its corporate sustainability report. Our engagement is ongoing as we encourage the issuer to establish a Scope 2 emissions reduction target.

## 2 EQUITY, INCLUSION AND DIVERSITY (EID)

There are a number of social issues that can have a financially material impact for issuers. For example, businesses with fewer physical assets tend to have a significant focus on human capital, including workforce diversity, attracting and retaining talent and employee engagement. We consider topics related to human capital to pose some of the most significant risks and opportunities for companies, and we believe strong EID policies are fundamental to driving strong labor relations, human capital management and workforce organizational opportunities. Therefore, we believe it is important that we incorporate these material factors into our investment analysis and engagement efforts to support risk mitigation and long-term investment returns.

### Priorities for engagement on EID:

- Reinforce the importance of gender and racial and ethnic diversity within an issuer's board of directors and senior management, and encourage transparent disclosure.
- Encourage U.S.-based issuers to disclose EEO-1 reports (U.S. Equal Employment Opportunity Commission mandatory reporting on employee statistics) and provide supplemental information on its workforce composition and human capital management practices.
- Help issuers develop strong human capital management and employee retention programs, including recruiting policies and targets, training and career development.
- Evaluate opportunities to advance issuers' EID efforts throughout their supply chains.

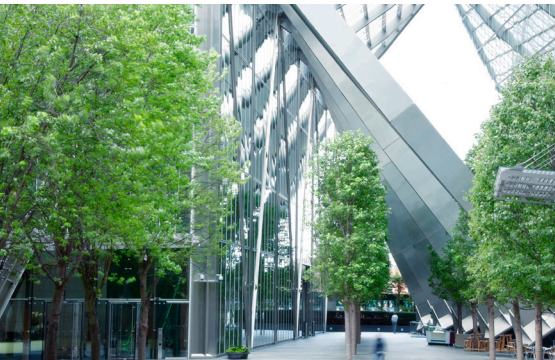
### EID engagement in practice:

We engaged with a U.S. real estate brokerage franchisor and residential real estate brokerage firm on EID because we believe equitable, inclusive and diverse workforces are important elements of the long-term success of a company that depends on human capital in its operations. We believe strong policies related to improving EID are vital to advancing workforce opportunities and reducing legal liabilities and reputational risks. We had several discussions with senior management to encourage them to set measurable targets to improve the gender and racial diversity of their franchise owners and agents. We chose to focus on these targets because we consider setting quantifiable goals to be a best practice for companies to hold themselves accountable for their ESG commitments. Since we began engaging on the topic, the issuer established a program designed to support entrepreneurs from underrepresented populations in the real estate industry, including providing financial incentives to encourage racial and gender diversity among franchise owners. The issuer also improved transparency around the success of this program by disclosing diversity statistics, which show that 35% of franchise owners are from an underrepresented racial/ethnic group and 75% of companies that joined the program in 2022 are women-owned.

IN MARCH 2023, NEUBERGER BERMAN BECAME A SIGNATORY OF THE CFA INSTITUTE'S DIVERSITY, EQUITY AND INCLUSION CODE.



WE BELIEVE THE INCLUSION OF FINANCIALLY MATERIAL SUSTAINABILITY METRICS IN EXECUTIVE COMPENSATION PROVIDES TRANSPARENCY FOR INVESTORS WITH RESPECT TO ESG TARGETS AND BUSINESS INCENTIVES.



### 3 COMPENSATION STRUCTURE

Governance is an essential component of our issuer analysis and a material factor assessed in our fundamental credit research process. Additionally, we incorporate management analysis into our Governance scorecard, a crucial component of our proprietary NB ESG Quotient, which we use to assess governance quality across a number of factors for each corporate credit issuer. For example, we consider how companies incorporate factors such as capital allocation and cash flow management into corporate decision-making and executive remuneration. We encourage companies to set ambitious yet achievable goals for topics that are financially material and relevant to the long-term strategy of their business. Common feedback we receive from issuers who are hesitant to set targets relates to concerns that they are not yet where they would like to be in terms of their ESG targets or data. However, we find that transparency is a focus for investors regardless of how advanced a company is in their ESG strategy because it demonstrates that issuers are prioritizing material ESG concerns and considering potential future impacts to their business. As such, we encourage them to incorporate performance of these metrics into short- and long-term variable compensation structures to strengthen the alignment between management's business incentives and its financially material ESG targets. We believe this enhances transparency and also increases accountability for the issuer to make progress toward these goals.

#### **Priorities for engagement on compensation structure:**

- Gain an understanding of how an issuer's capital allocation decisions and operations are tied to executive compensation.
- When appropriate, encourage issuers to integrate financially material ESG targets and performance into management compensation incentives.
- Identify correlations between impacts on strategy and progress toward ESG goals and ESG-linked remuneration.

#### **Compensation structure engagement in practice:**

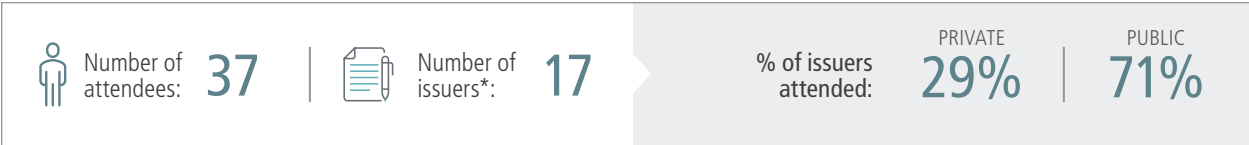
We engaged with a global chemical company specializing in water, hygiene and energy technologies and services on aligning ESG practices with business incentives by linking executive compensation with water management performance, which is material to the issuer's business model and the chemicals sector. We chose this focus for engagement to encourage the issuer to incentivize management to meet its ESG targets and to align with what we view as best-in-class peers, as the chemicals sector has increasingly been adopting similar policies. Moreover, as with any metric used within compensation plans, we believe included ESG metrics should be materially relevant to the company's strategy and long-term performance, and thus do not prescribe a one-size-fits-all approach. We had several discussions with senior management, including the CEO, over the course of three years. While management was initially unwilling to link remuneration with ESG metrics, it has evolved this stance over the course of our engagement and introduced ESG metrics related to water impact into its short-term variable compensation.



# Engagement Partnerships

## NON-INVESTMENT GRADE CREDIT TEAM HOSTS 4TH ANNUAL ROUNDTABLE OF HIGH YIELD AND LEVERAGED LOAN ISSUERS

Expanding interest in ESG suggests that issuers are likely to be called upon for more disclosure, communication and progress in the coming years, making it crucial to effectively navigate these areas. To help with this process, Neuberger Berman’s Non-Investment Grade Credit team, in conjunction with the firm’s ESG Investing team, conducted its fourth annual roundtable discussion in May 2023 to highlight key industry trends, explain our approach to ESG analysis and engagement, and provide insights on managing the major shifts ahead. Attending issuers accounted for approximately \$50 billion in high-yield issuance across various sectors, up from \$44 billion at our inaugural roundtable. We provide some essential takeaways on key points of discussion during the event.



\* Representing ~\$50 billion in high yield issuance.

## BEST PRACTICES IN ESG COMMUNICATION

When it comes to ESG communication, we primarily emphasize the importance of comparability across companies and, thus, recommend in our engagements that issuers align their reporting with common frameworks. The SASB Standards and the TCFD are two frameworks we find particularly helpful in aligning issuers with disclosure requirements and focusing on providing the most financially material information for stakeholders. Wherever possible, we also encourage issuers to create standalone ESG reports to provide stakeholders with easy access to a company’s progress and highlights.

Additionally, we find that ESG topics of concern are expanding and, while climate continues to be a primary topic of focus in many sectors, notable social topics of investor concern include company supply chains from the perspectives of supply chain disruptions as well as global labor standards, cybersecurity, data privacy and biodiversity.

## REGULATORY LANDSCAPE: ESG DISCLOSURE REQUIREMENTS CONTINUE TO ACCELERATE

We have seen a general push toward greater mandatory and standardized disclosure of environmental and social data globally. Against the backdrop of the International Sustainability Standards Board (ISSB) issuing its final framework for sustainability-related reporting, a number of jurisdictions (e.g. Singapore, Hong Kong, Australia) are conducting public consultations to potentially embed the ISSB global framework into national legislation. The ISSB standards serve as a baseline for sustainability reporting, which means jurisdictions may go beyond the required disclosures both in terms of themes and the materiality approach that reporting entities must consider to identify relevant disclosures.

Further, the European Corporate Sustainability Reporting Directive (CSRD) will soon apply to public and private European companies that meet certain criteria related to revenue, assets and number of employees, as well as to non-EU companies that reach a revenue threshold in the EU. This directive will require a much more expansive set of disclosures than the current Non-Financial Reporting Directive (NFRD), and focuses not just on environmental indicators, but also social and governance information. The CSRD is also the first reporting framework using a double materiality approach, which means companies need to consider both financial and impact materiality. Therefore, it is important for companies to consider the direction regulations are headed as well as their extraterritorial nature when developing their own disclosure plans.

In the U.S., the Securities and Exchange Commission (SEC) has proposed rules that would require issuers to fortify disclosure of climate-related data, most prominently in Scope 1 (direct) and Scope 2 (purchased electricity, steam, heating and cooling) emissions, but also for those with material Scope 3 emissions (indirect emissions in the value chain).<sup>1</sup> While the timeline for finalization of this rule remains fluid, we would not recommend issuers wait to disclose given the greater industry trends in reporting. For example, many companies are already disclosing Scope 1, 2 and 3 emissions and waiting to do so can affect companies' standing relative to peers.

## FUTURE PERSPECTIVES ON ESG INVESTING

One forward-looking trend we've seen from institutional investors is an increasing reliance on quantitative ESG screens to exclude issuers from certain portfolios. We believe that the most effective way to integrate ESG into an investment process over the long term is for investment teams themselves to research ESG factors and consider them alongside other inputs into the investment process. As part of this process we assign the proprietary NB ESG Quotient to each issuer, which can be used to screen portfolios at client request. Further we recommend companies continue to keep a pulse on third-party scores from ESG ratings agencies, as they are continuing to rise in popularity for use in screening portfolios.

We also note that many clients looking to deploy capital into the high yield and leveraged loan markets view ESG integration as a minimum cost of entry, which is a significant departure from perspectives as recent as five years ago. We find that asset owners are increasingly focused on the financial materiality of ESG factors that have the potential to influence the long-term risks and returns of their portfolios. Given these trends, we expect demand from clients regarding asset managers' consideration of ESG risks to continue to accelerate.

Additionally, we find that products with unique ESG characteristics are taking market share within an otherwise lackluster flow environment thus far this year within the broader high yield space. Given these observations, we encourage issuers to continue enhancing their ESG strategies, disclosures and goals to support investor analysis and third-party scoring outcomes, which can be the gatekeeper for inclusion in a portfolio.

<sup>1</sup> Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors, available at: "[Proposed rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors \(sec.gov\)](https://www.sec.gov/proposed-rule-the-enhancement-and-standardization-of-climate-related-disclosures-for-investors)"

# Partnering on Climate

## IIGCC BONDHOLDER STEWARDSHIP

Neuberger Berman is a member of the Institutional Investors Group on Climate Change (IIGCC), a leading global investor membership body and the largest in Europe focusing specifically on climate change. Through our IIGCC membership, we support and help shape the public policies, corporate action and investment practice required to address financially material climate risks. In December 2022, Neuberger Berman co-sponsored IIGCC’s Annual General Meeting in Barcelona and was an active member of the Bondholder Stewardship Working Group. The working group is made up of nine core member investors representing £2.66 trillion AUM and a mixture of asset owners and managers. The working group aims to support bondholders’ influence by providing a forum for participants to discuss best practices and effective approaches to engagement strategy.


As part of the working group, Neuberger Berman contributed to the IIGCC’s newly published report: [“A Critical Element: Net Zero Bondholder Stewardship Guidance – Engaging with Corporate Debt Issuers.”](#) The report provides corporate bondholders with a framework to strengthen their climate stewardship practices and addresses key challenges and opportunities across different bond types. Additionally, the IIGCC provides best practices for achieving long-term outcomes through bondholder stewardship.

Neuberger Berman has partnered with the following climate-focused initiatives and networks to support the global goal to reach net-zero emissions by 2050, and to expand our knowledge of financially material topics upon which we engage with issuers:


- **Institutional Investors Group on Climate Change (“IIGCC”)** – Member
- **Net Zero Asset Managers Initiative** – Signatory
- **Ceres** – Member
- **Climate Action 100+** – Signatory and member
- **Transition Pathway Initiative (“TPI”)** – Research funding partner
- **CDP** – Investor Member and Signatory; Signatory to Science Based Targets Campaign
- **Task Force on Climate-Related Financial Disclosures (“TCFD”)** – Supporter




- Member
- Work with IIGCC to support and help public policies, corporate action and investment practice required to address climate risk
- Serve on Bondholder Stewardship Working Group



- Signatory
- Serve on Net Zero Asset Managers Advisory Board



- Investor Network member
- Participate in Paris Aligned Investment Working Group



- Signatory and Member
- Lead engagement with large aerospace company



- Funding partner
- First North American Research Funding Partner, encouraging companies to set practical targets and increase disclosure of progress in the transition to low-carbon economy



- Investor member and signatory
- Signatory to Science-based Targets campaign

# Spotlight on Climate Transition Efforts

## Our Commitment to Net Zero

### CLIMATE TRANSITION STRATEGY

As a signatory to the Net Zero Asset Managers Initiative, Neuberger Berman is committed to working in partnership with clients who have directed us to manage their investments in line with achieving net-zero emissions by 2050. In our view, the degree to which investment portfolios and individual issuers are aligned with the broadly adopted target of net-zero emissions by 2050 represents an important source of risk and opportunity. We believe incorporating material climate factors into our investment process aligns with our long-term philosophy of seeking to maximize risk-adjusted returns for our clients.

Our commitment to responsible investing and ability to integrate climate risk across fixed income sectors have allowed us to partner with some of our clients on climate transition mandates. We worked with a U.K. pension scheme to develop a climate transition mandate that combines the scores from our Net-Zero Alignment Indicator with a robust engagement process to demonstrate issuer and portfolio progress to meet the client's emissions reduction objectives.

### DEVELOPMENT OF NEUBERGER BERMAN'S NET-ZERO ALIGNMENT INDICATOR

As corporate commitments and emissions reduction plans accelerate, we recognize that these plans may not always be science-based or realistic, while data availability is often limited and backward-looking. This can make it difficult to compare two companies, even in the same sector. Increasing client demand for addressing this challenge led us to design a proprietary Net-Zero Alignment Indicator to assess companies' net-zero transition plans. The Indicator is a vital tool we use to support climate-related analysis and help inform our engagement efforts and investment thesis for each company.

We used guidance from the Net Zero Investment Framework (NZIF), developed by the IIGCC, as a starting point for our development of the Net-Zero Alignment Indicator. This framework provides guidance on the criteria a company should meet to be considered credibly aligned with net zero, including forward-looking and sector-specific strategies.

Our quantitative process currently involves gathering more than 30 binary and numerical data points from third-party vendors. These feed into the six sub-indicators listed below, which mirror the criteria set out by the IIGCC.

Our current sub-indicators are:

1. Long-Term Ambition
2. Short- and Medium-Term Targets
3. Emissions Performance
4. Disclosure
5. Decarbonization Strategy
6. Capital Allocation

The sub-indicator scores, along with the low-impact boost where applicable, are then summed to generate an overall net-zero alignment score for each issuer between 1 and 30, which corresponds to one of the five following alignment statuses:

1. Achieving net zero
2. Aligned with a net-zero pathway
3. Aligning with a net-zero pathway
4. Committed to aligning with a net-zero pathway
5. Not aligned

#### U.K. Auto Manufacturer – Net-Zero Alignment Indicator

Indicator	Quant Score (1-5)	Analyst-Adjusted Score (1-5)	Score Breakdown
1. Long-term Ambition	5	5	Net-zero commitment captured by SBTi
2. Short- and Medium-Term Targets	4	4	Short- and medium-term targets validated by SBTi
3. Emissions Performance	1	3	Declining emissions intensity trajectory over a three-year period
4. Disclosures	1	4	Discloses Scope 1 and 2 emissions
5. Decarbonization Strategy	1	3	Confirmed quantified decarbonization strategy
6. Capital Allocation	1	1	Does not have a capital allocation strategy in place or any basis to estimate green capex
<b>Total Score</b>	<b>13</b>	<b>20</b>	<b>Aligning</b>

## ENGAGEMENT ON NET ZERO AND THE ALIGNMENT INDICATOR

As active managers, we strongly believe that data is only the starting point when it comes to ESG analysis and that analyst judgement is a useful factor to consider. Fundamental research capabilities and insights provided by our experienced research teams are particularly important as they inform our engagement on the climate transition. The engagement dialogues between our research team and issuer management teams allow us to better gauge the materiality of climate for each business. In turn we can then incorporate those insights into our scoring of issuers' alignment statuses in real time. As a result, the scores generated by our Net-Zero Alignment Indicator can help us focus our engagement efforts on issuers' specific areas of weakness.

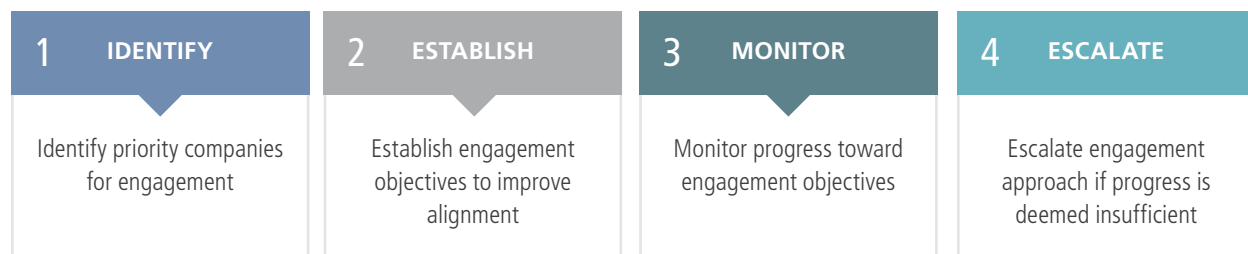
When engaging with issuers who have made a net-zero commitment, we encourage disclosure around how they intend to deliver on their commitments and what capital allocation is required to support them. For utilities, this may mean investing in lower carbon-generating assets, which will require appropriate pacing and capital allocation. For those businesses where the technology to reach net zero is not yet available, attention to related risks and explanations of how the company is testing or considering future technologies becomes important. Additionally, if an issuer does decide to make a net-zero commitment, investors want to get a sense of the capital allocation decisions that support the goal as well as the strategic choices embedded within it. Further, we engage upon setting interim targets, as we consider this to be a best practice because it gives investors a sense of the progress they can expect over time, whether that includes a steady reduction in emissions over a consistent timeline or a set of specific actions that lead to a more dramatic reduction in emissions in the longer term.

To summarize, we encourage companies to produce disclosure around the practical, tangible actions they will take to prepare for any planned future emissions reductions and, specifically, the capital allocation plans that will allow for those reductions. Company responsiveness to these suggestions is then input into our Indicator.

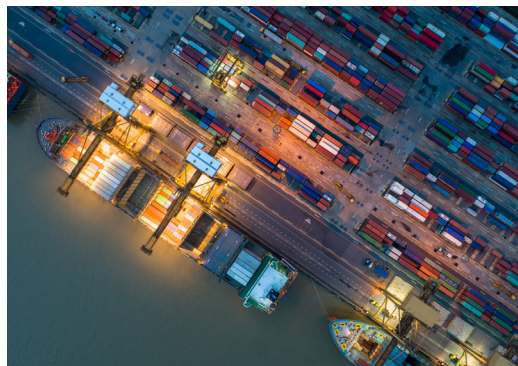
### ENGAGEMENT IN PRACTICE:

We engaged with a private U.K. auto manufacturer and, given its private status, many of the issuer's efforts to transition to net zero were not captured by traditional ESG data providers. Based on our knowledge of the company, its public sustainability reporting and our engagement efforts, we were able to evidence upgrades for three sub-indicators on the Net-Zero Alignment Indicator. We identified full and transparent Scope 1 and 2 absolute emissions disclosures, and documented consistent declines in emissions intensity over a three-year trajectory. We also noted the company's decarbonization strategy relating to Scope 3 emissions included a goal to engage with all Tier-1 suppliers on setting science-based targets, as well as specific quantified targets to increase the sale of pure electric vehicles to 27% of overall sales by 2025/2026, and to 60% by 2030. The issuer also announced its net-zero by 2039 goal, while committing to publishing even more detailed reporting related to emissions performance and conducting an independent audit of their emissions data. We will continue to engage the issuer on these topics to inform our scoring of the Indicator.

### NET-ZERO ALIGNMENT INDICATOR INFORMS ENGAGEMENT ACTION



OUR NET-ZERO ALIGNMENT INDICATOR SUPPORTS OUR DIRECT ENGAGEMENT STRATEGY WITH COMPANIES TO SET GOALS FOR TRANSITIONING BUSINESS MODELS TO ACHIEVE NET-ZERO EMISSIONS.



# Beyond ESG Risks and Opportunities

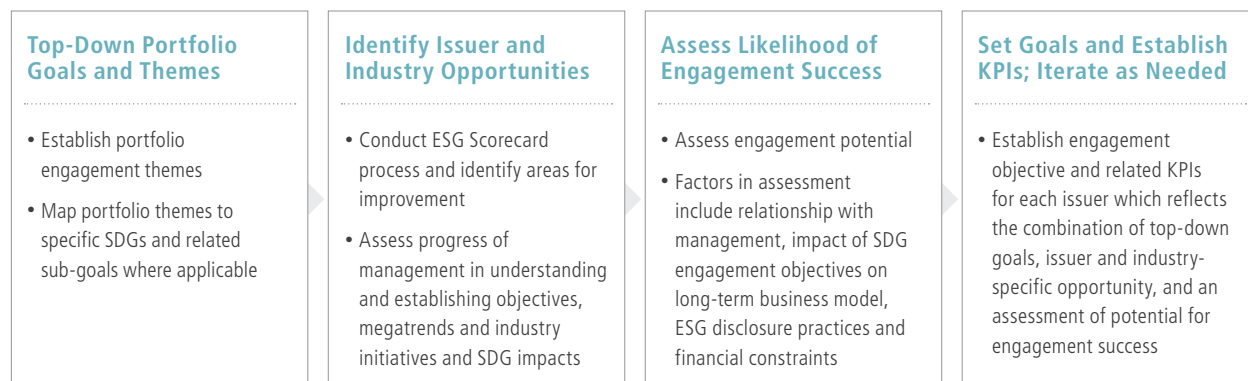
## Amplifying Corporate Contribution to the UN SDGs

In addition to our broader engagement philosophy, Neuberger Berman has partnered with clients to create targeted engagement strategies aligned with the 17 Sustainable Development Goals (SDGs). Created by the United Nations, these goals are intended as a blueprint to achieve a better and more sustainable future for all, and to address several global challenges including poverty, inequality, climate change, environmental degradation, peace and justice. As a society we are significantly off track when it comes to achieving the 17 SDGs by 2030. In fact, the United Nations and the International Monetary Fund have estimated that it could take up to an incremental \$4.3 trillion in annual global spending to get us over the line and we believe the global bond markets have a significant opportunity to participate in funding the achievement of these goals.<sup>1</sup>

In 2022, we launched the Global High Yield SDG Engagement strategy in partnership with a client looking to develop an engagement-focused strategy to support progress toward these SDGs. Within this strategy our Research and ESG Investing teams collaborate in establishing engagement objectives that amplify each issuer's contribution to the SDGs. Our goal-setting process includes assigning SDG-linked targets specific to issuers' business model and operations to deliver maximum impact. These goals are always ambitious and specifically designed to challenge issuers. Additionally, we use key performance indicators (KPIs) assigned to each engagement objective to measure issuers' progress over time.

Our research teams engage with portfolio issuers on these diverse, SDG-aligned objectives, and we closely monitor our engagement activity by assigning indicators that measure and track these engagements and issuer responses. Notably, these engagement efforts extend to both public and privately owned issuers. Given approximately 40% of issuers in the Global High Yield market are privately owned, we believe our approach captures engagement opportunities not traditionally covered by market participants.

### SDG ENGAGEMENT FRAMEWORK



### ENGAGEMENT TRACKING



<sup>1</sup> OECD (2022), Global Outlook on Financing for Sustainable Development 2023: No Sustainability Without Equity, OECD Publishing, Paris, <https://doi.org/10.1787/fcbe6ce9-en>, UNCTAD (2022), Financing for Development: Mobilizing Sustainable Development Finance Beyond COVID-19, United Nations Conference on Trade and Development (UNCTAD), Geneva, [http://unctad.org/system/files/official-document/tdb\\_efd5d2\\_en.pdf](http://unctad.org/system/files/official-document/tdb_efd5d2_en.pdf).

For illustrative purposes only. This material is intended as a broad overview of the portfolio managers' style, philosophy and investment process and is subject to change without notice. This material is intended as a broad overview of the portfolio managers' style, philosophy and investment process and is subject to change without notice.

**BROAD RANGE OF ENGAGEMENTS: GLOBAL HIGH YIELD SDG ENGAGEMENT STRATEGY**

We engage on a diversified set of objectives which aim to achieve incremental contributions to specific UN Sustainable Development Goals (UN SDGs).

**UN SDGS ADDRESSED BY GLOBAL HIGH YIELD SDG ENGAGEMENT STRATEGY**

	<p><b>No Poverty</b> End poverty in all its forms everywhere</p>		<p><b>Industry, Innovation and Infrastructure</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>
	<p><b>Zero Hunger</b> End hunger, achieve food security and improved nutrition and promote sustainable agriculture</p>		<p><b>Reduced Inequalities</b> Reduce inequality within and among countries</p>
	<p><b>Good Health and Well-being</b> Ensure healthy lives and promote well-being for all at all ages</p>		<p><b>Sustainable Cities and Communities</b> Make cities and human settlements inclusive, safe, resilient and sustainable</p>
	<p><b>Quality Education</b> Ensure inclusive and equitable quality education and promote life-long learning opportunities for all</p>		<p><b>Responsible Consumption and Production</b> Ensure sustainable consumption and production patterns</p>
	<p><b>Gender Equality</b> Achieve gender equality and empower all women and girls</p>		<p><b>Climate Action</b> Take urgent action to combat climate change and its impacts</p>
	<p><b>Clean Water and Sanitation</b> Ensure availability and sustainable management of water and sanitation for all</p>		<p><b>Life Below Water</b> Conserve and sustainably use the oceans, seas and marine resources for sustainable development</p>
	<p><b>Affordable and Clean Energy</b> Ensure access to affordable, reliable, sustainable and modern energy for all</p>		<p><b>Life on Land</b> Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</p>
	<p><b>Decent Work and Economic Growth</b> Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p>		

Source: Neuberger Berman. We assign engagement objectives aligned with UN SDGs 1-15 to corporate issuers. UN SDG 16 is a focus point for portfolios that own sovereign debt. Neuberger Berman supports UN SDG 17 through its own field-building activities rather than engaging with issuers. Please note this strategy may only be offered for sale or sold in jurisdictions in which or to persons to which such an offer or sale is permitted. Please see the end of this material for the list of risk considerations.



## ENGAGEMENT SPOTLIGHT

# Engagement on Widespread Digital Opportunity and Access

### BACKGROUND

Neuberger Berman engaged with VodafoneZiggo (ZIGGO), a Dutch communications company, providing both fixed and mobile services including broadband internet, video and wireless communications across the Netherlands.

### OBJECTIVE

The issuer's business model provides for social connectivity through communication services. In our view, the issuer could further expand coverage and accessibility of its mobile and internet networks. Given this focus, we engaged with ZIGGO to encourage the company to take steps to bridge this digital access divide by bringing services to underserved populations and geographic areas and to expand its public disclosures around these efforts.

### ENGAGEMENT SCOPE AND PROCESS

We utilized our well-established relationship with the issuer's management team to encourage additional progress toward bridging the digital divide. Our diligence process included several discussions with ZIGGO's management team, including the CFO, Treasurer and Investor Relations.

### OUTLOOK AND OUTCOMES

- The issuer has made substantial and continuing developments in its digital infrastructure, helping to ensure all persons within its footprint can receive the best communications services.
- ZIGGO has made a multi-year investment in DOCSIS 3.1, an advanced technology that provides robust internet speeds. Currently, 100% of the issuer's network is upgraded to DOCSIS 3.1, up from 17% in 2019.
- ZIGGO began deploying 5G technology in 2020 and has now achieved nationwide coverage.
- ZIGGO provides education to children and seniors to ensure they develop the digital skills and knowledge to use ZIGGO's services, and we continue to engage with the issuer on measuring the impact of these services.



#### Sustainable Development Goal 9:

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all



## ENGAGEMENT SPOTLIGHT

# Emerging Markets Engagement on Inclusive and Sustainable Economic Growth

### BACKGROUND

Neuberger Berman engaged with Endeavour Mining (EDVLN), a West African gold mining company that operates six mines in the region and maintains both project development and exploration assets. Additionally, some of the issuer's mines are located in conflict-affected countries, including Burkina Faso and Senegal.

### OBJECTIVE

In our view, robust community relations are critical to EDVLN maintaining its license to operate and mitigating potentially costly environmental and community risks that the company may not otherwise foresee. Therefore, we engaged with EDVLN to significantly increase its direct employment of residents in the communities in which it operates. We believe such efforts will strengthen the company's relationship with locals, leading to opportunities to create mutual benefit and to avoid future conflicts by giving members a say in the development of their communities.

### ENGAGEMENT SCOPE AND PROCESS

Our diligence process included several discussions with EDVLN's management team, including the CFO and VP Investor Relations & Communications.

### OUTLOOK AND OUTCOMES

- Currently, 39% of EDVLN's direct employees are from local communities and 56% are West African nationals.
- The issuer has achieved a 95% rate of nationals employed over the past three years.
- EDVLN maintains a goal to hire as close to 100% of its operational workforce as possible directly from the countries in which its mines are located.
- Moving forward, we will continue to engage with EDVLN regarding local employment until the issuer meets a target of growing its host community direct employment to 50% by 2025.



#### Sustainable Development Goal 8:

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work

8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services



## ENGAGEMENT SPOTLIGHT

# Engagement on Ambitious Emissions Reduction Targets and SBTi Validation for All Scopes

## BACKGROUND

Neuberger Berman engaged with Arkema SA (AKE), a manufacturing company that markets a wide range of chemicals, including industrial chemicals and performance products including acrylics, polymethyl methacrylate, hydrogen peroxide, technical polymers, specialty chemicals and functional additives.

## OBJECTIVE

AKE initially faced challenges in setting effective carbon reduction targets due to its growing asset base. This led us to believe AKE had an opportunity to strengthen its management of carbon emissions and engaged with the issuer on setting more ambitious reduction targets. Additionally, we encouraged the issuer to include its Scope 3 targets within its SBTi validation no later than mid-2023. We focused on the issuer's carbon management due to the financially material nature of emissions to the chemicals sector.

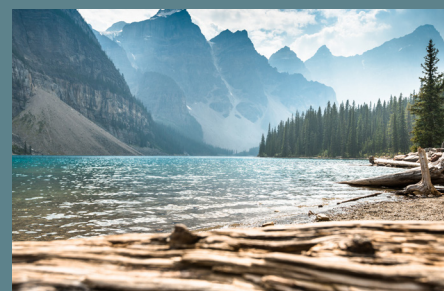
## ENGAGEMENT SCOPE AND PROCESS

Our diligence process included multiple meetings with the management team, including the Investor Relations team. We also advised the issuer to set targets for switching to renewable electricity so that its Scope 2 targets may be SBTi-validated.

## OUTLOOK AND OUTCOMES

- In May 2023, AKE informed us that they have set more ambitious reduction targets for Scope 1, 2 and 3 emissions, and that these targets have been validated by the SBTi as scientifically aligned with a 1.5°C trajectory by 2030.
- AKE plans to implement its decarbonization strategy via achievement of higher energy efficiency across its main facilities, and by consuming a greater share of low-carbon steam and electricity at its facilities.
- We will continue to monitor AKE's progress toward its new emissions reduction targets, as well as toward increasing renewable sources in its energy mix to ensure it will meet its 2030 targets.

NET-ZERO ALIGNMENT STATUS: COMMITTED TO ALIGNING WITH A NET-ZERO PATHWAY



# Reflections from a Fixed Income Perspective

AS INVESTORS, WE  
RECOGNIZE THE IMPORTANT  
ROLE WE HOLD TO  
INFLUENCE AND SUPPORT  
POSITIVE CORPORATE  
DECISION MAKING.



## FIXED INCOME INVESTORS' ROLE IN ESG PROGRESS

Fixed income investors have a far larger seat at the table than ever before. The engagement statistics we share in this report highlight our pivotal role in seeking to influence corporate decision-making related to ESG where appropriate. As part of our active engagement strategy for fixed income investments, we encourage issuers to set specific, measurable targets on financially material issues and to publicly report their progress within a specified timeframe to ensure accountability. Moreover, our engagement meetings provide opportunities to guide issuers on our views on best-in-class ESG standards and to share our views on the ESG factors most material to specific industries and issuers.

## DIRECT ENGAGEMENT IS CRITICAL

At Neuberger Berman, we prioritize ongoing, one-on-one engagement to develop long-term, trusting relationships with issuers over time. Further, we find that access to senior management is a crucial component for achieving meaningful impact toward ESG objectives through these direct engagements.

## ACCELERATING GLOBAL DEMAND FOR ESG INTEGRATION

Issuers seek guidance from long-term partners and capital investors, and we believe Neuberger Berman is uniquely positioned as an active manager to provide this guidance because of our bottom-up research and investment-led engagement approach. Moreover, our engagement relationships provide opportunities for transparent feedback on the most material factors affecting industries and issuers.

## Conclusion

Neuberger Berman is well positioned to actively engage with issuers on ESG topics because of the sector and industry knowledge of our research analysts, as well as the scale of our fixed income platform. We view ESG integration and active engagement as crucial tools in identifying issuers' material credit risks, which can ultimately impact their cost of capital.

Looking ahead, we have observed growing interest in expanding risk assessments beyond greenhouse gas emissions to companies' broader environmental impacts, such as the effects their operations may have on biodiversity. From a social perspective, stakeholders are increasingly interested in progress on equity, inclusion and diversity, while governance continues to remain a core area of focus for investors.

At Neuberger Berman, we work to build meaningful relationships with issuers through our established engagement frameworks and long-term relationships with management teams, further complemented by our rigorous fundamental research processes. Moreover, we continue to grow our capabilities across emerging and developed markets by enhancing our material risk analysis and anticipating future changes that will impact industries. In the coming years, we look forward to continuing to expand upon our engagement strategies and serve as a trusted resource for issuers and investors alike.

## FOR MORE ABOUT OUR APPROACH TO ESG AND IMPACT INVESTING, PLEASE VISIT [WWW.NB.COM/ESG](http://WWW.NB.COM/ESG).

**Important Information about PRI Grades:** For illustrative and discussion purposes only. PRI grades are based on information reported directly by PRI signatories, of which investment managers totaled 3,404 for 2021, 1,924 for 2020, and 1,119 for 2019. Note that scores for the 2021 reporting cycle cannot be compared to previous years due to the change in PRI assessment methodology. Although there was not a Leaders' Group announced by the PRI based on reporting in 2021, Neuberger Berman achieved a 5-star rating in every eligible module in the PRI's 2021 Reporting Framework. Unlike previous years, the indicator scores are assigned one of five performance bands (from 1 to 5 stars) instead of six performance bands (from A+ to E). All PRI signatories are eligible to participate and must complete a questionnaire to be included. The underlying information submitted by signatories is not audited by the PRI or any other party acting on its behalf. Signatories report on their responsible investment activities by responding to asset-specific modules in the Reporting Framework. Each module houses a variety of indicators that address specific topics of responsible investment. Signatories' answers are then assessed and results are compiled into an Assessment Report. Neuberger Berman pays a fee to be a member of PRI and the grades are only available to PRI members. Ratings referenced do not reflect the experiences of any Neuberger Berman client and readers should not view such information as representative of any particular client's experience or assume that they will have a similar investment experience as any previous or existing client. Awards and ratings are not indicative of the past or future performance of any Neuberger Berman product or service. Moreover, the underlying information has not been audited by the PRI or any other party acting on its behalf. While every effort has been made to produce a fair representation of performance, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for damage caused by use of or reliance on the information contained within this report. Information about PRI grades is sourced entirely from PRI and Neuberger Berman makes no representations, warranties or opinions based on that information.

### **ESG integration approaches may evolve over time.**

This material is provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. This material is general in nature and is not directed to any category of investors and should not be regarded as individualized, a recommendation, investment advice or a suggestion to engage in or refrain from any investment-related course of action. Investment decisions and the appropriateness of this material should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Neuberger Berman products and services may not be available in all jurisdictions or to all client types.

Examples included herein are provided for illustrative purposes only. Please note, we have chosen to provide narrative on these particular securities mainly on the basis that they offer a solid framework within which to describe Neuberger Berman's research process. The securities have not been chosen based on performance and do not represent the securities most recently added to any portfolios. Sustainable Development Goals (SDGs) reference in the examples are a part of the United Nation's 2030 Agenda for Sustainable Development.

Certain products and services may not be available in all jurisdictions or to all client types. The information provided herein is not directed at any investor or category of investors and is provided solely as general information about our products and services and to otherwise provide general investment education. No information contained herein should be regarded as a suggestion to engage in or refrain from any investment-related course of action as Neuberger Berman Group LLC (and its affiliates, "Neuberger Berman") is not undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity with respect to the materials presented herein. If you are an individual retirement investor, contact your financial advisor or other non-Neuberger Berman fiduciary about whether any given investment idea, strategy, product or service described herein may be appropriate for your circumstances.

Investing entails risks, including possible loss of principal. Diversification does not guarantee profit or protect against loss in declining markets. Indexes are unmanaged and are not available for direct investment. **Past performance is no guarantee of future results.**

**Please note the following risk considerations:**

**Market Risk:** The risk of a change in the value of a position as a result of underlying market factors, including among other things, the overall performance of companies and the market perception of the global economy.

**Credit Risk:** The risk that bond issuers may fail to meet their interest repayments, or repay debt, resulting in temporary or permanent losses to the portfolio.

**Liquidity Risk:** The risk that the portfolio may be unable to sell an investment readily at its fair market value. In extreme market conditions this can affect the portfolio's ability to meet redemption requests upon demand.

**Interest Rate Risk:** The risk of interest rate movements affecting the value of fixed-rate bonds.

**Derivatives Risk:** The portfolio is permitted to use certain types of financial derivative instruments (including certain complex instruments). This may increase the portfolio's leverage significantly which may cause large variations in the value of your share. (Investors should note that the portfolio may achieve its investment objective by investing principally in Financial Derivative Instruments (FDI). Certain investment risks apply in relation to the use of FDI.

**Emerging Markets Risk:** Emerging markets are likely to bear higher risk due to a possible lack of adequate financial, legal, social, political and economic structures, protection and stability as well as uncertain tax positions which may lead to lower liquidity.

**Counterparty Risk:** The risk that a counterparty will not fulfil its payment obligation for a trade, contract or other transaction on the due date.

**Operational Risk:** The risk of direct or indirect loss resulting from inadequate or failed processes, people and systems, including those relating to the safekeeping of assets or from external events.

**Currency Risk:** Investors who subscribe in a currency other than the base currency of the portfolio are exposed to currency risk. Fluctuations in exchange rates may affect the return on investment. The past performance shown is based on the share class to which this presentation relates. If the currency of this share class is different from your local currency, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency.

This material is being issued on a limited basis through various global subsidiaries and affiliates of Neuberger Berman Group LLC. Please visit [www.nb.com/disclosure-global-communications](http://www.nb.com/disclosure-global-communications) for the specific entities and jurisdictional limitations and restrictions.

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.



**Neuberger Berman**  
1290 Avenue of the Americas  
New York, NY 10104-0001

[www.nb.com](http://www.nb.com)