

## MARKET COMMENTARY: SECOND QUARTER 2009

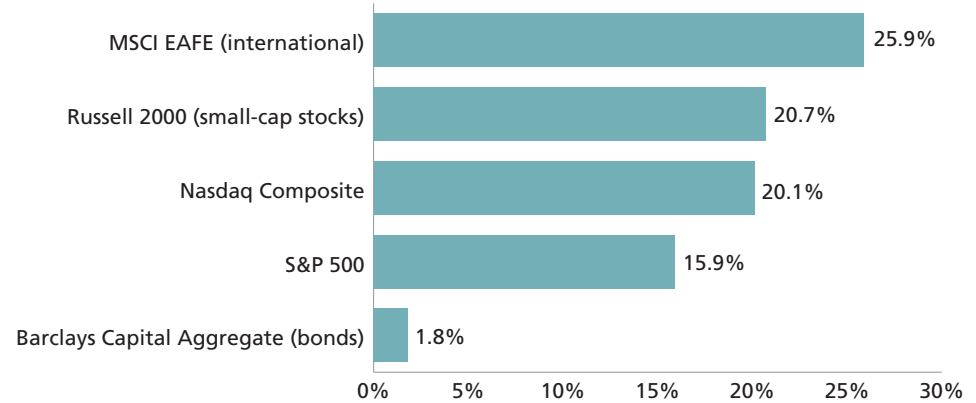
After bottoming on March 9, the S&P 500 rose by more than 35% through quarter-end.

The stock market saw substantial gains in the second quarter of 2009, reflecting a dramatic shift in psychology from earlier in the year. Economic conditions, while still depressed, became somewhat stronger than generally anticipated, suggesting that an economic bottom may have been reached and triggering new optimism. Still, we believe the durability of the recent rally should not be taken for granted, and, from an asset allocation standpoint, we continue to favor barbell portfolios between relatively defensive assets and more aggressive investments that have the potential to benefit from a bullish environment.

After bottoming on March 9, the S&P 500 rose by more than 35% through quarter-end—the sharpest post-bear market surge since the 1930s—with a quarterly total return of 15.9%. Although the market paused in June, higher-beta, more economically sensitive sectors (including Financials, Consumer Discretionary, Industrials and Materials) set the pace overall. In terms of investment style, small-cap issues led mid- and large-caps through much of the rebound while growth outpaced value—something normally expected in a surge from a market bottom. For the quarter, small- and mid-cap stocks led larger stocks; while growth and value kept pace, except among small-caps, where growth fared better.

**FIGURE 1: SHARP REBOUND FOR STOCKS**

Market Returns: Second Quarter 2009



Sources: MSCI, Russell Investment Services, Nasdaq, Standard & Poors, Barclays Capital.

Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal.

Past performance is no guarantee of future results.

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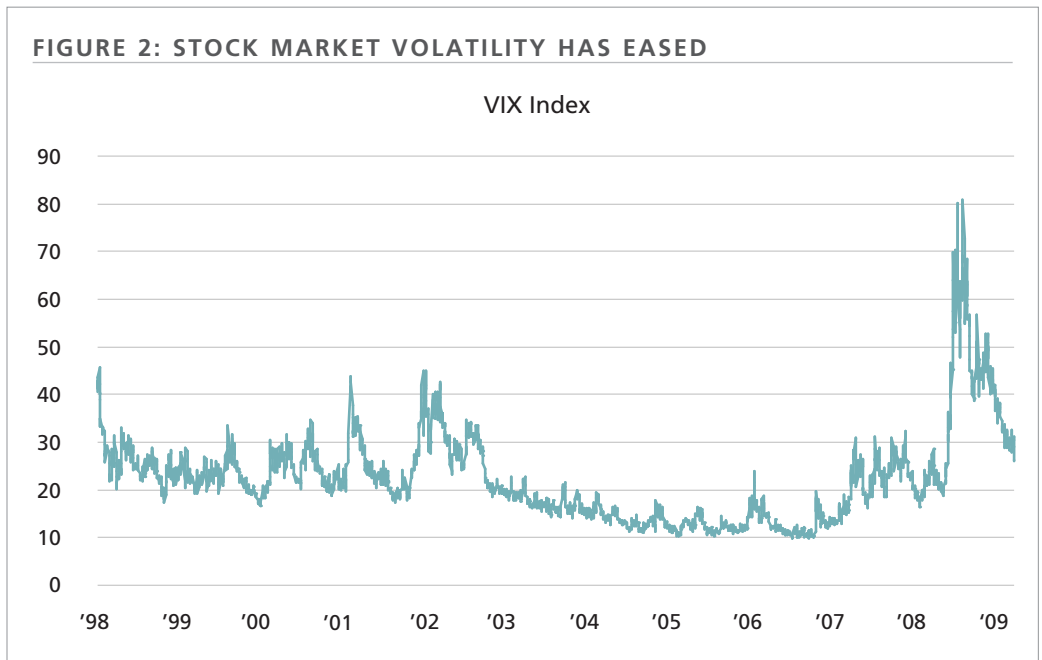
For those who follow technical market signals, the recent strength suggested that the equity advance could be pushing things too far. At one point, 80% of stocks on the New York Stock Exchange were trading above their 10-week moving average, which is considered a “resistance level” by those in the trade. However, based on common sense, it stands to reason that investors would likely pause after recent gains, if only to catch their breath and assess whether current earnings prospects justify an additional advance. Of course, a pullback isn’t necessarily a bad thing—assuming you are optimistic about long-term prospects, it may provide an attractive entry point to put cash to work.

**SIGNS OF ECONOMIC IMPROVEMENT**

Unlike the numerous rallies that, over the past year, eventually gave way to new lows, the most recent upturn has been accompanied by improvement in economic fundamentals:

- Consumer confidence has risen sharply, with the Conference Board Consumer Confidence Index moving from a deep low of 26.9 in March to 54.9 in May, before easing somewhat to 49.3 in June.
- Manufacturing, as measured by the Institute for Supply Management’s manufacturing index, has risen for six consecutive months since reaching an all-time low last December.
- The pace of job cuts has generally slowed in recent months—a development that has historically coincided with the end of recessions.
- Borrowing costs, reflected by LIBOR (London Interbank Offered Rate) and mortgage rates, have declined, easing some pressure on businesses and consumers.
- Stock market volatility has softened, with the Volatility Index (VIX) dropping below 30 for the first time since last September.

**FIGURE 2: STOCK MARKET VOLATILITY HAS EASED**

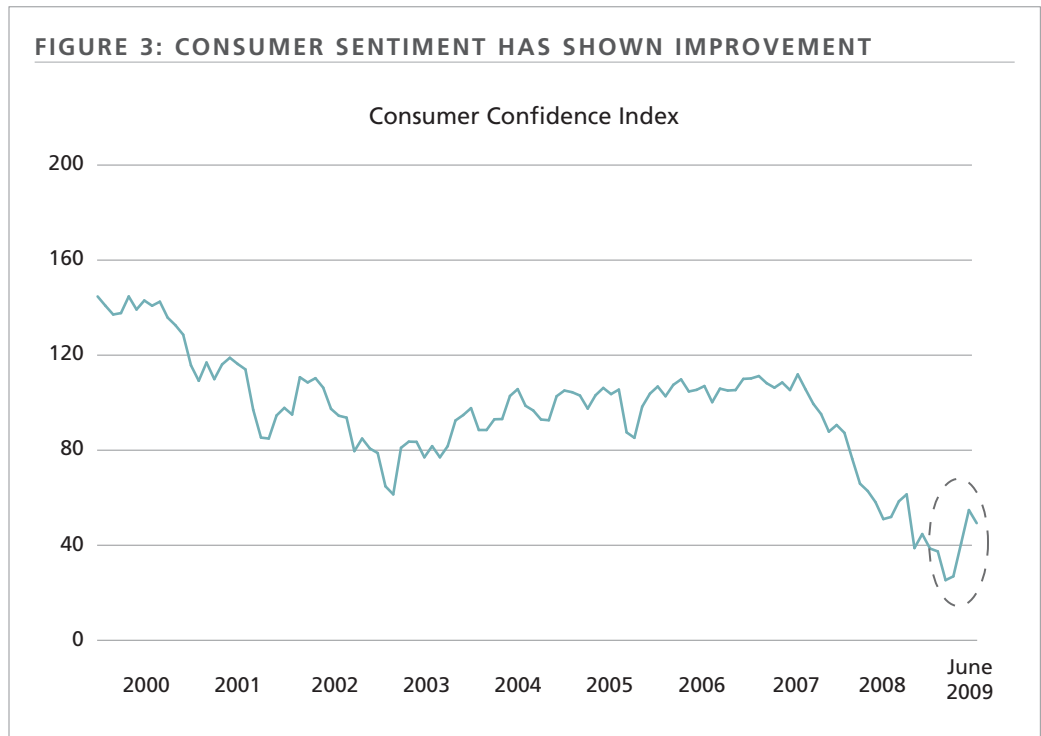


Source: FactSet. Data through June 26, 2009.

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The advance in the stock market off March lows also reflects a general perception that massive government interventions have achieved their most fundamental goal—to avoid an economic calamity. The number and intensity of interventions has been extraordinary: the Troubled Asset Relief Program, the Term Asset-Backed Securities Loan Facility, the Financial Stability Plan, the Public-Private Investment Fund, the federal stimulus package, multiple bailouts, unprecedented involvement in the auto industry, and near-zero interest rates are among the key initiatives policymakers have implemented. These efforts, while frustrating to many American taxpayers, should make people feel more comfortable that we have avoided “financial Armageddon,” that the financial system is being resuscitated and that government involvement in the sector is likely to diminish going forward.

**FIGURE 3: CONSUMER SENTIMENT HAS SHOWN IMPROVEMENT**



Source: The Conference Board.

**CHALLENGES AHEAD**

Still, the path for the economy from here is likely to be difficult. The prosperity of recent years was to some degree built on the increased use of debt by consumers. With the sharp reduction of household wealth (due in large part to lower housing prices and investment losses), as well as stricter limits on credit, we believe consumers are likely to enter a period of retrenchment and deleveraging. Indeed, consumption, which peaked at 71% of GDP in September 2008, has been declining. Ongoing debt reduction by financial institutions and businesses is also likely to have a dampening effect. All together, these factors could keep economic growth muted for some time.

We are also cognizant of the danger of potential inflation. Over the last few months, the federal budget deficit and the Federal Reserve balance sheet have quickly expanded to fund the government initiatives noted above. While these actions have been constructive for the financial markets and economy, the prospect for a weaker dollar and higher borrowing costs remains a concern. We do not see inflation as a near-term

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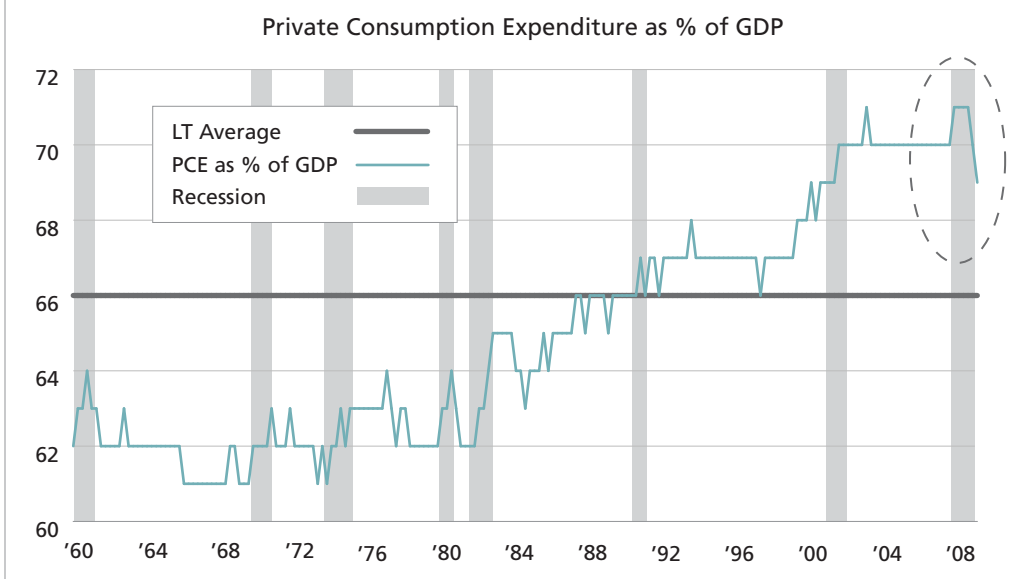
threat due to the rising unemployment rate and decline in consumer spending. However, many economists are now concerned about the consequences of running huge long-term budget deficits and their impact on interest rates and the dollar. Although recent declines in Treasury prices suggest an increased risk appetite, they also suggest a renewed perception of inflationary dangers.

**EQUITY INVESTMENT STRATEGY**

Based on first-quarter earnings, an improvement in economic fundamentals, and a decline in volatility, we believe that we have reached a trough in the profit cycle. In terms of long-term stock market trends, this, in our opinion, may signal that we could be entering a bull market that could last multiple years, supported in the near term by massive government stimulus and a return to earnings and economic stability. Investment segments that generally tend to outperform during a market recovery — lower-quality, smaller-caps, cyclicals and other high “beta” stocks — led the recent rally. We believe that some exposure to these areas could help position investors to participate in an upswing.

**FIGURE 4: ECONOMIC HEADWIND**

Household Consumption Is Declining



Source: Bureau of Economic Analysis, J.P. Morgan.

However, we believe the economic headwinds noted above and the ongoing deleveraging process could likely produce a low-growth environment going forward. Companies that can achieve steady revenue and unit growth — typically larger, more conservative companies — are, in our view, more likely to do well. From an asset allocation standpoint, to limit the risk of mistiming the economic and profit cycles, we currently favor pairing low-beta and high-beta investments together, depending on an individual's objectives and risk tolerance. We continue to believe that the research orientation, investment discipline and perspective offered by our managers has the potential to be highly valuable in navigating the markets — now and in the future.

Similar to equity markets, the second quarter saw a major shift of investor sentiment within fixed income.

### **INTERNATIONAL MARKETS: RELIEF RALLY ACROSS THE GLOBE**

Foreign stocks produced strong gains for the quarter, with developed markets (as represented by the MSCI EAFE Index) returning about 25% and emerging markets (as represented by the MSCI Emerging Markets Index) gaining more than 35%. Overall, the key driver of market returns appeared to be simple relief that the global economy's steep decline was easing—as shown by positive stress tests at U.S. banks—and that the U.S. financial system was unlikely to collapse (which would have significant implications for the global economy). Within the EAFE, financial stocks performed well, as did cyclical sectors including Materials and Industrials. More defensive Health Care, Telecom and Utilities shares, although positive, lagged for the period.

Despite current optimism, we believe that the economy and markets may face continued headwinds as the world adjusts to reduced leverage, overcapacity and indebted consumers. To some degree, trading-related balance sheet pressures are off the banking system with the U.S. government's decision to unwind mark-to-market rules, following similar moves in the U.K. and Continental Europe. However, with loan defaults on the rise, banks may face new worries in their bread-and-butter lending businesses. And there is concern that, while the U.S. has been dealing aggressively with problem assets, European regulators have not—potentially leading to ugly revelations down the road.

Our international equity team currently believes it may be an appropriate time to maintain some exposure to cyclical areas like Energy. Although many financial institutions remain on tenuous ground, the team believes that there may be attractive opportunities to invest in financial companies where losses have been identified—and quantified—and where strong competitive positions and balance sheets are positioning them to gain market share from weaker competitors. Although the emerging markets have gained significantly since their lows late last year, the team believes that, based on relatively strong growth rates, an expanding and largely un-indebted consumer class, and stimulus packages, emerging market equities remain an attractive asset class.

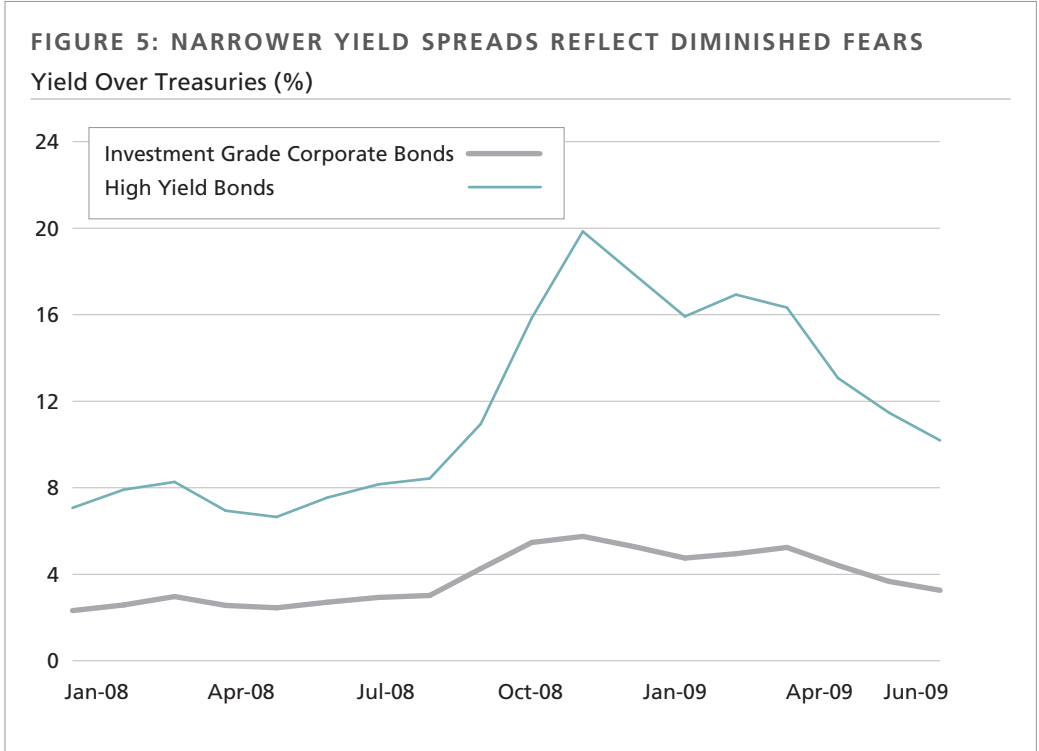
### **FIXED INCOME: REVERSAL OF FORTUNE**

Similar to equity markets, the second quarter saw a major shift of investor sentiment within fixed income, as the Treasury market experienced a sell-off while corporate securities and most other non-Treasury assets saw gains—particularly in relative terms. Simply put, the change appeared to reflect reduced concerns about the economy and default risk and recognition of the attractive yields available in non-Treasury sectors and, in particular, corporate bonds. Contributing to the performance swing, institutional managers seemed pressured to put money that had been on the sideline back to work. All told, yield spreads moved back to levels not seen since September 2008, suggesting that investors may have turned the page on the crisis mentality prevalent since the Lehman Brothers bankruptcy.

During the quarter, economic news was, as mentioned, less negative than had been generally anticipated. While unemployment remained quite high, non-farm payrolls fell in May by the smallest rate in eight months, pending home sales were stronger than expected, and manufacturing and consumer confidence showed significant

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improvement. Various government interventions appeared to have a positive impact on the credit markets, as several companies were able to issue debt in the market without government guarantees, and as the spread between the three-month LIBOR and comparable Treasuries returned to a more normal level. In addition, stress tests conducted at the nation’s largest banks produced surprisingly strong results, lessening fears of further failures, while some institutions voiced interest in repaying federal bailout dollars quickly.



Sources: Barclays Capital. Investment grade corporate bonds represented by the Barclays Capital U.S. Credit Index. High yield bonds represented by the Barclays Capital U.S. Corporate High Yield Index.

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Despite the positives, however, a number of significant concerns remain. First, the Treasury continues to issue debt at a rapid pace, which is testing the limits of demand and also suggests that investors may require higher yields to absorb the new capacity. This issue also has implications for the value of the dollar and the market pricing of other fixed income securities, whose relative attractiveness is affected by Treasury yield levels. A related question is the size of the federal deficit. In May, Treasury securities were hurt when Standard & Poor’s lowered its medium-term outlook for the U.K.’s AAA rating from “stable” to “negative” — the implication being that this could theoretically happen in the U.S. Indeed, Fed Chairman Ben Bernanke gave a sobering assessment of the dangers of large deficits and said that “near-term challenges must not be allowed to hinder timely consideration of the steps needed to address fiscal imbalances.”

In this still uncertain environment, portfolio managers may focus on what they can control.

As for the tax-exempt markets, municipals overall (as measured by various indices) enjoyed continued appreciation early in the period, given easing pessimism about the economy and banking system. However, the strength of previous gains and ongoing concerns about state and local finances then caused municipals to pull back, before finishing in positive territory for the full quarter; longer-maturity municipal securities were especially strong. Across the nation, localities continued to face severe budget shortfalls due to reduced tax receipts and ballooning social services costs. The State of California, the largest issuer of state and local debt, garnered particular attention, with investors worrying about the potential for a credit rating downgrade as Fitch and Standard & Poor's put the state on a "negative watch." Still, federal stimulus dollars appear to have helped local governments overall, as have the emergence of new fundraising mechanisms, including "Build America Bonds" or BABs. Depending on the type of issuance, these bonds can provide tax credits to bondholders or the municipality, effectively reducing borrowing costs and attracting institutional buyers that might not otherwise be interested in municipal investments.

While the shift in fixed income market leadership has been dramatic, we believe that non-Treasury securities, both in the taxable and tax-exempt markets, continue to present an appealing risk-return profile given their current yield advantage. Given the tenuous economic environment, we believe a continued focus on underlying fundamentals, regardless of rating or insurance wrapper (in the case of municipals), is highly important. Moreover, broad diversification also appears crucial to helping mitigate downside risk.

#### LOOKING FORWARD

The past year has proved to be one of the most volatile periods in capital markets history, marked by investor panic, a freeze in the credit markets, a sharp downturn in economic growth and phases of indiscriminate selling. Still, aggressive interventions by the federal government appear to have done their central job of avoiding economic disaster. The result, as we've noted, has been the sharp rally in stocks since March and a sharp narrowing of the spreads between Treasuries and other fixed income securities.

Now, a key question is whether the economy will truly recover or enter a longer period of relatively slow growth—hampered by the absence of past leverage levels and reduced consumer spending. In this still uncertain environment, portfolio managers may focus on what they can control—maintaining investment discipline, employing fundamental research and diversifying portfolios effectively according to individual goals and objectives. For clients, it is important to note that any recovery may come in fits and starts; and that keeping a long-term investment horizon could be highly effective in seeking to achieve one's ultimate financial goals.

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The data presented herein represents securities industry market data as of the date specified. It does not represent Neuberger Berman performance, nor does it reflect the fees and expenses associated with managing a portfolio.

A bond's value may fluctuate based on interest rates, market conditions, credit quality and other factors. You may have a gain or loss if you sell your bonds prior to maturity. Of course, bonds are subject to the credit risk of the issuer.

Please contact a tax advisor regarding the suitability of tax-exempt investments. If sold prior to maturity, municipal securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the investor's state of residence.

This material discusses small- and/or mid-capitalization stocks. Small- and middle-capitalization stocks are typically more vulnerable to financial and market risks and uncertainties than large-capitalization stocks. They may trade less frequently and in lower volume than large-capitalization stocks and thus may be more volatile and be less liquid.

Investing in foreign securities involves greater risks than investing in securities of U.S. issuers, including currency fluctuations, interest rates, potential political instability, restrictions on foreign investors, less regulation and less market liquidity.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of all Nasdaq National Market & Small Cap stocks. The index was developed with a base level of 100 as of February 5, 1971.

The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of April 2002, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The index is translated into U.S. dollars.

The Barclays Capital U.S. Aggregate Index represents securities that are U.S. domestic, taxable, and dollar-denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Barclays Capital U.S. Credit Index is made up of publicly issued, investment-grade U.S. corporate and foreign debentures and secured notes that meet maturity, liquidity and quality requirements. Corporate sectors include Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations. Non-corporate sectors are Sovereign, Supranational, Foreign Agency and Foreign Local Government.

The Barclays Capital U.S. Corporate High Yield Bond Index includes fixed rate, public nonconvertible, non-investment-grade issues registered with the SEC that are rated BA1 or lower by Moody's Investor Service.

The Barclays Capital U.S. Treasury Index is an unmanaged index consisting of U.S. Treasury issues.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The index is market cap-weighted and includes only common stocks incorporated in the United States and its territories.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Treasury Securities are negotiable debt obligations issued by the U.S. government and backed by its full faith and credit.

The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

Please note that indices do not take into account any fees and expenses of the individual securities that they track, and individuals cannot invest directly in any index.

Diversification does not guarantee a profit or protect against loss.

A copy of our Form ADV Part II is available to our investment advisory clients upon written request.

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