NEUBERGER BERMAN

2011 Outlook: Fixed Income

FIXED INCOME INVESTMENT TEAM

The past year has seen periods of uncertainty in the fixed income market but has also generally provided strong results for spread (non-Treasury) sectors. Looking toward 2011, we believe that, despite several headwinds, the modest U.S. economic recovery is likely to continue and that interest rates will likely remain low. This, in turn, should provide a positive environment for sensible risk-taking and could lead to further outperformance by non-Treasuries moving forward. In the following pages, we provide details on our outlook for the fixed income markets across sectors and geographies for the coming year.

EXECUTIVE SUMMARY

Economic Growth. We believe the U.S. economy will grow slowly and avoid a double-dip recession; the Federal Reserve's new round of quantitative easing (QE2) is likely to be effective in keeping long-term rates low.

U.S. Investment Grade Fixed Income. Robust risk appetite and investor demand for yield should support investment grade spread sectors in the year to come.

U.S. High Yield Bonds. Although yield spreads have narrowed, we think positive economic growth, benign inflation, strong demand and falling default rates may benefit the high yield market.

International Fixed Income / Currency. Certain non-U.S. sovereign issues offer attractive yields while austerity measures may hamper peripheral Europe's corporate bonds; divergent monetary policies should continue to affect currency markets.

Emerging Market Debt. Demand for better yields, faster economic growth and investors' healthy risk appetite favor emerging debt, although recent spread compression poses risks.

Municipal Bonds. Reasonable valuations and demand triggered by potentially higher tax rates could offset uncertainty surrounding Build America Bonds and fiscal weakness.

ECONOMIC AND MARKET OVERVIEW

Bradley C. Tank
Chief Investment Officer – Fixed Income

Search for Yield in 2010

It has been said that the financial markets don't like uncertainty. Yet in some ways, uncertainties were the "new normal" in 2010. Was the economy heating up and heading for an inflationary environment, or was a double-dip recession on the horizon and the U.S. entering a period of deflation? Would the sovereign debt crisis expand beyond peripheral Europe? What would the bank stress tests reveal and how much faith could investors have in the results? Could China orchestrate a soft landing for its economy and, if not, what were the implications for the global economy? Was another round of quantitative easing (QE2) in the cards and how would it impact the economy and interest rates?

In addition to these questions, investors were confronted with a then-mysterious flash crash in the stock market, increased government regulations, questions regarding future tax policy and a contentious midterm election. Collectively, this was a recipe for increased market volatility and heightened risk aversion. Still, while both occurred at times during the year, they were largely overshadowed by robust investor demand for yield. In hindsight, this was not surprising, as both short- and long-term Treasury yields reached historically low levels, which caused investors to seek out more attractive opportunities in other sectors.

Looking ahead to 2011, our outlook is for the investment grade spread sectors to outperform Treasuries for the third consecutive year. In addition, riskier sectors, including high yield bonds and emerging market debt, could again be among the performance leaders.

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FIGURE 1: NON-TREASURIES SHOWED STRENGTH IN 2010

Year-to-Date Returns Through 11/30/10

	Total Return (%)	Excess Return* (%)
Commercial Mortgage-Backed Securities	20.25	13.36
U.S. Corporate High Yield	13.07	6.03
Global Emerging Markets*	12.76	2.82
U.S. Credit	9.58	0.77
Treasury Inflation-Protected Securities	7.98	n.a.
U.S. Treasury	7.81	n.a.
U.S. Aggregate Index	7.70	1.18
Asset-Backed Securities	6.91	1.69
Mortgage-Backed Securities	5.95	1.56
Global Aggregate Index**	5.11	-0.45
Municipal Bonds	4.40	n.a.

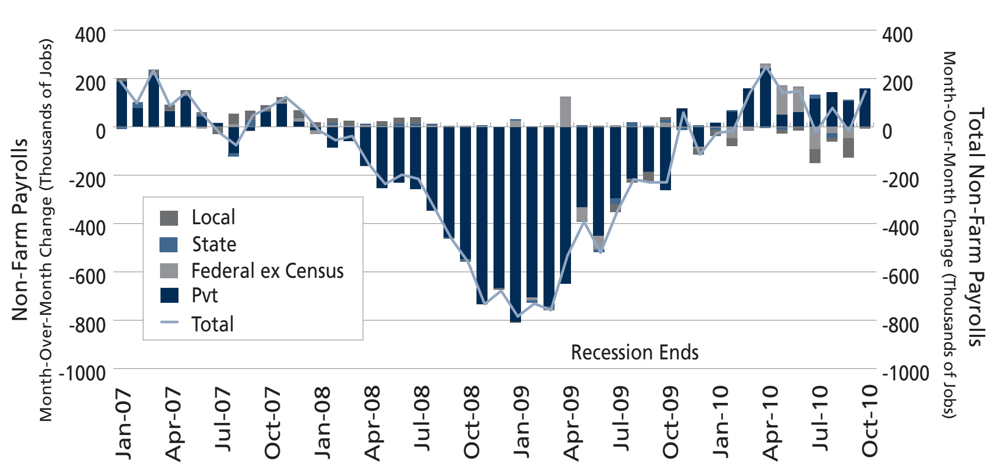
Source: Barclays Capital.
* Duration-adjusted excess return versus Treasuries.
** 100% hedged to the US dollar.

U.S. ECONOMIC OUTLOOK

In our view, the U.S. economy currently faces numerous headwinds. First and foremost is continued weakness in the labor market. While the private sector appears to be gradually increasing the pace of new hires, we believe this could be largely offset by declining government payrolls at both the federal and state levels. With unemployment likely to remain above 9% in 2011, it is difficult to imagine a scenario where consumer spending — the driver of two-thirds of total GDP — moves significantly higher during 2011.

In our view, the U.S. economy currently faces numerous headwinds. First and foremost is continued weakness in the labor market. Another area of the economy that we believe warrants close attention is the still fragile housing market. In addition, new government regulations in the financial industry, and the impact from the midterm elections could affect the economy in 2011.

FIGURE 2: POST-RECESSION JOB GROWTH HAS BEEN WEAK



Source: Bureau of Labor Statistics.

Another area of the economy that we believe warrants close attention is the still fragile housing market. Following the April expiration of the $8,000 tax credit for first-time homebuyers, sales and housing prices have weakened. Given the outcome of the 2010 Congressional elections, we believe a revival of the tax credit is unlikely. Also impacting the housing market going forward will be inquiries into how U.S. lenders have documented foreclosure documents. While this issue is being sorted out, many foreclosures will probably be temporarily delayed, averting an even larger inventory of unsold homes in the marketplace. However, once it is remedied, a glut of foreclosed properties could enter the market and pressure home prices.

In addition, new government regulations in the financial industry, and the impact from the midterm elections could affect the economy in 2011.

Looking ahead, we believe that the economy has enough momentum to avoid a double-dip recession and that low interest rates will help the economy continue to recover.

Looking ahead, we believe that the economy has enough momentum to avoid a double-dip recession and that low interest rates will help the economy continue to recover. Low rates should also help corporations enjoy low borrowing costs and may spur an increase in home refinancing, which would put extra money in consumers' pockets. While we expect to see positive growth in 2011, it could be below average, with GDP potentially expanding roughly 2% to 2.5% for the year.

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Interest Rates, Fed Policy and Inflation

With QE2, the Fed made it clear that it intends to do whatever it can to keep interest rates low to stimulate the economy and ward off deflation. The Fed has telegraphed its intention to control shorter-term rates by holding the Fed Funds rate between 0% and 0.25%. However, the jury is still out as to whether QE2 will serve its purpose of keeping longer-term rates low as well. Immediately after the Fed unveiled its plans to purchase an additional $600 billion in Treasuries, longer-term rates unexpectedly moved higher. This may have been due to profit taking given the sharp decline in yields leading up to the Fed's November announcement. We believe the Fed will generally be successful in its quest to keep interest rates low in 2011. Although Treasury yields could drift higher, they should remain moderate from a historical perspective. Moderately higher rates coupled with still historically low yields mean that Treasuries will not likely deliver the attractive return experienced in 2010.

There have also been concerns that QE2 will trigger unmanageable inflation down the road. We do not feel this will be the case and actually expect inflation to dip from its already low level in the coming months. Then, as the economy regains a bit of traction, inflation could move higher, but we do not feel it will reach the Fed's 2% target until late 2011.

Risks to our outlook include a double-dip recession, sharply higher growth, or a foreign exchange "war" as countries seek to devalue their currencies to prop up their economies. While these scenarios are possible, we find them to be unlikely at this point.

U.S. INVESTMENT GRADE TAXABLE FIXED INCOME

Andrew A. Johnson
Head of Investment Grade Fixed Income

Against a backdrop of positive economic growth and low inflation, our outlook is for the spread sectors to continue to outperform equal-duration Treasuries in 2011. We also envision spread narrowing amid an environment characterized by overall strong investor demand. That said, spread sector excess returns versus Treasuries are not likely to be as large as during the past two years.

As of early December, it appears that investment grade bonds are on track for another year of solid results in 2010. Looking forward, we believe that many of the factors that supported the credit market in 2009 and 2010 remain in place heading into 2011.

Investment Grade Credit

As of early December, it appears that investment grade bonds are on track for another year of solid results in 2010. Looking forward, we believe that many of the factors that supported the credit market in 2009 and 2010 remain in place heading into 2011. These include strong corporate balance sheets, improving corporate profits, attractive borrowing costs and robust demand given the low interest rate environment. We also anticipate a further decline in corporate defaults.

Even with their strong performance since the height of the credit crisis, investment grade bond valuations, in our opinion, remain compelling from a historical perspective. With improving fundamentals and solid supply/demand characteristics, additional — although more moderate — spread tightening in 2011 appears likely. From a sector perspective, we find industrials to be the most attractive sector as the economy regains its footing. We also believe that financials have attractive risk-adjusted return potential given continued low interest rates and our expectations for improving profit margins.

In our opinion, non-agency residential mortgage-backed securities (RMBS) continue to offer attractive loss-adjusted yields, although the bulk of the price rally appears to be behind us.

Agencies, Residential Mortgage-Backed Securities

In mid-2010, we found agency mortgage-backed securities (MBS) to be relatively unattractive given the conclusion of the Fed's purchasing program of the securities, which was tied to the first round of quantitative easing. In particular, we found their valuations to be rich and had concerns about who would replace the government as the marginal buyer. Six months later, we believe that agency MBS are more fairly valued, especially versus other investment grade spread sectors. In addition, we think prepayment risks are not as significant as before, given the number of mortgages that are underwater as a result of the sharp decline in housing prices. We believe spread tightening particularly in the second half of 2011 is a possibility as interest rates trend somewhat higher and investor demand for agency MBS increases.

In our opinion, non-agency residential mortgage-backed securities (RMBS) continue to offer attractive loss-adjusted yields, although the bulk of the price rally appears to be behind us. Demand from individual investors, corporations and public-private investment program managers may remain solid and, as such, we have a positive outlook for the sector in 2011.

Asset-Backed Securities

Asset-backed securities (ABS) appear likely to underperform most spread sectors in 2010. While more issuance in the ABS market has helped increase liquidity, credit card and auto ABS offer marginal relative value. Looking ahead to 2011, primarily due to their short duration, the yield premium offered by ABS does not appear to present better that a break-even outlook on a risk-adjusted basis.

Commercial Mortgage-Backed Securities

For much of 2010, commercial mortgage-backed securities (CMBS) have produced what we consider outstanding results. The sector has been supported by attractive spreads and strong investor demand given their relatively high yields. While we believe CMBS spreads are currently reasonable, the majority of spread tightening appears to have already occurred. In addition, fundamentals in the commercial property markets remain weak and this could contribute to price volatility within the CMBS sector in the coming year.

The inflation risks for longer investment horizons (three to seven years) remain in place and, in our opinion, TIPS are still the most attractive high-quality option to help bond portfolios hedge against inflation in that environment. As a result, we remain modestly positive on the sector.

Treasury Inflation-Protected Securities

Expectations that QE2 would result in higher inflation triggered a strong rally for Treasury Inflation-Protected Securities (TIPS) from late August to late October. Despite the trend, expectations for inflation, as currently reflected in the marketplace, are below the Fed's target and below the average historical level of approximately 2.5%. This is happening while the Fed is using unorthodox techniques to reflate the economy and as large fiscal deficits persist. The inflation risks for longer investment horizons (three to seven years) remain in place and, in our opinion, TIPS are still the most attractive high-quality option to help bond portfolios hedge against inflation in that environment. As a result, we remain modestly positive on the sector.

U.S. HIGH YIELD BONDS AND LOANS

Ann H. Benjamin
Chief Investment Officer – Leveraged Asset Management

In 2010, we saw the continuation of many long-term supports for the high yield bond and loan markets. These included the stabilizing economy, modest inflation, strengthening corporate balance sheets, better-than-expected profits and falling default rates. Aside from some temporary periods of volatility — triggered partially by the sovereign debt crisis in Europe and concerns regarding the potential for a double-dip recession — investor risk appetite was robust, further supporting high yield prices. The market's ascent from its 2008 credit crisis lows has been impressive and broad based, with virtually every high yield sector experiencing significant spread tightening over the last two years.

Guarded Optimism for 2011

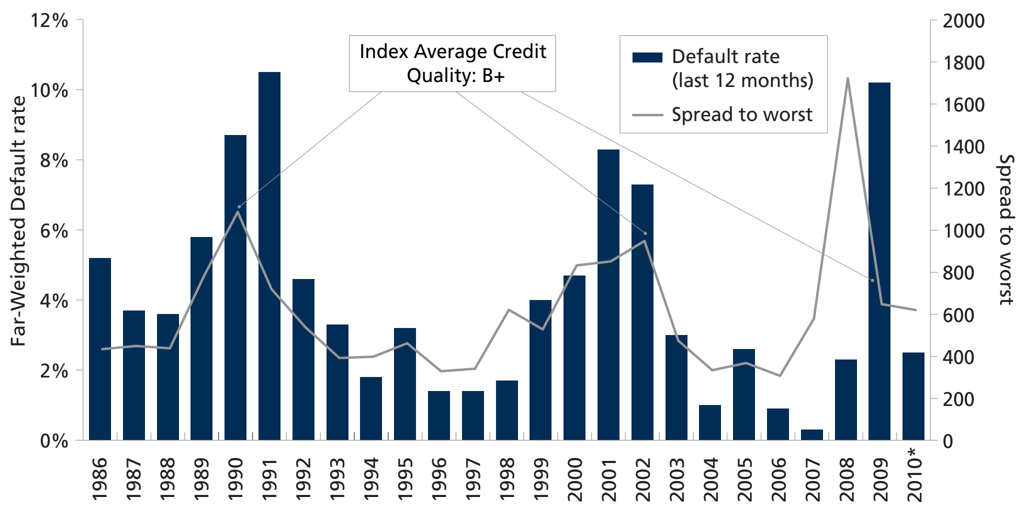
Despite the high yield market's strong recent results, we believe the backdrop for 2011 presents a positive, albeit modest, outlook. Historically, periods of tepid but positive economic growth and low inflation have offered positive environments for high yield prices. While certain economic headwinds remain, not the least of which is stubbornly high unemployment, we do not anticipate a double-dip scenario. In addition, we believe QE2 will help keep interest rates low, which would be supportive of continued strong demand for high yield bonds.

Despite the high yield market's strong recent results, we believe the backdrop for 2011 presents a positive, albeit modest, outlook.

Other factors that we believe could lead to further spread narrowing include further improvements in corporate earnings and declining high yield defaults. After peaking at 10.3% in 2009, bond default rates have fallen sharply and are now approximately 2.4% (loan defaults have had a similar move). We believe that defaults will be closer to zero over the next two to three years. This is based on the overall quality of high yield issuers' balance sheets and the fact that many weak companies have already fallen by the wayside. It is also important to note that high yield credit spreads, while substantially narrower than those in 2008, remain attractive in our opinion given where we are in the current economic cycle. Risks to our viewpoint, which we feel are fairly remote, would be a sharp decline in economic activity, spiking interest rates, or a reversal in Fed liquidity measures.

FIGURE 3: HIGH YIELD VALUATIONS REMAIN RELATIVELY ATTRACTIVE

Spreads Versus Default Rates



Sources: J.P. Morgan, Moody's Investment Service.* 2010 figure as of September 30, 2010.

We believe that credit selection will take on added importance going forward.

While we are generally optimistic about high yield securities, to some extent the "easy money" has already been made. As such, we believe that credit selection will take on added importance going forward. For example, the difference in spreads between cyclical and more defensive issuers has recently narrowed. This means, in our view, that investors are not currently being adequately compensated for the additional risks associated with certain cyclical issuers. Therefore, we believe astute credit selection will be paramount to add value and avoid potential pitfalls moving forward.

INTERNATIONAL FIXED INCOME/CURRENCY

Ugo Lancioni
Portfolio Manager–Global Fixed Income and Currency

Non-U.S. fixed income markets showed strength for much of 2010. Government bond markets in most regions performed well, although issues in peripheral Europe were volatile. In the foreign exchange markets, the U.S. dollar declined versus other major currencies, due in part to additional quantitative easing by the Fed. In general, corporate bonds produced excess returns versus risk-free assets, with financials outperforming their utility and industrial counterparts.

Opportunities in Sovereign Debt

We currently believe a prudent mix of non-U.S. government bonds presents the potential for higher yields for investors, as well as the benefit of increased diversification versus U.S. Treasuries.

We currently believe a prudent mix of non-U.S. government bonds presents the potential for higher yields for investors, as well as the benefit of increased diversification versus U.S. Treasuries. With certain regions recovering from the economic downturn faster than others, yields in countries such as Australia and New Zealand are far higher than in the U.S. In our opinion, this presents a compelling opportunity for global investors. Given the uncertainties regarding the path of near-term global interest rates, we believe that having exposures to various regions at different stages of the economic and interest rate cycle appears warranted. Not only does this offer far greater diversification, in our view, it can also result in less overall portfolio volatility.

Separately, the yields available in peripheral Europe could remain elevated based on the risks associated with their ongoing economic challenges and austerity measures. However, we feel much of the bad news has been priced into their spreads. As such, a strategic allocation to peripheral European sovereign debt could prove beneficial for investors who can withstand higher volatility.

Many Corporate Markets Appear Attractive

We believe that non-U.S. corporate bond spreads remain attractive from a historical perspective. This, coupled with improving fundamentals, could result in additional spread tightening over the next year. Again, selectively purchasing bonds in various regions around the world may result in incremental yield and diversification benefits when compared to a U.S.-only corporate allocation. Within the corporate market, we continue to favor European financials over utilities and industrials. In our view, financials appear to be attractively valued versus their counterparts. In addition, financial companies are on the path to reducing risk as regulators and governments put in place a framework to prevent another financial crisis. We remain cautious on corporate bonds from peripheral Eurozone countries. We feel that the austerity plans due to be implemented are likely to benefit the governments at the expense of the corporate sector in those countries, at least in the short term.

We expect to see continued volatility in the currency markets in 2011. That said, we believe this can provide significant opportunities for investors.

Currencies: Volatility Breeds Opportunity

We expect to see continued volatility in the currency markets in 2011. That said, we believe this can provide significant opportunities for investors. Bonds and currencies can react quite differently to the same stimulus. As such, we believe it prudent to manage currency risk separately from bond risk in order to potentially produce an additional uncorrelated stream of excess returns in global portfolios. Even though the world has slowly recovered from the worst recession since the Great Depression, there are still many uncertainties facing the currency market. We believe that the divergence of central bank policies will remain an important factor in 2011. Decisions on when to gradually remove monetary easing programs and raise interest rates will be key drivers for currency valuations. In our view, the debate about reducing global imbalances has only just begun. As emerging market countries are generally expected to continue to grow faster than their developed country counterparts, we believe their currencies must be allowed to appreciate in order to stem a build-up of further imbalances. Finally, given the significant appreciation of the yen, we believe it is now moving into overvalued territory. In our view, this offers investors an attractive entry point and the potential for investors to pick up incremental yield by borrowing yen and then investing in markets with a higher yield profile. From a valuation perspective, we believe that going underweight the yen appears to be a far more attractive strategy at current levels than it was before the crisis in 2007, when the "carry trade" was widely implemented and the yen was undervalued.

EMERGING MARKET DEBT

Bobby T. Pornrojnangkool, Ph.D.
Portfolio Manager–Emerging Market Debt

Through early December, emerging market debt delivered strong performance for 2010, extending 2009's rally and helping to make it among the best performing asset classes in recent years. Supporting the asset class was stronger economic growth in emerging market countries versus their developed counterparts, continued relative structural improvements of emerging market economies, and better liquidity. Moreover, emerging market debt has seen record flows into investment strategies tied to these securities in recent years, and 2010 showed no signs of abatement in this trend.

We believe that the prospects of emerging market debt in 2011 are moderately positive.

A Constructive View

We believe that the prospects of emerging market debt in 2011 are moderately positive. Three key catalysts support our favorable view on the asset class. First, we expect to see continued demand from investors seeking higher yields. This will be driven by monetary policies in developed countries that are likely to remain extremely accommodative in 2011. Second, the growth differential between developing and developed countries could result in further relative strengthening of emerging market sovereign balance sheets. Third, current strong risk appetite, combined with abundant liquidity from looser monetary policies in the developed markets, could drive investor sentiment and flows into emerging markets.

Key Risks

The main risk to our view is the compression of emerging market spreads over the last two years. This has been the result of the exceptionally strong rebound in the asset class after the 2008 sell-off. Historically, such strong performance usually gives rise to a potential correction. We see several possible triggers for such a correction in 2011. One would be any signs from the Fed that it will reverse its current policy stance. Another would be an overheating of the Chinese economy, as this could result in a market correction. We do not perceive either scenario to be an imminent risk, but still assign a positive probability to such events. Barring these potentially negative forces, we would have a much stronger outlook for the emerging market debt asset class in the coming year.

MUNICIPAL BONDS

Janet A. Fiorenza
Head of Municipal Fixed Income

For much of 2010, the municipal bond market was supported by solid demand from investors seeking higher yields in the low interest rate environment.

For much of 2010, the municipal bond market was supported by solid demand from investors seeking higher yields in the low interest rate environment. With Treasury yields falling sharply during the year, after-tax returns from municipal bonds often exceeded the yields offered by equal-duration Treasuries. In addition, new tax-free issuance was constrained by robust Build America Bond (BAB) issuance. In many cases, municipalities prefer issuing BABs because the federal government provides issuers with cash subsidy payments equal to 35% of their interest costs.

There were periods of increased volatility in the market, most notably late in the year when increased supply and slowed inflows caused a retreat in the marketplace. However, overall, the supply/demand dynamic was generally beneficial for municipal bond prices, offsetting ongoing fiscal challenges in many states and municipalities as tax revenues were constrained given the lengthy economic downturn. Within the market, longer-term municipals generally outperformed short-term securities. In terms of credit, lower quality bonds outperformed their higher rated counterparts given their yield advantages.

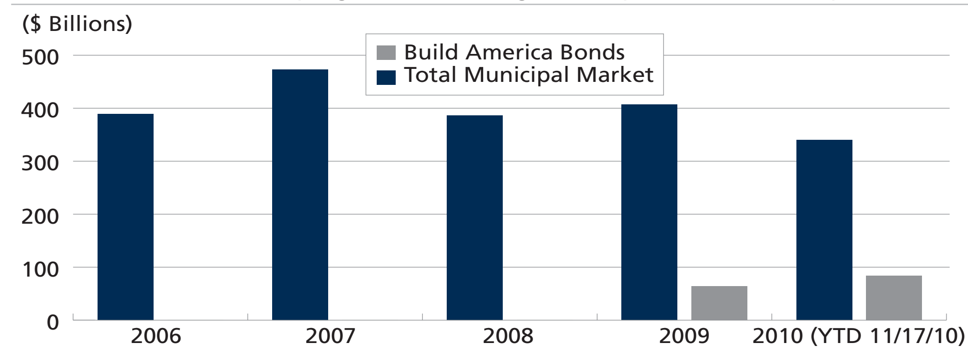
Challenges for 2011

Our outlook for 2011 is clouded by a number of uncertainties that could impact the overall tax-free market.

Our outlook for 2011 is clouded by a number of uncertainties that could impact the overall tax-free market. For example, demand for tax-free bonds may be tempered if some or all of the Bush-era tax cuts are extended. In addition, should Congress choose not to extend the BAB program (scheduled to expire at the end of 2010), traditional tax-free bond issuance could rise sharply in 2011. In particular, we could see a marked increase in long-term tax-free bond issuance to replace BABs, the majority of which are longer-term securities. This, in turn, could pressure municipal bond spreads in that area of the yield curve. Finally, based on the results of the midterm elections, there could be less federal government support for financially strapped state and local governments. Less federal assistance, coupled with only a modestly improving economy and relatively weak tax revenues, could result in an increase in municipal bond downgrades and greater volatility.

FIGURE 4: BABS EXPIRATION COULD HAVE MAJOR IMPACT

The Build America Bonds program is now a significant presence in municipal market.



Source: The Wall Street Journal/Thomson Reuters MMD, November 18, 2010.

Cautious Optimism

Despite the potential challenges, we are cautiously optimistic about the prospects for the municipal market in 2011.

Despite the potential challenges, we are cautiously optimistic about the prospects for the municipal market in 2011. While Treasury yields appear to be at the low end of their trading range, we do not feel that higher rates are currently as much of a concern in the municipal market. In addition, we believe municipal valuations are reasonable from a historical perspective and that they will continue to offer the potential for compelling after-tax returns, particularly for investors in higher tax brackets. Additionally, potential increases in tax rates — at the federal, state or local levels — could support solid demand for securities providing tax-free income.

In terms of positioning within the municipal market, we favor maintaining a higher-quality bias. While many states and local municipalities are working to get their financial houses in order, this will be a long and painful process. We are likely to see additional government layoffs, service reductions, and the need to raise taxes to close budget gaps and rebuild depleted reserves. Unfunded pension liabilities are also a significant challenge facing issuers.

Diversification, Research Essential

We believe maintaining ample diversification in municipal portfolios will be critical, as well as a focus on attractively valued and well-funded sectors.

Against this backdrop, we believe maintaining ample diversification in municipal portfolios will be critical, as well as a focus on attractively valued and well-funded sectors. These include general obligation bonds that derive their revenue from taxes on property and other real assets. Within the revenue bond sector, we have a positive outlook for issues with multiple revenue streams, versus issuers with revenues backed by single facilities or corporate entities. From a geographic perspective, we believe it is prudent to avoid areas that are dependent on a single industry or employer (e.g., autos) and to limit exposure to issuers from parts of the country that were the hardest hit by the real estate bubble.

We note that on October 25, 2010, Standard & Poor's rating service downgraded Assured Guaranty Municipal Corporation from AAA to AA+, leaving the municipal bond marketplace without a single AAA-rated insurer for the first time since 1974. By losing the coveted AAA rating, the bond insurance industry has become a niche market, versus just a few years ago when the majority of new issues were originated with this type of enhancement. Philosophically, we have always believed in evaluating bonds through rigorous analysis of underlying issuer credit quality, as opposed to simply relying on an insurance wrapper. In our opinion, the embracement of proprietary research, as well as ongoing surveillance, will be a key driver of returns.

CONCLUSION

Heightened volatility in 2010, triggered by the European sovereign debt crisis and noise surrounding economic challenges in the U.S., are vivid reminders that the financial markets' fortunes can change on a dime. What's more, these triggers are often difficult to foresee and can lead to shortsighted investment decisions.

Entering 2011, there is no shortage of potential issues that could ignite periods of extreme market volatility. While short-term market gyrations are unsettling for both novice and experienced investors alike, for the year as a whole, we believe the outlook for the economy and the fixed income market is generally positive. In particular, certain non-Treasury sectors have compelling fundamentals going into the New Year. In our opinion, these areas could benefit generally from an increased risk appetite, should investors seek incremental yields given a continued low interest rate environment.

INDEX DEFINITIONS

Asset Backed Securities—This Index is the ABS component of the Barclays Capital U.S. Aggregate Index. The Index includes pass-through, bullet, and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche.

U.S. Aggregate—The Barclays Capital U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed rate and hybrid ARM pass-throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The Index was created in 1986, with Index history backfilled to January 1, 1976.

Commercial Mortgage Backed Securities—The Barclays Capital Commercial Mortgage-Backed Securities (CMBS) Index family consists of four components: CMBS Investment-Grade Index, CMBS High-Yield Index, CMBS Interest-Only Index, and Commercial Conduit Whole Loan Index (all bond classes and interest-only classes). The CMBS Investment-Grade Index is further subdivided into two components: The U.S. Aggregate eligible component that contains bonds that are ERISA-eligible under the underwriter's exemption and the non-U.S. Aggregate-eligible component that consists of bonds that are not ERISA-eligible. The CMBS Indices were launched on January 1, 1997.

Investment Grade Credit—The Barclays Capital Investment Grade Credit Index is publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

Emerging Markets—The Barclays Capital Global Emerging Markets Index consists of the fixed- and floating-rate USD-denominated U.S. Emerging Markets Index and the primarily EUR- and GBP-denominated fixed-rate Pan-European Emerging Markets Index and includes emerging markets debt from the following regions: the Americas, Europe, Asia, the Middle East, and Africa. For the Index, an emerging market is defined as any country that has a long-term foreign currency debt sovereign rating of Baa1/BBB+/BBB+ or below using the middle rating of Moody's, S&P, and Fitch. The Index does not overlap with the U.S. Corporate High-Yield Index or the Pan Euro Corporate High-Yield Index, but may overlap with other investment-grade Aggregate Indices if the securities meet their index eligibility rules. The Global Emerging Markets Index was launched on August 1, 2001.

Global Aggregate (ex USD)—The Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.9% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (USD 300 million equivalent), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index. The Global Aggregate Index was created in 1999, with index history backfilled to January 1, 1990.

Municipal—The Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index of the long-term tax-exempt bond market. It includes fixed-rate, investment-grade bonds with at least one year until maturity.

Treasury—The Barclays Capital Treasury Index is the U.S. Treasury component of the U.S. Government Index and reflects the performance of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Treasury Inflation-Protected Securities—The Barclays Capital U.S. Treasury Inflation-Protected Securities ("TIPS") Index measures the performance of intermediate (1–10 year) U.S. Treasury Inflation-Protected Securities.

U.S. Corporate High Yield—The Barclays Capital U.S. Corporate High-Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt. The Index was created in 1986, with Index history backfilled to January 1, 1983. The U.S. Corporate High-Yield Index is part of the U.S. Universal and Global High-Yield Indices.

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Neuberger Berman LLC
605 Third Avenue
New York, NY 10158

www.nb.com