

May 16, 2022

Re: Employee Benefits Security Administration, Department of Labor, “Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk”

Neuberger Berman would like to thank the Department of Labor (the “Department”) for the opportunity to provide input in response to the Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk (the “RFI”). We welcome the Department’s outreach and interest in stakeholder feedback on this important topic.

Founded in 1939, Neuberger Berman is a global, independent, employee-owned investment manager. The firm manages almost \$500 billion across a range of strategies – including equity, fixed income, private equity, real estate and hedge funds – on behalf of institutions, financial advisors, and individual investors globally. With more than 600 investment professionals and approximately 2,200 employees in total, Neuberger Berman has built a diverse team of individuals united in their commitment to delivering compelling investment results for our clients over the long term. That commitment includes, for many of our clients, active consideration of environmental, social and governance (ESG) factors.

In response to the questions posed in the RFI, we would like to offer our views on two overarching topics: (i) climate-related risks and current data challenges and (ii) the importance of stewardship and active approaches when incorporating climate and ESG factors in investment decision-making.

Climate-related risks and current data challenges

As an active manager, we have a long-standing belief that material ESG factors, including climate risk, are important drivers of long-term investment returns from both an opportunity and a risk-mitigation perspective. Therefore, we take a deep fundamental approach toward managing client assets, including the integration of material ESG criteria into our investment processes.

We believe climate-related risks can be segmented into two broad categories: transition risk and physical risk. Regarding transition risk, the global transition to a low-carbon economy will cause policy, legal, technology and market shifts as the world addresses the mitigation and adaptation requirements related to climate change over the short, medium and long term. Physical risks resulting from climate change will be both event-driven (acute) and longer-term shifts (chronic) in climate patterns. These risks may have direct financial implications, such as through weather-related damage to our assets, as well as indirect impacts such as through disruption to our operations via our supply chain.

The lack of required high-quality, comparable, decision-useful information on material climate-related information from corporate issuers has made it harder for investors to effectively analyze risk and efficiently allocate capital to companies that can generate strong long-term financial returns. In certain markets outside

of the United States, investors are mandated to provide climate information pertaining to issuers in which they invest. In the absence of standardized and comparable climate disclosures, investors must resort to reliance on estimates that are often provided by third parties and not the companies themselves. These third-party estimates are often based on sector or industry averages and fail to consider important company-specific nuances. Unfortunately, that unambiguously makes for less efficient capital markets and hampers deep investment analysis.

Since climate change is a systemic market risk with financial implications across industries, we believe ERISA plan beneficiaries would benefit from additional information and disclosure on climate-related risk. We believe the SEC is well positioned to regulate such disclosure requirements. The SEC recently released a draft rule on climate risk reporting that, if adopted in its current form, would provide investors like Neuberger with decision-useful information needed to adequately assess climate risk. However, we note that the proposed rule includes phase-in periods that won't require disclosure on certain reporting elements for several years.

We would caution the Department against requiring ERISA plan fiduciaries to report on climate-related metrics that are not yet disclosed by issuers. We have seen examples of regulators in other markets take this approach and believe it has led to reliance on estimates largely provided by third parties to meet disclosure requirements and ultimately resulted in lower quality data being provided to plan participants. Additionally, any increased reporting requirements for plan fiduciaries may increase costs and administrative burden, which could have the unintended consequence of lower overall plan adoption. For these reasons, we would encourage the Department to work in coordination with the SEC to play an important role in facilitating improved disclosure from issuers.

The importance of stewardship and active approaches when incorporating climate and ESG factors in investment decision-making

Since the inception of the firm, Neuberger Berman has remained singularly focused on delivering attractive investment results for our clients over the long term. We believe engagement with issuers is a meaningful tool that helps achieve our investment objectives. As an active manager, regular engagement with issuers is core to our investment approach. Our investment professionals throughout the firm are responsible for incorporating material ESG factors, including insights gained through engagements, in portfolios and investment research and implementing our stewardship approach. When engaging on climate risk, we encourage companies to produce reporting in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) including board oversight of climate risk, GHG emissions, and GHG emissions reduction targets. We believe the most effective ESG integration occurs when investment teams research ESG factors and consider them alongside other inputs, guided by firmwide principles and supported by extensive resources.

Given the complex nature and industry- and company-specific nuances of climate-related risk, we believe there are analytical limitations to strategies that rely on passive, third-party data dependent approaches to ESG integration. An active management approach including engagement and bottom-up fundamental research enables us to incorporate insights gained from direct dialogue with issuers into investment decision-making. Further, we believe that the qualitative analysis, supported by deep industry expertise, involved in an active ESG approach is integral to the proper identification and management of ESG risks, thereby providing for better outcomes. As such, we would encourage the Department to consider expanding the TSP's fund offerings beyond those that rely on passive index investing to also include actively managed funds.

We appreciate the opportunity to share our views and welcome further dialogue with the Department on this important matter.

Sincerely,

Handwritten signature of Joseph V. Amato in black ink.

Joseph V. Amato
President and Chief Investment Officer, Equities
Neuberger Berman

Handwritten signature of Jonathan Bailey in black ink.

Jonathan Bailey
Head of ESG Investing
Neuberger Berman