Memorandum

To	Vermont Pension Investment Commission
From	RVK, Inc.
Subject	Neuberger Berman Strategic Co-Investment Partners V
Date	October 2023

Executive Summary of the Opportunity

Neuberger Berman Strategic Co-Investment Partners V LP ("Co-Investment V", "Fund V", or "the Fund") is a private equity investment fund sponsored by Neuberger Berman (the "Firm") that will make direct private equity co-investments alongside leading private equity firms in their sectors of expertise with attractive economics to investors. The Fund will invest directly in portfolio companies, with a focus on buyout and growth equity transactions. Neuberger Berman expects to build a well-diversified portfolio of 30 to 40 companies, targeting approximately 75% of the Fund's investments in North America, approximately 25% in Europe, and up to 5% in the rest of the world. Co-Investment V is expected to commit capital over a four-year period, allow the underlying investments to accrete in value, and then liquidate the investments and return capital to investors in approximately ten years. Neuberger Berman is seeking $2.25 billion in investor commitments for Co-Investment V.

Recommendation

RVK believes Co-Investment V represents an attractive opportunity for Vermont Pension Investment Commission's ("VPIC") total portfolio. Since Neuberger Berman's inception in 2009, NB Private Markets has invested over $16.6 billion across 359 direct equity co-investments and achieved a net return of 22%. The NB Private Markets team has delivered strong investment performance across over 20 co-investment commingled funds and custom accounts under management spanning 14 years and varied economic environments. Neuberger Berman has among the longest co-investment track records in the industry, having navigated multiple market cycles and will continue the same strategy as the Firm's two more recent prior funds, which ranked above the median buyout fund. Finally, Neuberger Berman's target fund size for Fund V represents a de minimis increase over Fund IV, ensuring that the strategy will remain able to focus on the size of investments that achieved attractive outcomes in Funds III and IV.

Key considerations of this investment include a weak investment outcome for Fund I due to now discontinued energy investments, growth in demand for co-investments across private equity, and a limited amount of currency risk. Broader risks to private equity co-investments include illiquidity, equity risk, lack of control, and market dependent liquidity. RVK believes, however, that the positive merits of the opportunity outweigh the potential risks and therefore, RVK recommends Vermont Pension Investment Commission commit $25 million to Neuberger Berman Strategic Co-Invest Partners V.

Overview of Investment Organization

Neuberger Berman was established in 1939 and provides a broad range of global investment products. The Firm offers asset management strategies across traditional income, growth and capital preservation as well as alternative markets. NB Private Markets is the Firm's illiquid assets arm and has strategies across private equity, private credit, and other illiquid alternatives. NB Private Markets has managed approximately $30 billion of investor commitments dedicated to co-investments and since 2009 has invested over $16.6 billion across 359 direct equity co-investments. NB Private Markets manages over $110 billion of investor commitments across funds and direct investments since inception through December 31, 2022, and through its primary and secondary investments business which has limited partner investments with over 650 active private equity funds. The firm has also been investing as a limited partner for over 35 years and committed to over 85 primary fund investments in 2022.

Neuberger Berman is an independent, 100% employee-owned firm. The Firm's headquarters are in New York and has offices in 39 cities across 26 countries. The Firm manages a range of equity, fixed income, private equity, and hedge fund strategies. The firm has 749 investment professionals and 2,799 employees in total. Co-investment activities are overseen globally by the two group heads, David Stonberg and David Morse, and the Fund's investment committee. The senior investment team members all have significant experience in private equity as co-investors and direct investors are part of a team of over 70 investment professionals who work on private equity investments within NB Private Markets.

Investment Strategy

Fund V will follow the same investment strategy employed in the previous co-investment funds. This strategy centers on making direct private equity co-investments in collaboration with established private equity firms operating in their core areas of specialization. Similar to prior funds, Co-Investment V will target a portfolio of approximately 30 to 40 investments. Neuberger Berman believes a portfolio of this size provides additional diversification over most direct funds and the strategy aims to provide investors with exposure to a variety of high-quality lead private equity firms, diverse industries, geographic regions, company sizes, investment scenarios, and vintage years. The primary tenants of Fund V's investment strategy include:

1) Leverage the NB Private Markets platform to source, evaluate and execute co-investment opportunities.

2) Partner with high-quality private equity firms in their core areas of expertise.

3) Invest on favorable terms alongside the lead private equity firms.
4) Maintain a disciplined investment philosophy.
5) Build a high-quality and diversified portfolio of investments.

Neuberger Berman specializes in more complex transactions within co-investments, which the team believes provide additional avenues to create value and purchase assets outside of syndication processes. Approximately 83% of the capital invested in funds III and IV through September 30, 2022, had been invested in more solutions-oriented or complex opportunities such as co-underwrite and mid-life co-investment transactions.

Merits

- **Size of Neuberger Berman private equity platform relative to the target commitments for Fund V –** Neuberger Berman has one of the largest and most successful funds of funds and custom account platforms and the Firm is targeting a limited increase in commitments for Fund V. RVK believes a high ratio of primary commitments (i.e., commitments to direct funds, which drive co-investment deal flow) to co-investment commitments is critical to long-term success in co-investment funds. Because primary commitments build relationships with direct general partners and incentivize direct funds to treat fund of funds investors equitably, large primary commitments are one of the main differentiators of co-investment funds. If high volumes of primary commitments are coupled with high volumes of co-investment commitments, however, the advantages provided by outsize primary commitments can degrade as there are only so many high quality co-investment investments available. The limited growth in fund size of Fund V is expected to contribute to continued high selectivity in the Firm's co-investment strategy.
- **Access to premiere direct fund managers –** Co-Invest V will provide investors with access to some of the most sought-after groups in direct buyout and growth equity. Many of these fund managers are difficult for new investors to access, given their success and the number of investors who seek to invest in private equity. Neuberger Berman has longstanding relationships with these buyout and growth equity direct funds, allowing them to build a portfolio that incorporates many of the most premier names in the asset class.
- **Differentiation through investments in complex transactions –** Neuberger Berman has invested in complex transactions, including mid-life transactions and co-underwrite investments, since the inception of the commingled fund strategy. These transaction types have proliferated in the marketplace, potentially providing Neuberger Berman with an advantage in execution as more traditional financing sources have faded in the current macro environment. These transaction types also typically occur with opportunities outside of traditional co-investment syndication markets, where most co-investment funds can execute, and information advantages may be less acute.

Considerations

- **Currency risk for non-U.S. Investments –** Co-invest V expects to invest up to 25% of the Fund's portfolio in non-US investments; all non-USD denominated investments result in investors being exposed to currency risk as the Fund will not engage in currency hedging. While RVK's expectation is that, over the long run, individual currencies will have limited impact on portfolios, in the short and medium term, investments can be impacted by changes in currency valuations. Private equity portfolios enter and exit investments at the general partner's control, leaving investors with limited recourse if currency valuations shift during the expected term of a private equity investment.

- **Increased competition for co-investment opportunities** – As private equity fund of funds providers and other limited partners have sought more co-investments to reduce their fees paid, the market for co-investments has become more competitive. Since 2016, the number of co-investment funds raised per vintage year has increased by approximately 150% with 80 funds fundraising in 2016 and just under 200 funds fundraising in 2021 according to Preqin. In addition, the AUM for co-investment funds has increased by over $58 billion from 2016 to 2022. Increased competition can make it more difficult for managers to gain access to premier investments and can impact returns.

Conclusion

Neuberger Berman has successfully invested multiple portfolios of diversified direct co-investments since 2009 with sought after managers for lower fees than most direct funds. While Fund II underperformed investor expectations, the Firm discontinued investing in energy investments, which were the primary driver for Fund I's underperformance. Neuberger Berman's two most recent co-investment funds have ranked well among peers both in IRR and Multiple rankings, and RVK expects Co-Investment V will be executed similarly to those funds. Based on RVK's review of Co-Investment V, we recommend VPIC invest $25 million in the fund.

Appendix

Biographies of Key Personnel

Anthony Tutrone is the Global Head of NB Alternatives and a Managing Director of Neuberger Berman. He is a member of all Neuberger Berman Private Equity's Investment Committees. Anthony is also a member of Neuberger Berman's Partnership, Operating, and Asset Allocation Committees. Prior to Neuberger Berman, from 1994 to 2001, Anthony was a Managing Director and founding member of The Cypress Group, a private equity firm focused on middle market buyouts that managed approximately $3.5 billion of commitments. Anthony began his career at Lehman Brothers in 1986, starting in Investment Banking and in 1987 becoming one of the original members of the Firm's Merchant Banking Group. This group managed a $1.2 billion private equity fund focused on middle market buyouts. He has been a member of the board of directors of several public and private companies and has sat on the advisory boards of several private equity funds. Anthony earned an MBA from Harvard Business School and a BA in Economics from Columbia University.

David Stonberg is a Managing Director of Neuberger Berman and is the Deputy Head of NB Alternatives and the Global Co-Head of Private Equity Co-Investments. He is also a member of the Private Investment Portfolios and Co-Investment Investment Committee, as well as the Renaissance, Secondary, Real Estate Secondary and Strategic Capital Investment Committees. David is also a member of Neuberger Berman's Partnership Committee. Before joining Neuberger Berman in 2002, Mr. Stonberg held several positions within Lehman Brothers' Investment Banking Division including providing traditional corporate and advisory services to clients as well as leading internal strategic and organizational initiatives for Lehman Brothers. Mr. Stonberg began his career in the Mergers and Acquisitions Group at Lazard Frères. Mr. Stonberg holds an MBA from the Stern School of New York University and a BSE from the Wharton School of the University of Pennsylvania.

Kent Chen, CFA, is a Managing Director of Neuberger Berman and leader of the Firm's private equity efforts in the Asia Pacific region. He is also a member of the Private Investment Portfolios and Co-Investment Investment Committee. Mr. Chen joined Neuberger Berman in May 2015 from the Hong Kong Monetary Authority (HKMA) after 17 years of central banking career including Deputy Chief Representative of the HKMA's New York Office and Advisor to the Executive Director for China at the International Monetary Fund in Washington D.C. From 2008, Mr. Chen helped to establish the HKMA's private equity program, comprising of global buyout, Asia private equity and global energy investments. Before joining the HKMA in 1998, Mr. Chen was Head of China Research at Daiwa Securities in Hong Kong covering the Chinese stocks market with a focus on infrastructure, energy and power equipment stocks. Mr. Chen has been awarded the Chartered Financial Analyst designation and earned a Master of Public Administration from Columbia University, MBA from University of Hull and BS in Economics from University of London.

Paul Daggett, CFA, is a Managing Director of Neuberger Berman and a senior member of the Firm's Private Investment Portfolios group where he leads investments in private equity and venture capital funds and direct co-investments in venture capital, growth equity and buyout transactions. He is also a member of the Private Investment Portfolios and Co-Investment Investment Committee. Mr. Daggett sits on the Limited Partner Advisory Boards of several venture capital and private equity fund relationships and has board of directors and observer seats for a number of direct venture and growth capital investments on behalf of Neuberger Berman funds. Prior to joining Neuberger Berman in 2004, Mr. Daggett worked in the European Equity Derivatives Group at JPMorgan Chase & Co. He holds an MBA from the Cox School of Business at Southern Methodist University and a BEng, with honors, in Aeronautical Engineering from the University of Bristol. Mr. Daggett is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA) and holds the Chartered Financial Analyst designation.

Michael Kramer is a Managing Director of Neuberger Berman. He is a member of the Private Investment Portfolios and Co-Investment, Credit Opportunities, and Marquee Brands Investment Committees as well as a member of the Board of Directors for Marquee Brands. Mr. Kramer is currently a board observer for By Light Professional IT Services, which is a portfolio company of our dedicated co-investment funds. Before joining Neuberger Berman in 2006, Mr. Kramer was a vice president at The Cypress Group, a private equity firm with $3.5 billion under management. Prior thereto, he worked as an analyst at PaineWebber Incorporated. Mr. Kramer holds an MBA from Harvard Business School and a BA, *cum laude*, from Harvard College

John Massey is the Chairman of the Neuberger Berman Private Investment Portfolios and Co-Investment Investment Committee. In 1996, Mr. Massey was elected as one of the original members of the board of directors of the PineBridge Fund Group. Mr. Massey is active as a private investor and corporate director. Previously, he was Chairman and CEO of Life Partners Group, Inc., a NYSE listed company. Over the last 35 years, Mr. Massey has also served in numerous executive leadership positions with other publicly held companies including Gulf Broadcast Corporation, Anderson Clayton & Co., and Gulf United Corporation. He began his career in 1966 with Republic National Bank of Dallas as an investment analyst. Mr. Massey currently serves on the boards of several financial institutions, including Central Texas Bankshare Holdings, and Hill Bancshares Holdings, Inc., among others. He is also the principal shareholder of Columbus State Bank in Columbus, Texas and Hill Bank and Trust Company in Weimar, Texas. Mr. Massey received the Most Distinguished Alumnus award from SMU's Cox School of Business in 1993. In 2009, he and Mrs. Massey were jointly named Most Distinguished Alumnus by The University of Texas from the Dallas/Fort Worth area. He currently serves as Chairman of the Development Board for the University of Texas School of Law and is President-Elect of Texas Exes at The University of Texas. He is also active in oil and gas, agricultural and wildlife conservation activities in Colorado County and Matagorda County, Texas. Mr. Massey received a BBA from Southern Methodist University and an MBA from Cornell University. He also earned an LLB from The University of Texas at Austin. He received his Chartered Financial Analyst designation and has been a member of the State Bar of Texas since 1966.

David Morse is a Managing Director of Neuberger Berman and is the Global Co-Head of Private Equity Co-Investments. He is also a member of the Private Investment Portfolios and Co-Investment Investment Committee, as well as the Private Debt Investment Committee. Mr. Morse is currently a Board Observer of C.H. Guenther, CSC, ProAmpac, Follett Education, and Pleskolite, all of which are portfolio companies of our dedicated co-investment funds. Mr. Morse joined Lehman Brothers in 2003 as a Managing Director and principal in the Merchant Banking Group where he helped raise and invest Lehman Brothers Merchant Banking Partners III L.P. Prior to joining Lehman Brothers, Mr. Morse was a founding Partner of Hampshire Equity Partners (and its predecessor entities). Founded in 1993, Hampshire is a middle-market private equity and corporate restructuring firm with $825 million of committed capital over three private equity funds. Prior to Hampshire, Mr. Morse worked in GE Capital's Corporate Finance Group providing one-stop financings to middle-market buyouts. Mr. Morse began his career in 1984 in Chemical Bank's middle-market lending group. Mr. Morse holds an MBA from the Tuck School of Business at Dartmouth College and a BA in Economics from Hamilton College. Mr. Morse is a former member of the MBA Advisory Board of the Tuck School and of the Alumni Council of Hamilton College and is a current member of the Board of Trustees of the Berkshire School.

Joana Rocha Scaff is a Managing Director of Neuberger Berman, Head of Europe Private Equity and a member of the Private Investment Portfolios and Co-Investment Investment Committee and the Secondary Investment Committee. She is also a member of Neuberger Berman's ESG Advisory Committee. Ms. Rocha Scaff has over 20 years of experience in financial markets, the majority of which in private equity investing and prior to that in investment banking. She has been with the Firm since 2005. Prior to NB Private Markets, Ms. Rocha Scaff worked in the investment banking division of Lehman Brothers, and prior to that at Citigroup Global Markets and BES Investment Bank. She advised on corporate transactions including M&A, financial restructurings and public equity and debt offerings in the United States, Europe and Brazil. Ms. Rocha Scaff received her M.B.A. from Columbia Business School and her BA in Business Management and Administration from the Universidad Cattolica of Lisbon. Ms. Rocha Scaff is the current Chair of the LP Committee of the BVCA – British Private Equity Association and a member of the limited partner advisory committee of multiple European private equity funds.

Jonathan Shofet is the Global Head of the Firm's Private Investment Portfolios and Co-Investments ("PIPCO") group and is a Managing Director of Neuberger Berman. He is also a member of the PIPCO and Credit Opportunities Investment Committees. Prior to joining Neuberger Berman in 2005, Mr. Shofet was a member of the Lehman Brothers Private Equity division, focusing on mid-through late-stage equity investments primarily in the technology, communications and media sectors. Prior to that, Mr. Shofet was a member of the Lehman Brothers Investment Banking division, where he focused on public and private financings, as well as strategic advisory in the real estate, technology and utility sectors. Mr. Shofet has been, or currently sits, on the Limited Partner Advisory Boards of several funds including those managed by Amulet Capital, Beacon Capital Partners, Castlelake, Cerberus Institutional Partners, Clearlake Capital, ComVest Investment Partners, DFW Capital, Oak Hill Capital Partners, Platinum Equity, Thomas H. Lee Partners and Vector Capital Partners. He has also been a Board Observer for several private companies. Mr. Shofet holds a B.A. from Binghamton University, where he graduated summa cum laude, Phi Beta Kappa.

Brien Smith is a Managing Director of Neuberger Berman and Senior Advisor of the Neuberger Berman Private Equity Division. He is a member of the Private Investment Portfolios and Co-Investment Investment Committee, as well as the Private Debt Investment Committee. Brien is also a member of Neuberger Berman's Operating Committee, the Firm's Investment Risk and Operational Risk Committees and was also formerly Chief Operating Officer of the Neuberger Berman Private Equity Division. Prior to joining Neuberger Berman in 2001, he worked in the middle market private equity firm Mason Best Company, L.P., and its affiliates. He began his career at Arthur Andersen & Co. Brien is a life member of the Red McCombs School of Business Advisory Council at the University of Texas at Austin. He also currently serves on the board of the Texas Exes Alumni Association and chairs its Investment Committee. He serves and has served on a few other boards of directors. He received a Master's in Professional Accounting and a BBA from the University of Texas at Austin.

Elizabeth Traxler is a Managing Director of Neuberger Berman and a senior member of the Private Investment Portfolios and Co-Investment team. She is also a member of the Private Investment Portfolios and Co-Investments Investment Committee, as well as the Secondary Investment Committee. Prior to joining Neuberger Berman in 2008, Ms. Traxler was at Wachovia Capital Partners (now known as Pamlico Capital), where she focused on making direct growth equity and buyout investments across a broad range of industries. Ms. Traxler also worked at Wachovia Securities in the Leveraged Capital Group, which provided senior and mezzanine debt for private equity-backed transactions. She is currently a Board Observer for several private companies and Advisory Board member for several private equity funds. Ms. Traxler received an MBA from the Kellogg School of Management at Northwestern University and a BA, *cum laude*, in Economics from Vanderbilt University.

Peter von Lehe, JD, is the Head of Investment Solutions and Strategy and is a Managing Director of Neuberger Berman. He is also a member of the Private Investment Portfolios and Co-Investments Investment Committee, as well as the Athyrium, Marquee Brands and Renaissance Investment Committees. He is also a member of the NB Insurance-Linked Strategies Underwriting Committee, and a Chairman of NB Reinsurance Ltd. Mr. von Lehe sits on the Limited Partner Advisory Boards of several investment relationships globally on behalf of Neuberger Berman funds. Previously, Mr. von Lehe was a Managing Director and Deputy Head of the Private Equity Fund of Funds unit of Swiss Reinsurance Company. At Swiss Re, Mr. von Lehe was responsible for investment analysis and product structuring and worked in both New York and Zurich. Before that, he was an attorney with the law firm of Willkie Farr & Gallagher LLP in New York focusing on corporate finance and private equity transactions. He began his career as a financial analyst for a utility company, where he was responsible for econometric modeling. Mr. von Lehe received a BS with Honors in Economics from the University of Iowa and a JD with High Distinction, from the University of Iowa College of Law. He is a member of the New York Bar.

Jacquelyn Wang is a Managing Director of Neuberger Berman and a senior member of the Co-investment and Private Investment Portfolios team. She is also a member of the Private Investment Portfolios and Co-Investment Investment Committee. Ms. Wang joined Neuberger Berman in 2007, focusing on direct co-investments, primary investments and secondary investments. Prior to joining Neuberger Berman, Ms. Wang worked in Corporate Development at Verizon Communications focused on corporate M&A. Previously, Ms. Wang worked at Spectrum Equity Investors, where she was responsible for sourcing, executing and evaluating buyout and growth equity investments in media, technology and telecom. Ms. Wang began her career in the investment banking division of Lehman Brothers advising on corporate transactions in the communications and media industries. Ms. Wang received an MBA from The Wharton School of the University of Pennsylvania and a BA with honors from The Johns Hopkins University.

Patricia Miller Zollar is a Managing Director of Neuberger Berman and a leader of the Firm's Private Investment Portfolios practice. She is a member of the Private Investment Portfolios and Co-Investment Investment Committee. Additionally, Ms. Zollar sits on the Limited Partner Advisory Boards of several funds. Before rejoining Neuberger Berman in 2004, Ms. Zollar was a vice president in the Asset Management Division of Goldman Sachs. Ms. Zollar began her career as a Certified Public Accountant in the Audit Division of Deloitte & Touche. She received her MBA from Harvard Business School and her BS, with highest distinction, from North Carolina A&T State University, where she is Chairperson Emeritus of the Board of Trustees and the recipient of an honorary Doctorate degree. Ms. Zollar is a member of the Executive Leadership Council, the Harvard Business School Alumni Board and was a former member of the executive board of the National Association of Investment Companies. She serves as Vice Chairman of The Apollo Theater and a member of the Investment Committee of the Robert Wood Johnson Foundation's Board of Trustees.