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August 16, 2022

Ms. Vanessa Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street N.E.  
Washington, DC 20549

**Re: File No. S7-17-22: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices**

Dear Ms. Countryman,

Thank you for the opportunity to comment on the Securities and Exchange Commission's ("SEC" or, the "Commission") rule proposal titled: "Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices" (the "Proposed Rule"). Neuberger Berman believes that, by introducing the suggested three-tiered approach to ESG-related disclosures, the Proposed Rule will provide end investors with critical and comparable information to help them make better informed investment decisions. We commend the Commission's efforts to combat greenwashing and improve the reliability of sustainable investment product disclosures.

Founded in 1939, Neuberger Berman is a global, independent, employee-owned investment manager. The firm manages almost \$450 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, 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.

Recognizing the benefits to clients and fund shareholders, we are supportive of the SEC's proposed layered approach to disclosure in the Proposed Rule, and believe that Integration funds – along with Focused and Impact funds – should be a category that funds can opt into. As an active manager, we believe that material ESG factors can be important drivers of long-term investment returns from both an opportunity and a risk-mitigation perspective. Therefore, for certain strategies, we take a deep fundamental approach toward the integration of material ESG criteria into our investment processes. In our view, the decision whether to apply ESG factors as part of the mosaic of factors to consider is an "active" decision on the part of portfolio managers in their investment process. For example, our portfolio managers may consider a company's sustainability report or apply the Sustainability Accounting Standards Board (SASB) standards to determine the factors that they believe are financially material and thus relevant to the investment analysis.

We are supportive of a regulatory framework that would clarify to clients and fund shareholders which advisers make the active decision to incorporate ESG factors as part of their investment process. The Proposed Rule should ensure that clients and investors in mutual funds are able to distinguish between those that integrate and do not integrate ESG factors in their investment processes. We believe, however, that the Proposed Rule will obfuscate that result by unintentionally capturing funds or investment advisers that do not actively consider ESG factors as part of their investment practice. For instance, the Proposed Rule would arguably capture all funds that consider any aspect of "governance" as Integration

Funds. Many advisers believe governance factors (e.g. executive compensation) impact the value of all investments and inherently incorporate analysis of governance factors into all investment decisions across the funds and accounts they manage. We do not believe, however, that all advisers that consider the governance framework of a company to be actively Integrating ESG considerations. We strongly recommend the SEC to allow advisers and funds to be able to opt into the Integration category so that it does not unintentionally capture advisers or funds that do not actively consider ESG factors in their investment process.

Consistent with the existing disclosure framework, we believe that Integration funds should be able to decide whether their consideration of ESG factors rises to the level of warranting summary prospectus disclosure as part of the fund's "Principal Investment Strategy". In our view, in passive cases where ESG factors are not a part of a fund's Principal Investment Strategy (e.g. if the fund is managed passively or the firm merely provides ESG-related information to portfolio managers), disclosure of that practice should only be included in another section of the Statutory Prospectus or the Statement of Additional Information (SAI). Similar disclosure requirements should be incorporated into the Form ADV, where advisers should provide narrative descriptions of how ESG are incorporated, and which factors are considered.

Regarding ESG-Focused and Impact funds, we support the inclusion of an overview section in the fund's prospectus. However, we believe that fund shareholders would be better served with solely a narrative disclosure of a fund's ESG factors and strategies rather than also including the proposed ESG Strategy Overview table that includes a "check the box" format. In our view, the use of a tabular format will not provide the flexibility that advisers need to describe their use of ESG strategies in the same way as they disclose other aspects of their investment strategies. Specifically, we believe that by including ESG strategies that are not mutually exclusive or comprehensively exhaustive, the table would oversimplify disclosures and not provide end investors with important information necessary to distinguish how and to what degree those ESG strategies are used. In addition, the Proposed Rule does not include any guidance on what is required to substantiate a box check on the ESG strategies the fund engages in. For instance, the Proposed Rule does not make clear if underweighting companies with low third-party ESG scores is sufficient to justify checking the inclusionary screen box. In our view, given end investors may be inclined to only focus on the ESG Strategy Overview table, we believe the "check the box" format could have the unintended result of curtailing rather than encouraging investors' consideration of ESG criteria employed by funds and investment advisers.

As an active investment manager, Neuberger Berman believes engaging with issuers is an essential part of being a long-term active owner and can improve their performance and reduce their risk profile. We are therefore supportive of the SEC's proposed requirements to describe how ESG-Focused and Impact funds engage with issuers on ESG topics. Further, recognizing the importance of transparency of a fund's voting activities, Neuberger Berman publicly discloses all voting records of its registered, co-mingled funds on a monthly basis. Through our NB Votes initiative, we also publish our vote intentions and rationale in advance of select shareholder meetings. While we are supportive of quantitative disclosures on ESG voting matters during the reporting period, we do believe that disclosing numbers on proxy votes can be misleading and suggest the SEC allows for narrative disclosures so that managers are able to contextualize their proxy votes and explain the rationale and the outcomes of those efforts. Such narrative disclosures would avoid the misleading aspects of quantitative disclosures and force ESG-Focused Funds that claim to consider the interests of end investors when vesting ESG votes to substantiate such assertions. This approach would focus investor attention on the most relevant information about proxy voting efforts and improve transparency through comparable disclosure.

The Proposed Rule introduces a requirement for all ESG Focused Funds that consider environmental factors to disclose two greenhouse gas ("GHG") emissions metrics in the funds' annual reports. In line with the Proposed Rule, we believe Weighted Average Carbon Intensity (WACI) and carbon footprint are adequate metrics for disclosing a fund's GHG emissions. While WACI describes the emissions intensity from an issuer's perspective, carbon footprint measures the

intensity from an investor's point of view. However, we believe that funds with a broad environmental objective (e.g. avoided emissions or more thematic exposure to climate transition opportunities) should only be required to disclose GHG emissions in the event that they claim to have a carbon reduction objective. To leave the Proposed Rule as written could potentially lead to end investors comparing the emissions of non-comparable products. Finally, given the emissions disclosed are driven by sector weightings, we believe that GHG data by itself could be misleading and therefore advisers should be able to contextualize the data with qualitative information.

Neuberger Berman believes that transparency and communication between advisers and their clients and end investors is critical to functioning markets. Given the benefits that more transparency on how funds and advisers consider ESG factors will bring to end investors, advisers should act swiftly to meet disclosure Proposed Rule's expectations. However, in light of challenges faced by asset managers in other jurisdictions around the lack of sustainability-related data, we would like to emphasize the importance of achieving the right sequencing of climate-related disclosure requirements, including fund disclosures on GHG emissions. Specifically, we believe the Commission should consider extending compliance periods and making any required disclosure of GHG emissions contingent upon effectiveness of the operating company climate disclosure rule<sup>1</sup>, including resolution of any legal challenges and/or court proceedings. We appreciate the opportunity to share our views and welcome further dialogue with the SEC on this important matter.

Sincerely,



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



Jonathan Bailey  
Head of ESG Investing  
Neuberger Berman

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<sup>1</sup> The Enhancement and Standardization of Climate-Related Disclosures for Investors. No. 33-11061. 87 Fed Register 21334 (proposed April 11, 2022).