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Auction Rate Preferred Securities Market

Neuberger Berman has devoted significant effort to evaluating and analyzing the extraordinary events that have unfolded in the auction rate preferred (ARPs) market since the middle of February; and, which have resulted in substantial dislocations within a market that had functioned satisfactorily for over two decades. A critical part of our efforts is the full recognition of, and focus on, the best interests of all of our Fund shareholders.

As we have stated before, this is a liquidity issue not a credit or default issue. Failed auctions are typically not indicative of deteriorating credit of the issuer especially in the case of ARPs issued by closed-end funds. Each of our Closed-End Funds' preferred shares continue to have AAA / Aaa credit ratings and asset coverage exceeds required levels. Furthermore, there is significant transparency as the investments in these portfolios are priced every day so that the Funds can post a daily NAV.

Our preferred shares continue to pay the rates set according to pre-determined formulas associated with failed auctions and according to our Closed-End Funds' governing documents and prospectuses issued when the Funds' ARPs were initially offered to the public.

During the early days of the disruption in the ARPs market we communicated with the Funds' shareholders, the general public and those organizations that distribute our products by posting, on our public website, auction–related information specific to each of our Closed-End Funds as well as Neuberger Berman's thoughts and insight on conditions within the ARPs market.

Since that time, our efforts have continued as the senior investment, legal and operations staff has devoted time and resources to identify possible solutions to the problems associated with lack of liquidity while also considering viable, new forms of leverage for use in the closed-end funds' capital structure.

Over this same period, we have maintained ongoing communication with our Funds' Board of Directors as to events unfolding within the ARPS market, our assessment of these conditions and the various solutions we are reviewing. In addition, we have had extensive communications with investment and commercial banks, brokerage firms, investment industry organizations, legal and tax experts and regulatory organizations in our attempts to interpret all aspects of the problems occurring within the ARPS market and identify prudent, long-term solutions.

In our opinion, the complex regulatory nature of the Investment Company Act of 1940 ("40 Act"), tax guidelines and the current capital markets environment require that we follow a prudent course of action. If, as some believe, the ARPs market has reached a point where it can no longer function as it has historically, then the extent of required structural changes to the closed-end fund market could prove to be extensive. In this case, the time-line for determining appropriate solutions may be longer than expected.

There are a number of possible solutions that have been, and continue to be, vetted by Neuberger Berman, as well as throughout the investment management and financial services industries. We believe that acceptable solutions may be very diverse given the wide spectrum of investments held within particular portfolios or categories of portfolios and the current degree of leverage employed within specific closed-end funds. As a result, ultimately the most optimal solutions may be "asset" specific.

Given the current make-up of Neuberger Berman's closed-end fund product line; which includes municipal bonds, high yield corporate bonds, real estate investment trusts (REITs) and high dividend paying common stocks; we are exploring various potential solutions.

We continue to analyze the potential of a much discussed, new ARPs structure – one which would contain a liquidity feature and other structural elements that could allow it to be eligible for purchase by money market funds – a different and larger investor base than currently exists. This structure would preserve the adjustable rate funding source of existing ARPs and allow for the preservation of the "equity" nature of ARPs as it relates to a fund's balance sheet. In addition, the liquidity feature, if successfully adapted for use with this new ARPs structure, could help to alleviate problems such as the current inability for existing ARPs holders to redeem their shares.

Other solutions that we have examined include the use of debt financing as an alternative to the equity financing currently in place through the issuance of ARPs. Currently, this is not a wholly viable solution for our Closed-End Funds given [1] we manage municipal funds, which owing to tax-related issues cannot fully benefit from the use of taxable borrowings; and, [2] as all of our Closed-End Funds employ leverage at or above the mid 30% range, we are precluded from simply redeeming our outstanding preferred stock and replacing it with debt borrowings, of equal dollar value, as this would be prohibited by the current capital structure requirements of the '40 Act as well as the guidelines of various Nationally Recognized Statistical Rating Organizations (two of which, Moody's and Fitch continue to rate our auction rate preferred shares Aaa and AAA, respectively). The inability to replace equity leverage with debt leverage on a dollar for dollar basis, in our view, presents an inequitable position between the interests of the Funds' common and preferred stockholders.

We are very aware of our preferred shareholders' need for liquidity. However, while we continue to vigorously pursue solutions, our actions must be guided by the best interests of both common and preferred stockholders. To the extent that there is no negative impact on common stockholders, we fully intend to assist preferred stockholders in obtaining liquidity as equitable solutions become available.