

# NEI Global High Yield Bond Fund

## Q1 2024 Commentary



### Performance

The Fund (Series I) outperformed its benchmark over the quarter.

The High Yield market saw positive performance in the first quarter of 2024. Supported by robust economic data, the Federal Reserve reiterated that it is appropriate to slow the pace at which it shrinks its balance sheet, suggesting further easing of its restrictive stance. During the quarter spreads tightened substantially, partially offset by rising treasury yields. For the quarter, low-quality bonds outperformed with Triple C-rated bonds achieving the highest gains, followed by B rated bonds, and lastly, BB rated bonds.

Returns by sector were mostly positive for the first quarter. The best performing sectors were Retailers, Paper, and Healthcare. The worst performing sectors were Wireless, Cable and Satellite, and Media and Entertainment.

Steady yields, tight spreads, and a resilient economy have pushed issuers into the High Yield primary market. First quarter volume has more than doubled issuance volume as compared to first quarter of 2023.

According to Moody's the overall default tally was 23 in the first two months of the year, up from 19 in the comparable period of 2023. Moody's maintains its baseline forecast that the global default rate will decline moderately 2024.

According to Lipper and JPMorgan, High Yield mutual funds and ETFs have seen positive flows in the quarter, with the net total being +\$1.99BN of total inflows through the end of March.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Global High Yield Bond Fund I	1.51	8.84	1.51	10.12	2.71	4.42	4.58	N/A
NEI Global High Yield Bond Fund A	1.02	7.78	1.02	7.96	0.68	2.35	2.43	N/A
NEI Global High Yield Bond Fund F	1.27	8.30	1.27	9.02	1.68	3.37	3.43	N/A
<i>Benchmark 1: Barclays Capital 2% Issuer Capped CAD Hedged (linked)</i>	1.34	8.21	1.34	10.22	1.62	3.44	3.86	N/A

<sup>1</sup> Source: Morningstar. As of March 31, 2024. Since inception is only provided for Funds with less than 10 years of performance.

On April 15, 2021, the Fund changed its fundamental investment objectives to enhance the ESG characteristics of the fund in accordance with NEI's responsible approach to investing as set out in "Responsible Investing" section in Part A of the Simplified Prospectus. The performance of this Fund for the period prior to this date may have been different had the current investment objectives and strategies been in place during that period.

### Portfolio commentary

Security selection positively impacted returns due to the outperformance from overweight to Angus Chemicals, TMS International, Taseko Mines, Adapt Health and PMHC Inc. This was somewhat offset by the underperformance from overweight to EW Scripps, Gray Television and AMS AG, along with an underweight to Carvana and Community Health. Sector allocation outperformed due to an underweight to communications.

### Outlook

Despite ongoing geopolitical tensions and macroeconomic challenges, including persistent inflation and changing rate cut expectations, the sub-advisor maintains an optimistic outlook on High Yield prospects. While spreads are currently narrow, the sub-advisor anticipates a slight widening throughout the remainder of 2024. In recent quarters, they emphasized the attractiveness of this asset class when bonds were priced, on average, in the \$80 USD range. Now, with bonds trading in the low \$90s, although the sub-advisor still recognizes value, they acknowledge limited potential for price

appreciation. Nevertheless, High Yield continues to provide a significant income stream, particularly as default rates decrease, and with a manageable maturity ladder ahead, it presents an attractive opportunity to generate ample returns.

With respect to portfolio construction, the sub-advisor is keenly aware of rate cuts on investor's minds, and it is the sub-advisor's imperative to lengthen duration when possible and where it makes the most sense. The sub-advisor remains positioned relatively defensively and are focused on employing bottom-up, fundamental analysis to pick credits which they believe have attractive risk-reward profiles. The sub-advisor is also keenly focused on avoiding cyclically challenged industries, and primarily aim to outperform through credit selection.

In terms of sector positioning, the sub-advisor is overweight in Food and Beverage, Metals and Mining, and Independent Energy sectors. The largest underweights are Retailers, Media and Entertainment, and Wirelines.

As part of the sub-advisors evolving high yield investment process, they continue to incorporate their dynamic environmental, social, and governance (ESG) and data science initiatives into their fundamental research. These proprietary tools have been instrumental in testing investment biases, highlighting investment opportunities, and expanding efficiencies across the high yield team. Using the sub-advisors internal ESG scores, they have improved the overall portfolio's exposure to these factors. Moreover, they maintain their focus on reducing the portfolio's overall carbon footprint.

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Series F units are only available to investors who participate in eligible fee-based programs with their registered dealers that have entered into a Series F Distribution agreement with NEI Investments.

Series I have high minimum investment requirements and are typically aimed at institutional investors (such as pension plans) or investors making large investments in the fund. Funds in these series generally have lower management fees than the retail series of the same fund.

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