# NEI Global Sustainable Balanced Fund

## Q4 2023 Commentary

NEI

## Performance

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

Despite the bumpy start to the fourth quarter of 2023, due to rising geopolitical risk, risk assets finished 2023 on a strong note thanks in large part to the US Federal Reserve. The Fed met twice during the quarter and kept the Fed Funds target rate steady at 5.25 – 5.50%. Their moves were widely expected, and the generally dovish statements coupled with an improving inflation outlook as well as resilient economic data led to a strong market rally. In December, the Fed also updated their "Dot plot" which suggested Fed Governors are predicting three cuts in 2024. At the beginning of Q4, three cuts were being priced in with the first starting in July. By the end of December, however, futures were implying six cuts in 2024 with the first starting in March.

Over the quarter, 2 and 10-year US Treasury yields fell by 80 and 69 bps, respectively, leading to a somewhat steeper yield curve. 30-year US Treasury yields fell by 67 bps. Corporate spreads also fell across the ratings spectrum.

All investment grade sectors posted both positive total and excess returns over the quarter, with the corporate sector leading the rally. Longer-dated corporates outperformed the intermediate segment as investors' appetite for yield and duration continued unabated. Among structured products, agency mortgage-backed securities outperformed as spreads compressed over the period on the back of the rally in rates.

The high yield market posted its third best quarterly return since the GFC. Despite the late surge from the lower-rated credits, the bid for duration and a focus on quality led BBs to outperform Single Bs. Corporate labelled bond issuance ended the year on a down beat on the back of lighter issuance overall as well as ongoing regulatory uncertainty.

### Returns

| Fund | 3 months | 6 months | YTD | 1 year | 3 years | 5 years | 10 years | Since inception[1] |
|---|---|---|---|---|---|---|---|---|
| NEI Global Sustainable Balanced I | 9.90 | 5.15 | 12.45 | 12.45 | 2.48 | 7.21 | 5.07 | |
| NEI Global Sustainable Balanced A | 9.31 | 4.01 | 10.04 | 10.04 | 0.29 | 4.90 | 2.74 | |
| NEI Global Sustainable Balanced F | 9.62 | 4.60 | 11.29 | 11.29 | 1.42 | 6.10 | 3.97 | |
| *Benchmark 1: 60% MSCI ACWI NR Index (C$) and 40% Bloomberg Barclays U.S. Aggregate Index (C$ hedged)* | 7.55 | 5.27 | 13.04 | 13.04 | 2.65 | 6.61 | 5.67 | |

[1]Source: Morningstar. As of Dec 31, 2023. Since inception is only provided for Funds with less than 10 years of performance.

On May 1st 2020, the fund benchmark was changed. Prior to this date the fund benchmark was 30% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, 20% MSCI World Index, 20% Bloomberg Barclays Global Aggregate Index (CAD hedged).

On May 1, 2020, the Fund's investment objectives and strategies were changed to an investment approach that includes global fixed income and equity securities with corresponding changes in the portfolio's benchmark and to the Fund's sub-advisor. 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

On the fixed income side, positive security selection among the financial institutions, technology, and consumer cyclical sectors, particularly longer-dated issues, were the largest contributors to performance over the period. Selection among ABS and supranationals, as well as overweight positions in financial institutions and agencies, bolstered returns. Given the risk-on rally, the strategy's high yield credits performed well. The overweight allocation to ABS, supranationals, and sovereigns were the largest detractors to performance over the period. Security selection among high-yield rated capital goods issuers and utility companies such as Leeward Resources coupled with an overweight exposure to the capital goods sector also detracted. An off-benchmark exposure to non-agency mortgages also weighed on performance. Throughout the quarter the Fund continued to maintain its overweight to credit sectors as well as the structural overweight to corporate bonds and ABS. However, exposure to ABS was reduced in favor of increasing the allocation to corporates.

On the equity side, returns were strong during the fourth quarter, with notable gains coming from the Funds Industrial and Information Technology exposure. Energy Management & Efficiency as well as Alternative Energy exposure delivered reassuring earnings results with resilient end market demand, leading to improved sentiment and share price appreciation for industrial and building energy efficiency, smart & efficient grid, and wind power generation equipment holdings. Falling treasury yields, ongoing interest in artificial intelligence themes, and expectations of a better outlook led to strong gains from software, semi-conductor, and cloud computing holdings. Exposure to defensive models also positively contributed to absolute returns during the period, as Resource Efficiency and Waste Management holdings delivering improved free cash flow growth and margin expansion moved higher. Environmental Testing and Monitoring and specialty nutritional ingredient holdings, which have underperformed throughout most of the calendar year due to post COVID-19 inventory adjustments, experienced a rebound during the quarter given tentative signs of an inventory correction cycle bottoming.

## Outlook

The market is pricing in more aggressive cuts than the US Federal Reserve is forecasting which may introduce volatility if their expectations don't materialize. The subadvisor will look for swap opportunities within investment grade credit in addition to trimming selective names where the risk-reward does not justify holding them. Corporate labelled bond issuance has been weak, but new opportunities are presenting themselves in the private placement market. However, labelled dollar-denominated investment grade issuance is expected to grow by about 6% in 2024. Although ABS presents good relative value, the subadvisor is mindful of credit risks given the less liquid nature of the asset class and the speed at which spreads widen relative to corporates during sell offs.

Despite low spreads, absolute yields in the high yield market are still relatively attractive and are typically the primary driver of total returns over time. Many companies in the high yield universe still enjoy favorable liquidity positions and manageable debt loads. This has been enhanced by the recent reductions in borrowing costs and will help alleviate the pressure from looming maturity walls. Despite this positive backdrop, the subadvisor has reduced the amount of high yield credit risk that they are willing to take at this point. However, the subadvisor is still finding value in higher quality segments of the market, particularly in new high yield issuance coming with attractive coupons relative to existing bonds.

Policy tailwinds continue to accelerate opportunities within Environmental Markets, including the US Inflation Reduction act, the European Green Deal, the CHIPS and Science Act, and the Infrastructure Investment & Jobs Act. The Fund remains well balanced between economically resilient businesses and businesses positioned for cyclical growth in order to safely navigate the different phases of the macroeconomic cycle, including the opportunity to pass-on inflationary pressures.

the five Provincial Credit Union Centrals and The CUMIS Group Limited.

For more performance related information about a mutual fund managed by NEI Investments, please visit the prices and performance page on neiinvestments.com.