

NEI Global Total Return Bond Fund

Q1 2024 Commentary



Performance

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

In Q1, the most important factor impacting fixed Income markets was that global economic data continued to surprise to the upside on most fronts, raising expectations for a soft landing, which was very supportive for risky assets, including for credit. Inflation was also generally more resilient than expected, although expectations remained anchored. Consequently, markets pushed back the timing of expected rate cuts by the Fed and the ECB, and dialled down their expected magnitude for 2024, leading to a weak quarter for sovereign bonds.

In the US, annualised Q4 2023 GDP came in at +3.3%, significantly above expectations of 2%, highlighting the continued strength of the US Economy over the last 3 months of 2023. Inflation in the US also saw small upticks in January and February, above expectations and still significantly above the Fed target. This resulted in very significant changes in the market's expectations of the Fed's actions in 2024.

Moving to the Eurozone, growth was also slightly more resilient than anticipated, although showing divergence between countries, with Germany remaining weak and peripherals countries delivering stronger numbers. Eurozone inflation also remained sticky in Q1.

Overall, Q1 provided a strong backdrop for risk assets again and credit spreads kept going tighter. Global investment-grade spreads were 15 bps tighter through the quarter ending it at 98 bps, whilst US spreads tightened by 11 bps (to 93 bps) underperforming EUR and Sterling spreads, which were down 23 bps (to 112 bps) and 20 bps (to 114 bps) respectively. EM external sovereigns also posted strong performance during Q1, as spreads moved tighter for almost all countries.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Global Total Return Bond Series I	1.05	6.63	1.05	7.67	2.33	3.25	3.71	3.71
NEI Global Total Return Bond Series A	0.61	5.67	0.61	5.72	0.47	1.37	1.73	1.87
NEI Global Total Return Bond Series F	0.81	6.11	0.81	6.61	1.31	2.22	2.61	2.77
<i>Benchmark 1: Bloomberg Global Aggregate TR Hdg CAD</i>	-0.14	5.52	-0.14	3.33	-1.70	0.40	1.97	2.14

¹ Source: Morningstar. As of March 31, 2024. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark returns for Series F and Series I are 2.15 and 1.97, respectively.

Portfolio commentary

Interest rate positions made a positive contribution: Duration: The underweight duration was one of the main contributors in a quarter where the market pushed back on the timing and magnitude of the cuts for the main central banks, which helped trigger substantial rates sell off. Country allocation: The overweight duration in NZD, MXN and ZAR were the main detractors here. Yield curve: The steepening positions in the US and European curves delivered negative contributions as the long-end sold off less than the 5-year part of the curves where the Fund was long. Bond selection: The overweight to peripherals contributed positively, Spain and to a lesser extent Italy, as spreads tightened over the period.

Credit positions made a positive contribution to relative performance: Credit: The overweight to credit delivered a positive contribution in Q1 as spreads continued to tighten, with financials the largest contributor. Emerging markets: The overweight allocations to emerging market hard currency bonds was a small positive as spreads were also tighter

Currency positions were positive contributors to relative performance: USD exposure: contribution was positive as the USD was strong during the period and the Fund was long to varying degrees.

In Q1, the sub-advisor started the quarter -2 year underweight, reduced the underweight to about -1.1 year intra month in February, mainly through USD and EUR duration, and increased it again to -1.4 year at the end of the quarter.

In FX, they increased their USD overweight in January, decreased it in Feb and re-increased it in March, ending the period 4.9% long (from 3.5%), while they increased their EUR short to -4% from -2.7%. The sub-advisor also moved from a small short JPY to 0.7% long, after the currency continued to underperform despite the end of the negative interest rate policy.

Outlook

In line with the sub-advisors' expectations, markets have retraced the sharp moves down in core yields experienced in Q4. Markets are now pricing a first cut in June in Europe and not even a full cut anymore in June in the US, which is also more in line with the sub-advisors forecasts, even though they continue to remain cautious of upward surprises on growth and inflation. They are likely to add back duration selectively from here, but to keep their steepening positions in the USD and EUR curves, as they believe term premia still need to normalise. The election agenda is heavy in 2024, including election in the US, which could bring about some volatility. The sub-advisor expects these factors, combined with the lagged impact of divergent monetary and fiscal policies across economies, will bring about a number of relative value and tactical opportunities to generate outperformance in 2024, in addition to the directional strategies implemented in the Fund.

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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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