# NEI Money Market Fund

## Q4 2023 Commentary

## Performance

The Fund (Series I) performed in line with its benchmark over the quarter.

Canadian front-end rates rallied aggressively over the quarter after the Bank of Canada (BoC) signalled that policy rates were most likely at their peak. While the BoC left the door open to future hikes as they watch for more progress on slowing inflation, economic data continued to show a stalling economy as Canadians grapple with the effects of higher interest rates. This led market participants to price in aggressive easing for 2024 with roughly 125 basis points of cuts pencilled in as of quarter end. This is a drastic reversal from the approximately 28 basis points of hikes which were anticipated for 2024 at the end of the third quarter of 2023.

As expected, with market participants anticipating aggressive central bank easing in 2024, the 3-month, 12-month Canadian T-bill curve flattened substantially throughout the quarter. The curve started the quarter at roughly 20 basis points and flattened to a low of -42 basis points, before eventually ending the year at -38 basis points. Heading into 2024, economic data continues to point to a rough patch for the Canadian economy ahead. However, if inflation remains sticky, the curve might give back some of its performance as market participants remove some of the earlier anticipated rate cuts.

In sync with the rally in front end rates, Canadian Dollar Offered Rate (CDOR) fell throughout the quarter after hitting a high of 5.5925% in mid-October. With the 6- to 12-month part of the curve rallying the most, longer-dated credit spreads saw the largest compression with 12-month Bankers' Acceptance (BA) spreads performing best. 3-month BA spreads exhibited a mild widening bias as underlying T-bills rallied. Front dated provincial T-bills performed best across all provincial maturity buckets. The 3-month area performed similarly to BAs with spreads widening marginally.

Regarding the transition away from CDOR, BA supply will steadily decrease until there will be none outstanding as of June 30,2024. CDOR will cease to be published after that.

**Returns**

| Fund | 3 months | 6 months | YTD | 1 year | 3 years | 5 years | 10 years | Since inception[1] |
|---|---|---|---|---|---|---|---|---|
| NEI Money Market Series I | 1.35 | 2.60 | 4.94 | 4.94 | 2.40 | 2.10 | 1.68 | |
| NEI Money Market Series A | 1.16 | 2.22 | 4.16 | 4.16 | 1.80 | 1.42 | 0.94 | |
| NEI Money Market Series F | 1.16 | 2.22 | 4.17 | 4.17 | 1.81 | 1.43 | | 1.27 |
| *Benchmark 1: FTSE TMX Canada Cdn Trsy Bill 60 Day* | 1.28 | 2.55 | 4.76 | 4.76 | 2.19 | 1.79 | 1.30 | |

[1]Source: Morningstar. As of Dec 31, 2023. Since inception is only provided for Funds with less than 10 years of performance. Since inception benchmark returns for Series F is 1.63.

## Portfolio commentary

The Factors that contributed to Relative Performance: The overall weighting of government securities remained steady throughout the quarter. With the Bank of Canada (BoC) having suggested peak policy rates for this hiking cycle had been reached, longer-termed government exposure, maturing in 6 months or more, performed quite well on the curve. By quarter-end, some of these positions were sold to take some profits and help reposition the Funds duration closer to benchmark. This also reduced the implicit curve flattening bias of the Fund. Provincial T-bill and some municipal CP were added in the short end for their additional carry over Canada T-bills.

Bank credit exposure remained towards the upper end of allowable limits, with Bankers' Acceptance (BA) positions being concentrated primarily in the 3-month part of the curve.

To capture the steepness of the BA curve, shorter-dated maturities were constantly rolled into the 3-month term bucket and, at times, the 6- and 12-month buckets. Floating Rate Notes (FRNs) with a Canadian Overnight Repo Rate Average (CORRA) based fixing were added partly against these transactions as well as against shorter dated BAs. These securities offered an attractive credit spread while reducing duration risk and securing senior bank exposure for a longer period as BA supply shrinks.

Factors that negatively affected relative performance: Credit exposure was concentrated primarily in the 0- to 3-month segment of the curve via commercial paper (CP). Product scarcity continued to be a dominant theme in the CP space as issuers retired maturing paper. CP credit spreads remained tight, with the shortest maturities offered at roughly the same yield as BAs. With the risk of a recession increasing, we remain cautious about adding longer-term corporate credit.

## Outlook

With the BoC seemingly on hold once more and front-end rates at multi-year highs, longer dated bank credit was prudently added in the form of BAs and BDNs. These securities provided attractive all-in yields, a steep rolldown profile and protection against multiple rate hikes.