

NEI Balanced Private Portfolio

Q4 2023 Commentary

NEI

Portfolio details

AUM

\$491,995,737

CIFSC category*

Global neutral balanced

Prospectus risk

Low to medium

Distribution

5% annual based on prior year-end NAV, paid monthly

MER

1.83% (Series W)

0.77% (Series WF)

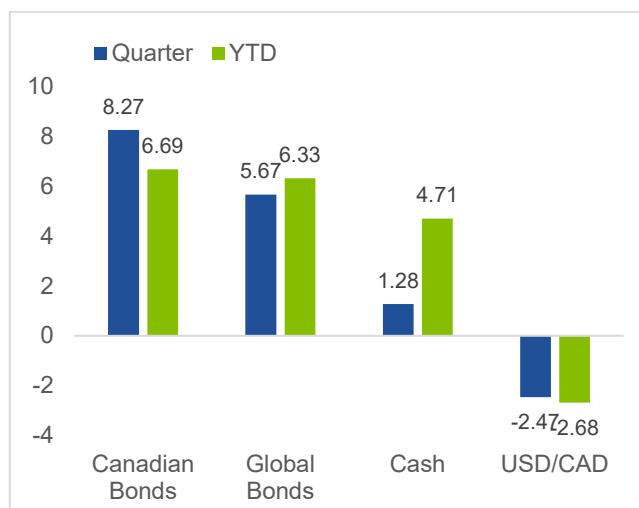
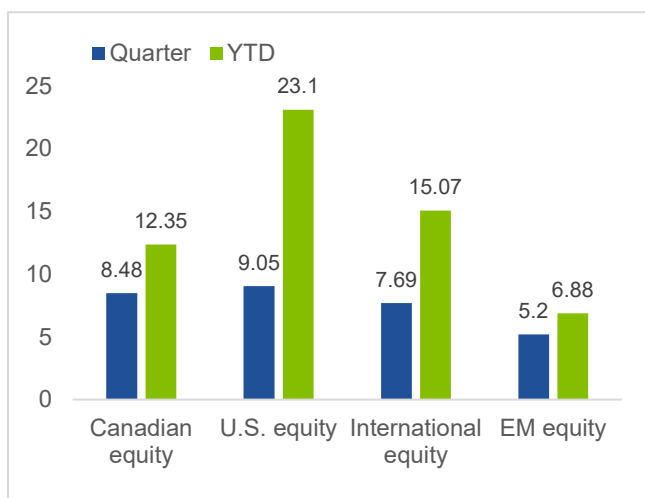
As of December 31, 2023.

*Canadian Investment Funds Standards Committee

Highlights

- The performance of the portfolio was driven by strength in the Canadian equity strategy, Clean Infrastructure strategy and fixed income funds.
- The Canadian equity strategy outperformed its benchmark (S&P/TSX Composite) due to the underweight position in Energy and overweight positions in Consumer Discretionary and the Real Estate.
- The Clean Infrastructure focused strategy had a positive quarter as long-term interest rates in the U.S. and Europe declined.
- The Global bond strategy outperformed the benchmark (Bloomberg Barclays Global Aggregate), driven yield curve positioning which had a positive impact as well as credit exposures (both developed and emerging).
- The Canadian bond strategy saw strong performance as the duration contributed in a falling rate environment as well as the overweight position in credit relative to government bonds contributed positively as spreads tightened significantly over the quarter.
- The Global equity strategy underperformed its benchmark (MSCI World) as expectations of rate cuts drove up valuations on longer duration growth oriented areas of the market.

Market performance (%)



Index returns include dividends but do not include fees. You cannot invest in an index. Source: MSCI. See page 4 for index names.

Portfolio review

Asset class	Current %	Change from prior Q
Equity	60	0
Fixed income	40	0
Cash	0	0

The NEI Balanced Private Portfolio (Series WF) returned 7.80% for the quarter.

During the quarter, both fixed income and equities delivered strong returns. The end of “higher for longer” rates fears boosted both growth and value stocks. Fixed income markets were positive across the board. Expectations of early central bank cuts, tightening spreads and a weakening dollar supported positive returns.

Within the Portfolio, the fixed income funds added value. On the equity front, the underlying Global equity strategy underperformed while the underlying Canadian equity and Clean Infrastructure strategy outperformed.

In fixed income, allocation to global bonds was a detractor as Canadian yields decreased more than US yields after a change in tone of several central banks during the quarter. This was offset by the outperformance of the underlying pools over their benchmarks. The Canadian bond strategy was ahead of its benchmark (FTSE Canada Universe Bond Index) as it is higher duration which contributed in a falling rate environment as well as the overweight position in credit relative to government bonds contributed positively as spreads tightened significantly over the quarter. Within Corporates, overweight positions in Energy, Financials Telecommunications and Real Estate also contributed. The Global bond strategy outperformed the benchmark (Bloomberg Barclays Global Aggregate), driven by yield curve positioning which had a positive impact as well as credit exposures (both developed and emerging).

The Canadian equity strategy outperformed its benchmark (S&P/TSX Composite). The decline in Energy was a notable contributor to relative returns due to the underweight position in the sector. Other notable contributors were the overweight position in Consumer Discretionary and the recovery of holdings in the Real Estate Sector. Both sectors performed well due to a change in sentiment on the back of lower interest rate expectations for 2024.

The Global equity strategy underperformed its benchmark (MSCI World). The strategy’s investment philosophy rests on factors such as quality, stable fundamentals, and reasonable valuations. The pool rose in absolute terms but underperformed as

expectations of rate cuts drove up the valuations of longer duration growth-oriented areas of the market. Stock selection detracted from relative returns, while sector allocation contributed. Stock selection within financials detracted, while selection in healthcare contributed. An overweight to healthcare detracted, while an overweight to technology contributed.

The Clean Infrastructure focused strategy had a positive quarter as long-term interest rates in the U.S. and Europe reversed their ascension back to levels on par or below where they were at the beginning of 2023. This move alleviated some impacts of capital costs constraining growth/returns and enhanced the present value of existing asset cash flows.

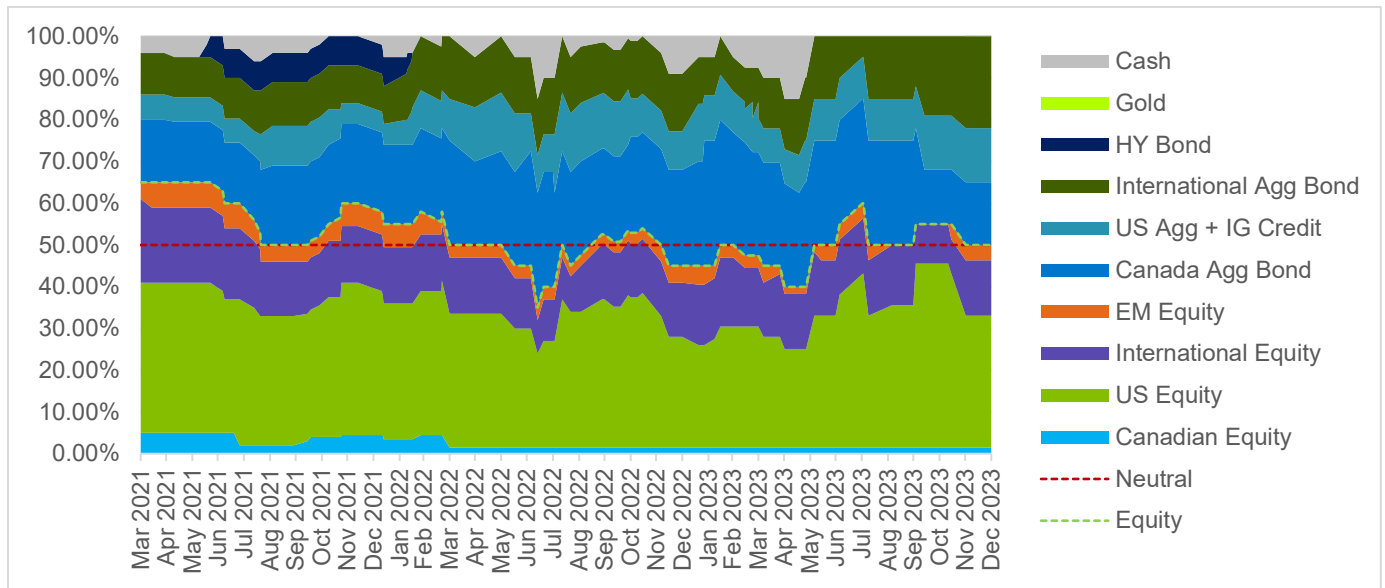
ESG activities

In Q4 we led 92% of our engagements. Leads are responsible for setting the agenda, strategizing on the direction of the engagement, and chairing the meetings and correspondence with a company. Our outreach to Canadian oil and gas firms on joining the Oil & Gas Methane Partnership 2.0 (OGMP 2.0) accounted for much of our solo engagement in the quarter, as did our annual feedback on proxy outreach, where we highlighted issues of board diversity, equitable compensation and climate governance. Our ongoing work co-leading engagements through the Climate Engagement Canada initiative and our outreach to companies on digital rights also figured prominently in the period.

We voted 51 meetings in the quarter, supporting management on 62% of the ballot items. Votes against management represented 38% of total ballot items and related mostly to concern over director elections (two-thirds of cases), followed by compensation and audit-related issues. Eighteen shareholder resolutions were on the ballot of six U.S. companies. We abstained on two and voted against five, as we considered the companies’ disclosures to be sufficient relative to what the proposals were requesting.

One of our key engagements in the period was with Walmart. As part of a longstanding collaborative engagement, we sought to learn more about the company’s management of human rights risks in the supply chain, and to push for enhanced disclosure about their processes and remediation efforts. While Walmart has certainly progressed in the area of human rights in the supply chain, we feel there is more they should be doing given their size, influence, and awareness of salient risks. These can range from pay practices to worker safety to child labour to anti-union behaviour. When problems such as these arise and make headline news, the potential for reputational damage to the company is significant.

Tactical asset allocation review – MAAP



This chart illustrates tactical asset allocation changes over time within NEI Managed Asset Allocation Pool, or “MAAP.” MAAP has a 20% allocation within the portfolio. With this chart, you can see how NEI’s investment team responds to market conditions to capture opportunities and/or reduce risk.

October

We started Q4 with a neutral 50% equities and 50% fixed income allocation. We quickly shifted that position to an equity overweight in the first week of October as we added a 5% overweight to equities. Our view was that rates were going to move sideways and we expected equities to provide more upside potential during the period. Within the equity allocation we preferred a U.S. allocation as technical indicators and momentum signals looked more attractive compared to the rest of the world. Later in the month we saw an opportunity to shift some of our Canadian fixed income allocation to U.S. and International as we saw a higher probability for a negative Canadian inflation report compared to other developed markets. We ended the month with a 5% overweight to equities and 5% underweight to fixed income.

November

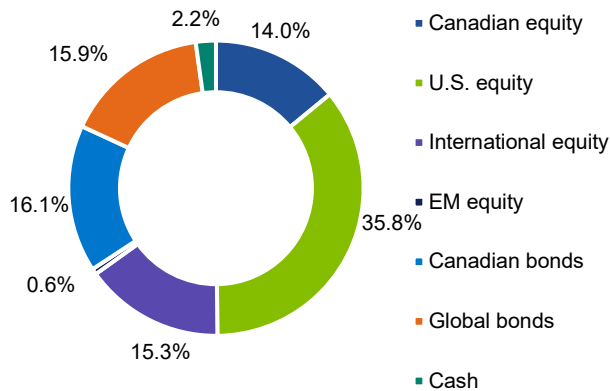
During the month of November we maintained our asset allocation of 5% overweight equities and 5% underweight fixed income, however we saw an opportunity to neutralize our Emerging Markets underweight as momentum and macro indicators were turning more positive. At a similar time in the month we added a small allocation to the Energy sector in order to bring our sector exposure closer to the benchmark weight. This addition was to minimize the potential upside risk to the price of oil as the conflict in the middle east had the potential to spread to neighbouring countries.

December

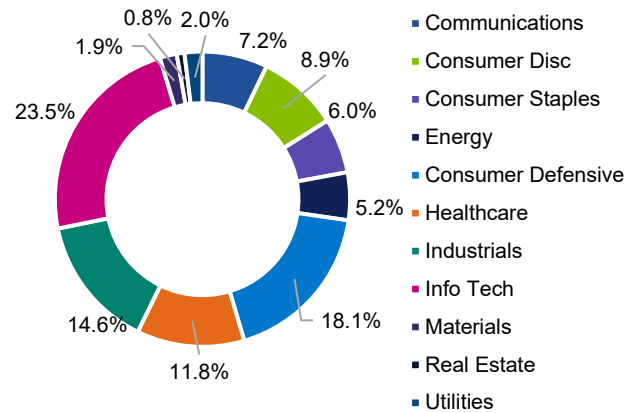
During the first week of December we closed our equity overweight position and brought the portfolio back to neutral. This was due to the U.S equity momentum potentially slowing down as technical and valuations looked stretched. This shift brought down our U.S. overweight compared to the rest of the world as well as brought the asset allocation back to 50% equities and 50% fixed income. This is also the allocation we ended the quarter and the year with.

Portfolio characteristics

Asset class breakdown



Equity sector breakdown



	Duration	Yield to maturity
Fixed income allocation	7.01	4.71%

Asset class breakdown applies to entire portfolio. Equity sector breakdown applies to equity portion only. Sources: MSCI, FTSE, Bloomberg, NEI.

Portfolio returns

Series	Q4	YTD	1 yr	Since inception
W	7.51%	9.75%	9.75%	2.69%
WF	7.80%	10.93%	10.93%	3.79%

Returns for periods longer than 1 year are annualized. The inception date for the portfolio is July 16, 2019.

Asset class legend

Asset class	Index
Canadian equity	MSCI Canada Index
U.S. equity	MSCI USA Index
International equity	MSCI EAFE Index
EM equity	MSCI Emerging Markets Index
Canadian bonds	FTSE Canada Universe Bond Index
Global bonds	Bloomberg Barclays Global Aggregate Bond Index (Hedged)
Cash	FTSE Canada 91 Day T-Bill Index
Canadian equity	MSCI Canada Index

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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in units value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Series W units are available to investors making an initial investment in an NEI Private Portfolio of at least \$100,000 and whose dealer has entered into a Dealer Agreement with NEI Investments that provides for distribution of Series W units. Series W units may only be purchased on a front-end sales charge option basis. NEI may vary the initial investment criteria from time to time. Series WF units are available to investors making an initial investment in units of an NEI Private Portfolio of at least \$100,000, participating in programs that do not require the payment of sales charges by investors, and do not require the payment of trailing commissions to investment professionals or dealers from NEI Investments and whose dealer has entered into a Dealer Agreement with NEI that provides for distribution of Series WF units. For these investors, NEI is able to charge a lower management fee. NEI may vary the initial investment criteria from time to time.

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