

### Performance

The Fund (Series I) outperformed the benchmark for the quarter.

Bond markets corrected during Q1/2024 following one of the best absolute performance quarters, since the mid 1980's, in Q4/2023. The continued resiliency of most economic data into the New Year, particularly firmer than anticipated readings of underlying inflationary pressures, and recognition that central banks may not be as aggressive as expected in moving toward a more “neutral” policy setting, were material contributors to driving yields higher during the quarter.

The net result was a broad move higher in market interest rates across the curve that weighed on fixed income performance over the three months ended March. The domestic benchmark FTSE Canada Universe Index declined 1.2% in Q1 while the more rate-sensitive segments of the market, such as longer duration (FTSE Canada Long Term Overall Index -3.6%) and government bonds (FTSE Canada All Government Bond Index -1.7%), underperformed other areas such as shorter term (FTSE Canada Short Term Overall Index +0.3%) and corporate (FTSE Canada All Corporate Bond Index +0.1%).

Note, however, these moves only amounted to a partial retracement of the outsized ones recorded late last year, as rather than a complete rethink in the direction of policy such as the one that triggered the selloff last summer (from looming cuts to “higher for longer”), the shift in Q1 largely just reflected a delay in the timing. Indeed, central banks globally have signaled that no further rate hikes are expected and that their focus has shifted to the appropriate timing of cuts — so it remains the case that the path of least resistance for rates is lower, just not as quickly as previously assumed.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Canadian Bond Fund Series I	-0.71	8.14	-0.71	3.55	-0.61	1.44	2.76	N/A
NEI Canadian Bond Fund Series A	-1.09	7.29	-1.09	1.90	-2.20	-0.19	1.11	N/A
NEI Canadian Bond Fund Series F	-0.71	7.61	-0.71	2.52	-1.61	0.41	1.70	N/A
<i>Benchmark 1: FTSE Canada Universe Bond Index</i>	-1.22	6.94	-1.22	2.10	-1.52	0.28	2.01	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.

### Portfolio commentary

Given the rapid rise in interest rates and expectations the Bank of Canada will begin lowering rates later this year, the fund maintains a bullet structure (concentrated on the 5-, 7- and 10-year segment of the yield curve) as it has for the past few quarters. The Fund's yield curve positioning detracted from relative performance as while yields rose across the curve, they rose more in the middle of the curve where the Fund was relatively overweight. The Fund continues to overweight corporate issues generally, and financials in particular, which positively contributed to relative returns. Strong credit selection in mid-term bank and insurance bonds also added value.

### Outlook

Looking forward, the adjustment of expectations over the last three months brings the market more closely aligned with the views of central banks, which leads to a better balance of risks than prevailed three months ago. While the base case is that low-but-positive growth combined with continued progress on inflation will leave policymakers positioned to begin gradually moving away from their restrictive policy stances around the middle of the year in a boon for bond market investors, there is the potential that continued underlying economic verve could give a cause for a more extended pause that would limit near-term downside for rates and weigh on performance.

Taken together, this backdrop would suggest that rates may remain rangebound over the coming months while also being subject to continued volatility as markets react to the incoming dataflow and weigh its implications for the policy outlook. Any moves higher in yields from their current levels, however, may represent opportunities to selectively add duration to portfolios as rates are ultimately expected to drift lower with the easing cycle — the sub-advisor views the belly of the curve (5- to 10-year maturity band) as providing a compelling risk/reward profile, with absolute yields providing the best income on offer in decades and an ample cushion against near-term volatility, while also offering among the best potential for capital gains.

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