

# NEI Select Balanced RS Portfolio

## Q1 2024 Commentary



### Performance

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

Resilient economic data throughout the first quarter supported the soft landing narrative and pushed equity markets around the world to new record highs. Global equities posted strong returns with the MSCI ACWI Index up 11.0% during the first quarter. In Canada the TSX gained 6.6% and in the U.S., the S&P 500 rose 10.6% in Canadian dollar terms, driven once again by several of the mega-cap names which posted strong earnings growth. However, the best performing market of the quarter was Japan, up 13.9% for the quarter in Canadian dollar terms. While equity investors welcomed strong economic data, it was a more challenging period for fixed income investors. Stickier inflation and resilience in economic activity have shifted market expectations of rate cuts and push yields higher.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Select Balanced RS Portfolio I	4.80	13.13	4.80	12.05	3.95	6.25	N/A	6.20
NEI Select Balanced RS Portfolio A	4.22	11.86	4.22	9.52	1.57	3.79	3.87	N/A
NEI Select Balanced RS Portfolio F	4.50	12.46	4.50	10.72	2.68	4.94	5.03	N/A
Benchmark 1: 40% FTSE TMX Can Universe, 15% TSX, 45% MSCI ACWI	5.38	14.10	5.38	13.10	5.00	6.30	6.32	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. Since inception benchmark returns for Series I is 6.28.

On June 1, 2015 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% FTSE Canada Universe Bond Index, 25% S&P/TSX Composite TR Index and 25% MSCI World NR Index (C\$).

On March 1, 2023 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% FTSE Canada Universe Bond Index, 15% S&P/TSX Composite TR Index and 35% MSCI World NR Index (C\$).

### Portfolio commentary

The NEI Select Balanced RS Portfolio (Series I) returned 4.80%. In comparison, its blended benchmark returned 5.38%.

The Portfolio underperformed over the last 3-month period as manager selection detracted from performance, which was partially offset by our out-of-benchmark allocations, while asset allocation had a minor impact. On Benchmark Misfit: out-of-benchmark allocations to Global Bonds, High Yield, and US Equities contributed positively to performance while the allocations to International Equities, Emerging Markets and Infrastructure detracted from performance. On Manager Selection: The fixed income funds outperformed their benchmarks contributing positively, while Global High Yield, US Equity, Internationally Equity and Global Equity Funds underperformed.

### Outlook

Central banks are eager to gain confidence that inflation has reached and will remain at the target range for long enough that they can begin cutting rates, as they are also concerned that higher rates for too long could start to cause too much damage to aggregate demand. While the timing of rate cuts may be pushed out until later in the year, we believe the current environment of moderate growth coupled with declining inflation creates a constructive environment for risk assets.

Although the U.S. 'exceptionalism' may continue given the superior level of earnings growth and market dominance in

the development of AI capabilities, the rich valuation in U.S. equities has likely sown the seeds for a more muted performance in the future relative to international equities given their much cheaper valuations. It is prudent to consider having appropriate geographic, in addition to sector and style diversification in a well diversified portfolio.

In Canada, economic growth remains below potential, but better clarity on path of rate cuts may provide relief.

In fixed income, although bond markets have suffered, given the decreased likelihood of imminent rate cuts, we think bonds still offer compelling yields at current levels, and are able to provide a buffer to equity volatility in the case of an economic downturn. Positive real yields make the income side of the equation for bonds more attractive, plus expectations for rate cuts later in 2024 may add capital appreciation potential in the years ahead.

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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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