

# NEI BALANCED PRIVATE PORTFOLIO

Q2 2023 Commentary

NEI

Opinions and data as of June 30, 2023, unless otherwise indicated.

## Portfolio details

### AUM

\$475,548,325

### CIFSC category\*

Global neutral balanced

### Prospectus risk

Low to medium

### Distribution

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

### MER

1.81% (Series W)

0.75% (Series WF)

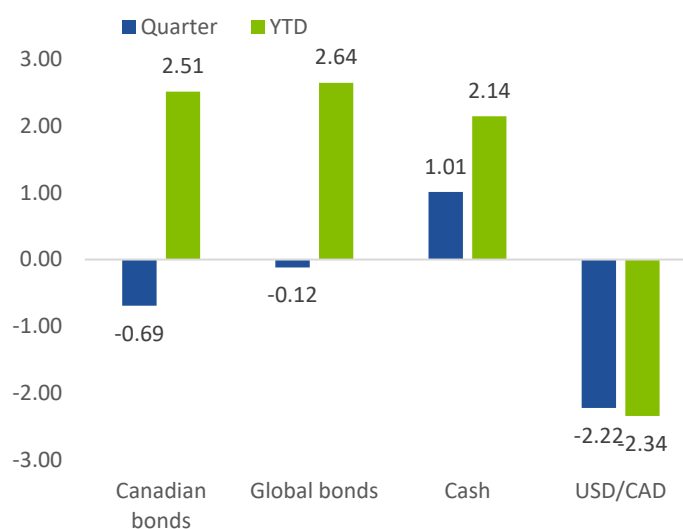
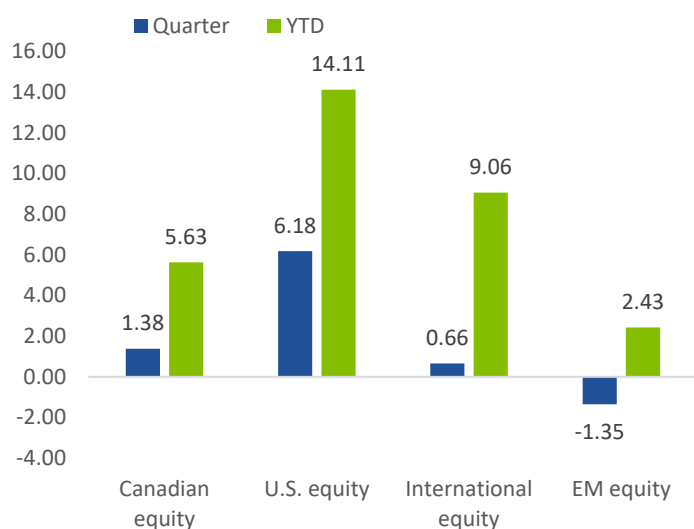
As of June 30, 2023

\*Canadian Investment Funds Standards Committee

## Market performance (%)

## Highlights

- The performance of the portfolio was driven by strength in Canadian and Global fixed income funds and the Canadian and Global equity strategies.
- The underlying Canadian equity manager materially beat their benchmark (S&P/TSX Composite) due to the Growth tilt and Information Technology sector exposure.
- The underlying Global equity manager was marginally ahead of its benchmark (MSCI World), due to its overweight to the outperforming Information Technology sector, but the underweight allocation to Consumer Discretionary detracted.
- The underlying Canadian bond manager was ahead of its benchmark (FTSE Canada Universe Bond Index) due to its overweight allocation to Corporate Credit .
- Global bond manager outperformed their benchmark (Bloomberg Barclays Global Aggregate) driven by an overweight to Corporates.
- The Clean Infrastructure focused strategy detracted.



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	+0.5
Fixed Income	40.0	+0.5
Cash	2	-1

The NEI Balanced Private Portfolio (Series WF) returned 1.65% for the quarter.

Within the Portfolio, both fixed income funds (a Canadian bond fund and a Global bond fund) were a key source of strength. On the equity front, the underlying Canadian equity strategy and Global equity strategies outperformed, while the Clean Infrastructure focused strategy lagged.

The underlying Canadian equity manager materially beat their benchmark (S&P/TSX Composite). The strategy was helped by its Growth tilt and Information Technology sector exposure. Stock selection in Industrials was also a contributor. Weakness in traditional Oil & Gas Energy (to which the strategy has no exposure) and underweight to Materials/precious metals names was an added tailwind.

The underlying Global equity manager was marginally ahead of its benchmark (MSCI World). The strategy's investment philosophy rests on factors such as quality, stable fundamentals, and reasonable valuations. Overall, those factors were neutral over the quarter. The strategy was helped by its overweight to the outperforming IT sector, but the underweight allocation to Consumer Discretionary detracted. Stock selection was particularly positive in the Healthcare sector, while selection detracted in Industrials.

The Clean Infrastructure focused strategy faced a headwind relative to broader equities due to its structural overweight to the Utilities sector. That sector's high interest rate sensitivity was a headwind given increased hawkishness from Central banks and a 'higher for longer' rate mindset taking greater hold. In addition, underlying holdings continued to see multiple compression despite a strong

demand growth environment and favourable fiscal policies. Upward cost price pressures on capital and equipment were notable headwinds driving this compression.

On the fixed income front, the underlying Canadian bond manager was ahead of its benchmark (FTSE Canada Universe Bond Index). An overweight allocation to Corporate Credit contributed the most driven by the material narrowing of Corporate spreads relative to the Provincials and Federal segments. The overweights to Energy, Financial and Real Estate sectors relative to Infrastructure and Telecommunications also contributed. Allocation to global bonds was a contributor and the underlying Global bond manager outperformed their benchmark (Bloomberg Barclays Global Aggregate), driven by the overweight to Corporates.

### Contributors

- The underlying fixed income strategies contributed mainly driven by their higher Corporate allocations. Allocation to global bonds was also a tailwind.
- The underlying Canadian equity strategy contributed led by its lack of exposure to traditional Oil & Gas Energy and Materials as well as higher exposure to the Information Technology and Industrials sectors. The strategy's growth tilt was a tailwind.

### Detractors

- The Clean Infrastructure focused strategy detracted due to multiple compression on holdings. This was driven by increased interest rate hawkishness and upward cost price pressures on capital and equipment for the underlying companies.

Europe, 11% in Asia (Japan being the main market), and the rest in other regions.

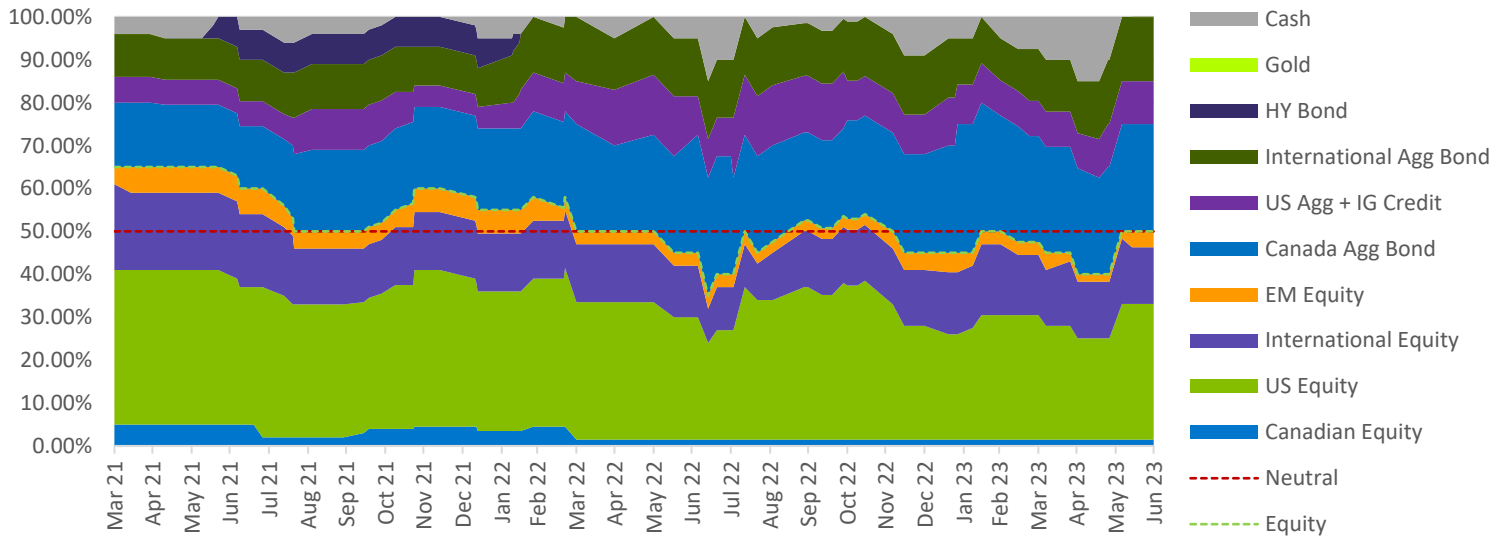
One of our spotlight engagements in the period was with Gildan Activewear, held in NEI Canadian Equity Pool. Our objective was to learn about the company's latest efforts to improve oversight of human rights in its supply chain and encourage greater depth of disclosure. The company was highly responsive and engaged, eager to share news of their progress and receptive to our views. Our main topics of discussion were traceability, worker voice, and "remedy." Remedy refers to a company's policies and processes for remediating a situation that has harmed workers in some way.

## ESG activities

We continued to speak with companies across a number of sectors where we initiated solo engagements, or often led or co-led the engagements. While topics of engagements were varied this quarter, our efforts on the issues of deforestation, human rights and climate were quite connected with certain sectors. For example, net-zero alignment featured prominently in our engagements with energy companies, in part due to the event we co-hosted with CDP. Deforestation issues were most frequently raised with companies in the consumer staples and consumer discretionary sectors.

The second quarter marked the peak of proxy voting season with 643 meetings voted. We supported management on 61% of the ballot items. Approximately 66% of the meetings voted in Q2 occurred in North America, followed by 17% in

# 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.

## April

The portfolio started Q2 underweight equities and fixed income with a 7.5% cash position. The U.S. markets continued to climb higher at the beginning of April and it led us to reduce our U.S. equity exposure as the S&P 500 was approaching the top of a trading range and valuations were becoming more expensive. Cash exposure was raised to 10% as a result. Towards the end of the month as the momentum in EM equities was turning negative and fundamentals weakened, we reduced exposure in favor of EAFE given that fundamentals in Europe and Japan were more attractive.

## May

We started May by reducing our equity exposure across all regions, increasing our cash position to 15% as global markets continued to move higher and valuations would be pressured as rates continued to rise. Rates in Canada and the U.S. moved higher hitting their peak of the month in the

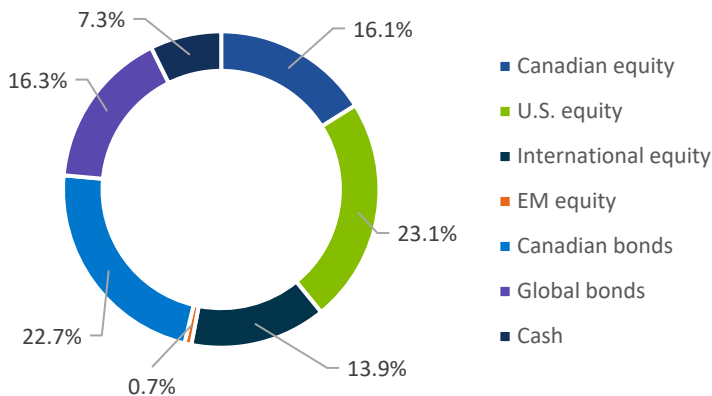
last week of May to levels that we haven't seen since the banking crisis in March, at which point our fixed income allocation and the Canadian overweight were brought back to neutral. By the end of the month recession fears continued to fade and we unwound our defensive positioning by closing our overweight quality U.S. equity position in favor of the S&P 500.

## June

As the macro and economic data continued to improve, we closed our underweight position in equities, bringing our asset allocation to neutral at 50% equities and 50% fixed income. The momentum and fundamentals in EM began to improve relative to EAFE, leading us to unwind our underweight EM allocation. With North American rates trading at elevated levels, inflation pressures starting to subside and no signs of an imminent recession, we ended the quarter with the highest allocation to equities in the last three months at 50%.

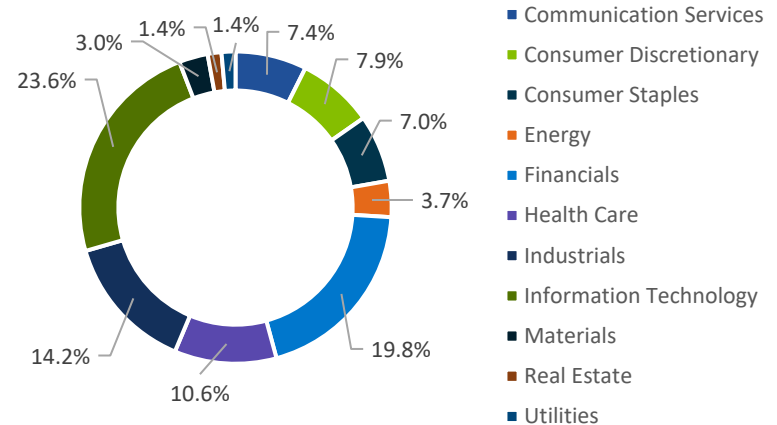
## Portfolio characteristics

### Asset class breakdown



	Duration	Yield-to-maturity
<b>Fixed income allocation</b>	7.05	4.74%

### Equity sector breakdown



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

## Portfolio returns

Series	Q2	YTD	1YR	Since inception
W	1.38%	5.01%	8.27%	1.89%
WF	1.65%	5.57%	9.42%	2.98%

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

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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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