NEI Balanced Private Portfolio
Q4 2024 Commentary

Portfolio details

AUM
$613,916,728.03

CIFSC category*: Global neutral balanced

Prospectus risk: Low to medium

Distribution: Monthly

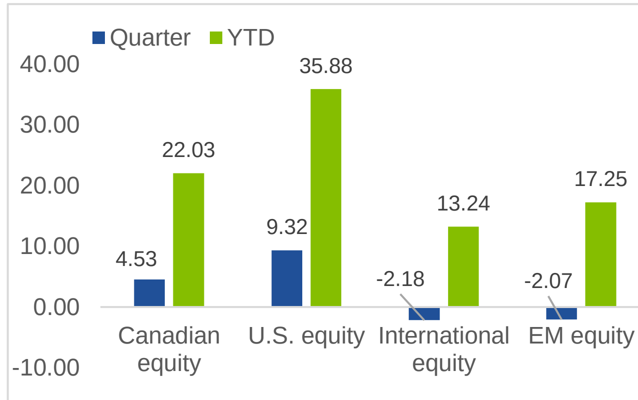
MER
2.13% (Series W)
1.07% (Series WF)

As of December 31, 2024.
*Canadian Investment Funds Standards Committee

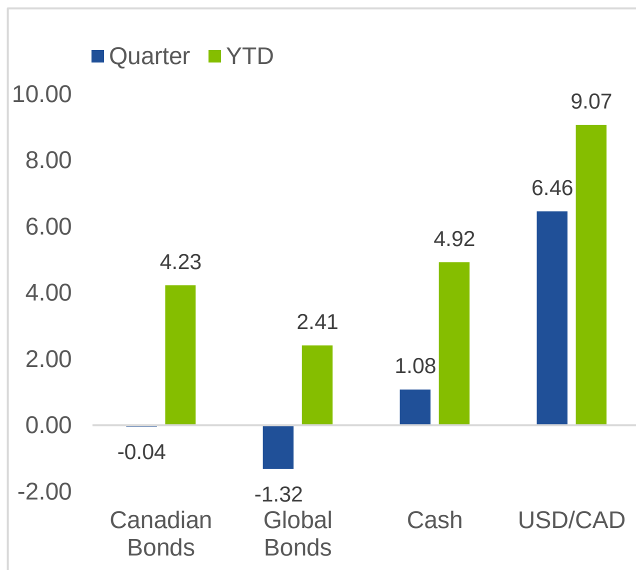
Highlights

- Global equities delivered strong performances in Q4 2024.
- Global fixed income underperformed Canadian fixed income, resulting in allocation to global bonds becoming a detractor.
- After a strong Q3, the Clean Infrastructure Fund detracted from performance.
- The Canadian equity portfolio performed exceptionally well in absolute and relative terms.

Market performance (%)



Index returns include dividends but do not include fees. You cannot invest in an index. Source: MSCI. See page 5 for index names.



Source: MSCI

Portfolio review

Asset class	Current %	Change from prior Q
Equity	62	0
Fixed income	38	0
Cash	0	0

Overall, 2024 was marked by strong equity rallies globally, particularly in the U.S., while fixed income markets navigated a complex environment of rising yields and shifting central bank policies. Global equity markets delivered strong performances, with North American stocks and global indices posting significant annual gains. The S&P 500 Index recorded double-digit returns for the year, driven by investor optimism around AI innovation, resilient economic growth, and Federal Reserve rate cuts.

However, the fourth quarter saw more moderate equity returns compared to earlier quarters, as optimism following the U.S. presidential election was tempered by concerns over inflation and monetary policy shifts. Canadian equities showed mixed sector performance in the fourth quarter, with technology leading gains, while global equities also hitting new highs before softening in December. European equities lagged due to concerns around slowing growth in Germany, potential tariffs and political turmoil in both Germany and French.

Fixed income markets faced challenges in the fourth quarter, with global bonds generating negative total returns due to inflation concerns and fiscal sustainability fears following the U.S. election. Spread sectors outperformed government bonds, while high-yield bonds continued to lead annual fixed income returns. Rising government bond yields weighed on longer-duration investment-grade credit, though U.S. Treasuries and European government bonds managed modest gains for the year. The U.S. dollar strengthened against most currencies in the fourth quarter, reflecting broader market volatility.

Within the Portfolio, the underlying investments delivered mixed performances. The Fixed Income Pool, Global Impact Bond Fund, and Global Total Return fund outperformed their benchmarks, however our allocation to global bonds detracted as Canadian fixed income outperformed. On the equity side, Clean Infrastructure Fund underperformed due to concerns around policy changes following the U.S. election and rising yields.

In fixed income, allocation to global bonds was a detractor as global fixed income underperformed Canadian fixed income. In the Fixed Income Pool, the added value was mainly due to the portfolio's overweight in corporate securities relative to its benchmark. This asset class outperformed government securities across all selected maturities. Real estate and financials were among the best performing sub-sectors. Duration, maintained close to the benchmark with a few tactical deviations, was a positive factor during the quarter. In the Global Impact Bond Fund, the exposure to U.S. high yield, Emerging Market high yield, and non-U.S. corporates had the biggest positive impacts on outperformance. In the Global Total Return Bond Fund, short duration positioning, a steepening stance and overweight allocation in credit contributed positively.

In equities, both the Canadian and Global Equity Pools outperformed. The Global Equity Pool outperformed the MSCI World Index for the quarter — sector selection had a positive impact on relative returns. while security selection was negative. An underweight to materials and selection within consumer staples contributed the most, while selection within consumer discretionary and an overweight to healthcare detracted. Leading contributors for the quarter included Broadcom, Pearson and Lululemon Athletica. Broadcom rallied after reporting a surge in demand for its AI chips, predicting AI revenue could reach US$60–US$90 billion by 2027. Shares of Pearson rose after a positive quarterly update, showing growth across divisions. Athletic apparel company Lululemon Athletica saw stabilization in the U.S. market, alongside strong international revenue growth and strong same-store sales growth in China.

The Canadian equity portfolio performed exceptionally well in absolute and relative terms during the fourth quarter amid ongoing geopolitical tensions and the threat of additional protectionist measures by President-elect Donald Trump. The portfolio focuses on investing in a diversified set of high-quality companies, and in times of uncertainty, these companies tend to outperform, which was the case in the fourth quarter. These businesses are often regional or global leaders that demonstrate superior growth, durable competitive advantages, and strong balance sheets, leading to more predictable earnings and solid downside protection. The portfolio’s overweight in industrial companies drove about two-thirds of the outperformance, and its strong relative performance in financials combined with its underweight in weaker sectors like communication services and materials were also positive contributors. Gains were modestly offset by relative underperformance from our information technology and consumer staples holdings. From a stock-specific standpoint, the top contributors to our relative stock performance in the fourth quarter were CAE, AtkinsRéalis, and Brookfield Corp.

The Clean Infrastructure Fund detracted from performance over the quarter. After a very strong third quarter, the U.S. election raised concerns about tax incentives, import duties, inflation and interest rates, all conspiring to drive the sector down. Separately, with all the talk about declining interest rates in 2024, and with several central banks cutting rates, 10-year interest rates in the U.S., Canada, Germany, U.K., France, Japan, and Brazil have risen. This has been a headwind for capital-intensive companies the fund invests in.

In 2024, the contrast between the U.S. and Europe observed in the broader stock market found a parallel in our investment universe. The U.S. charged ahead with stronger growth and momentum around nuclear and datacenters while European names struggled from slower growth and a lack of positive catalyst. However, taking advantage of low valuations, mergers and acquisitions have been very active in renewables in Europe and Asia.

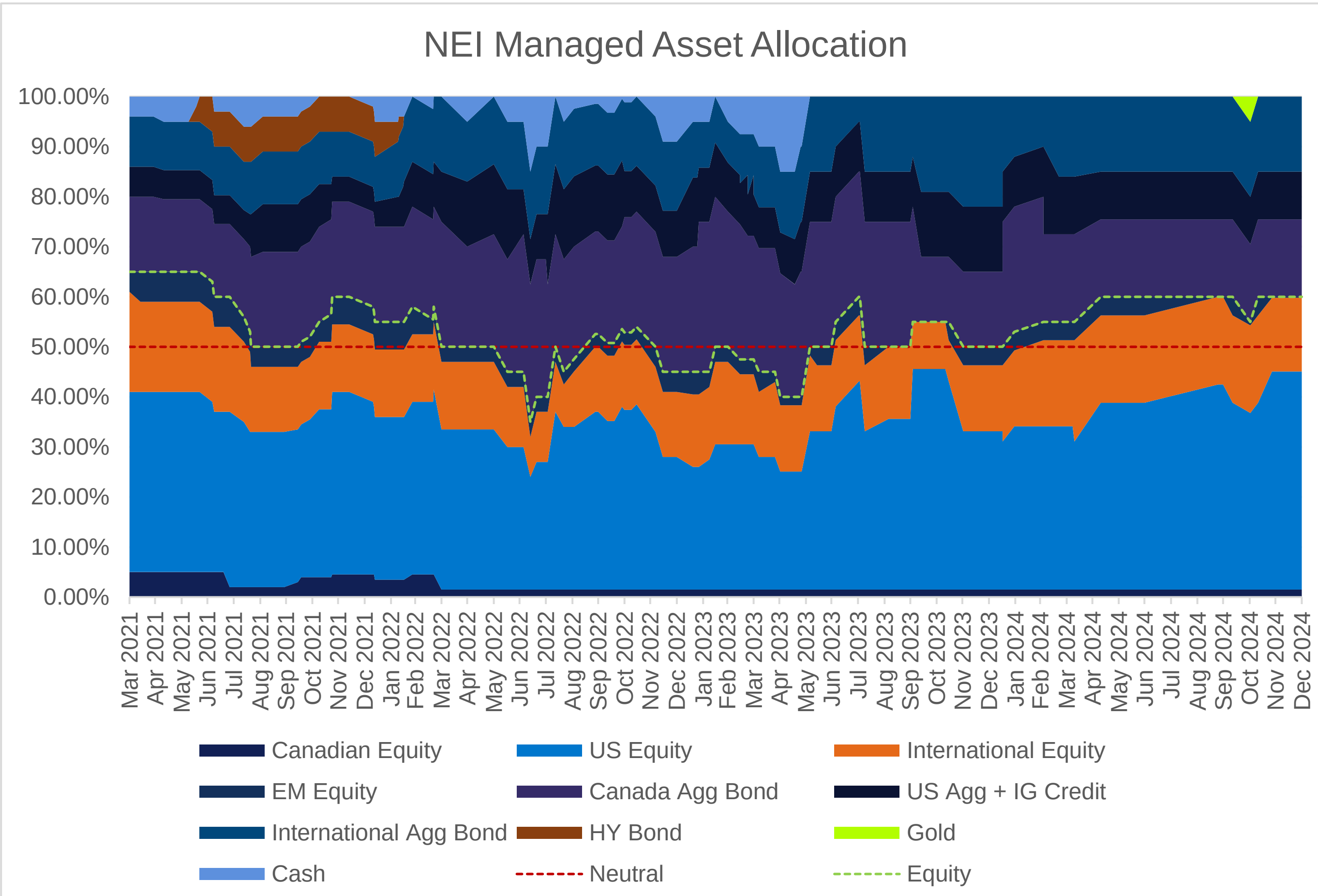
ESG ACTIVITIES

NEI engaged 45 companies in the quarter across our focus themes of social capital, natural capital, net-zero alignment and general corporate governance. Net-zero alignment was the primary focus area, with 58% of our engagements on such sub-themes as net-zero commitments and transition plans, reducing methane emissions, and circularity. Activities we undertook included sending emails, reviewing correspondence received, and meeting with company staff online, by phone, or in person. Almost 30% of our engagements were solo, meaning that we were the only investor at the table, and half were collaborations with NEI in the lead role.

Companies we engaged included Alphabet, on the topic of artificial intelligence; Amazon, on the topic of board gender diversity; Scotiabank, on the topics of governance and climate; and Cenovus Energy, at their request, on topics related to climate, nature, and sustainability disclosures.

In November we co-hosted an in-person roundtable in Calgary on the topic of curbing methane emissions in the oil and gas industry. Representatives from the United Nations-sponsored Oil & Gas Methane Partnership 2.0 were on hand to discuss that initiative and how it can benefit Canadian energy companies in their reporting and disclosure.

Tactical asset allocation review – MAAP



This NEI Investments 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 the quarter with an overweight to equities over fixed income. Early in October we closed our underweight to emerging markets, however within our equity exposure we still remained more defensive with exposure to S&P 500 Equal Weight Index and U.S. low volatility. Our fixed income allocation remained underweight for the month, however we were neutral with respect to the regional exposures.

November

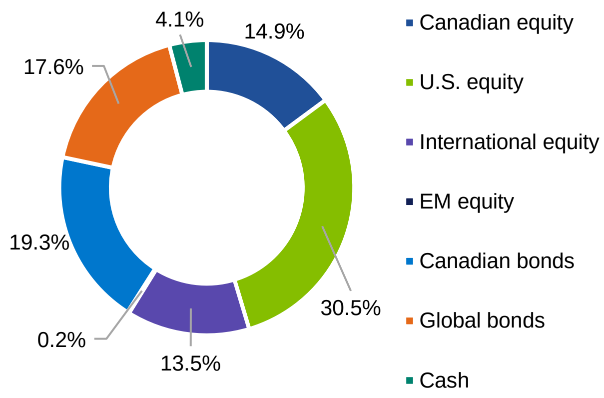
Ahead of the U.S. election we hedged the portfolio by reducing our equity exposure while adding exposure to gold to help manage the potential volatility. Shortly after the election results, we were able to sell our gold position and re-allocate back to equities, bringing our asset allocation back to 60% equity and 40% fixed income. Due to fundamental and technical weakness, we reduced our EAFE and emerging market exposure and added to U.S. equities.

December

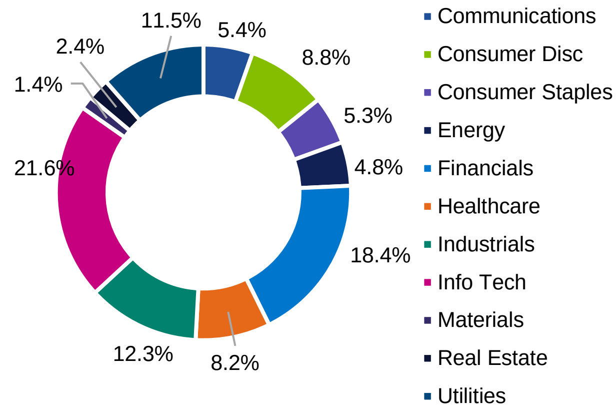
We maintained this exposure until year end. We closed the year with a 10% overweight to equities with an overweight to the U.S. On the fixed income side, we maintained the neutral regional exposure versus the benchmark.

Portfolio characteristics

Asset class breakdown



Equity sector breakdown



	Duration	Yield to maturity
Fixed income allocation	6.98	3.85%

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	3 yr	5 yr	Since inception
W	1.95%	13.62%	13.62%	3.29%	4.67%	4.61%
WF	2.23%	14.83%	14.83%	4.39%	5.78%	5.73%

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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