

NEI Canadian Bond Fund

Q4 2024 Commentary



Performance

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

Bond prices slightly retraced this quarter despite the 100 basis points of rate cuts delivered by the Bank of Canada (BoC), driven primarily by the mid-and-long-term segments of the yield curve which saw higher yields over the quarter, likely in response to U.S. bond yields decoupling higher, and some reflection of positive surprises on macroeconomic data. The U.S. Federal Reserve (Fed) also lowered the fed funds target rate by 50 basis points from 5% to 4.50%.

The European Central Bank lowered its policy rate further by another 25 basis points each in both October and December meetings, while the Bank of England, Norway, Australia, and Japan held rate steady till the end of the year.

Domestically, the yield curve continued to normalize (short-term rates decreasing and long-term rates increasing) with the FTSE Canada Universe Bond Index staying marginally flat and all corporate components finishing positively during the quarter. Shorter duration bonds outperformed their medium and longer duration counterparts for the three-months ended December 31, primarily driven by yield curve changes. Corporate bonds outperformed government bonds during the period, driven by positive yield carry and narrowing investment-grade credit spreads.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Canadian Bond Fund Series I	0.25	5.57	5.86	5.86	0.69	2.08	2.84	N/A
NEI Canadian Bond Fund Series A	-0.15	4.71	4.16	4.16	-0.93	0.45	1.20	N/A
NEI Canadian Bond Fund Series F	0.00	5.03	5.04	5.04	-0.33	1.05	1.80	N/A
<i>Benchmark 1: FTSE Canada Universe Bond Index</i>	-0.04	4.62	4.23	4.23	-0.60	0.79	1.98	N/A

¹Source: Morningstar. As of December 31, 2024. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

The Fund outperformed its benchmark in the fourth quarter of 2024, driven primarily by allocation effects and changes in credit spreads.

From an allocation perspective, the Fund's relative overweight exposure to issues within the Energy, Real Estate and Provincial sectors and relative underweight exposure to issues with the Industrial, Infrastructure, and Federal sectors, provided the largest contribution to relative returns. The Fund's relative overweight exposure to issues within the Financial and Communication sectors and relative underweight exposure to issues within the Municipal and Securitized sectors detracted from performance.

From a duration perspective, while yield curve effects detracted from performance on a relative basis, the Fund's relative overweight exposure in 7- and 10-year key rates contributed positively to relative returns as a result of narrowing credit spreads.

Over the quarter the Fund increased its relative overweight exposure in 10-year key rates while decreasing its relative overweight and underweight exposures in 5- and 20-year key rates, respectively.

Outlook

Monetary policy should be supportive of returns for fixed income assets in the near-term. However, positive economic surprises may result in a recalibration of the yield curve, particularly in the mid-and long-term segments. Rate volatility is likely to remain top of mind for investors as markets reassess the path for policy rates against ongoing concerns over the economic outlook and uncertainties around the effects of U.S. trade policies.

The looming election in Canada suggests a willingness to rein in fiscal spending while the prospect of the adoption of an expansionary fiscal policy in the US could add upside risk to longer-term rates and interest rate differentials.

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