NEI Canadian Impact Bond Fund

Q4 2024 Commentary

NEI

Performance

The NEI Canadian Impact Bond strategy (Series I) outperformed its benchmark for the quarter.

The Federal Reserve (Fed) continued to ease its monetary policy by cutting the target range for its policy rate by 25 basis points (bps) twice in November and December. The Bank of Canada (BoC) was more aggressive, lowering its policy rate twice by 50 bps. The policy rate closed the quarter at 3.25%. Driven by strong economic data and the expectation of a Republican victory in the US elections, bond yields followed an upward trend at the beginning of the quarter. However, the rise in Canadian rates was held back in December by a higher unemployment rate and the announcement of a 25% tariff on Canadian exports to the United States. Credit spreads narrowed for both corporate and provincial bonds during the quarter.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Canadian Impact Bond Fund Series I	0.12	5.19	5.04	5.04	N/A	N/A	N/A	10.28
NEI Canadian Impact Bond Fund Series A	-0.19	4.53	3.78	3.78	N/A	N/A	N/A	8.27
NEI Canadian Impact Bond Fund Series F	-0.05	4.83	4.30	4.30	N/A	N/A	N/A	9.21
Benchmark 1: FTSE Canada Universe Bond	-0.04	4.62	4.23	4.23	N/A	N/A	N/A	5.73

[1] Source: Morningstar. As of December 31, 2024. Since inception is only provided for Funds with less than 10 years of performance. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark returns for Series F and Series I are 5.73 and 5.73, respectfully.

Portfolio commentary

During the last three months, an overweight in corporate bonds and security selection were the main contributors to the outperformance. During the quarter, the corporate bond exposure was reduced as spreads continued to narrow. The Fund's holdings in provincial and federal bonds were increased. The Fund maintained a slightly longer duration positioning versus its benchmark throughout the quarter.

Outlook

Economic growth driven by strong domestic demand challenges the large output gap narrative. Continued strong income gains and high household savings balances support consumer spending in both Canada and the United States. Currency weakness drives higher import prices. Wage inflation remains elevated in Canada and contributes to higher services inflation. Policy makers in Canada and the United States remain biased toward easing with concerns of undershooting inflation targets. Stable growth along with inflation uncertainty reduces the urgency for material rate decreases.

Proposed tariffs and deportation policies drive inflation pressures in the United States but there is risk of recession on both sides of the border. Retaliatory tariffs by Canada result in increased price pressures for consumers. Delayed easing by the Fed maintains high real rates hurting economic growth and undershooting the inflation target. BoC eases too fast while still facing inflationary growth and wage pressure resulting in reflation risks.

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Series F units are only available to investors who participate in eligible fee-based programs with their registered dealers that have entered into a Series F Distribution agreement with NEI Investments.

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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