

NEI Conservative Yield Portfolio

Q1 2023 Commentary

Performance

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

In Q1/2023, each month was driven by unique and wildly divergent narratives. In January, falling yields drove markets towards a strong risk-on posture, which led to low quality and high-beta stocks outperforming. However, risk sentiment changed rapidly in February, as concerns around inflation remaining stickier than expected and the Fed remaining hawkish for longer, began to take hold. In March, yields fell materially (before bouncing back partially) due to increased concerns about credit and liquidity risks stemming from negative developments at financial institutions such as Silicon Valley Bank, Signature Bank and Credit Suisse.

On an asset class level, fixed income registered positive returns while equities also delivered strong gains over the quarter. Within fixed income, Global bonds and Corporate Credit underperformed broad Canadian bonds. High yield delivered positive returns, generally in line with the rest of the fixed income universe.

Within equities, US and EAFE outperformed Canada and EM. From a style standpoint, Growth outperformed Value. From a sector standpoint, more Growth oriented segments such as Information Technology and Consumer Discretionary outperformed while Energy and Financials lagged.

The US Dollar Index was volatile over the quarter and ended marginally lower.

Returns (%)

FUND	3 MO	6 MO	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	Since Inception
NEI Conservative Yield Portfolio I	2.68	5.81	2.68	-0.61	5.45	3.33		3.21
NEI Conservative Yield Portfolio A	2.23	4.90	2.23	-2.32	3.64	1.55		1.80
NEI Conservative Yield Portfolio F	2.45	5.35	2.45	-1.47	4.52	2.42		2.65
Benchmark 1: 80% Bloomberg Barclays Global Aggregate Index (C\$ hedged), 14% MSCI World NR Index (C\$) and 6% S&P/TSX Composite TR Index	3.48	5.82	3.48	-3.64	1.10	2.31		3.76

*Source: Morningstar. As of March 31, 2023. 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 2.34 and 2.26, respectively.

Fund commentary

The NEI Conservative Yield Portfolio (Series I) returned 2.68%. In comparison, its blended benchmark returned 3.48%.

On Asset Allocation: underweight in fixed income exposures helped as equities outperformed. Overweight in global equities helped as global equities outperformed Canadian equities and FI. On Benchmark Misfit: out-of-benchmark allocations to Canadian fixed income added value, offset by negative contribution from infrastructure equities. On Manager Selection: Amundi in Global Total Return Bond Fund gave back earlier gains given its UW to duration. Amundi's Global Dividend detracted due to its underweight in technology names, which strongly outperformed. Clean Infrastructure Fund underperformed as some of its holdings gave back earlier gains.

Outlook

Risks of a recession remain elevated on account of deep inversions across the yield curve and tight credit conditions, which tend to be precursors to recessions. A silver lining is that banking sector turmoil and stress now appears to be dissipating. The regional banking failures seen in H1/March were likely indicative of idiosyncratic

company specific issues rather than a systemic risk. Market implied volatility measured through the VIX (equities) and MOVE (bonds) has moved lower in recent periods as a result. On the interest rate front, central bank cuts in 2023 are now starting to be taken off the table. From an equity and bonds standpoint, current valuations and starting yields respectively offer attractive entry points relative to their historical averages. This combined with record money market assets leaves plenty of dry powder left to deploy when risk appetite does indeed return.

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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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