

NEI Global Impact Bond Fund

Q4 2024 Commentary



Performance

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

Global fixed income markets generated negative total returns during the fourth quarter, as measured by the Bloomberg Global Aggregate Index hedged to US dollars. The US presidential election and Federal Reserve (Fed) decisions were the primary drivers of market movement. The Republican sweep in November, while resulting in a positive shift in sentiment for risk assets, also played a major part in stoking concerns about inflation, growth, and fiscal sustainability, causing a broad-based selloff across the global bond market. Spread sectors generally outperformed government bonds amid mixed spread movements. The US dollar (USD) gained versus most currencies.

The Fund generated negative total returns and outperformed its benchmark over the quarter. Duration positioning represented the top detractor from relative performance following the increase in sovereign yields.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Global Impact Bond Fund Series I	-1.06	2.92	4.03	4.03	-0.61	N/A	N/A	0.14
NEI Global Impact Bond Fund Series A	-1.41	2.17	2.55	2.55	-2.03	N/A	N/A	-1.27
NEI Global Impact Bond Fund Series F	-1.27	2.46	3.12	3.12	-1.47	N/A	N/A	-0.72
<i>Benchmark 1: Bloomberg Barclays Global Aggregate Index (C\$ hedged)</i>	-1.32	2.61	2.41	2.41	-1.23	N/A	N/A	-0.88

¹Source: Morningstar. As of December 31, 2024. 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 -0.88 and -0.88, respectively.

Portfolio commentary

The sub-advisor maintained an underweight to investment grade corporate credit, with a bias to be overweight non-US and underweight US corporates. The sub-advisor is positioned with out of benchmark allocations to emerging markets and high yield credit, which includes global green bonds. The Fund's underweight to US IG corporates detracted, but this was more than offset by the positive impacts from US HY, EM HY, non-US IG corporates, and developed non-US HY corporates.

Within the government related sector, the Fund is underweight traditional sovereign debt and overweight government related issuers such as international development banks and foreign local agencies. Overall, this positioning had a negative impact on relative performance.

The sub-advisor invested in a corporate bond issued by Africell. Africell is a leading mobile operator in Africa, operating in Angola, DRC, The Gambia, and Sierra Leone, with over 16 million subscribers. In October 2024, Africell issued a USD 300 million bond to repay debt, cover expenses, and pre-fund capital expenditures, with half of the funds allocated to expanding Angola's network. Investments in Africell contribute to addressing the digital divide by expanding access to telecommunications, providing potential for education and financial uplift. The expansion in Angola is expected to result in positive free cash flow and significant deleveraging next year, making Africell an attractive addition in Q4.

The sub-advisor also invested in a bond issuance by Columbia University, which ranks in the 80th percentile of the sub-advisor's Social Mobility Score. This score evaluates opportunities for low-income students, success rates, and economic benefits. The bond proceeds align with education, job training, and financial inclusion themes, funding dorm improvements, medical center upgrades, and new lab spaces.

Additionally, the sub-advisor incorporated a corporate bond issued by Sitios Latinoamerica, addressing the digital divide in the Caribbean and Latin America. Sitios Latinoamerica, holding 21% of the cell tower market share in Latin America, aims to expand telecommunications access in underserved areas, improving education and financial opportunities. Overall, they view the credit fundamentals positively and therefore deemed the issuer as a good investment opportunity.

Outlook

Consumer spending is likely to moderate, though this could be offset by investment spending on artificial intelligence alongside equipment investments to boost growth. Inflation is unlikely to sufficiently moderate to the Fed's 2% target given the persistent strength of the labor market, further complicated by prospective policy changes around trade, immigration, and fiscal policy. The Fed has acknowledged that policy rates are closer to neutral, and further rate cuts are unlikely given upside inflation risks. Corporate fundamentals remain healthy across most sectors though the sub-advisor is monitoring the potential for increased M&A and shareholder friendly actions by companies emboldened by the economy's ability to withstand higher rates. Spreads across credit sectors remain compressed relative to history, with limited potential for further tightening, though this is balanced by attractive all-in yields. Securitized credit offers more attractive risk/reward opportunities than corporates. Bouts of volatility – potentially driven by geopolitical developments, central bank policy mistakes, fiscal adjustments, and/or trade policy – could generate greater idiosyncratic dispersion and create better entry points to add credit exposure.

The sub-advisor maintains an underweight to IG credit due to better observed opportunities in various out-of-benchmark sectors, including high-quality securitized credit (residential housing benefits from low supply while consumer remains supported by a resilient labor market), BB high yield (more insulated from default risk than CCCs), and select emerging markets (where they see compelling valuations and improving fundamentals). The sub-advisor maintains their overweight to agency MBS (focus on relative value opportunities and enhancing cash flow stability).

The sub-advisor continues to be excited about today's elevated yields and believe there will be upside potential from taking advantage of credit market dislocations as they arise. They are closely monitoring several risks to their outlook which could lead an adjustment to the Fund's exposures.

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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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