NEI Global Sustainable Balanced Fund

Q1 2025 Commentary

NEI

Performance

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

At the start of the first quarter of 2025 investors were bullish on the economy with a moderately strong risk appetite. However, the optimism surrounding US President Trump's tax cuts and deregulation proposals soon gave way to concerns over his sweeping tariff proposals and their impacts on growth and inflation. Against this macroeconomic backdrop, the investment grade market outperformed high yield. The US Federal Reserve (Fed) met twice during the period and held rates steady at each meeting. However, the release of the January Federal Open Market Committee (FOMC) meeting minutes in mid-February added to market volatility as they suggested the Fed remained concerned about inflation, the potential knock-on effects of looming tariffs, and uncertainty in the economic outlook. The March FOMC statement reinforced the Fed's concerns noting that the uncertainty had increased since their prior meeting. The 'dot plot', released in mid-March, remained unchanged and suggested that the median Fed member still projected two 25--basis point (bps) cuts during 2025 and two additional cuts in 2026. However, the March Summary of Economic Projections reinforced the Fed's cautious view of the economy as 2025 GDP growth was revised downward by 0.4% to 1.7%; 2026 and 2027 growth projections showed smaller drops while longer run projections remained unchanged. Upward revisions to the unemployment rate and core PCE inflation were front-loaded to 2025 while projections for 2026 remained unchanged. At the end of the period, interest rate futures were pricing in three 25 bps cuts in 2025. Interest rate volatility broadly declined during the first half of the period, with the ICE BofA MOVE index falling from 99 to 84, only to rise to an intra-period high of 115 before closing out the period at 101.

Despite inflation concerns being fueled by proposed tariffs, their effect on growth caused US Treasury yields to fall across the board. The 2- and 10-year segments fell by 36 and 37 bps, respectively, while the 30-year segment fell by 21 bps.

Although the option-adjusted spread on the benchmark initially fell during the first half of the period it rose sharply during the latter half and ended the quarter only modestly higher. All sectors posted positive total returns over the quarter, with the securitised sector leading the way while corporates lagged. However, excess returns were negative across most sectors as spreads broadly widened during the period, most notably in long duration corporates. Agency MBS was the lone sector that experienced spread compression.

High yield market performance was driven by the higher-quality segments, with BBs and Single Bs posting positive returns and outperforming the CCC and below segment which posted a negative return. The par-weighted high yield bond default rate, including distressed exchanges, continued to decrease to multi-year lows and remained well below the 25-year average. Leveraged loan default rates also decreased over the quarter. The decreases in both rates were driven by the lightest quarterly distressed exchange volume since the fourth quarter of 2022.

Investment grade corporate issuance bounced back during the period with US$482.4bn in gross and US$225.9bn in net new issuance coming to market. Corporate-labelled issuance was very light over the period with only US$3.2bn coming to market.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Sustainable Balanced I	0.35	-1.42	0.35	5.26	6.46	8.86	4.97	N/A
NEI Global Sustainable Balanced A	-0.18	-2.48	-0.18	2.98	4.17	6.56	2.66	N/A
NEI Global Sustainable Balanced F	0.09	-1.93	0.09	4.16	5.35	7.80	3.89	N/A
Benchmark 1: 60% MSCI ACWI NR Index (C$) and 40% Bloomberg Barclays U.S. Aggregate Index (C$ hedged)	0.24	2.03	0.24	9.78	7.04	8.87	5.82	N/A

[1]Source: Morningstar. As of March 31, 2025. Since inception is only provided for Funds with less than 10 years of performance.

On May 1st 2020, the fund benchmark was changed. Prior to this date the fund benchmark was 30% FTSE TMX Canada Universe Bond Index, 30% S&P/TSX Composite Index, 20% MSCI World Index, 20% Bloomberg Barclays Global Aggregate Index (CAD hedged).

On May 1, 2020, the Fund's investment objectives and strategies were changed to an investment approach that includes global fixed income and equity securities with corresponding changes in the portfolio's benchmark and to the Fund's sub-advisor. The performance of this Fund for the period prior to this date may have been different had the current investment objectives and strategies been in place during that period.

Portfolio commentary

On the fixed income side, security selection among Esoteric ABS, Government-Related securities, and Agency CMBS contributed over the period. The off-benchmark allocation to higher-quality, high yield bolstered returns. Given the spread widening environment experienced during the period, the overweight allocation to credit detracted from performance. The Fund's overweight allocation to Government-Related also detracted given the significant rally in US Treasuries. The off-benchmark allocation to Esoteric ABS and Non-Agency mortgages detracted, coupled with an overweight allocation to rate-recovery bonds weighed on performance. Security selection among the Capital Goods and Insurance sectors and among high yield credits was challenged as well. Over the period, the Fund maintained its structural overweight to credit sectors, however, it had been decreasing risk by reducing its overweight Corporate exposure, most notably in the Technology, Consumer Cyclical, and Capital Goods sectors. The allocation to Securitised Products modestly decreased during the period, largely through reductions in ABS and, to a lesser extent, CMBS. Exposure to Government-Related securities increased during the period. The Fund also made notable individual sustainable additions throughout the period by initiating positions in a supranational bond from the Inter-American Investment Corp as well as corporate bonds from John Deere Capital Corp and United Rentals North America Inc. Other notable sustainable trades during the period included adding to existing positions in supranational bonds from the European Investment Bank, International Bank for Reconstruction & Development, and Kreditanstalt fuer Wiederaufbau.

On the equity side, Information Technology was the primary detractor to absolute returns, as the development of an open-source large language model from Chinese AI startup DeepSeek raised concerns of a disruption in AI leadership, and triggered a sharp sell-off in the Information Technology sector. In relative terms, however, holdings held up better than the broader sector. A lack of mega-cap exposure was beneficial during the period as greater economic uncertainty has raised investor concerns around some of the drivers underpinning the extremely narrow market leadership seen in 2023 and 2024. The Fund's Health Care exposure was a negative driver in absolute and relative terms, as recessionary fears and rising US/China geopolitical tensions weighed on sentiment for Environmental Testing & Monitoring holdings. Despite the share price volatility, the sub-advisor continues to believe the Fund's health care exposure offers a compelling risk-reward ratio. The Fund's defensive exposure was a bright spot during the turbulent quarter given increased investor interest in more resilient areas of the market. This led to positive contributions from Materials, Utilities and Industrials. High-quality, operationally defensive businesses with strong market share and pricing power, such as Waste & Recycling and Industrial Gas holdings, generated strong returns.

Outlook

On the fixed income side, the sub-advisor believes markets have rapidly shifted from a risk-on to a risk-off tone amid a flurry of economic and geopolitical proposals from the new administration. Many of the proposals were announced – and in some cases reversed – at a swift pace, creating a highly fluid outlook. The sub-advisor believes the US Federal Reserve is expected to remain patient, holding rates steady as it assesses the impact of these evolving policies. Recession risks are rising, with the sub-advisor's probability increasing from 30% to 40%, with the likelihood of a soft landing now estimated at just 30-50%. In early April a 90-day reprieve on most reciprocal tariffs was announced which provides hope that if there is a recession, it is likely to be shallow. The risk of a stagflationary environment has also risen. Despite tariff-driven inflation concerns, the broad fall in US Treasury yields reflects a market focused on recession risks. However, after initially falling, long-end US Treasury yields have recently begun rapidly rising. The catalyst for this rise appears to be a combination of inflation risk, hedge fund deleveraging, and a projected increase in the fiscal deficit. Consumer fundamentals remain relatively stable, however, both prime and subprime delinquencies are climbing, and sentiment has deteriorated to recessionary levels. Given the rapidly shifting landscape and mounting risks, the sub-advisor believes it is prudent to reduce credit exposure across both corporates and structured products, and reallocate towards the Government-Related securities. The outlook will largely depend on the outcome of tariff negotiations, companies' ability to pass through higher costs, and the continued strength of the labour market. If tariffs are resolved successfully, corporate fundamentals could remain stable, and a relief rally may follow given the current attractive yields. On the other hand, a breakdown in negotiations would sharply raise recession risks, likely resulting in wider spreads, higher yields, and increased defaults within the high yield market.

On the equity side, the sub-advisor believes that over the longer term, the environment remains supportive of opportunities across a wide range of sustainable solutions. While markets entered 2025 with the view that US President Trump's pro-growth policies would provide a tailwind for US equities, investors are now grappling with increased uncertainty and weaker consumer and corporate confidence associated with tariffs and geopolitical tensions. Given elevated levels of market volatility, the sub-advisor continues to maintain exposure to high-quality operationally defensive businesses that provide a ballast for the Fund, in highly resilient areas like waste & recycling and industrial gas. These companies tend to be oligopolies that benefit from durable demand and attractive pricing power. The Fund remains positioned for a re-rating in sectors that have suffered from temporary destocking issues where the long-term thesis remains intact, such as Health Care Environmental Testing & Monitoring exposure. The launch of DeepSeek and greater economic uncertainty has led to investor concerns around some of the drivers underpinning the extremely narrow market leadership seen in 2023 and 2024. While a weaker growth outlook will pose challenges in absolute terms, the Fund's underweight to momentum and mega-cap technology should be helpful in relative terms. Over the long-term, themes like energy efficiency, grid upgrades, policy tailwinds (re-shoring) and AI-related opportunities remain attractive secular growth opportunities for holdings. Within Environmental Markets, President Trump's historic stance on Environmental and Climate policies is creating sentiment headwinds for renewables stocks. However, while the opportunity set for Leaders is often conflated with this sector, the Fund currently has zero exposure. The Fund seeks to capitalize on long-term structural growth trends, such as demographic change, technological innovation and greater consumption. These are durable and sustainable, regardless of who is in the White House. The focus remains on high quality companies with resilient operational business profiles, demonstrable pricing power and above average earnings growth, underpinned by the secular drivers of environmental markets.

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