NEI Global Total Return Bond Fund

Q1 2025 Commentary

NEI

Performance

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

Divergent monetary policies across major economies, shifting inflation expectations, and a complex fiscal landscape dominated financial markets over the first quarter of 2025. Geopolitical developments added to volatility in bond markets. As the quarter unfolded, growing worries about the U.S. growth outlook and speculation of a looming recession intensified, amplifying a risk-off mood that strengthened toward March.

In the U.S., Donald Trump signalled plans for a range of tariffs on most trading partners. This move, framed as a “reset” for American markets, sparked global backlash, with the European Union and China threatening retaliatory measures. Meanwhile, the U.S. economic activity showed signs of slowing over recent months, with both business and consumer sentiment weakening. Policy uncertainty and sweeping new tariffs clouded growth forecasts. Inflation eased and the unemployment rate edged up somewhat. The Fed maintained rates at 4.25%-4.50%, with officials signalling circa 50 basis points of cuts expected in 2025, alongside lower GDP growth projections.

Monetary policy paths diverged across the Atlantic as the European Central Bank implemented 25-basis-point rate cuts in both January and March, reflecting differing approaches to economic conditions. European private sector expanded for the third consecutive month in March, with manufacturing output improving despite ongoing contraction. Inflation dipped to 2.3% in February from 2.5% in January. Meanwhile, a significant shift in fiscal policy toward increased defence spending and the prospect of fiscal stimulus drove a notable spike in the 10-year bund yield.

In the UK, the economy contracted by 0.1% in January, underperforming expectations. Inflation fell to 2.8% in February from 3% in January, while the Bank of England reduced its benchmark rate to 4.5% in February, adopting a cautious stance in March due to global uncertainties. The Office for Budget Responsibility halved its 2025 growth forecast to 1%, projecting higher unemployment and inflation.

As a result, global yields are somewhat lower over the period with notable dispersion across regions. The US was the best performer on the back of an anticipated slowdown in the economy. European and Japanese yields, on the other hand, have moved higher reflecting local fiscal and inflation dynamics respectively.

Global Investment grade performed well until mid-February on the back of strong demand for quality yield from investors. The US tariff rhetoric then took spreads wider to finish the quarter 10bps higher quarter on quarter. US investment grade took the brunt of this underperformance whereas European IG outperformed on the back of the fiscal package in Germany.

In Emerging Markets, returns were positive. The largest policy movers were Brazil hiking by 100bps twice to combat persistent inflation and Turkey cutting by 250bps, just before the political turmoil there.

In currencies, the trade-weighted US Dollar index dropped 4% over the quarter with a bulk of this in the first three days of March on concerns on tariff impacts where EUR appreciated vs. the dollar by over 4% on the announced fiscal package in Germany. SEK and NOK did even better at over +8% vs the USD each as these economies are leveraged to European demand.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Total Return Bond Fund Series I	2.04	1.02	2.04	5.09	3.72	4.23	2.99	N/A
NEI Global Total Return Bond Fund Series A	1.58	0.09	1.58	3.17	1.83	2.33	1.04	N/A
NEI Global Total Return Bond Fund Series F	1.79	0.51	1.79	4.04	2.69	3.19	1.92	N/A
Benchmark 1: Bloomberg Global Aggregate TR Hdg CAD	0.81	-0.52	0.81	3.38	0.72	-0.10	1.49	N/A

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

Portfolio commentary

During the first quarter of 2025, the Fund posted positive relative and total returns.

G10 Sovereign bond positions made a positive contribution. Duration positioning made a positive contribution overall. Country allocation contributed with an underweight in Japan performing particularly strongly in January. The Fund's steepening stance on the US and Euro curves was a positive, especially in March. The Fund's overweight periphery over France and Germany contributed.

Credit positions made a negative contribution to relative performance. The Fund's overweight to credit delivered a negative contribution in Q1 on a spread widening in March. Emerging market allocations were marginally positive overall.

Currency positions were positive contributors to relative performance. A long in USD detracted overall. The Fund's short EUR bloc versus commodity bloc was negative on balance as well. The allocation within the commodity block was a positive, with the AUD strengthening versus the CAD. An allocation to EM currencies, particularly BRL and MXN contributed strongly.

During the quarter, the sub-advisor continued to increase the Fund's duration overweight bringing it to over 140bps. The additions were mostly via the belly of the European curve. The sub-advisor has also increased the Fund's steepening bias mostly via the long end in the US. In risk assets, an overweight to corporate bonds was decreased overall. In currencies, an overweight in USD was trimmed. The Fund's long JPY as well as the shorts in GBP and CHF were increased. The sub-advisor also instituted a long position in INR.

Outlook

The Fund maintains a moderately pro-risk approach, deploying around half of the risk budget. Market visibility remains constrained by geopolitical uncertainties.

The sub-advisor continues to increase an overweight in portfolio duration. The largest overweight is now in Europe where the Fund is long Italy, Spain, Greece and Belgium vs. France and Germany. The second largest is the UK given attractive valuations and room for more action from the BoE.

The main underweights are Japan given the economic regime change there, the US on upward risks to inflation as well as China and Canada given the tariff uncertainty. On the curve, the Fund continues to hold a steepening bias with a focus on USD and EUR markets having increased the latter in March. The sub-advisor is also long US breakevens as a hedge for Trump risk.

In credit, the sub-advisor maintains a long in corporate spreads which continue to benefit from a soft landing scenario and support from accommodative monetary policies. Their preference is on EUR denominated debt. The sub-advisor continues to like subordinated bonds, but are underweight high yield and long-dated high grade debt.

In FX, the Fund maintains a preference for select LatAm currencies on valuations and USD as a hedge to EM FX exposures. Elsewhere, the sub-advisor is underweight CAD, GBP, CHF and CNH on growth concerns and geopolitical risks.