NEI Money Market Fund

Q1 2024 Commentary

NEI

Performance

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

Canadian front-end rates ended the quarter roughly flat, remaining range bound throughout the quarter although exhibiting some impressive volatility along the way. The 12-month Canadian T-bill hit a low of 4.60% before selling off to an intra-quarter high of 4.94% only to grind back lower to finish the period only 2 basis points (bps) higher. With the Bank of Canada (BoC) on hold and peak rates likely a thing of the past, market participants are eager to price-in rate cuts for 2024. However, mixed economic data and a strong US economy made for some volatile swings in the front end as market participants grapple with the timing and amount of rate cuts for 2024. Front-end rates should remain volatile, although range bound, for the foreseeable future until there is further clarity on the timing and scope of rate cuts. Given this uncertainty, market participants have dialed back their rate-cut expectations from roughly 125 bps penciled at the beginning of the year to roughly 68 bps as of quarter end.

The inverted 3-month to 12-month Canadian T-bill curve reversed slightly over the quarter while exhibiting some impressive volatility throughout the period. The curve inverted further to reach -43 bps, only to revert back all the way to -8 bps, and ultimately end the quarterly at-29 basis points. Curve movements should continue to remain volatile until a clearer picture emerges on the timing of the first rate cut. Once there is more clarity, the curve should maintain its flattening bias.

Credit spreads tightened in a dramatic fashion as the Canadian money market landscape slowly evolves with the phasing out and eventual discontinuation of banker's acceptances (BA). Given the reduction in BAs and overall investible money market products, spreads performed well over the quarter with BA spreads the clear outperformer. BA spreads compressed across the 1-to-3-month term buckets performed best with the one-year term bucket also performing well. Provincial spreads were also very well bid, albeit not to the same extent as BAs. As BA supply continues to decrease, money market spreads should continue to remain well supported.

Regarding the transition away from CDOR, BA supply will steadily decrease until there are none outstanding as of June 30, 2024. CDOR will cease to be published after that.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Money Market Fund Series I	1.29	2.66	1.29	5.15	2.81	2.22	1.78	N/A
NEI Money Market Fund Series A	1.11	2.28	1.11	4.37	2.17	1.58	1.04	N/A
NEI Money Market Fund Series F	1.12	2.29	1.12	4.39	2.18	1.58	N/A	1.39
Benchmark 1: FTSE TMX Canada Cdn Trsy Bill 60 Day	1.25	2.54	1.25	4.93	2.60	1.96	1.40	N/A

This is an annualized historical yield based on the seven-day period ended on March 31, 2024 [annualized in the case of effective yield by compounding the seven day return] and does not represent an actual one year return.

[1]Source: Morningstar. As of March 31, 2024. Since inception is only provided for Funds with less than 10 years of performance. Since inception benchmark returns for Series F is 1.76.

Portfolio commentary

The overall weighting of government securities was maintained throughout the quarter. With the Bank of Canada maintaining its monetary policy stance and peak rates having been likely reached for this tightening cycle, federal holdings were concentrated primarily in the 6-month portion of the curve.

Given the rate volatility observed throughout the period, positioning on the curve remained tactical between Canadian government bonds, Canadian Treasury bills and federal agency bonds. Exposure to bank credit was kept close to maximum limits by favoring banker's acceptances (BA) maturing in the 3-month portion of the curve.

Following the marked compression of BA spreads throughout the quarter due to a reduction in product availability (due to the imminent CDOR cessation), shorter maturities were redeployed in the 3-month portion of the curve, and sometimes even in the 6-to-12-month segments. CORRA-based floating rate securities were also added during the quarter. These securities offered an attractive rate spread while reducing the duration of exposures and extending the holding period for senior bank securities while ABs are less and less available.

Activity in corporate debt was limited to a few commercial paper issues with maturities in the 1- to-2-month portions of the curve. The few issuers combined with debt buybacks continued to limit the supply of eligible products. Spreads remained tight, and the shortest maturities offered a yield similar to BAs. Faced with increasing risks of recession in the near future, the sub-advisor remains vigilant about adding longer-term credit exposure.

Outlook

Longer-term exposures in the form of asset backed commercial papers (ABCP) have been reintroduced to the Fund. ABCP holdings were concentrated in the 6-month sector and limited to 10% of the Fund. As BAs are gradually phased out, ABCP will become a more prominent investment vehicle as an alternative to BAs.