

Performance

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

For the three-month period ending December 31, 2022, global markets saw relatively strong performance after bottoming near the end of Q3. This was driven by China's abrupt easing of their zero-Covid policy, the Federal Reserve signaling they would slow the pace of tightening and that inflation was showing signs that it is beginning to moderate.

Government bond yields edged up higher towards the end of Q4 as central banks maintained their hawkish tone about rates remaining higher for longer, despite slowing growth. Credit spreads tightened across the risk spectrum during the quarter on improved risk sentiment. Although strong performance was tempered slightly into year end, US and European investment grade and high yield credit generated positive returns and outperformed government bonds over the quarter.

Returns (%)

FUND	3 MO	6 MO	1 YEAR	3 YEAR	5 YEAR	10 YEAR	Since Inception
NEI Select Balanced RS Portfolio Series I	4.59	3.82	-10.29	2.23	4.07	N/A	4.78
NEI Select Balanced RS Portfolio Series A	3.98	2.63	-12.35	-0.15	1.64	4.09	N/A
NEI Select Balanced RS Portfolio Series F	4.27	3.18	-11.40	0.95	2.76	5.25	N/A
Benchmark 1: 50% FTSE Canada Universe Bond Index, 15% S&P/TSX Composite TR Index and 35% MSCI World NR Index (C\$)	3.85	3.91	-10.82	2.48	4.07	5.82	N/A

*Source: Morningstar. As of December 31, 2022. Since inception is only provided for Funds with less than 10 years of performance. Since inception benchmark returns for Series I is 5.88

On June 1, 2015 the fund benchmark was changed. Prior to this date, the fund benchmark was 50% FTSE Canada Universe Bond Index, 25% S&P/TSX Composite TR Index and 25% MSCI World NR Index (C\$).

Fund commentary

The NEI Select Balanced RS Portfolio (Series I) returned 4.59%. In comparison, its blended benchmark returned 3.85%.

There were positive excess returns from portfolio construction (benchmark misfit) and manager selection. From a portfolio construction perspective, allocations to U.S high yield bonds and global bonds benefitted the portfolios as well as out-of-benchmark allocations to EAFE.

During the quarter there were positive excess returns in the underlying funds against their respective benchmarks, most notably in the NEI Canadian Bond Fund, NEI Global High Yield Bond Fund and NEI Global Total Return Bond Fund. On the equity front, there was strength from the NEI US Equity RS Fund, NEI Canadian Small Cap Equity RS Fund, NEI Environmental Leaders Fund and NEI Global Dividend RS Fund. Detractors included NEI Emerging Market Fund, which was hurt by continued headwinds faced by the growth factor.

Outlook

After a tumultuous 2022, investors are hoping for an eventual end to monetary tightening, and with it, a reprieve from brutal market volatility. 2023 is expected to be a year of transition, with a gradual fading of price pressures allowing policymakers and market participants to take a more balanced approach to assessing growth and inflation dynamics. However, the job of fighting inflation is not over. Looking ahead, inflation, its impact on interest rates and the global economy is likely to continue to influence global equity markets. The policy-relevant debate about the persistency of inflationary pressure hinges on the likely trajectory of several factors, such as covid-19 related supply shocks and a tight labour market, as well as whether workers and firms are developing more entrenched expectations of higher future inflation. As long as the labour markets remain strong, central banks will likely keep policy rates at restrictive levels, even if the result is a recession.

The continued uncertainty around the global macro environment means that it will be important to take a broad view of the market in order to find opportunities.

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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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