NEI Canadian Impact Bond Fund

Q3 2024 Commentary

Performance

The NEI Canadian Impact Bond strategy (Series I) outperformed its benchmark for the quarter.

The Federal Reserve lowered the target range of its policy rate by 50 basis points (bps) in September, matching the Bank of Canada's (BoC) two 25-point cuts during the quarter. Bond yields followed a downward trend at the beginning of the quarter, accelerating in early August before stabilizing in September. The sharper decline in shorter-term rates accentuates the steepness of the yield curve. Credit spreads showed only modest movement during the quarter, with corporate spreads declining slightly and government credit spreads increasing slightly.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Canadian Impact Bond Fund Series I	5.06	6.00	4.91	13.97	N/A	N/A	N/A	10.15
NEI Canadian Impact Bond Fund Series A	4.73	5.35	3.97	12.52	N/A	N/A	N/A	8.47
NEI Canadian Impact Bond Fund Series F	4.88	5.63	4.34	13.17	N/A	N/A	N/A	9.26
Benchmark 1: FTSE Canada Universe Bond	4.66	5.56	4.27	12.89	N/A	N/A	N/A	7.01

[1] *Source: Morningstar. As of September 30, 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 7.01 and 7.01, respectfully.

Portfolio commentary

The added value for the quarter was attributable by an overweight in Corporate bonds and strong security selection. During the quarter, the Provincial and Federal bond exposure was increased while the Corporate bond exposure was decreased. The Fund maintained a slightly longer duration positioning versus its benchmark throughout the quarter.

Outlook

Economic growth in the near term is stable even against the backdrop of current policy rates. Labour market exhibits weaker dynamics. Wage gains and high savings balances support consumer spending in both Canada and the United States. Inflation pressure declines in 2024 but achieving central bank targets may prove difficult with an uneven path in the deceleration. Wage inflation remains elevated in Canada and contributes to higher services inflation. Monetary policy in Canada and the United States is biased toward easing. Stable growth and inflation uncertainty reduce the urgency for material rate decreases. With inflation moderating from its highs, central bank policy will shift focus to economic growth.

Inflationary pressures persist (wages, energy prices, shelter) resulting in pauses to policy easing, a scenario not currently priced into markets. Delayed easing by the Fed maintains high real rates hurting economic growth and undershooting the inflation target. BoC eases too fast while still facing inflationary growth and wage pressure resulting in reflation risks.