

Market Recap

The fourth quarter of 2017 saw the US government ratify a long-awaited tax reform bill, with big permanent cuts for corporation as centerpiece of the package. Both the Bank of England and the US Federal Reserve raised interest rates in their respective jurisdictions; with the latter raising its growth forecast for 2018 to 2.5% from 2.1%. Global equities as represented by the MSCI World (C\$) returned 5.70% for the quarter, and 14.63% for the 2017 calendar year. Conversely, global bonds as represented by the Bloomberg Barclays Global Aggregate (C\$ Hedged) returned 0.70% for the quarter and 2.60% for the year.

Within Canada, the S&P/TSX Composite returned 4.45% to end the quarter. Though Canada continued to exhibit the strongest growth among G7 nations, the Bank of Canada decidedly took a “wait and see” approach regarding raising interest rates. This decision was spurred by uncertainty from NAFTA negotiations, upcoming minimum wage hike, record levels of household debt and tighter lending standards amidst a heated housing market. The Canadian bond market, represented by the FTSE TMX Canada Universe Bond Index returned 2.02% to end the quarter.

In the US, the S&P 500 (C\$) gained 6.84% over the quarter, as sustained economic momentum drove US equity markets to new all-time highs. Companies within sectors tied to the economic cycle, namely Technology, Consumer Discretionary and Financials, exhibited strong corporate earnings for the quarter. Furthermore, economic growth remains resilient and labour markets consistently indicated new job creation and wage growth. Pertaining to fixed income, US High Yield Bonds as represented by the Bloomberg Barclays US High Yield 2% Issuer Cap (C\$ Hedged), underperformed for the quarter and returned 0.37%.

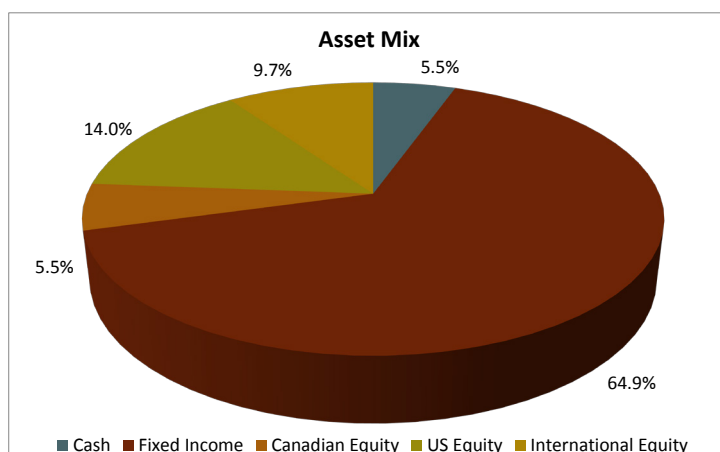
Outside of North America, the MSCI EAFE (C\$) which is representative of developed markets outside of the US and Canada, returned 4.42% over the quarter. Regionally speaking, Europe underperformed, dragged down by a negatively performing Financials sector. Despite the lacklustre equity market, Eurozone leading economic indicators continue to show near-record signs of expansion in manufacturing production as well as service sector activity. On the other hand, MSCI Japan (C\$) was up 8.69% over the period driven by the Consumer and Industrial sectors. Japanese equities rallied strongly following the re-election of Prime Minister Abe. The continuation of aggressively loose monetary policy has finally generated signs of positive economic activity in the country.

Within Emerging Markets, the MSCI Emerging Markets (C\$) gained 7.63% over the quarter. Most countries saw high single digit to double digit performance as widespread economic growth in the developed economies drove demand for emerging export-driven economies. China (+8.60%), South Korea (+11.06%), South Africa (+21.75%), India (+11.85%), and Taiwan (+4.38%) were the largest contributors to index returns. The only major detractors came from Brazil (-1.52%) and Mexico (-7.84%), with the latter likely underperforming due to potential negative impact from the NAFTA

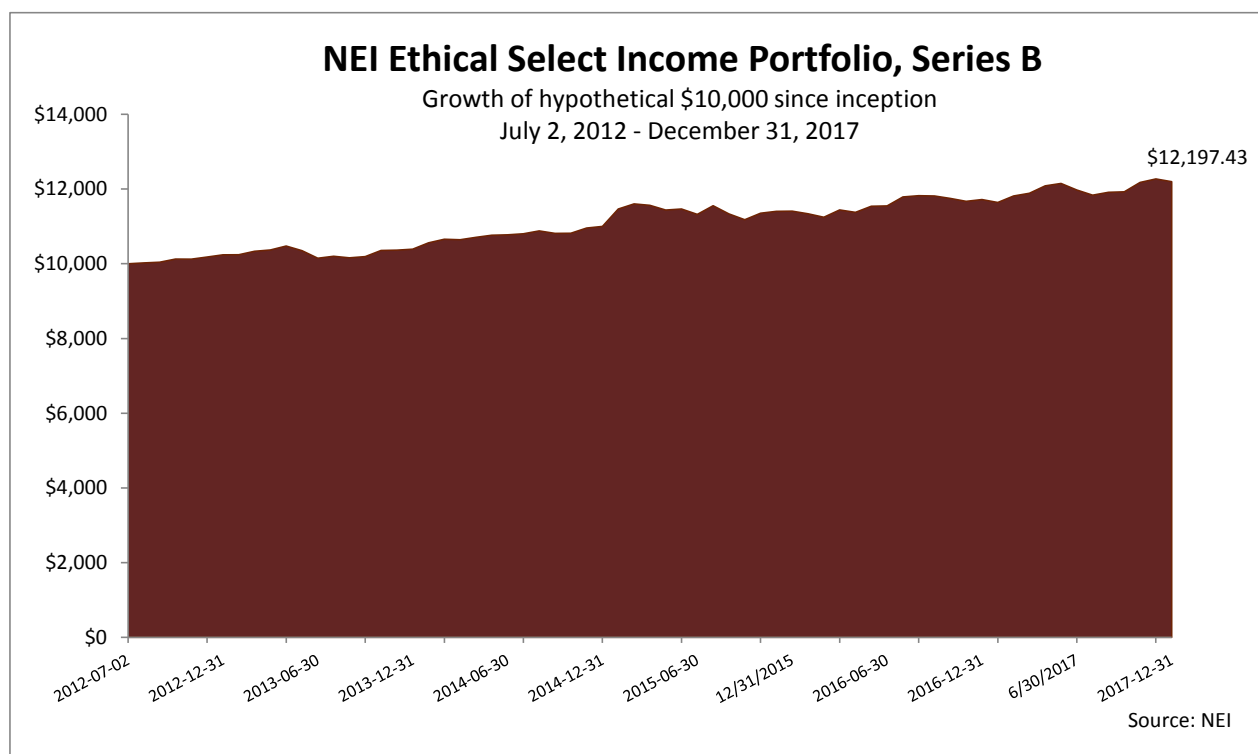
Portfolio Commentary

The NEI Ethical Select Income Portfolio, Series B returned 2.27% for the quarter. In terms of asset allocation, the fund’s underweight to fixed income and overweight to global equities added value. At the underlying fund level, NEI Canadian Bond Fund, NEI Global Total Return Bond Fund, and NEI Ethical Global Dividend Fund were major positive contributors over the period.

UNDERLYING FUNDS	TARGET ALLOCATION
NEI Canadian Bond Fund	45%
NEI Global Total Return Bond Fund	25%
NEI Ethical Canadian Equity Fund	6%
NEI Ethical Global Dividend Fund	9%
NEI Ethical US Equity Fund	4%
NEI Ethical Global Equity	9%
NEI Ethical International Equity	2%



Returns as of December 31, 2017 (Series B)	1 month	3 month	6 month	1 year	3 year	5 year	10 year	SI*
NEI Ethical Select Income Port Ser B	-0.60%	2.27%	1.86%	4.08%	3.50%			3.68%
* Inception Date: July 3, 2012								



Outlook

Although initially what comes to investors' minds may be the overwhelming barrage of negative news, 2017 was marked by a synchronized resurgence in growth across both developed and emerging economies. While the growth spur was modest, associated with near rock bottom interest rates and strong employment growth, it was sufficient to push earnings higher and in tandem, stock prices. The global economy continues to be supported by very accommodative monetary policies along with increasingly expansionist fiscal policies while so far not creating significant inflationary pressures. In economic terminology, this is a classic "goldilocks scenario". Equity markets have taken note and we have seen valuations climb higher. We are concerned, however, about the general lack of market volatility. Equity and even fixed income markets have been quite complacent when it comes to discounting negative news and events. Nevertheless, we remain generally positive in regard to the global economy and selectively on equity markets.

Outlook Continued

Following a stellar year of investment fueled growth we expect the Canadian economy to revert back to more “normal” 2.0% to 2.5% growth pace. As the labour market further strengthens and as we approach full capacity utilization we would expect further rate hikes from the Bank of Canada. Growth in 2018 will likely be driven by business investment and exports rather than consumer spending and residential housing investment, as the latter two will likely see negative impact from a higher cost of borrowing and tighter mortgage rules. The key theme for Canadian investors next year will be balancing positive hard economic data with the uncertainties created by NAFTA negotiations, record high household debt/income levels, and the impact of higher interest rates along with the new mortgage lending rules mentioned previously.

We expect the US to continue to see sustained growth with no shortage of political noise. On the back of positive economic momentum, the Fed’s shrinking balance sheet combined with higher interest rates could spell trouble for fixed income investors. The much anticipated tax bill was finally passed in late December and while we believe benefits from the fiscal stimulus is largely priced in, lower corporate taxes from 35% to 21% as well as the repatriation tax should provide some additional equity market tailwind. For the most part we believe earnings growth will continue to be the catalyst for US equities to grind higher in 2018, easing valuations toward more sustainable levels. For US high yield bonds, valuations continue to be stretched versus history but economic conditions still remain favorable for this asset class. Given its shorter duration and once credit spreads are adjusted for a lower than historical expected default rate, high yield bonds continue to be an attractive sub-set of fixed income in this rising rate environment.

We remain constructive on EAFE equities as economic data from the region continues to signal early expansion cycles. Every Euro-area country is seeing positive growth and even Japan posted better than expected GDP growth. During the fourth quarter the Bank of England announced their first rate hike since 2007 while the European Central Bank reduced their monthly QE purchases by half. As these positive economic trends continue we can likely expect more hawkish tones on monetary policy from the region’s central banks towards the latter half of 2018. As positive as we are on the equity market, no doubt political risks remain and we will be watchful to their development. Brexit negotiations are still underway, Germany (although getting closer to) has yet to solidify a coalition government, the Catalan independence situation has yet to be resolved, and Italy faces an upcoming general election in March.

Emerging market equities saw stellar performance in 2017. Supported by the recent rebound in commodity prices, we expect the momentum to continue into 2018 as robust developed economies will continue to be a key driver of demand for the export-focused economies. The other and perhaps more important emerging market theme, as we have often referred to in the past, is the strengthening middle class consumer. Looking at global IPO statistics for 2017 we saw an insurance boom in India as well as evidence of China’s shift from a manufacturing to services-based economy. While export-demand should provide a nice tailwind, we expect domestic consumption to play an increasingly larger role in driving growth for emerging economies going forward.

As an investor in OnCourse, you invest in Series B units of the portfolios. Series B units are only available for dealers that have entered into a Series B Units Distribution Agreement with NEI Investments and became available in July 2012. For illustration purposes only. This document is provided for informational purposes only and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. Please consult with your own professional advisor on your particular circumstances. Unless otherwise indicated, data is as at December 31, 2017.

The chart illustrates the performance of a hypothetical \$10,000 investment made in the NEI Ethical Select Income Portfolio, series B on July 3, 2012. Assumes reinvestment of distributions. This chart is not intended to imply any future performance of the fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Past performance does not guarantee future performance. The indicated rates of return are the historical annual compounded total returns including changes in net asset value and reinvestment of dividends and distributions, but does not include any sales, redemption or other account charges or administrative fees payable by the investor which would reduce returns. Northwest Funds, Ethical Funds and NEI Investments are registered trademarks of Northwest & Ethical Investments L.P.

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