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NEI Select Conservative Portfolio Quarterly Commentary - Q1 2018

Fund Code	
Series B	NWT50044

Market Recap

During the first quarter of 2018, most global equity markets declined amid the concerns surrounding the US interest rate increases, inflationary fears and trade wars.

January started off on a strong note, with equity markets' positive momentum carrying over from late-December as Congress finally passed the much anticipated tax bill. NAFTA uncertainty and slowing economic growth continued to weigh down on sentiment, causing Canada to lag the developed markets. In addition, the Bank of Canada announced another 25bps rate hike, bringing the overnight rate to 1.25%, but followed up with a relatively dovish caution that "stimulus is still needed". Bond markets saw negative January returns as positive economic momentum continued to fuel concerns of faster-than-expected monetary policy tightening and pushing long-term rates higher.

The month of February saw a week-long sell-off in global equities which resulted in a nearly 10% correction before bottoming out on February 8. In the US, risks of trade wars escalated near March-end as the White House announced tariffs on steel and aluminum imports, which later escalated to $50 billion in tariffs against Chinese imports. The US Federal Reserve, with its new chair Jay Powell, announced a 25bps rate hike on March 21, bringing the central bank's target rate to 1.50-1.75%. Amid all the political headlines this was a relatively small market mover, even as the Fed alluded to a steeper path of interest rate hikes for 2019-2020. In local currency terms, global equities ended the quarter back near their February lows.

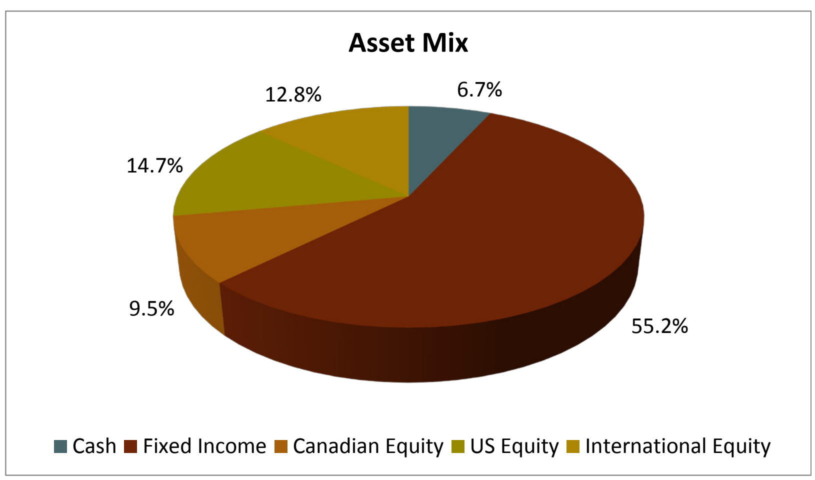
In early March a German coalition was created that saw an alliance between Merkel's minority CDU/CSU party and the Social Democratic Party, putting an end to German political uncertainty and presenting Germany and France as a united front in Europe. In Italy, none of the parties on the March 4 election attained the 40% required majority vote, creating some uncertainty in the region as talks emerged of coalitions and/or even re-elections. During this period the European Central Bank also tweaked their language around Quantitative Easing, removing an explicit pledge to "increase the size of QE if needed". While this was not a huge surprise given the stellar growth seen in Europe, the central bank's statements certainly help to reinforce the tightening trends.

Over the three month period, the MSCI World (C$) gained a mere 1.58% mainly due to positive foreign currency gains led by the US (+2.12%) and Japan (+3.75%). MSCI Emerging Markets (C$) gained 4.36% for the quarter, seemingly unaffected by the turbulence in developed markets. Bond markets, on the other hand, ended the quarter relatively flat to negative with most of the losses having occurred in January. The FTSE TMX Canada Universe gained 0.10%, the Barclays Global Aggregate (C$ Hedged) lost 0.26%, and the Barclays US High Yield 2% Issuer Cap (C$ Hedged) lost 1.07% owing to higher long-term yields and wider credit spreads. The Canadian dollar depreciated against most major currencies during the quarter: -8.99% against JPY, -6.70% against GBP, -5.39% against EUR, and -2.90% against USD.

Portfolio Commentary

The NEI Select Conservative Portfolio (Series B) returned -1.05% for the quarter. In terms of asset allocation, the fund's overweight to global equities and underweight to Canadian equities added value. The fund's overweight to emerging market equities also added value as emerging markets outperformed developed markets. At the underlying fund level, NEI Northwest Emerging Markets Fund and NEI Ethical Global Dividend Fund were the major positive contributors over the quarter.

Underlying Funds	Target Allocation
NEI Canadian Bond Fund	39%
NEI Global Total Return Bond Fund	18%
NEI Northwest Spec Glb High Yld Bond Fund	3%
NEI Northwest Canadian Dividend Fund	8%
NEI Northwest US Dividend	7%
NEI Ethical Global Dividend Fund	4%
NEI Ethical International Equity Fund	6%
NEI Northwest Emerging Markets Fund	3%
NEI Ethical Special Equity Fund	4%
NEI Global Value Fund	3%
NEI Northwest Global Equity Fund	5%



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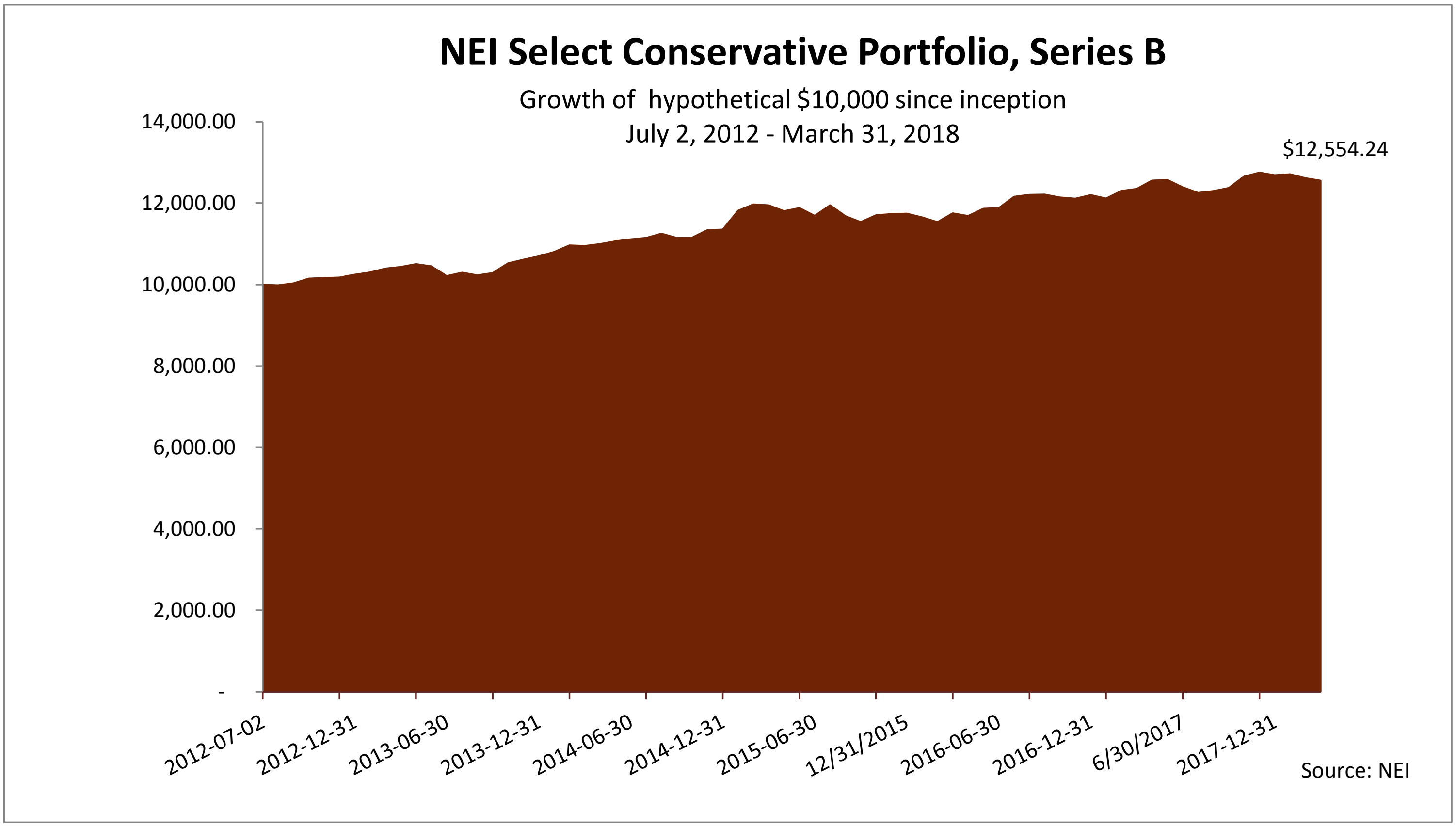
Returns as of March 31, 2018 (Series B)	1 month	3 month	6 month	1 year	3 year	5 year	10 year	SI*
NEI Select Conservative Portfolio Ser B * Inception Date: Jul 3, 2003	-0.49%	-1.05%	1.46%	1.64%	1.66%	3.77%		4.04%



Overview

Although initially what comes to investors' minds may be the overwhelming barrage of negative news, the global economic outlook continues to be marked by synchronized growth across both developed and emerging economies, as noted by the IMF in their April update. While the global growth narrative was sufficient to push earnings and some equity prices higher early in 2018, it may come under pressure going forward. Previously accommodative monetary policies are gradually starting to turn more restrictive as inflationary pressures are likely to continue building up later this year and in 2019. We expect volatility to persist due to increased pressure on equity and fixed income market valuations in this later stage of economic expansion. Nevertheless, we remain generally positive with regard to the global economy and on select equity markets.

Following a stellar year of growth we expect the Canadian economy to slow down to a more "normal" growth pace. 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 be vulnerable to downside risk as the cost of borrowing increases. Meanwhile the export sector, save from a NAFTA collapse, should continue to benefit from a strong US economy along with growing global demand for commodities. The energy sector in particular will likely benefit from a lower discount on Western Canada Select (Canadian oil) although there remains some uncertainty with regards to pipelines. As the labour

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Overview Continued

Despite the market currently pricing in two further 25bps rate hikes in 2018, we believe the Bank of Canada is likely to remain dovish based on: 1) their belief that spare capacity linked to underemployed workers allow further economic growth without fueling inflation pressure, and 2) their cautious evaluation of the impact of new mortgages rules on residential housing and consumer spending. It is important to note that the Government of Canada yield curve flattened over the first quarter as short-term rates continued to rise as the Bank of Canada raised interest rates, while long-term rates dipped on weakening growth expectations. The spread between the Government of Canada 10-Year bond and 2-Year bond narrowed to just 0.32% at the end of March, in contrast with its historical average of about 1%. As the Bank of Canada continues to raise short term rates, we will need to be cautious about future economic prospects, as an inverted yield curve (where short-term rates exceed long-term rates) has historically preceded economic recessions. The key theme for Canadian investors in the medium-term will likely be balancing positive hard economic data with the uncertainties created by NAFTA negotiations, record high household debt/ income levels, and the impact of new mortgage lending rules. In our opinion, most of these economic uncertainties are already priced into Canadian equity valuations, which in our assessment are looking increasingly appealing on an historical basis. In fact, we believe Canadian equities could surprise on the upside. While we are not advocating for a quick rebound in equity prices, we believe that positive news or even relatively benign outcomes for above-mentioned risk factors could provide a significant lift to Canadian equity prices.

The US economic expansion is likely to continue, sustained by the US$1.5 trillion fiscal stimulus along with accommodative monetary policy that is only slowly getting back to neutral. We believe US equities are likely to grind higher this year as corporate earnings see a boost from the fiscal stimulus and help normalize valuations. We also expect gradual building of inflation pressures will keep the US Federal Reserve on a tightening path, with two to three additional rates hikes expected by the market participants for the remainder of 2018. The Fed's shrinking balance sheet combined with higher interest rates could spell more trouble for fixed income investors. The exception perhaps can be found in US high yield bonds as economic conditions remain favourable for this asset class, though valuations are somewhat stretched in our opinion. 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. Despite the US rhetoric of protectionism and trade wars, we expect the overall economic impact of tariffs to be relatively minor. To provide some context, the recently announced $50 billion in tariffs on Chinese imports account for less than 3% of US goods imports and less than 0.1% of US GDP.

We remain bullish on EAFE equities as economic data from the region continue to signal an early expansion cycle, despite leading economic indicators peaking early this year. Euro-area countries as well as Japan continue to see positive GDP growth and stronger labour markets. As a result, most of the major central banks in the region have taken more hawkish tones, though to various degrees. Although political risks have subsided since last quarter, some still remain and we will be watchful to their development. Brexit negotiations have seen some progress (although there is still much to be resolved) and Italy has yet to solidify a coalition government (and potentially faces a re-election).

Emerging market equities saw stellar performance in 2017. Supported by the recent rebound in commodity prices and weaker US dollar, we expect the momentum to continue throughout 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, and one that we continue to reiterate, is the strengthening middle class consumer. This is evident in Information Technology, which in these markets generally provide domestically-focused services, has taken over as the largest sector in the traditionally resource heavy MSCI Emerging Markets Index. 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.
