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NEI Select Growth Portfolio
Quarterly Commentary - Q3 2018

Fund Code	
Series B	NWT50042

Market Recap

Canadian equities underperformed in the third quarter, declining 0.57% as measured by the S&P/TSX Composite, compared to a 3.16% gain for the MSCI World (C$). Materials (-12.93%), Consumer Discretionary (-8.72%), and Energy (-5.74%) were the worst performing sectors. Despite West Texas Intermediate (WTI) crude oil rallying over 4% and surpassing US$70/bbl for the first time since 2014, the widening Western Canada Select (WCS) discount prevented the Canadian energy sector from participating in the rally. Ending the quarter at -$34.90, the spread between WCS and WTI hit a near all-time low and can be attributed to several factors including pipeline capacity, slow uptake in crude-oil by rail shipments, as well as production outages at two important US refineries. Finally following months of deliberation, a last-minute NAFTA deal was reached near midnight on September 30, the deadline for submitting an in-writing deal to Congress. The new deal, known as the "United States-Mexico-Canada Agreement", largely appears to be a rebranding of NAFTA and thus eliminates a great deal of uncertainty from the trade front. The Bank of Canada announced a 25bps interest rate hike on July 11, the second one so far this year. Faced with continually tighter monetary policy the FTSE Canada Universe Bond Index declined 0.96%. During the quarter the Canadian dollar gained 1.74% against the US Dollar, 2.25% against the Euro, 4.18% against the Japanese Yen, and 2.94% against the British Pound.

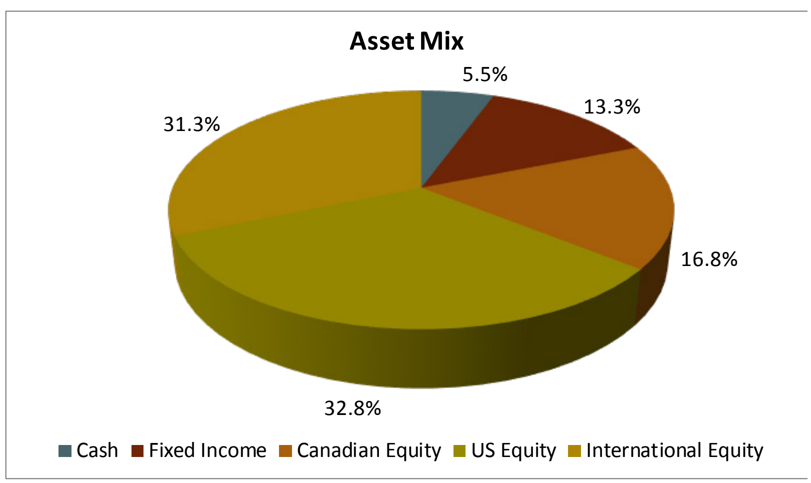
Amid a backdrop of strong corporate earnings and a strong economy, US equities outperformed for another quarter, gaining 5.84% as measured by the S&P 500 (C$). All sectors posted positive returns, led by Health Care (+14.5%), Information Technology (+12.43%), Industrials (+9.99%), and Consumer Discretionary (+9.32%). In a surprise move, President Trump secured concessions with the EU for a trade deal in late July. And by September end, NAFTA negotiations finally found resolution with creation of the US-Mexico-Canada Agreement. While trade tensions eased in the West, the US ratcheted up pressure on China by announcing tariffs an additional $200 billion of Chinese imports. Meanwhile the Federal Reserve continued its pace of tightening by announcing a 25bps rate hike on September 26th. This marks the third increase year to date and the announcement was followed by very hawkish remarks from Chairman Powell on the state of the economy, effectively setting the market up for expectations of more rate increases to come. US high yield bonds performed well as option-adjusted spreads narrowed by 50bps and ended the quarter at near post-financial crisis lows. The Bloomberg Barclays US High Yield 2% Issuer Cap (C$ Hedged) gained 2.23% over the period.

International markets, apart from Japan, came under pressure this quarter as contagion from an emerging market sell-off spread to European markets. The MSCI Europe Index (C$) lost 0.95% while the MSCI EM Index (C$) lost 2.81%. Emerging markets had already been under pressure this year as protectionist policies and higher USD borrowing rates raised concerns around EM financial stability. This was further exacerbated in early August as President Trump ordered a doubling of steel and aluminum tariffs against Turkey, leading to the worst weekly decline for the Turkish Lira since 2008. Contagion is a risk factor in almost every EM selloff as investors still have the tendency to bucket EM countries together indiscriminately. By August month-end we saw the selloff spread to Brazil, Indonesia, and South Africa, with even the Euro selling off as several European banks have exposure to Turkey. Also creating pressure on European equities was a potential breakdown of the Italian coalition government over budget talks. On the economic front as Eurozone PMI indicators continued to level off from their highs in early 2018, the ECB kept current rates and stuck with their guidance of ending QE by December and a first potential rate hike after summer 2019. The Bank of England announced a 25bps rate hike, and while the move itself was widely expected, the surprise there was that it was a unanimous decision given the lingering uncertainty around Brexit negotiations. Lastly the Bank of Japan, while keeping their 10-year bond yield target of 0%, allowed for more flexibility in bond operations by widening the band to +/- 0.2%. The Bloomberg Barclays Global Aggregate (C$ Hedged) ended the period flat, declining 0.21%.

Portfolio Commentary

The NEI Select Growth Portfolio (Series B) returned 0.34% for the quarter. In terms of asset allocation, the portfolio's underweight to fixed income and overweight to global equities added value. Within fixed income, the portfolio's overweight to global investment grade and high yield bonds versus Canadian investment grade bonds added value. At the underlying fund level, NEI US Dividend Fund, NEI Global Equity Fund, NEI Global Equity RS Fund, and NEI Global Value Fund were the major positive contributors over the quarter.

UNDERLYING FUNDS	TARGET ALLOCATION
NEI Canadian Bond Fund	5%
NEI Canadian Dividend Fund	7%
NEI Canadian Equity Fund	7%
NEI Canadian Small Cap Equity Fund	6%
NEI Emerging Markets Fund	9%
NEI Global Equity Fund	12%
NEI Global Equity RS Fund	13%
NEI Global High Yield Bond Fund	3%
NEI Global Total Return Bond Fund	7%
NEI Global Value Fund	10%
NEI International Equity RS Fund	11%
NEI US Dividend Fund	10%



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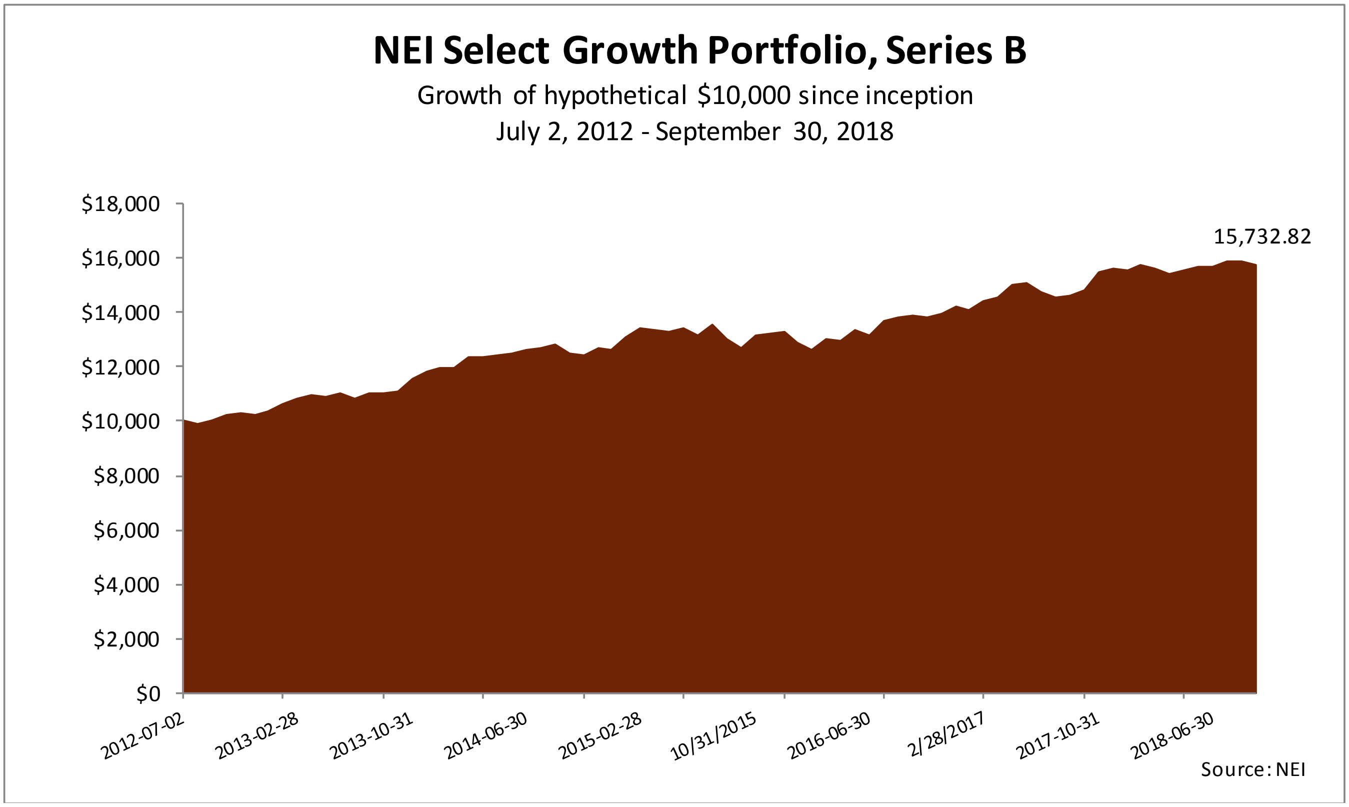
Returns as of September 30, 2018 (Series B)	1 month	3 month	6 month	1 year	3 year	5 year	10 year	SI*
NEI Select Growth Portfolio B	-1.07%	0.34%	1.88%	6.01%	7.36%	7.17%		7.53%
* Inception Date: July 3, 2012								



Overview

After peaking in early 2018, leading economic indicators across both developed and emerging markets continue to slowly decline but still firmly remain in expansionary territory. Global trade war risks have diminished, at least within North America, while things have intensified against China. In our view the US economy is well into the late phases of its current expansion cycle, and the impact of its tighter monetary policy on the rest of the world is becoming increasingly evident. Going forward we can expect periodic bouts of volatility to surface as asset prices adjust to higher "risk-free" rates.

For Canada, creation of the United States-Mexico-Canada Agreement clears up much of the uncertainty around trade. Most of the existing NAFTA terms remain and therefore there should be minimal impact on economic growth prospects. Health of the Canadian residential housing market is still a risk, though this has significantly diminished over the last few months as supply and demand comes back into balance and prices have seen a soft correction. We are watchful of a new risk that has emerged on the horizon, which is the discount of Western Canada Select (Canadian crude oil) to the global benchmark West Texas Intermediate. Ending last quarter at US$34.90/bbl, this is close to the widest discount in history to WTI, which ended the quarter at US$73.25/bbl. The lag in WCS prices can be attributed to pipeline capacity, temporary shutdowns of US refineries, as well as seasonal factors. While the latter two are short-term, crude oil transportation will continue to be an issue (and a political one at that). Despite these temporary headwinds, we expect the Bank of Canada to follow the US Federal Reserve and continue its pace of tightening.

Not valid without disclaimer on Page 3.

Overview Continued

US leading economic indicators show little signs of slowing down and we expect a little more juice in the current expansion cycle. Entering Q3 earnings season, we should continue to see strong results, but we must pay extra attention to forward earnings guidance, particularly regarding the effect of tariffs and its impact on manufacturer input costs. With record low unemployment rate, strong wage growth, and inflation at target, we see no reason for the US Federal Reserve to ease up on their pace of tightening. US high yield credit spreads are likely to remain rangebound, and risks are tilted to the downside as spreads are already near all-time lows and will likely spike during any market sell-off. In a late cycle economy, we believe it is prudent to start easing up on credit exposure, as higher cost of borrowing may place increasing pressure on corporate bond issuers as they roll over debt.

Eurozone leading economic indicators have trended lower since earlier this year. Political uncertainty has resurfaced as Italy attempts to sort out its budget within the coalition government. We have not seen much progress in Brexit negotiations, and the Ireland border is emerging as a key issue. Despite these political risks, the European Central Bank is likely to act on their guidance and taper their Quantitative Easing purchases starting October and ending all asset purchases by December, followed by a first rate hike sometime next year. The Bank of Japan is also likely to continue their accommodative policy for at least the medium-term as inflation, while having seen some improvement, remain at low levels.

For emerging markets, we expect trade wars and a strong USD will continue to pose economic headwinds in the near-term. Most of the volatility and negative headlines this year came from countries that are sensitive to trade policies or have weak balance sheets and a high proportion of USD-denominated debt. In these types of market conditions, we favour an active approach that is very selective of not just individual countries but also of individual companies whose growth are based on long-term secular trends and thus can weather the short-term volatility.

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 September 30, 2018. The chart illustrates the performance of a hypothetical $10,000 investment made in the NEI Select Growth Portfolio, series B on July 3, 2012. Assumes reinvestment of distributions. This chart is not intended to imply any future performance of the fund.

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