NEI Canadian Dividend Fund

Q2 2024 Commentary

Performance

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

The second quarter saw global equity markets advance near their all-time highs on continued expectations for the world's central banks to reverse course and start reducing interest rates. Inflation readings continue to decline, although bringing inflation back to policy target levels remains a challenge. The Bank of Canada was the first G7 central bank to reduce its rates with potentially more cuts to come. In contrast, the Federal Reserve elected to maintain their level of interest rates given the strong labor market and consumer spending which has held up. Both central banks are taking a cautious approach to their monetary policies and will let incoming economic data dictate the path of future interest rate moves. Globally, the rise of artificial intelligence continues to show no signs of abating with some of the large technology companies participating in this trend rising to record highs. The situation in China is worth monitoring as a potential slowdown in economic growth will have meaningful repercussions on various parts of the market including commodities. In addition to these numerous macro factors, geopolitical instability in the Middle East and the upcoming U.S. elections add yet more fuel to short and intermediate-term market volatility.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Canadian Dividend I	-0.89	3.19	3.19	7.73	5.72	7.92	7.26	N/A
NEI Canadian Dividend F	-1.15	2.66	2.66	6.60	4.63	6.79	6.03	N/A
NEI Canadian Dividend A	-1.43	2.08	2.08	5.38	3.40	5.55	4.79	N/A
Benchmark 1: 80% S&P/TSX Composite TR Index, 20% MSCI World NR Index (C$)	0.33	8.00	8.00	14.51	6.91	10.03	7.56	N/A

[1]Source: Morningstar. As of June 30, 2024. Since inception is only provided for Funds with less than 10 years of performance.

On December 14th 2016, the fund benchmark was changed. Prior to this date the fund benchmark was S&P/TSX Composite TR Index.

Portfolio commentary

A lower exposure to Industrials helped the relative returns as the sector declined slightly. In the Materials sector, lack of exposure to precious metals and mining companies impacted relative returns. Of note was the speculative advance of the price of gold, betting on further rate reductions, persistent inflationary pressures, and strong demand from China. Most companies in this sector do not meet the strategy's multiple criteria of quality, stability, discounted normalized valuations, and dividends.

Consumer holdings Dollar General, Magna, and Restaurant Brands were detractors to the performance during the period. Dollar store operator Dollar General posted results that came in ahead of expectations, however, the environment remains challenging. Lower-income consumers are being impacted by the higher interest rate environment and in addition, there is increasing promotional activity taking place with other retailers, which could impact sales and profit margins. Global auto parts supplier Magna reported lower quarterly results on reduced sales within their Power and Vision segment. Although this was a timing-related issue, guidance for the year was lowered on concerns about the slowing pace of adoption of electric vehicles and lower auto production forecasts. The shares of this world class company remain very attractively valued, and with a strong balance sheet, the company is positioned to weather the storm until the auto industry normalizes.

Positive stock selection in the Utilities sector added to the returns with recent additions outperforming, notably Brookfield Renewable Partners. The company delivered strong earnings results during the period with recovering hydropower generation. In addition, Brookfield signed a significant agreement with Microsoft that will see the company supply renewable power to their data centers in both the U.S. and Europe. Despite the advance, the shares remain attractively valued while providing a sustainable dividend yield above 5%.

Other strong contributors included Alphabet, Chartwell, Costco, Manulife, and Royal Bank. Chartwell is the largest provider of seniors housing. The company reported strong results and continues to see its occupancy rates move higher as it resumes its normal trend, having been temporarily derailed by the pandemic. Long-term catalysts include the demographic tailwind of an aging population, higher industry-wide rents, and a limited supply of seniors housing. Costco shares advanced as the company remains one of the best-positioned retailers to win market share driven by continued expansion of its warehouses, membership revenue growth, and industry-leading sales growth given its value and quality offering. Royal Bank shares advanced given the good earnings results during the quarter helped by stronger capital markets and wealth management. The bank also increased its dividend by 3% and announced a share buyback program.

During the quarter, the sub-advisor opportunistically added a new position in Brookfield Infrastructure Partners given its attractive valuation, organic growth opportunities, and compelling dividend yield. Within the global equities, the positions in Reckitt Benckiser and Vodafone were eliminated with the proceeds redeployed into higher return opportunities including new addition Amadeus IT Group.

Outlook

The Fund remains opportunistically positioned with high-quality companies trading at attractive prices. The sub-advisor remains focused on adhering to their strict discipline and investment process by actively reducing holdings that approach their target prices, while selectively adding to a limited number of attractively priced companies with stable business characteristics. They expect to continue taking advantage of these market conditions to position the Fund to meet the multiple criteria of quality, stability, sustainable dividends, and attractive valuations.