

NEI Canadian Dividend Fund

Q1 2025 Commentary



Performance

The Fund (Series I) outperformed the benchmark for the quarter.

The first quarter saw an unprecedented amount of market volatility headlined by tariff and trade-related news coming from the U.S. administration. This uncertainty along with concerns over lower global economic growth, caused equity markets and certain highly valued sectors to pull back sharply. Central banks globally including both the Federal Reserve and the Bank of Canada have continued to take an accommodative monetary policy stance with a bias towards lowering interest rates based on incoming data. While inflation has generally come down, there are concerns that the imposition of tariffs might lead to higher prices creating an unfavorable situation with some fears of even stagflation emerging. In Canada, the market is also having to contend with a federal election as the country experiences one of its most tumultuous and unpredictable periods. Market volatility is expected to remain extremely high given the heightened focus on tariffs and trade wars, the ongoing global geopolitical instability in Europe and the Middle East, and China's resolve to grow its economy by attempting to increase domestic consumption.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Canadian Dividend Fund Series I	2.77	2.98	2.77	13.71	6.64	16.29	8.09	N/A
NEI Canadian Dividend Fund Series F	2.50	2.44	2.50	12.50	5.53	15.08	6.89	N/A
NEI Canadian Dividend Fund Series A	2.21	1.85	2.21	11.20	4.30	13.74	5.63	N/A
<i>Benchmark 1: 80% S&P/TSX Composite TR Index, 20% MSCI World NR Index (C\$)</i>	0.86	5.17	0.86	15.46	8.79	16.73	9.03	N/A

¹Source: Morningstar. As of March 31, 2025. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

Strong stock selection within the Energy sector contributed to performance with positive returns from holdings Arc Resources, EOG Resources, Pembina Pipeline, Shell, Suncor Energy, and TC Energy. These holdings had good quarterly results reinforcing their business fundamentals and highly utilized assets.

The lower exposure to both the Industrials and Technology sectors were key contributors to performance as these sectors posted negative returns during the period.

The underweight to the volatile Materials sector, in particular gold mining-related companies, detracted from the relative performance over the quarter as the price of gold surged to record highs given the unprecedented level of volatility and uncertainty in the markets. Most companies in the metals and mining sector do not meet the strategy's multiple criteria of consistent dividends, quality, stability and discounted normalized valuations.

Shares in Magna declined as the company continues to be impacted by the threat of tariffs. The company ships various automotive parts across the U.S. border to vehicle manufacturers for final assembly. The addition of tariffs to these components would materially increase the final price of these vehicles. Given the significant voter backlash over higher prices, the sub-advisor believes that the U.S. administration will reduce the level of tariffs to ease the burden on consumers. In the meantime, shares of Magna are extremely undervalued and the company has a very strong balance sheet as it navigates these challenging conditions.

Financials ING, Intact, Nordea Bank, Power Corp., and TD Bank had strong returns during the period. Intact outperformed as the insurer delivered good underwriting profitability in both their property and automotive segments. The company increased their dividend by 10%. Power Corp. had decent results given their exposure to both Great West and IGM. They also increased their dividend by 9%. TD Bank which is a core holding in the Fund saw its shares appreciate due to robust Canadian banking results, strong capital markets, and lower provisions for credit losses.

Strong stock selection in several companies from numerous sectors added to the returns including holdings Chartwell, Empire, H&R REIT, Hydro One, Nutrien, Quebecor, and Verizon.

Chartwell, which is the largest provider of senior housing, reported higher occupancy levels along with good cost controls. The company is well positioned given the long-term demographics of an aging population, higher industry-wide rents, and limited supply due to higher construction and financing costs.

Shares in utility holding Hydro One fared well in the quarter as the company posted decent results and continues to see a growth in their rate base. They also modestly revised upwards their EPS guidance due to upcoming projects. During times of uncertainty, investors gravitate towards this holding.

Quebecor was the best performing telecom company as their quarterly results continued to show strong wireless loading demonstrating their ability to capture market share from the incumbents. The company increased their dividend by 8%. The shares continue to remain attractively valued with a reasonable dividend yield and low payout ratio.

Outlook

The Fund is opportunistically positioned with a moderate defensive posture given its cash weighting and higher exposure to essential areas of the market including the Grocers, Telecom companies, and Utilities. The Fund consists of high-quality companies trading at attractive valuations relative to the market. 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 attractively priced companies with stable business characteristics. The sub-advisor expects to continue taking advantage of these market conditions to position the Fund to meet their multiple criteria of quality, stability, sustainable dividends, and attractive valuations. While market volatility is expected to remain highly elevated, the Fund offers a compelling potential for gains over their investment time horizon. As past experiences have shown, the sub-advisor expects that the market will recognize the inherent fundamentals in the businesses they own including the deep valuation discounts of some of their holdings. In addition, the Fund provides a strong and growing dividend yield, which should be compelling in an uncertain and declining interest rate environment.

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Series I have high minimum investment requirements and are typically aimed at institutional investors (such as pension plans) or investors making large investments in the fund. Funds in these series generally have lower management fees than the retail series of the same fund.

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