NEI Canadian Dividend Fund

Q4 2024 Commentary

NEI

Performance

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

The year in review ended with global markets posting strong returns although they pared their gains towards the end of December with concerns over a more gradual pace of monetary easing. During the year, the Fund posted a solid absolute return but lagged the benchmark, which was driven by a very strong advance in the more richly valued Technology sector. Positive stock selection across several sectors along with the strong underlying fundamentals of the holdings were key factors in the Fund's absolute performance. During the fourth quarter, the market's focus shifted to lower interest rates albeit at a gradual pace given that inflation while reduced, could move higher due to the uncertainties associated with the incoming U.S. administration. The Federal Reserve elected to reduce rates towards the end of the year but with a hawkish tilt conveying that any further rate cuts would be highly dependent on incoming economic data with the potential for fewer rate cuts in 2025. In contrast, the Bank of Canada's monetary easing cycle has been more aggressive with the potential for more cuts into the New Year given lower economic growth and higher unemployment levels. Market volatility is expected to remain extremely high given the heightened focus on interest rates, the uncertainty of tariffs and a trade war enacted by the new U.S. administration, the ongoing global geopolitical instability, and China's determination to grow its economy.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Canadian Dividend Fund Series I	0.21	11.64	15.20	15.20	7.14	8.89	8.11	N/A
NEI Canadian Dividend Fund Series F	-0.06	11.03	13.98	13.98	6.03	7.75	6.90	N/A
NEI Canadian Dividend Fund Series A	-0.35	10.38	12.67	12.67	4.79	6.50	5.64	N/A
Benchmark 1: 80% S&P/TSX Composite TR Index, 20% MSCI World NR Index (C$)	4.28	14.10	23.23	23.23	9.11	11.62	9.21	N/A

[1]Source: Morningstar. As of December 31, 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

The underweight to Information Technology was a key contributor to the underperformance as the sector posted a very strong return. Most companies in this sector do not meet the Fund's multiple criteria of quality, stability, discounted normalized valuations, and dividends.

The exposure to the Telecommunications Services sector detracted from the returns. The intense promotional and competitive activity, the uncertain regulatory environment, and slowing population growth have been headwinds. In particular, shares in BCE have been challenged due to their elevated dividend payout ratio, balance sheet leverage, and their recent acquisition in the U.S., which has brought some added uncertainty. The shares are highly undervalued with potential options available to the company to address these market concerns.

The Financials holdings were positive contributors to the performance with BNS, Brookfield, CIBC, Manulife, and Royal Bank outperforming on good quarterly results. The banks saw decent results from their domestic operations given positive loan growth and strong wealth management. The majority of the banks increased their dividends this quarter.

The underweight to both Industrials and Materials was additive to the performance as both sectors posted negative returns during the period.

Real Estate holdings Allied Properties, CAP REIT, and H&R REIT pulled back amidst the uncertainty of future interest rate reductions and higher long-term bond yields. The office market remains a concern given occupancy, rents, and future refinancing activities. In addition, the apartment-based REIT's have been under pressure with the reduced population growth measures with the potential that both rental demand and asking rents will decline. The sub-advisor believes that both sectors will see gradual improvements over the year.

Within the Utilities sector, holdings Brookfield Renewable Partners and Superior Plus underperformed. Shares in Brookfield Renewable declined due to weaker sentiment in the sector regarding future changes in the U.S. administration. In addition, power generation across their hydro, solar, and wind assets has been weaker, a trend that the subadvisor expects to reverse. Continued asset sales, along with a growing backlog of projects given the energy transition bode well for the shares going forward. Their investment in Westinghouse, which services nuclear facilities and builds reactors, is another catalyst due to the renewed interest and acceptance globally to rely on nuclear power as an additional source of energy. The shares are attractively valued while providing a compelling dividend yield of about 6%. Superior Plus saw its shares decline on the milder weather, which impacted propane volumes but also due to lower demand for its natural gas mobile storage units in the U.S. As a result of the lower share price and the high dividend yield, the company cut its dividend giving them added financial flexibility to focus on share buybacks as well as the ability to reduce their debt meaningfully. The shares are well-positioned to outperform given their attractive valuation, a return to colder weather, and better messaging of their business at their upcoming investor day.

Within the Energy sector, the lower exposure added to the performance as the price of oil has been range-bound on the potential for higher supply into next year from U.S. shale companies along with concerns over lower demand from major importer China. TC Energy had a good performance as the company continues to deliver strong results in their natural gas and power businesses. The company also reduced its CAPEX guidance for the year as one of its major projects in Mexico is expected to be completed on time and significantly under budget.

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 attractively priced companies with stable business characteristics. They expect 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 will remain elevated given the numerous uncertainties outlined, the Fund offers compelling potential for gains over the 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 the holdings. In addition, the Fund provides a strong and growing dividend yield, which should be compelling in a declining rate environment.