NEI Canadian Equity Fund

Q1 2025 Commentary

Performance

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

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Canadian Equity Fund Series I	-0.74	0.52	-0.74	10.91	5.42	15.40	7.97	N/A
NEI Canadian Equity Fund Series A	-1.37	-0.75	-1.37	8.11	2.74	12.46	5.20	N/A
NEI Canadian Equity Fund Series F	-1.04	-0.10	-1.04	9.56	4.11	13.97	6.59	N/A
Benchmark 1: 80% S&P/TSX Composite TR Index, 20% S&P 500 Index (C$)	0.36	5.18	0.36	15.75	9.12	17.24	9.68	N/A

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

On November 21, 2023, the NEI Canadian Equity Fund changed its sub-advisor without altering its investment objectives. Nevertheless, this transition introduced an immaterial adjustment in the fund's investment strategy. All other aspects of the investment strategy remain consistent. Please be aware that the past performance of this Fund before this change may differ if the new investment strategy had been in place during that period.

Portfolio commentary

Sector allocation contributed to performance while stock selection detracted. Within sector allocation, the Fund’s underweight to Information Technology and overweight to Materials were positives. The Fund’s overweight to Consumer Discretionary and underweight to Energy detracted from performance. Stock selection within the Industrials and Materials sectors also detracted from performance. This included the Fund’s overweight allocation to Air Canada as well as the lack of exposure to Materials names Wheaton Precious Metals Corp and Agnico Eagle Mines Limited. Stock selection within the Information Technology and Financials sectors contributed. Specific names that contributed include BNP Paribas S.A. and Maple Leaf Foods Inc.

Outlook

Tariffs and trade policy uncertainty have raised fears of a global downturn. Though the climate of uncertainty has heightened risks, the sub-advisor believes it is too soon to conclude that current events will trigger a broad-based recession.

Canadian real GDP expanded by 0.6% quarter-on-quarter in Q4. Household spending increased 1.4% and business investment rose 2.0% from the previous quarter, indicating solid domestic demand. In the same period, exports jumped 1.8% quarter-on-quarter as U.S. customers stockpiled Canadian goods ahead of potential trade disruptions. The solid overall performance of the Canadian economy in Q4 helped raise full-year real GDP growth to 1.6% in 2024.

Consumers are well positioned to remain the driving force behind economic activity in 2025. While the unemployment rate (6.6%) is higher than a year ago (5.9%), the rise is not due to an uptick in job losses. Rather, it is a consequence of labour force growth outpacing employment growth. Indeed, the Canadian economy added 387,000 jobs over the last twelve months compared to an expansion in the labour force of 572,000 people over the same period.

Meanwhile, the Canadian workforce continues to enjoy healthy wage growth. Average hourly earnings rose by 3.8% year-on-year in February, tracking ahead of inflation (2.6%). Steady employment and wage gains have helped households maintain healthy balance sheets. The personal savings rate stands at 6.1%, well above pre-pandemic norms, a sign that Canadians are continuing to add to savings. Household finances vary considerably across the income distribution but, in aggregate, the outlook for consumption remains positive given healthy fundamentals.

Tariffs notwithstanding, none of the typical factors that trigger a sharp downturn in activity are in place. There are no distortions in the Canadian financial system or excessive imbalances in the economy. Credit losses are low by historical standards, while households have built substantial equity in their homes which helps limit increases in their debt service costs. In addition, banks have built reserves over the past two years and are well positioned to absorb economic shocks and sustain lending. Inflation is muted, creating room for the Bank of Canada to continue loosening monetary policy, further reducing the risk of a liquidity shortfall.

The threat of tariffs complicates what is otherwise a relatively sanguine outlook for the Canadian economy. A 25% broad-based tariff on Canada would be a major growth shock if sustained over an extended period. Nonetheless, the sub-advisor believes it is premature to forecast a recession. The Canadian economy entered this tumultuous phase in a resilient state, and Canada possesses offsets to tariff risks.

The sub-advisor expects Canadian real GDP to expand by 0.5-1.5% in 2025, a positive rate of growth yet lower than the IMF's current forecast of 2.0%.

The forward price-to-earnings ratio of the NEI Canadian Equity Fund is 11.15 times forward earnings compared to 13.92 to the S&P/TSX Composite Index. The portfolio of companies is very profitable, with a dividend yield of 3.78%.