

# NEI Canadian Equity Fund

## Q4 2024 Commentary

NEI

### Performance

The Fund underperformed its benchmark over the quarter.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Canadian Equity Fund Series I	1.27	11.12	17.39	17.39	4.25	8.12	8.64	N/A
NEI Canadian Equity Fund Series A	0.63	9.69	14.46	14.46	1.62	5.37	5.85	N/A
NEI Canadian Equity Fund Series F	0.96	10.43	15.96	15.96	2.97	6.79	7.26	N/A
Benchmark 1: 80% S&P/TSX Composite TR Index, 20% S&P 500 Index (C\$)	4.81	14.59	24.55	24.55	9.66	12.31	10.09	N/A

<sup>1</sup>Source: Morningstar. As of December 31, 2024. 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

Over the quarter, sector allocation and stock selection were both negatives for the Fund. Within sector allocation, the Fund's underweight to Information Technology and overweight to Communications detracted from performance. On the other hand, the Fund's overweight to Consumer Discretionary was a slight positive. Stock selection within Information Technology was a detractor, particularly the Fund's lack of exposure to Shopify and NVIDIA. Selection within Consumer Discretionary was also weak, with Fund holdings Kingfisher Plc, Linamar Corp and Canadian Tire detracting from performance. Specific stocks that contributed include Industrial names CAE Inc. and Air Canada, as well as CI Financial.

### Outlook

The sub-advisor anticipates another year of positive but below-trend growth for the global economy. Accumulated savings should help Canadian households weather a period of higher unemployment.

In Canada, real GDP advanced 1.5% year-on-year in the third quarter. However, sequential activity weakened. Real GDP rose 0.3% quarter-on-quarter in Q3, compared to a 0.5% rate of growth recorded over the first half of the year. Notable expansions in household spending (+0.9%) and government expenditures (+1.2%) were partially offset by declines in business investment (-0.9%) and residential construction (-0.1%). Despite a competitive Canadian dollar and resilient activity in the U.S., exports also detracted from growth in the third quarter, falling 0.3% against the previous three-month period.

The unemployment rate has steadily edged up from a near-record low of 5.0% in early 2023 to 6.8% in November, a post-pandemic high. The rise is primarily due to robust labour force growth outpacing job creation, rather than being driven higher by job losses. Over the past two years, the gradual and moderate adjustment in the labour market has helped maintain household income growth at healthy levels. Indeed, average hourly earnings rose 4.1% year-on-year in November.

Solid income growth has kept household balance sheets strong. The personal savings rate rose to 7.1% in the third quarter from 6.2% in Q2, a sign that Canadians have continued to stockpile savings. Accumulated savings currently total C\$370 billion (12% of GDP) and should maintain aggregate consumption in positive territory, even if the job market continues to soften in 2025.

On the fiscal front, Canada's finances are not as dire as have been portrayed. The 2024 budget deficit of C\$61 billion is around 2% of domestic GDP, well below that of the U.S. (currently at 7.6% of GDP), France (6.0% of GDP) and the U.K. (4.3% of GDP). Canada's overall debt picture is also on much more solid footing than most major developed economies. On balance, the sub-advisor does not expect the recent overshooting of budget targets to be a material risk to the country's economic prospects.

The sub-advisor believes the Canadian economy is on track for another year of subdued, but positive, growth. Rising labour market slack and continued progress on inflation reinforce the likelihood that the Bank of Canada will continue to cut rates in the months ahead. This should help bring stability to interest-rate sensitive sectors, such as housing, later this year.

Notwithstanding the potential negative effects of U.S. tariffs on the Canadian economy, the sub-advisor forecasts Canadian real GDP growth in the 1.0-2.0% range in 2025.

The forward price-to-earnings ratio of the NEI Canadian Equity Fund is 11.35 times forward earnings compared to 15.01 to the S&P/TSX Composite Index. The portfolio of companies is very profitable, with a dividend yield of 3.56%.

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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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