

NEI Canadian Small Cap Equity Fund

Q1 2025 Commentary



Performance

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

Canadian equities performed reasonably well in the first quarter of 2025, particularly as US equities pulled back. Large cap stocks outperformed small cap in Q1, however, the small cap index still gained. The strength in Canadian small caps came almost entirely from the Gold sector with a return of 35%. Meanwhile, Industrials, Health Care, and Technology stocks all fell more than 10%. In this mixed return environment, sentiment and momentum factors were the most rewarded styles, however, low volatility investment factors also performed well. Value factors showed some notable weakness in Q1. Despite reasonably strong factor performance, the dominance of sector effects in Canadian small cap in Q1 proved a challenging environment for active management.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Canadian Small Cap Equity Fund Series I	-1.65	1.57	-1.65	9.91	5.04	15.52	6.08	N/A
NEI Canadian Small Cap Equity Fund Series A	-2.27	0.27	-2.27	7.09	2.35	12.57	3.36	N/A
NEI Canadian Small Cap Equity Fund Series F	-2.04	0.76	-2.04	8.15	3.37	13.68	4.37	N/A
Benchmark 1: S&P TSX Small Cap	0.88	1.58	0.88	11.08	1.68	20.11	6.09	N/A

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

On August 1, 2023, the NEI Canadian Small Cap Equity Fund changed its sub-advisor without altering its investment objectives. Nevertheless, this transition introduced an immaterial adjustment in the fund's investment strategy, moving from a primarily fundamental analysis approach to a primarily quantitative approach. 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.

On January 21st, 2019, the fund benchmark was changed. Prior to this date the fund benchmark was 50% S&P/TSX Completion Index / 50% S&P/TSX Small Cap Index.

Portfolio commentary

In Q1 2025, an overweight position and stock selection decisions in the Gold sector were key contributors to relative performance compared to the S&P/TSX Small Cap Index. The largest performance detractors included stock selection decisions in the Materials Ex. Gold and Financials sectors.

Driven by its stock selection process, the Fund increased its sector exposures to Health Care and Energy stocks relative to the benchmark, while decreasing active exposure to Financials and Information Technology stocks. Portfolio risk metrics remain conservative, with forecast volatility below the S&P/TSX Small Cap Index and a beta below 1.0. The sub-advisor's ensemble approach to quantitative investing seeks to diversify across styles and sectors, consistently delivering a Fund that performs well across most market environments.

Outlook

The Fund is attractive today, with quarterly sales growth of 2.9%, well above the S&P/TSX Composite Index at 1.3%. This favourable growth profile has been maintained despite substantially more reasonable valuations, trading at only 10.0x forward earnings expectations. In contrast, the S&P/TSX Small Cap index trades at 12.1x, and the S&P/TSX Composite trades at 15.5x today. This valuation also looks favourable globally, as the MSCI ACWI Small Cap Index trades at 16.0x, while larger cap indices trade well above their historical averages, such as the MSCI World and S&P 500 at 19.2x and 25.1x, respectively. Ultimately, these factors suggest a strong outlook for Canadian small cap stocks, and the Fund in particular, which uses a core, quantitative approach to delivering favourable attributes across value, profitability,

sentiment, momentum, and quality. The sub-advisor's multi-strategy stock selection system employs an ensemble of different time horizon forecasts, enabling them to be nimble and profit from a high-volatility environment.

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Series F units are only available to investors who participate in eligible fee-based programs with their registered dealers that have entered into a Series F Distribution agreement with NEI Investments.

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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