

NEI Canadian Small Cap Equity Fund

Q4 2024 Commentary



Performance

The Fund outperformed its benchmark over the quarter.

The Canadian equity market performed well in Q4 2024, with smaller cap stocks delivering a small positive return. The Energy and Financial sectors of the TSX Small Cap index were the most positive contributors to performance. At the same time, Real Estate stocks failed to maintain the momentum built over the summer and pulled back over the quarter. Factor performance improved in Q4, with Profitability, Growth, and Value factors rewarded through the year's final quarter. Performance of Momentum factors remained mixed, while Sentiment and Low Volatility continued to underperform. This proved to be a fruitful environment for active management in Canadian Small Cap and capped off a very strong year for Canadian equities.

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	3.28	11.36	20.39	20.39	5.73	8.89	6.27	N/A
NEI Canadian Small Cap Equity Fund Series A	2.60	9.90	17.31	17.31	3.03	6.11	3.54	N/A
NEI Canadian Small Cap Equity Fund Series F	2.86	10.45	18.48	18.48	4.05	7.15	4.55	N/A
Benchmark 1: S&P TSX Small Cap (linked)	0.69	9.19	18.83	18.83	4.15	8.93	6.15	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 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 Q4 2024, stock selection decisions in the Energy sector and being underweight Real Estate stocks were key contributors to relative performance compared to the benchmark. The largest performance detractors included stock selection decisions in the Gold sector and being underweight Energy stocks.

Driven by its stock selection process, the Fund increased its sector exposures to Health Care and Financials stocks relative to the S&P/TSX Small Cap Index, while decreasing active exposure to stocks in the Consumer Staples and Gold sectors. 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 and has consistently delivered a portfolio capable of performing well across most market environments.

Outlook

The Fund is attractive today, with quarterly sales growth of 4.0%, 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 9.9x forward earnings expectations. In contrast, the S&P/TSX Small Cap index trades at 11.5x, and the S&P/TSX Composite trades at 15.2x today. This valuation also looks favourable globally, as the MSCI ACWI Small Cap Index trades at 16.2x, while larger cap indices trade well above their historical averages, such as the MSCI World and S&P 500 at 19.6x and 26.0x, 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 deliver favourable attributes across value, profitability, sentiment, momentum, and quality.

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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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