NEI Canadian Small Cap Equity Fund

Q1 2023 Commentary

Performance

The Fund (Series I) outperformed the benchmark over the quarter.

The Canadian Small Cap equity market gained in the quarter, buoyed by receding recessionary pressures. Early 2023 economic data indicated that inflation is cooling, leading to higher prospects of a less hawkish monetary policy by the end of the calendar year. Unlike the Global Financial Crisis of 2007-2009, the fallout from the March collapse of Silicon Valley Bank was swiftly contained by US regulators. However, aftershocks following the Covid pandemic continued to play out through the past quarter as the world attempts to settle down to a new normal. Some of the recent pressures such as supply chain disruption, freight rates, and energy prices are abating.

Returns (%)

FUND	3 MO	6 MO	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	Since Inception
NEI Canadian Small Cap Equity Fund I	5.98	13.99	5.98	-7.28	18.07	4.09	5.44	N/A
NEI Canadian Small Cap Equity Fund A	5.31	12.52	5.31	-9.66	15.06	1.42	2.72	N/A
NEI Canadian Small Cap Equity Fund F	5.56	13.08	5.56	-8.76	16.18	2.41	3.70	N/A
Benchmark 1: S&P TSX Small Cap	4.50	13.25	4.50	-12.56	27.64	6.22	5.16	N/A

*Source: Morningstar. As of March 31, 2023 + Since inception is only provided for Funds with less than 10 years of performance.

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.

Fund commentary

Outperformance in the quarter can be attributed primarily to the Fund's security selection within the Energy, Information Technology, and Consumer Staples sectors. Energy holdings Headwater Exploration and Parex Resources were standout performers during a period when the WTI crude oil brushed against a 15-month low. In the Information Technology sector, Descartes Systems Group and Kinaxis reported financial results that reinforced the view that these two technology companies stand to benefit from secular demand for logistics and supply chain managements solutions.

During the quarter, the Fund exited its position in Magnet Forensics. In late January, Magnet Forensics announced its intention to sell itself to a private equity firm at a 15% premium to its stock price prior to the announcement. The sub-advisor believes the offer for this digital forensics' software business was too low, discounting the company's leading competitive position in a burgeoning but underappreciated market for digital forensics tools. Despite this view, the deal was ultimately approved in late March via a proxy vote and the position was wound down shortly thereafter.

Some of the proceeds from the above sale was deployed into Jamieson Wellness. The sub-advisor saw an opportunity to increase the position in Jamieson Wellness following its reported year-end financial results that were below market expectations. After meeting with management, the sub-advisor determined the weakness to be transitory and also determined that the company has reached a critical inflection point in its endeavors to penetrate the US market and export the Jamieson brand into China.

Other activities include increases in positions in Brookfield Reinsurance Ltd. and wealth and asset manager CI Financial, believing the market has been overly punitive to their exposures to public equity markets. Finally, the Fund's position in Guardian Capital Group was trimmed. With strong price performance in recent quarters, the weight in the name grew to over 6% and the sub-advisor decided to redistribute a portion of the weight into other names within the Financials sector.

Outlook

The sub-advisor has always pinned their faith to individual businesses as the best means to achieve optimum investment results over the longer term. But it must be recognized that stock prices reflect both corporate performance and the valuation investors are willing to place on earnings and cash flow. The latter, in turn, depends on the availability and price of alternative investments. If earnings are doubled but valuations are halved due to much higher interest income options, stock performance would be muted. Having enjoyed a prolonged period of both growing earnings and growing valuations, it will be necessary to be very sensitive to valuation trends in the future. The next few years of investing are likely to prove more challenging than the past decade. There will be more value-add from wise and careful investing as compared to trend following and uninformed speculation.

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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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