NEI Clean Infrastructure Fund

Q4 2024 Commentary

NEI

Performance

The Fund (Series I) underperformed its benchmark over the quarter.

After a very strong 3rd quarter, the election of Mr. Trump raised concerns about tax incentives, import duties, inflation and interest rates, all conspiring to drive the sector down. Frustratingly, European stocks didn't decouple from their US counterparts.

In December, ReNew's main shareholders made a take-private offer at $7.07 per share. The sub-advisor believes the offer price undervalues the company and they have engaged with the special committee of independent directors.

Separately, for all the talks about declining interest rates in 2024, while several central banks cut rates, 10-year interest rates have risen in the US, Canada, Germany, UK, France, Japan, Brazil…which is a headwind for capital-intensive companies the Fund invests in.

In 2024, the contrast between the US and Europe observed in the broader stock market found a parallel in the investment universe with the US charging ahead with stronger growth and momentum around nuclear and datacenters while European names struggled from slower growth and a lack of positive catalyst. However, taking advantage of low valuations, M&A was very active in renewables in Europe and Asia.

In terms of decarbonisation impact, at the end of the quarter, CO_2 emissions are 68% lower per CAD 1 mn invested in the Fund compared to CAD 1 mn invested in the MSCI World Utilities Index.

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Clean Infrastructure Fund Series I	-9.31	3.94	5.74	5.74	N/A	N/A	N/A	-0.99
NEI Clean Infrastructure Fund Series A	-9.80	2.80	3.49	3.49	N/A	N/A	N/A	-3.12
NEI Clean Infrastructure Fund Series F	-9.55	3.37	4.62	4.62	N/A	N/A	N/A	-2.04
Benchmark 1: S&P Global Infrastructure NR CAD	3.66	15.84	24.39	24.39	N/A	N/A	N/A	11.38

*Source: *Source: Morningstar. As of December 31, 2024. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark returns for Series F and Series I are 11.38 and 11.38, respectively.

Portfolio commentary

The top 5 contributors were ReNew Energy, China Suntien, Dominion, Avista and Public Services Enterprise, while the bottom 5 contributors were NextEra Energy Partners, ERG, EDP, Innergex and Orsted. All regions contributed negatively in the quarter except Asia.

Outlook

We start 2025 with high levels of uncertainties on key variables for US and US-exposed companies, such as interest rates, tax incentives or import duties. However, sentiment is already very depressed and fundamentals of the Fund's asset class are positive: accelerating growth outlook for electricity demand and risk to the upside in power prices. The latter is driven by a combination of a tight supply-demand situation exacerbated by very demanding power-hungry datacenters and the addition of renewables that create more intermittency and therefore a greater need to pay up for baseload power. Moreover, if amendments or repeal of the Inflation Reduction Act (IRA) shorten the duration of or amend tax incentives, and/or equipment prices face higher import duties, it would make developing renewables and potentially other power technologies more expensive which would need to be reflected in power prices.

The picture in Europe is more mixed given the volatility in gas prices reflected in power prices, lower momentum for datacenters and a weak economic backdrop. Europe saw a small rebound in power demand in 2024 but it remains below long-term averages. The lower structural growth combined with fears that a resolution to the war in Ukraine would bring gas and power prices down are likely to continue driving subdued performance. In the meantime, a number of European companies are buying back their shares, sending a strong signal of confidence in the intrinsic value of the businesses.

Overall valuations are compelling with investors ascribing no value to the growth of many companies in the sector, despite the substantial growth outlook for electricity demand and attractive rates of return on new assets. As seen in 2024, private equity and management are seeing the long-term opportunity in the sector, and the sub-advisor believes that they could again take advantage of low valuations in 2025 by buying public companies and go private.