

NEI Clean Infrastructure Fund

Q1 2025 Commentary



Performance

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

The Fund started 2025 on the back of stronger global electricity demand growth in 2024, both in developed and emerging markets. That trend acceleration was reinforced by the excitement surrounding substantial new investment decisions in datacenters and the incremental electricity demand they will create over the coming years. However, questions about the pace of deployment that affected the tech sector and evolving pricing framework for new power capacity had some ripple effects, especially for large US independent power producers.

Uncertainties surrounding the future of the IRA in the US remained an overhang for portions of the sector in the quarter, but the Fund's geographic diversification in Canada, Europe and Latin America, as well as business model diversification beyond renewables helped deliver a better outcome. The Fund positioning has been cautious relative to the IRA. The European sector performed better than the US one and here as well, integrated and transmission & distribution (T&D) companies performed better than pure renewables companies

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Clean Infrastructure Fund Series I	3.55	-6.08	3.55	14.63	-1.59	N/A	N/A	0.21
NEI Clean Infrastructure Fund Series A	3.00	-7.09	3.00	12.17	-3.70	N/A	N/A	-1.94
NEI Clean Infrastructure Fund Series F	3.28	-6.59	3.28	13.40	-2.63	N/A	N/A	-0.85
<i>Benchmark 1: S&P Global Infrastructure NR CAD</i>	4.49	8.31	4.49	25.25	10.24	N/A	N/A	12.01

¹Source: Morningstar. As of March 31, 2025. 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 12.01 and 12.01, respectively.

Portfolio commentary

The quarter benefited from the positive impact of the Fund's position in Innergex as the company received a take-private offer at a 58% premium. Moreover, given the somewhat uncertain operating environment, the predictable yet growing electricity T&D companies such as Exelon, E.on, Terna and Elia proved to be strong contributors in the quarter. However, that was somewhat offset by the positions in Edison International that was hurt by the potential fire-liability risks associated with the Californian wildfires, and in XPLR Infrastructure due to its disappointing strategic reset.

During the quarter, the Fund exited Sunrun, XPLR Infra. and Edison Int'l, and started new positions in E.on and Iberdrola.

The top contributors over the quarter were Innergex, Exelon, Clearway Energy, Enel and E.on. The bottom contributors over the quarter were XPLR Infrastructure, ReNew Energy Global, Edison International, Constellation Energy and ERG. On a regional basis, all regions contributed positively in the quarter except Asia.

Outlook

At a time when electricity demand is strong, paradoxically some renewables companies are somewhat slowing development growth for the following reasons: 1) companies are reluctant to raise equity at current valuations which caps their ability to fund capex, 2) firm power premiums are rising while intermittent and coincident availability of renewables will increasingly need storage and/or flexible demand consumption (like EV's). Fully-funded T&D growth is therefore an attractive value proposition that the Fund finds in many regulated companies and which is more supply-profile agnostic.

The Fund has been limiting exposure to the IRA based on the assumption that the current US administration intends to

shrink the incentives afforded to the renewables sector, which will create downside/volatility in the first instance, even if further negotiations might be more constructive. The belief remains that measures affecting incentives will be inflationary to power prices, which the Fund is positioned to take advantage of. Moreover, the Fund is ready to move quickly should the outcome of the IRA negotiations prove less onerous than currently expected.

As discussed in the recent past, the Fund is very attractively valued relative to the infrastructure sector and the broader market at present. These low valuations have attracted the interest of private equity funds who were very active in 2024 and 2 transactions have already been announced this year: CDPQ offering to take Innergex private at 58% premium and TPG offering a 30% premium for Altus Power. It would not be surprising to see more M&A activity as infrastructure funds have raised substantial amounts of money and asset owners and developers are in need of capital to grow.

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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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