

NEI ESG Canadian Enhanced Index Fund

Q4 2024 Commentary



Performance

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

Overall, 2024 was marked by strong equity rallies globally, particularly in the US, while fixed income markets navigated a complex environment of rising yields and shifting central bank policies. Global equity markets delivered strong performance, with North American stocks and global indices posting significant annual gains. The S&P 500 Index recorded double-digit returns for the year, driven by investor optimism around AI innovation, resilient economic growth, and Federal Reserve rate cuts. However, the fourth quarter saw more moderate equity returns compared to earlier quarters, as optimism following the US presidential election was tempered by concerns over inflation and monetary policy shifts. Canadian equities showed mixed sector performance in Q4, with technology leading gains, while global equities also hit new highs before softening in December. European equities lagged due to concerns around slowing growth in Germany, potential tariffs and political turmoil in France and Germany.

Fixed income markets faced challenges in Q4, with global bonds generating negative total returns due to inflation concerns and fiscal sustainability fears following the US election. Spread sectors outperformed government bonds, while high-yield bonds continued to lead annual fixed income returns. Rising government bond yields weighed on longer-duration investment-grade credit, though US Treasuries and European government bonds managed modest gains for the year. The US dollar strengthened against most currencies in Q4, reflecting broader market volatility.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI ESG Canadian Enhanced Index Fund Series I	3.99	15.35	23.06	23.06	8.73	10.69	N/A	10.47
NEI ESG Canadian Enhanced Index Fund Series A	3.52	14.29	20.84	20.84	6.76	8.67	6.45	N/A
NEI ESG Canadian Enhanced Index Fund Series F	3.83	15.00	22.34	22.34	8.06	10.00	7.71	N/A
Benchmark 1: Solactive Canada Broad Market Index (Linked)	3.84	14.68	21.80	21.80	8.68	11.69	9.18	N/A

¹ *Source: Morningstar. As of December 31, 2024. Since inception is only provided for Funds with less than 10 years of performance. Since inception benchmark returns for Series I is 12.

On May 1, 2020, the Fund's investment objectives and strategies were changed to provide that the holdings of the Fund would be based on a proprietary index which focusses on Canadian companies with an enhanced environmental, social and governance profile. The performance of this Fund for the period prior to this date may have been different had the current investment objectives and strategies been in place during that period.

On April 30, 2020 the fund benchmark was changed. Prior to this date, the fund benchmark was 100% S&P/TSX 60 TR Index.

Portfolio commentary

Stock selection was positive for the Fund over the quarter while sector allocation detracted. Selection within the Materials sector in particular was beneficial for the Fund. This included the Fund's lack of exposure to Barrick Gold Corp and Ivanhoe Mines Ltd. Selection within the Energy and Industrials sector detracted. On allocation, the Fund's overweight to the Communication Services sector and underweight to Information Technology was a drag on performance. On the other hand, the Fund's underweight to Real Estate was a positive for the Fund. Other names that contributed to performance include the Fund's underweight allocations to Rogers Communications and Constellation Software. Overweight allocations to TELUS Corporation and Teck Resources detracted.

Outlook

Investors can reflect on a strong year, driven by excitement around AI and resilient market dynamics. Equities saw robust gains, while high starting yields helped bonds absorb some of the impact of rising interest rates, supporting balanced portfolios.

As we look ahead to 2025, several key factors will shape the investment landscape. The stability of the U.S. labour market, global inflation trends, and Europe's economic recovery remain critical areas of focus. The recent U.S. election could introduce policy changes that may influence both domestic and international markets. While U.S. growth is expected to slow without tipping into recession, potential new policies could affect inflation and interest rates. The Federal Reserve's cautious approach underscores the complexities of the current economic landscape. The labour market has proved to be resilient and consumer spending remains strong; the stronger-than-expected economic performance and persistent inflation pressures warrants a more cautious stance to future cuts.

Going forward, we expect equities to outperform fixed income in the near term, with broader participation. Trump's pro-business policies of tax cuts and deregulation point to higher US stock prices, while the robust economic backdrop is positive for a broadening of the markets, so we would focus on companies and sectors outside of the Magnificent 7 with good earnings growth and attractive valuations. Geographically, our confidence in equity returns outside of the US is more muted now as the prospects of tariffs put downward pressure on earnings in those regions, including Canada. However, equity valuations continue to be more attractive in ex-US regions and may provide more downside protection in the event of downside volatility. Bond returns will be more muted in the US if less rate cuts are expected. Tariffs could lead to lower interest rates outside the U.S., which would be beneficial for bond prices outside of the U.S. We expect increased volatility as a result of the unconventional policies associated with the Trump administration and would use market pullbacks as opportunities for entry points.

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.

Information herein is believed to be reliable but NEI does not warrant its completeness or accuracy. Views expressed regarding a particular security, industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in units value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

NEI Investments is a registered trademark of Northwest & Ethical Investments L.P. ("NEI LP"). Northwest & Ethical Investments Inc. is the general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is the sole limited partner of the NEI LP. Aviso is a wholly-owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.

For more performance related information about a mutual fund managed by NEI Investments, please visit [the prices and performance](https://neiinvestments.com/prices-and-performance) page on neiinvestments.com.