NEI Emerging Markets Fund

Q1 2025 Commentary

NEI

Performance

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

By region, EM Latin America was the best performer for the benchmark, followed by EM EMEA and EM Asia.

On a country level the benchmark's top performing countries were Columbia, Poland, Czech Republic, Greece and Hungary. While among the worst performing countries were Thailand, Taiwan, Indonesia, Turkey and Malaysia.

The MSCI EM index returned +3.00% in CAD terms over the quarter. Emerging Markets were periodically buffeted by announcements of further tariffs on US imports from China and Mexico along with President Trump's threats to unveil more levies. Shares of many chipmakers were impacted by concerns around the durability of AI hardware demand after Chinese start-up DeepSeek unveiled a seemingly more effective and power-light AI model. However, this proved supportive for many Chinese technology stocks. Investors were also encouraged by optimism around further stimulus measures from the Chinese government. A weaker US dollar was a further tailwind for EM equities.

Chinese equities had a strong quarter despite Trump hiking tariffs on Chinese imports into the US and Beijing's retaliation (albeit measured). Technology stocks performed particularly well, aided by optimism around the development of low-cost AI models as well as hopes of more government support for the sector following a rare meeting between President Xi Jinping and technology business leaders. Meanwhile, at the National People's Congress in early March, policymakers set a 5% target for annual GDP growth in 2025, in line with expectations. The State Council later announced plans to spur domestic consumption, including raising incomes, stabilising real estate and stocks, and improving pension services. Economic data covering January and February pointed to a recovery in consumption as retail sales rose from the same period last year.

Elsewhere in Asia, Taiwanese equities had a poor quarter as concerns about US tariffs on semiconductor imports weighed on semiconductor-related stocks. However, the tech-heavy Korean market rallied over the quarter, helped by some better-than-expected corporate earnings. The country announced a 25-basis-point (bp) interest-rate cut and lowered its GDP growth forecast, citing domestic political volatility and potential US tariffs.

Indian shares weakened over the quarter amid continued foreign outflows due to disappointing corporate earnings and signs of slowing domestic economic growth. That said, the market did recoup some earlier losses in March as lower valuations following months of declines prompted foreign investors to plough back some funds. During the quarter, the Reserve Bank of India lowered interest rates for the first time in over four years, by 25 bps to 6.25%.

In Latin America, Brazilian shares had a good quarter, with returns in US dollars further supported by a stronger real. The central bank raised rates by 100 bps twice over the quarter to 14.25% and indicated a slower pace of hikes in future. Less positively, economic data releases pointed to slowing growth. Mexican shares also advanced over the quarter, shrugging off fresh tariffs of 25% on exports to the US. The Mexican central bank cut its benchmark rate twice by 50 bps over the quarter to 9.0% and signalled further easing would be likely.

In EMEA, South African stocks made gains over the quarter, aided by rising gold prices. The South African Reserve Bank lowered interest rates by 25 bps in January, the third reduction in the past four months. Meanwhile, the presentation of the annual national budget was delayed for the first time in the country's post-apartheid history as the ruling coalition wrangled over a proposed increase in the VAT rate.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Emerging Markets Fund Series I	0.13	2.34	0.13	12.71	3.80	7.40	5.24	N/A

NEI Emerging Markets Fund Series A	-0.49	1.06	-0.49	9.88	1.21	4.74	2.55	N/A
NEI Emerging Markets Fund Series F	-0.24	1.58	-0.24	11.01	2.24	5.78	3.62	N/A
Benchmark 1: MSCI EM NR Index (C$)	3.00	0.87	3.00	14.96	6.35	8.18	5.04	N/A

[1]Source: Morningstar. As of March 31, 2025. Since inception is only provided for Funds with less than 10 years of performance.

Note: On July 13, 2020, the Fund was transitioned to an ESG mandate. As part of this transition, the sub-advisor optimized the Fund along Responsible Investing dimensions by applying a framework that entails both exclusionary screens and a proprietary scoring system that assesses securities on specified ESG metrics. The performance of this Fund for the period prior to this date may have been different had the current transition been in place during that period.

Portfolio commentary

At the sector level, Communication Services and Energy were the main contributors. Industrials, Consumer Staples and Information Technology were the main detractors.

On a country level, Greece, Thailand and Philippines were the main contributors. Taiwan, India and Brazil were the main detractors.

At the stock level, the following companies contributed to performance: BYD is a Chinese electric car maker. Share price hit record highs amid optimism over the introduction of the company's assisted driving system and a tie-up with Chinese AI startup DeepSeek. Xiaomi is a Chinese Smartphone maker. Share price continues to benefit from strong demand for its electric vehicles. SK Hynix is a Korean semiconductor company. Share price rose amidst reports that profits for Q4 2024 had risen to all-time highs. Eurobank is a Greek Bank. Share price was higher over the month on optimism surrounding improving credit quality. Tencent is a Chinese technology conglomerate. Share price continued to grind higher over the period on strong topline growth.

Detractors from performance included: Alibaba (underweight) is a Chinese e-commerce company. The stock surged on optimism surrounding government support for the private technology sector in a bid to revive economic growth. eMemory Technology is a Taiwanese semiconductor supplier. Share price fell over the quarter as concerns about US tariffs on semiconductor imports weighed on the market. Polycab is an Indian cable and wire manufacturer. The company is geared towards the Indian capex cycle, where the government has recently pivoted from infrastructure investment towards consumption, hurting their perceived short- and medium-term growth prospects. 360 One Wam is an Indian wealth management service provider. Share price fell amidst weak market sentiment in India, which has weighed on new flows and assets under management. Accton Technology is a Taiwanese electronics company. Share price fell over the quarter as concerns about US tariffs on semiconductor imports weighed on the market.

Outlook

The proposed US tariffs are broader and steeper than initially expected, covering more countries at higher rates. Global trade flows are now at greater risk, and the sub-advisor expects continued market volatility as nations respond with retaliatory tariffs or seek negotiated solutions. Although the US has left room for tariff reductions, contingent on countries reducing their trade surpluses or market barriers, a new equilibrium of elevated protectionism appears to be forming.

The sub-advisor does not believe this is the end game, but rather a negotiating tool aimed at establishing what President Trump views as fairer trade. Higher baseline tariffs may remain, but the excesses are likely to be negotiated down. For this reason, the sub-advisor is cautious not to overreact in the Fund. Instead, they are tactically upgrading portfolio quality, not fearing making sales, if there are good buys on the other side. Markets like Korea and Taiwan, which are closely tied to global trade, are particularly vulnerable. Anticipating this, the sub-advisor reduced the Fund's technology exposure ahead of these developments. If China follows through on the stimulus measures it signalled late last year, domestically focused companies may benefit from policy support while remaining insulated from trade disruptions.

China's well-known economic challenges persist such as deflationary pressures, a struggling property sector and subdued consumption. These issues have been further exacerbated by geopolitical tensions. However, recent fiscal stimulus announcements, following the largest monetary easing since the pandemic, have improved investor sentiment. Execution will be key. The sub-advisor is watching closely for details that may stimulate demand and economic activity. A sustained focus on reducing credit and property-related risks would be a welcome structural shift. Going forward, the scale and effectiveness of stimulus will be measured by its impact on consumption, savings behaviour, and property prices.

Taiwan and Korea remain at the forefront of global trade risks, given their reliance on export-driven growth and sensitivity to tariffs. However, if trade negotiations make progress, strong structural demand driven by AI, smartphones and automotive technology will drive growth opportunities. Government initiatives to strengthen supply chains also provide medium-term support.

India’s reform agenda continues under the new coalition government. The administration is focused on infrastructure investment and expanding the country’s manufacturing sector, which is encouraging private capex and foreign direct investment (FDI). The government has also kick-started a new property and credit cycle which, over the longer term, should be underpinned by favourable demographics. Additionally, targeted funding to close the skills gap, a key voter concern, should support long-term productivity gains.

ASEAN economies remain relatively resilient, underpinned by strong domestic demand, rising foreign investment, and proactive government initiatives. However, external shocks including US trade and monetary policy remain critical risks. In Indonesia, the central bank has committed to aggressive intervention to stabilize the currency and restore investor confidence. In Malaysia, continued policy reforms and investment inflows have provided a stable foundation for growth.

Poland stands out in Emerging Europe, supported by sound fundamentals and improving investor sentiment. Across Emerging Europe, inflation is easing and central banks are beginning to discuss rate cuts. The broader region is also benefiting from greater geopolitical stability, with the potential for a “peace dividend” as tensions ease.

In Brazil, the central bank has raised rates aggressively to combat inflation, with more hikes possible. Elevated interest rates are challenging for growth, especially in a market where most loans are floating rate. Concerns persist about the government’s fiscal direction, with policies that may worsen long-term sustainability.

In Mexico, the aftermath of the US presidential election has introduced new uncertainties. Key risks include remittance flows, evolving trade relationships, and the nearshoring trend. Remittances, crucial for household incomes, could be pressured by tighter US immigration policy. Trade uncertainty may delay business investment, while companies reconsider capital allocation for nearshoring projects amid the evolving US-Mexico dynamic.

Despite persistent macroeconomic challenges in both Brazil and Mexico, equity markets appear to be pricing in significant downside risks. Valuations are at or near historically low levels, presenting upside potential should the macro environment improve. Going forward, currency moves, fiscal discipline and trade policy developments will be key to market performance.