

# NEI Environmental Leaders Fund

## Q3 2024 Commentary



### Performance

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

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Environmental Leaders Fund Series I	6.64	6.89	18.37	32.74	7.53	13.24	N/A	11.97
NEI Environmental Leaders Fund Series A	5.99	5.61	16.29	29.64	4.99	10.47	N/A	9.25
NEI Environmental Leaders Fund Series F	6.30	6.23	17.30	31.14	6.20	11.74	N/A	10.52
<i>Benchmark 1: MSCI ACWI NR CAD</i>	5.26	9.49	21.57	31.65	10.43	12.64	N/A	11.36

<sup>1</sup>Source: Morningstar. As of September 30, 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 11.36 and 11.82, respectively.

### Portfolio commentary

Following an extended period of extreme market narrowness, the Fund benefited from a reversal in mega-cap outperformance and improved market breadth in the third quarter. In absolute terms, broad gains across the Fund's Industrial exposure were a primary driver of positive returns. Fund holdings providing energy efficiency solutions, such as heat pumps and HVAC technology, continue to benefit from resilient end-market demand and reshoring themes, while secular growth drivers for power demand and the increasing need for energy optimization solutions supported further share price momentum for Smart & Efficient Grid holdings. The Fund also experienced strong returns within Materials and Health Care. Better-than-expected quarterly results and indications of end-market improvement led to a share price recovery in de-rated holdings that had suffered from temporary destocking headwinds, such as Natural Ingredients and Environmental Testing & Monitoring. Information Technology was the only sector that detracted from absolute performance during the quarter. Factors such as weaker guidance, the prospects of stricter trade restrictions between the US and China, and moderating investor enthusiasm for AI opportunities led to underperformance for Efficient IT and Industrial Energy Efficiency holdings.

Contributors included: Carrier Global outperformed over the quarter after delivering good results, particularly for HVAC orders. The company also advanced plans to become a HVAC pure play with the final disposal of its residential & commercial fire security business. Data continued to point towards a new recovery cycle in US residential HVAC, along with continuing secular trends in commercial HVAC. Pentair also outperformed during the period. After weakness in Q2, driven by dour reports from other parts of its value chain, earnings released in July were better than expected. Guidance on the back of margin improvement from self-help initiatives was also upbeat.

Detractors included: Applied Materials declined during the period on reports that the US may impose additional restrictions on China's access to semiconductors and equipment. This, combined with a cautious outlook from European semiconductor equipment leader ASML, prompted a significant selling through the first half of the quarter as geopolitical tensions raised investor concerns about potential supply chain disruptions and the possibility of tariffs or sanctions. Positive quarterly results, and management enthusiasm for multi-year prospects helped to moderate fear-based selling in July and early August. ASML similarly to other semiconductor production-equipment makers, the share price has been under pressure on speculation the US may impose additional restrictions on China's access to semiconductors and equipment. In addition, Intel's results raised investors' concerns that ASML would be disproportionately affected by a cutback on capex at Intel, which is a significant customer.

For the quarter the Fund added the following companies: Ashtead, RenaissanceRe Holdings, Union Pacific, and Crown Holdings while selling out of positions in Shimano, International Flavors & Fragrances, Eurofins Scientific, United Rentals, Taiwan Semiconductor, and Ball Corp.

## Outlook

The investment team believes that, from a longer-term point of view, the market environment remains supportive of opportunities across a wide range of sustainable solutions. The recent interest rate cut from the US Federal Reserve and the potential for future accommodative monetary policy should support industrial and consumer spending, helping expected earnings growth remain positive for 2024. With the belief that end-market stabilization is a matter of when, not if, the Fund is positioned for a re-rating in sectors that have suffered from temporary destocking issues where the long-term thesis remains unimpaired, such as Health Care Environmental Testing & Monitoring and Natural Ingredient holdings. This thesis was supported in the recent quarter by encouraging earnings results. Meanwhile, themes such as energy efficiency, grid upgrades, and AI-related opportunities remain tailwinds for a number of Fund holdings. Policy tailwinds are accelerating opportunities within Environmental Markets, including the US Inflation Reduction Act, the CHIPS and Science Act, the Infrastructure Investment & Jobs Act, and re-shoring opportunities. The focus remains on high quality companies with resilient operational business profiles, demonstrable pricing power and above average earnings growth, underpinned by the secular drivers of environmental markets.

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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.

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