

NEI Environmental Leaders Fund

Q1 2025 Commentary



Performance

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

Information Technology was the primary detractor to absolute returns, as the development of an open-source large language model from Chinese AI startup DeepSeek raised concerns of a disruption in AI leadership, and triggered a sharp sell-off in the Information Technology sector. In relative terms, however, holdings held up better than the broader sector. A lack of mega-cap exposure was beneficial during the period as greater economic uncertainty has raised investor concerns around some of the drivers underpinning the extremely narrow market leadership seen in 2023 and 2024. The Fund's Health Care exposure was a negative driver in absolute and relative terms, as recessionary fears and rising US/China geopolitical tensions weighed on sentiment for Environmental Testing & Monitoring holdings. Despite the share price volatility, the sub-advisor continues to believe the Fund's health care exposure offers a compelling risk-reward ratio. The Fund's defensive exposure was a bright spot during the turbulent quarter given increased investor interest in more resilient areas of the market. This led to positive contributions from Materials, Utilities and Industrials. High-quality, operationally defensive businesses with strong market share and pricing power, such as Waste & Recycling and Industrial Gas holdings, generated strong returns.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Environmental Leaders Fund Series I	-1.60	-3.55	-1.60	3.09	9.23	14.59	N/A	10.77
NEI Environmental Leaders Fund Series A	-2.18	-4.68	-2.18	0.67	6.67	11.80	N/A	8.16
NEI Environmental Leaders Fund Series F	-1.90	-4.13	-1.90	1.84	7.91	13.10	N/A	9.42
<i>Benchmark 1: MSCI ACWI NR CAD</i>	-1.25	4.09	-1.25	13.96	12.09	15.43	N/A	11.20

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 11.2 and 11.61, respectively.

Portfolio commentary

Contributors included: Siemens experienced a share price rally during the period due to strong quarterly results underscoring strong execution, particularly within Digital Industries which is benefiting from robust underlying demand. The German fiscal stimulus plan also supported the outlook for the company. Waste Management advanced higher during the period, driven by strong operational results which included record margins from its core collection and disposal business. The company remains well positioned to benefit from further pricing gains, contributions from sustainability investments, and synergies from the 2024 Stericycle acquisition. Air Liquide generated strong returns in the quarter as global economic uncertainty lead to increased investor interest in the highly resilient industrial gas sector. Furthermore, Air Liquide is benefiting from encouraging cost initiatives aimed at closing the profitability gap with close peer Linde, while significant European end-market exposure also appears relatively attractive.

Detractors included: Microsoft moved lower during the period, in line with the broader de-rating of mega-cap technology stocks. The market also responded negatively to 'just good enough' earnings results. Microsoft pushed out expectations for when its cloud platform Azure would reaccelerate growth by two quarters, which was the main driver of disappointment. Agilent Technologies moved lower during the period as recessionary fears and rising US/China geopolitical tensions weighed on sentiment. Agilent remains a very attractively priced business that appears on the precipice of a multi-year upcycle in demand. Nvidia experienced a share price sell-off during the quarter due to disappointing margin guidance and uncertainty stemming from the announcement of an open-source large language model from Chinese AI startup DeepSeek. Nvidia suffered from investor concerns around the potential for reduced demand for high-end graphics processing units (GPUs) as DeepSeek's efficiency suggests lower computational requirements. Despite the drop in Nvidia's stock, its advanced chips and proprietary coding language, Cuda, remain

industry standards, indicating that it still holds a strong position in the AI market. As long as there is demand for inference there will be demand for Nvidia's products.

eBay was purchased during the period as an opportunity to invest in a high-quality re-commerce business with attractive upside driven by a rerating potential as well as incremental growth stemming from technology initiatives. Marvell Technology, a leading semiconductor business, was initiated during the period as short-term volatility created a compelling entry point for this high-quality business. Marvell makes ASICs (application specific integrated circuits) semiconductors, which are more energy efficient for specific cloud computing applications than both CPUs and GPUs. The company is well positioned to benefit from continued ASIC chip demand driven by further growing AI applications. A O Smith, a leading manufacturer of residential and commercial water heating and water treatment equipment, was initiated into the Fund during the quarter. The company presented an opportunity to invest in a high-quality business with dominant market share in its core water heater and boiler business largely driven by replacement demand. Additionally, rightsizing its underperforming China footprint remains a compelling opportunity for the company. Taiwan Semiconductor Manufacturing, the world's most advanced semiconductor foundry, was added during the period for a compelling source of AI-related demand. TSMC has a key advantage in providing a chip agnostic mechanism to meet the technological requirements of manufacturing both GPUs and custom ASIC chips.

Siemens was exited during the quarter on valuation grounds. Following a strong share price rally driven by core elements of the investment thesis playing out such as a European recovery and improving automation demand, Siemens now trades at current valuation with limited upside return potential. American Water Works was exited during the period, after a strong share price advance over the first quarter led to a full valuation. As American Water Works provided a source of operational defensiveness, the proceeds were used to fund other lower beta opportunities in the Fund. Croda was exited due to a confluence of internal and external challenges, including underutilization issues and poor visibility on end-markets, coupled with poor guidance from management. Steris was exited during the period. Results have drifted off track relative to the original thesis leading to a lack of confidence in share price return potential and relatively higher conviction elsewhere in the portfolio. Sartorius was exited after a share price bounce in favor of allocating to higher-conviction names already owned in the Fund. ASML was exited due to concerns around tariffs and geopolitical risks, but the Fund is maintaining exposure to the sector through other names better positioned to benefit from AI growth.

Outlook

The sub-advisor believes that over the longer term, the environment remains supportive of opportunities across a wide range of sustainable solutions. While markets entered 2025 with the view that US President Trump's pro-growth policies would provide a tailwind for US equities, investors are now grappling with increased uncertainty and weaker consumer and corporate confidence associated with tariffs and geopolitical tensions. Given elevated levels of market volatility, the sub-advisor continues to maintain exposure to high-quality operationally defensive businesses that provide a ballast for the Fund, in highly resilient areas like waste & recycling and industrial gas. These companies tend to be oligopolies that benefit from durable demand and attractive pricing power.

The Fund remains positioned for a re-rating in sectors that have suffered from temporary destocking issues where the long-term thesis remains intact, such as Health Care Environmental Testing & Monitoring exposure. The launch of DeepSeek and greater economic uncertainty has led to investor concerns around some of the drivers underpinning the extremely narrow market leadership seen in 2023 and 2024. While a weaker growth outlook will pose challenges in absolute terms, the Fund's underweight to momentum and mega-cap technology should be helpful in relative terms. Over the long-term, themes like energy efficiency, grid upgrades, policy tailwinds (re-shoring) and AI-related opportunities remain attractive secular growth opportunities for holdings.

Within Environmental Markets, President Trump's historic stance on Environmental and Climate policies is creating sentiment headwinds for renewables stocks. However, while the opportunity set for Leaders is often conflated with this sector, the Fund currently has zero exposure. The Fund seeks to capitalize on long-term structural growth trends, such as demographic change, technological innovation and greater consumption. These are durable and sustainable, regardless of who is in the White House. 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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