

NEI Environmental Leaders Fund

Q4 2024 Commentary



Performance

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

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Environmental Leaders Fund Series I	-1.98	4.53	16.03	16.03	3.96	11.32	N/A	11.32
NEI Environmental Leaders Fund Series A	-2.56	3.28	13.31	13.31	1.53	8.60	N/A	8.66
NEI Environmental Leaders Fund Series F	-2.28	3.88	14.63	14.63	2.70	9.85	N/A	9.93
<i>Benchmark 1: MSCI ACWI NR CAD</i>	5.41	10.95	28.15	28.15	10.10	12.37	N/A	11.68

¹Source: Morningstar. As of December 31, 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 11.68 and 12.15, respectfully.

Portfolio commentary

The Fund returns declined during the fourth quarter and underperformed its primary benchmark. Following improved breadth in the third quarter, the Fund suffered during the fourth quarter as markets reverted towards a narrower environment led by mega-cap companies. In absolute terms, the Fund's Materials exposure detracted from performance, with natural ingredient and industrial gas holdings underperforming. Industrial gas holdings suffered from a rotation towards more cyclical, higher growth stocks combined with a perception of some vulnerability to US policy changes following the US election, to which holdings have immaterial exposure to. Despite short-term weakness, these oligopolistic businesses with attractive market share characteristics and resilient through-cycle profitability provide the Fund with a valuable source of operationally defensive exposure. Industrials also detracted, as concerns of weaker non-residential construction end-markets caused underperformance from construction rental equipment exposure. Additionally, Health Care holdings underperformed in the wake of the presidential election given policy uncertainty related to the nomination of Robert F. Kennedy Jr. to lead the Department of Health and Human Services and concerns of escalating trade relations between the US and China. Despite recent headwinds, the sub-advisor believes the Fund's health care exposure offers a compelling risk-to-reward ratio, transitioning from a period of under-earning to a multi-year period of above-trend growth, setting up the potential to drive a multi-year earnings revision cycle.

Contributors included: MediaTek outperformed during the quarter as the company continues to gain traction, increasing its market share in high-end smartphones, offering energy efficient and high performance, high-speed connectivity, and low power consumption capabilities, while expanding into laptops and ASICs. The company also benefitted from a recovery in global smartphone demand, supporting its growth outlook. Nvidia advanced higher in the fourth quarter, supported by continued optimism in its demand outlook. Nvidia has maintained strong momentum, with continued demand for its high energy efficiency GPUs driven by AI and data centre investments. Key client announcements of further data centre spending, combined with improving supply chain conditions for Blackwell GPUs, bolstered its growth prospects. Autodesk moved higher in the period. While concerns of business model complexity and accounting practices following a delayed Q2 10-K filing led to underperformance earlier in the year, Autodesk remains an attractively valued company. It retains a strong market share and attractive growth opportunities, helping clients save materials, time and money during the building process. The share price has benefitted.

Detractors included: DSM-Firmenich sold off during the quarter in line with a broader de-rating in the ingredients sector following a stretch of strong performance throughout most of 2024 due to increased volumes for its natural, environmentally friendly ingredients. Expectations of a higher-for-longer interest rate environment also led to valuation concerns. Air Liquide underperformed during the period. This was triggered by a combination of a rotation towards more cyclical and higher growth segments of the industrial sector, a greater gearing towards European end customers versus peers, end-market

weakness (particularly European steel and chemical customers), and the perception of vulnerability to projects dependent on changes to the Inflation Reduction Act/other supportive subsidies. The company continues to benefit from a robust revenue profile into 2025 supported by a large backlog for its gasses (providing several environmental opportunities in water treatment, hydrogen, steel, and semi and solar end-markets), while long-term margin improvement driven by rising network efficiencies should continue. Mettler-Toledo experienced share price weakness in the quarter as the market responded negatively to a disappointing preliminary FY25 guide in conjunction with its Q3 results. Additionally, new risks emerged for Mettler and its peers post elections, given uncertainty of potential negative implications related to the appointment of RFK Jr. to lead the Department of Health and Human Services as well as fears of escalating trade tensions between the US and China. However, its environmental testing opportunities will continue to provide a tailwind.

Xylem, a leading provider of water and wastewater pumps, treatment and testing equipment, industrial pumps, valves, heat exchangers, and dispensing equipment, was initiated into the Fund during the quarter. A share price de-rating created a compelling entry point for a company with strong water infrastructure growth prospects, a sound management team, and the potential for margin expansion.

Crown Holdings was exited from the Fund during the fourth quarter due to a lack of confidence in share price return potential and higher conviction elsewhere in the Fund.

Outlook

The sub-advisor believes that over the longer term, the environment remains supportive of opportunities across a wide range of sustainable solutions. Given the recent outcome of the US presidential election, pro-growth policies anticipated from the Trump Administration are likely to reduce near-term recession risks, improve confidence, and could lead to greater breadth in equity markets. Within Environmental Markets, Trump's historic stance on environmental and climate policies is creating significant sentiment headwinds for renewables stocks. However, while the opportunity set for the Fund is often conflated with this sector, it 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. 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 exposure. This thesis was supported in the recent quarter by encouraging earnings results. Meanwhile, themes such as energy efficiency, grid upgrades, policy tailwinds (re-shoring), water treatment and efficiency, and AI-related opportunities remain powerful drivers for a number of Fund holdings. 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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