NEI Global Corporate Leaders Fund

Q4 2024 Commentary

Performance

In accordance with National Instrument 81-102, the Fund's performance data is not disclosed as the Fund has distributed securities under its prospectus for less than 12 consecutive months.

Portfolio commentary

Financials holdings detracted from relative performance. Mirroring the period of Donald Trump's US presidential election win in Q4 2016, interest rate-sensitive financial stocks rose on expectations of increased profitability due to rising bond yields. Holdings in this sector are focussed on companies increasing financial inclusion. There is a tilt towards insurance companies providing affordable insurance products, particularly in Asia, which are less interest-rate sensitive and underperformed the rally in banks.

The Fund's overweight position in Health Care, where holdings are focussed on innovative drug discovery and medical devices, also detracted. While companies such as Intuitive Surgical and Boston Scientific delivered strong results and good performance, Life Science & Tools companies, such as Thermo Fisher, remained out of favour. Consumer Discretionary holdings delivered mixed performance, but lack of exposure to Tesla and weaker performances from a few companies with softer-than-expected earnings weakened portfolio returns across the sector. In addition, the overweight to Real Estate and specialty REIT holdings, which typically have a negative correlation with rising yields, detracted.

Positive performance came from Industrials, where service providers, such as recruitment platform Recruit and professional software solutions providers Wolters Kluwer, saw solid earnings growth. The lack of exposure to Materials and Energy also contributed as these sectors underperformed. Although the Fund is underweight Information Technology, good stock selection contributed positively. Nvidia and ServiceNow continued to benefit from increased interest in companies enabling AI integration.

Contributors included: Nvidia maintained strong momentum with continued demand for its 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. ServiceNow reported a very strong quarter owing to AI-driven growth, which will soon add material growth to the overall business. ServiceNow also participated in the broader rally in software providers as a number of cloud software peers reported a stable to improving tech-spending environment. Recruit saw its share price rise on the back of strong results with signs of monetisation of Indeed, the company's online job hiring platform, accelerating. The company also demonstrated strong cost control which contributed to margin expansion.

Detractors included: MercadoLibre experienced share price weakness following lackluster quarterly results. Revenue growth remained very strong and highlighted continued market share gains in all regions of operations. However, increased capex spending, particularly on credit cards in the fintech division, led to disappointing earnings growth. MercadoLibre's history of investing in its business to support future growth has historically been very successful, and the sub-advisor believes recent investments will strengthen its competitive position. IQVIA Holdings and its clinical research organization (CRO) peers reported disappointing third-quarter earnings. Both large pharma and small biotech customers continue to show incremental caution on clinical trial spending, impacting the CRO order trends and request-for-proposal activity. Experian was weaker over the quarter. While recent stock performance has been weaker, core fundamental trends remain robust with November 2024 half-year results confirming solid revenue and earnings growth. The sub-advisor continues to see Experian's strategic position and operational momentum as strong, with the stock's valuation remaining attractive.

Over the period, the Fund added: Agilent is a leading provider of liquid chromatography and mass spectrometry equipment. It provides analytical instruments, software and services to laboratories, which, in turn, sell to the food, environmental and pharmaceutical industries. As the pace and complexity of life sciences R&D intensifies, the demand for advanced diagnostic and testing equipment continues to increase. The company was added on high conviction in the longer-term company fundamentals and attractive valuation. Banco Bilbao Vizcaya Argentaria offers both consumer and small- & mid-size enterprise lending in emerging markets. It is a high-quality financial company, delivering consistent return on equity (ROE) and growth ahead of peers. The company has the largest (based on market share) and best-in-class (based on ROE) franchises in Mexico, Spain, Turkey, Peru and Columbia. It also demonstrates a strong corporate culture and its business model strongly supports financial inclusion. Howard Hughes is the owner of valuable master-planned community (MPC) assets in some of the most-attractive regions of the US. MPCs are small cities where the development focus is at the community, rather than the asset, level. This allows it to create inclusive and sustainable neighbourhoods of the future. This is a long-term value creation story where the company will continue to benefit from positive migration trends into the sunbelt yet is insulated from traditional competition and supply pressures given the MPC model. As the premier developer of master-planned communities, Howard Hughes is uniquely positioned to address the basic societal need of housing at scale. On Holding provides footwear and sports apparel. It was added due to an attractive growth profile and strong runway for further growth and margin improvement. The company is disrupting the running market through innovation and technology, with opportunities to grow market share significantly in both running and adjacent categories. Trip.com is the largest online travel agent in China providing an accessible one-stop platform for people to make informed and cost-effective travel bookings. The stock was added as it is attractively positioned to benefit from increased travel in China. It also benefits from secular demographic tailwinds and trades at a significant discount to intrinsic value.

Over the period, the Fund sold: Abbott Laboratories discovers, develops, manufactures and sells a diversified line of health care products and services. The stock has performed well, but valuation no longer looked attractive relative to other opportunities and, at the time of the sale, there were outstanding questions over patent litigation. Bank Rakyat Indonesia Persero was sold to moderate exposure to emerging markets as Trip.com was being added to the portfolio. The position was also sold to reduce interest rate sensitivities in the portfolio. Iberdrola a leading global renewable energy independent power producer was sold out of the portfolio after a strong run in the third quarter left the stock trading at a premium to intrinsic value. Jeronimo Martins was sold to manage the Fund’s emerging market exposure, and on a lack of clarity around the expansion narrative. Walmart de Mexico was sold to manage portfolio exposure to Mexico following the addition of Banco Bilbao Vizcaya Argentaria. The sub-advisor has also lost conviction in the company’s growth opportunity. Welltower, a REIT (Real Estate Investment Trust) that operates a health and wellness real estate platform tailored to senior housing, has been a strong performer in the Fund and was sold due to lack of valuation upside.

Outlook

The macro environment remains complex post the presidential elections in the US. President-elect Donald Trump’s pro-growth policies have reduced near-term recession risks and improved confidence in the US. However, policies around higher tariffs and Trump’s protectionist agenda may potentially lead to higher inflation and higher-for-longer interest rates.

The sub-advisor believes there could be greater market breadth as investors focus more on valuations and look for opportunities beyond the narrow range that drove the market over much of 2024. This should favour companies with long-term secular growth opportunities consistent with the investment approach of the Fund.

There are multiple attractive opportunities in the portfolio that should benefit from long-term secular trends such as ageing populations, rising middle class in emerging markets, increased incidence of chronic disease, growing urbanisation, and financial inclusivity. In addition, markets typically underestimate the benefits of investing in companies with strong workplace practices that demonstrate inclusiveness, innovative, and equitable cultures. The investment process has been built to exploit these market inefficiencies, which arise predominantly due to the short-term thinking of most market participants. The team prioritises companies with long-term secular growth, which display these qualities, while maintaining a strong focus on valuations.