NEI Global Dividend RS Fund

Q4 2023 Commentary

NEI

Performance

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

The year ended on a high note with the MSCI World returning +8.7 (CAD) in Q4 as receding inflation data and the “soft landing” economic scenario outweighed the overall uncertainty over the macro environment.

While the quarter started off negatively with the outbreak of a new conflict in the Middle-East and receding PMI indicators all around, easing inflation encouraged investors to look beyond and to support risky assets. Likewise, FOMC’s dovish communication around the likelihood of future rate cuts, sooner than later, also sparked optimism amongst equity investors and pushed bond yields lower. In an overall uncertain context where the job market and the business activity have been struggling to stay afloat, easing monetary signals outweighed other downside factors and set the stage for a “soft landing” economic scenario. This was further amplified by U.S. economic data in December proving resilient and even improving in services, retailing, staples consumption, manufacturing and household confidence.

Sector-wise, cyclical, growth and macro-sensitive subsets (IT, Industrials, Financials, Real Estate) outperformed defensive, consumer and commodity-related ones (Telecom, Consumer Staples, Consumer Discretionary, Health Care, Energy). Factor-wise, Growth and Quality stocks outperformed Value and Min Vol stocks.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Dividend RS I	3.95	2.72	3.06	3.06	5.64	9.22	8.25	
NEI Global Dividend RS A	3.33	1.48	0.61	0.61	3.14	6.63	5.61	
NEI Global Dividend RS F	3.61	2.04	1.71	1.71	4.26	7.78	6.78	
Benchmark 1: MSCI World NR Index (C$)	8.66	7.18	20.47	20.47	8.51	12.01	10.97	

[1]Source: Morningstar. As of Dec 31, 2023. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

The main drivers of the relative performance were: Currency allocation was a positive due to the overweight on appreciating CHF, SEK and JPY. Sector allocation negatively contributed due to the underweight on outperforming Semiconductors and the overweight on underperforming Telecom. Style allocation negatively contributed due to the underweight on outperforming High Beta stocks while stock selection negatively contributed due to the poor performance of Exelon Corporation, Pfizer, Bristol-Myers Squibb Company, Cisco Systems, Arthur J. Gallagher.

Major changes during the quarter included - Country Allocation: Decreasing exposure to North America (UW) balanced by an increasing exposure to Europe ex EMU (OW) and Japan (OW). In Europe, UK and Switzerland were increased at the expense of Norway and Denmark. Sector allocation: Increasing exposure to Telecom (OW), Utilities (OW), Health Care (OW), Consumer Staples (OW), Industrials (UW) and Energy (UW) balanced by a decreasing exposure to Real Estate (UW) and IT (UW) sectors. Factor allocation : Increasing exposure to High Beta (UW), Growth (UW), Momentum (UW), Volatility (UW) and Value (OW) factors. Decreasing exposure to Large Caps (UW). Stock selection : No structural change since the portfolio subadvisor still favors companies with low leverage and options for organic growth. Valuation Metrics : No change

Outlook

In the background to these trends, the market scenario remains that of a soft landing for the global economy. This outcome relies on three core assumptions:

i. a pivot by central banks which should help the global business cycle expansion to resume,
ii. a resilient consumption by the same token job markets staying close to full employment and,

iii. a normalization of credit conditions without a hitch – not talking about bankruptcies of the three American banks: Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank.

What could be taken for granted is that market participants 2024 outlook is also conditioned by these three hypotheses. As such, the subadvisor believes investors will test these core assumptions.

At the same time, implicit volatility in equity market has kept falling which, in the subadvisors view, is not sustainable. Going further down the road on their agnostic approach, if price return is to become more volatile this year, one should care about equity carry (dividend yield) as dividend yield can help provide a cushion in times of volatility. On this front, things are quite clear: the MSCI World index dividend yield (blend index) stands at 1.9%, at 3.7% for the MSCI World High Dividend index, at 3% for the MSCI World Value index, at 2.6% for the MSCI Minimum Vol index compared to 0.8% for the MSCI Growth index and 1.5% for the MSCI World Quality index. Defensive alternative premia appear far better positioned from this angle.