NEI Global Equity RS Fund

Q2 2023 Commentary

NEI

Performance

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

Global Equity markets continued to increase in Q2, reflected in the return of the benchmark index. The US continued to post solid returns, while in Japan, the Nikkei 225 reached an all-time high against a backdrop of improving corporate earnings, bolstered by a weaker Japanese Yen, and increasing consumer confidence. One of the most important features during the period was the lack of market breadth as a small number of Mega Cap tech-focused stocks accounted for most of the market return.

Outside of the AI-generated excitement, investors have remained cautious. Inflationary pressures have proved to be more stubborn than anticipated, especially in Europe. Hawkish central banks and fears of recession have ensured that the sub-advisor's risk aversion indicator has, up until the past few weeks of the quarter, consistently remained in 'risk off' territory.

From a factor perspective, there has been little consistency: the tussle between Growth and Value has continued, while the preference (or not) for Sentiment and Quality factors has changed at regular intervals, suggesting investors have continued to take a short-term view. At the sector level, the preference for US Mega Caps ensured that Information Technology, Consumer Discretionary and Communication Services were the best performing sectors, while Materials, Real Estate, Utilities and Consumer Staples lagged.

Returns (%)

FUND	3 MO	6 MO	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	Since Inception
NEI Global Equity RS Fund I	3.13	9.52	9.52	14.76	8.11	7.09	10.87	
NEI Global Equity RS Fund A	2.52	8.23	8.23	12.05	5.56	4.60	8.16	
NEI Global Equity RS Fund F	2.80	8.81	8.81	13.23	6.68	5.67	9.35	
Benchmark 1: MSCI ACWI NR Index (C$)	3.82	11.27	11.27	19.54	9.93	8.23	11.50	

*Source: Morningstar. As of June 30, 2023 + Since inception is only provided for Funds with less than 10 years of performance.

On August 1, 2018 the fund benchmark was changed. Prior to this date, the fund benchmark was 30% FTSE Canada Universe Bond Index, 14% S&P/TSX Composite TR Index and 56% MSCI World NR Index (C$).

Fund commentary

From a sector viewpoint, the largest contribution to relative returns came from selection in Consumer Discretionary, while Information Technology, Communication Services and Health Care detracted the most. From a regional perspective, successful selection in Emerging Asia was outweighed by the detraction from selection in North America.

Within the Fund, Panasonic, Royal Caribbean and UniCredit contributed the most to relative returns. Not owning AbbVie also contributed significantly. Panasonic gave a positive strategy update that included plans to boost battery production and invest further in HVAC (heating, ventilation and air conditioning) systems. It also reported decent results that were slightly ahead of expectations. Royal Caribbean also reported strong results with new bookings outpacing 2019 levels by a "very wide margin" and lower-than-expected costs. UniCredit increased in June after announcing a second tranche of its share buyback program.

Within the Fund, Walt Disney, UGI Corp and Alibaba detracted the most. There were also significant detractions from not owning Nvidia, Meta Platforms and Tesla. Walt Disney reported decent overall revenues and earnings, but a decline in Disney+ subscriptions weighed on sentiment. UGI Corp reported disappointing earnings with the

company impacted by warmer weather. Alibaba's share price declined following reports that Softbank was selling part of its stake, while sentiment was also affected by increased US-China tensions.

All companies in the Fund are systematically assessed from an ESG perspective. The aim is to ensure the Fund contains companies that have good or improving standards of ESG, while avoiding those whose behaviours or poor management of ESG risks represent such a material risk that they are uninvestable. This manifests itself in a Fund whose ESG profile is higher than the benchmark, whose carbon footprint is lower than the benchmark and that has substantial sustainable revenue exposure to social and environmental themes.

In the period, there was no trading activity that related solely to ESG factors. However, the sub-advisor continues to engage with Fund holdings and, one such example, was with Roche Holdings with whom they had positive discussions on their sustainability strategy and their approach to mitigating biodiversity impacts. The sub-advisor gave them several suggestions on their biodiversity, which the company said gave them a blueprint for their approach and overall, they see an acceleration of the sustainability strategy at Roche.

Outlook

The sub-advisor's approach is designed to invest in companies that have a combination of attractive long-term characteristics with good or improving ESG, not on the prevailing macroeconomic landscape. As such, all investment decisions are taken from a bottom-up perspective, and the risk-focused portfolio construction process ensures the Fund is not overly exposed to macro risks.

In practice, this approach means that the Fund's risk budget is dominated by stock selection, while macro exposures are diversified away. At the end of the period, all sector and regional positions were only modestly different from the benchmark index, which has been a consistent feature of the Fund since inception.

From a top-down perspective, the Fund's sensitivities continue to be modest. The main sensitivity of the Fund is from stock selection, which we expect given the bottom-up investment approach. The other main sensitivity is the Fund's bias towards gold. From a style perspective, the Fund's exposures are all modest with the most notable, a higher ROE and lower forecast earnings revisions. In addition, the Fund has a lower debt-to-equity ratio, reflecting the importance of balance sheet strength in the assessment of companies.

With the exception of the handful of names benefiting from the AI-opportunity/hype, equities have been in the shadow of fear for much of the last year. However, measures of risk aversion have started to ease and there are tentative signs that market breadth is starting to improve. The timing is intriguing with investor optimism contrasting with growing pessimism towards the macro-outlook. With industrial activity weaker than expected and the labour market beginning to slow, a downturn in the US looks increasingly likely. Moreover, the Federal Reserve's June minutes reinforced the likelihood of two more rate hikes this year. Investor optimism may be hard to maintain as the tighter the Federal Reserve turns the screw, the harsher the impact on the economy will be.

Opportunities in this environment continue to favour the Mega Cap stocks, which provide the safety of strong balance sheets and protected market positions. These names continue to appeal to those investors seeking growth, but also to those favouring quality. This could also return focus towards sustainability-focused companies that also demonstrate these qualities. However, with so much uncertainty around, remaining diversified should be important over the coming months.

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