

# NEI Global Equity RS Fund

## Q4 2024 Commentary



### Performance

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

Q4 saw a divergence in returns of regional markets as the US posted strong returns, following Donald Trump's victory in the Presidential election, while all other regions lagged amid concerns over trade tariffs, sluggish economic growth and political uncertainty.

The quarter started with investors on the back foot as uncertainty over the pace of interest rate cuts and the looming US Presidential election, which was expected to be closely fought, weighed on sentiment. Donald Trump ultimately secured a decisive victory in the election, removing some investor uncertainty and led markets higher due to expectations of a low tax, pro-growth, regulation-light policy agenda. However, the rise in US markets came to a halt in December after the Federal Reserve reduced expectations for the number of rate cuts in 2025.

Concerns over potential trade tariffs impacted sentiment elsewhere, particularly in China and Europe. In Europe, this was compounded by fears of recession and political instability after the governing coalition in Germany collapsed and the French Prime Minister fell victim to a no-confidence vote. China was also impacted by a lack of further detail regarding its stimulus measures that were announced in September.

From a factor viewpoint, there was a clear preference for Growth and Sentiment, while Valuation, especially in North America, was avoided in October. However, with the paring back of rate cut expectations in December, yields rose, leading to Valuation returning to favour in December with all other factors having a modest influence. Against this backdrop, the benchmark index returned 5.41% in Q4.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Global Equity RS Fund Series I	5.05	8.23	27.95	27.95	7.56	11.64	11.86	N/A
NEI Global Equity RS Fund Series A	4.42	6.93	24.93	24.93	5.02	9.01	9.18	N/A
NEI Global Equity RS Fund Series F	4.70	7.51	26.28	26.28	6.14	10.17	10.38	N/A
<i>Benchmark 1: MSCI ACWI NR Index (C\$)</i>	5.41	10.95	28.15	28.15	10.10	12.37	11.69	N/A

<sup>1</sup>Source: Morningstar. As of December 31, 2024. 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\$).

### Portfolio commentary

From a sector perspective, contributions from selection in Utilities, Health Care and Materials were offset by detractions from selection in Real Estate, Information Technology, Financials and Consumer Discretionary. The Fund's overweight position in Health Care also detracted from relative returns. The detraction from North America was the only meaningful influence at the regional level.

Broadcom, Capital One Financial and Royal Caribbean Cruises were the largest contributors to relative return at the stock level. Broadcom reported strong results that highlighted the large opportunity for its AI chips, reflected in two major new hyper-scaler customers. Capital One issued positive results with better-than-expected net interest income and margins, offsetting higher operating expenses. It increased further following the US Presidential election, which reduced concerns

that its takeover of Discover Financial would face regulatory hurdles. Royal Caribbean also issued strong results and raised guidance for 2024 and struck a confident tone for 2025.

The largest detractor was Tesla, which is not a Fund holding. Within the Fund, American Tower, ASML and Samsung Electronics detracted the most. American Tower reported solid results that broadly matched expectations, although guidance looked modestly lower due to the sale of its Indian asset. The main influence on the share price, however, were rising bond yields ahead of the US presidential election. ASML declined after reporting much lower orders for Q3 and cutting its guidance for next year to €30-35bn, which was at the lower end of prior expectations. Samsung Electronics issued disappointing earnings, driven by weaker-than-expected results in Memory.

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 Amazon. Although there has been some progress on human rights and health & safety, the sub-advisor will continue to engage on these matters as well as its commitment to respect freedom of association and corporate culture.

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. The Fund remains tilted towards Growth and Quality and also remains diversified: sector exposures are within +/- 4% of the benchmark index weight.

The largest overweight positions are in Health Care and Industrials, while Energy remains the largest underweight. The most notable changes have been to reduce the overweight positions in Real Estate and Health Care exposure. The sub-advisor has also increased Financials and now holds a small overweight position. The Fund's regional exposures remain within this expected range. The main changes have been to increase the underweight position in Emerging Asia, increase the overweight position in North America and reduce the European overweight.

From a top-down perspective, the Fund's sensitivities continue to be modest. The main sensitivity of the Fund is from stock selection, which is expected given the bottom-up investment approach. The main portfolio sensitivities are modest, reflecting the diversification of the Fund, with the most notable bias being towards AI, which is partly driving the tilt towards growth. From a style perspective, the Fund's exposures are all modest with the most notable, a higher cashflow yield and forecast growth 12m. The Fund also has a lower debt-to-equity ratio, reflecting the importance of balance sheet strength in the sub-advisor's assessment of companies.

## Outlook

2025 promises to be an interesting year on several fronts. Trump's pro-business, regulation-light policy agenda should boost economic activity in the US, while the continued revival of US exceptionalism is supportive for US markets. It's a different story elsewhere. Initial optimism over China's stimulus has faded, while confidence in the Eurozone is low, amid political, geopolitical and economic uncertainty.

The threat of tariffs provides significant uncertainty in terms of trade and inflation. One school of thought believes the threats are a negotiating tactic with tariffs likely to be more targeted and less aggressive than the rhetoric suggests. The sub-advisor has some sympathy with this view. China and, to a lesser extent, Europe are likely to bear the brunt. Regardless of how this plays out, the sub-advisor expects much like in Trump's first term, increased volatility in reaction to each development or social media post.

There has also been much talk of how the Trump administration will impact ESG and sustainability. The sub-advisor continues to view ESG as important, not from a moral perspective, but because they believe that companies with good or improving ESG standards will generate superior financial outcomes. In a world of reduced regulation, companies need strong, risk-aware leadership who can navigate the increasingly volatile macroeconomic backdrop.

Following the domination of Mega Cap technology over the past couple of years, markets should broaden in 2025. The sub-advisor remains positive on the structural growth opportunity for AI but expects opportunities will emerge further down the market cap range. Diversification, a dynamic risk management approach and a focus on fundamentals will be important in this environment.

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