NEI Global Equity RS Fund

Q1 2025 Commentary

Performance

The Fund (Series I) outperformed the benchmark for the quarter.

Heading into the start of the year, investors were generally bullish that President Trump's pro-growth policy agenda of deregulation and tax cuts would amplify the US exceptionalism theme and buoy US markets. Investors were less bullish on the rest of the world on the basis that Trump's "America First" agenda would exacerbate some of the headwinds to economic growth already being felt outside of the US.

So far, things have not worked out that way, with the US lagging major indices due to significant uncertainty from tariffs, fears that inflation may return and that government layoffs would damage the US economy. In addition, DeepSeek, China's cheaper and more energy efficient AI model, impacted sentiment towards direct and indirect beneficiaries of the AI trade, reflected most notably in the weak performance of the Magnificent 7.

Europe has seen notable strength for much of the quarter, benefiting from the rotation away from the US amid optimism that its economy was improving, a supportive policy backdrop and the new German Chancellor's pro-growth agenda. China has also seen strength, driven by stimulus measures aimed at boosting consumption and investors' re-evaluation of China's role in the AI revolution. Uncertainty for both increased in the final weeks of the quarter, however, as concerns over US trade tariffs ahead of "Liberation Day" increased.

Factor performance was muted in January, but there was a regional divergence in February as investors sought cheaper Valuations and tended to avoid Growth and Profitability in Europe and Japan, while the reverse was true in North America. In March, there was a strong preference for Valuation at the expense of Growth and, in North America, Sentiment.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Equity RS Fund Series I	-1.07	3.93	-1.07	12.63	10.51	14.60	10.52	N/A
NEI Global Equity RS Fund Series A	-1.65	2.70	-1.65	9.96	7.91	11.90	7.88	N/A
NEI Global Equity RS Fund Series F	-1.38	3.26	-1.38	11.16	9.06	13.09	9.05	N/A
Benchmark 1: MSCI ACWI NR Index (C$)	-1.25	4.09	-1.25	13.96	12.09	15.43	10.31	N/A

[1]Source: Morningstar. As of March 31, 2025. 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 viewpoint, there were notable contributions from selection in Consumer Discretionary and Utilities, offsetting detractions from selection in Industrials and Consumer Staples. From a regional viewpoint, there was a contribution from stock selection in Emerging Asia, offset by the detraction from selection in Europe.

ESG is integrated into all investment decisions through the inclusion of the sub-advisor’s proprietary QESG Score in the Alpha Model, the team’s stock selection tool, which seeks companies with attractive combinations of fundamental characteristics. The QESG Score assesses a company’s ESG profile and how it’s changing, which is overlaid with a qualitative assessment and stewardship input from EOS. In the period, there was no trading activity that related solely to ESG factors.

From a positioning viewpoint, the Fund's carbon footprint and intensity remains below that of the benchmark and the sub-advisor engages with the majority of Fund holdings. One of the most notable engagements was with Schneider Electric on circularity.

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. As such, 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. From a style perspective, the Fund's exposures are all modest with the most notable, a higher cashflow yield and ROE. The Fund also continues to have a lower debt-to-equity ratio, reflecting the importance of balance sheet strength in the sub-advisor's assessment of companies.

The Fund is tilted towards Large Cap names, Growth and Quality, while sector exposures are within +/- 3% of the benchmark index weight, although most sector exposures fall within +/- 1% of the benchmark, further highlighting the diversification of the Fund. The most notable overweight position continues to be in Health Care, while Energy remains the largest underweight. The uncertain macro backdrop has led the sub-advisor to move its Industrials exposure to underweight and a notable reduction in the Real Estate overweight position. These changes have been absorbed by small increases to several other sector positions.

From a regional perspective, the sub-advisor has moved overweight to Emerging Asia and underweight North America and retained the overweight position in Europe. The change within Emerging Asia has been driven by increasing exposure to China with a focus more on domestic China, which provides some insulation from tariffs.

Outlook

The imposition of tariffs and any potential retaliation is a clear negative for the global economy. As things stand, most economic forecasts are now obsolete, and it is likely that most countries will have to cut forecasts with many ending up in recession.

However, the suspicion remains that President Trump is using this as a negotiating tactic, although it could still end up inflicting damage on the US from a reputational standpoint. If it isn't a negotiating tactic, then the trade system built after World War II will need recalibrating. This will inevitably cause some pain for all. It's also worth highlighting that approximately two-thirds of the US economy is driven by the consumer, so these tariffs are likely to be a significant headwind as they filter through to the cost of goods.

While this appears to be negative, we should remember that we don't yet know how this ends. Tariffs have been reduced to 10% for 90 days for all countries bar China, which provides some necessary room to negotiate. It's also likely that behind-the-scenes negotiations with China are taking place. We should also remember that Trump came into power with a mandate to deregulate and cut taxes. In other words, things could look very different a couple of months from now, but we'll have to wait and see.

The sub-advisor will, of course, be monitoring the situation very closely, and they hope to gain more clarity soon. For the time being, diversification, having a focus on Quality and being Value-conscious will be important.