NEI Global Value Fund

Q1 2025 Commentary

NEI

Performance

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

The first quarter of 2025 was marked by intensifying geopolitical frictions, erratic U.S. policymaking, and a souring investor sentiment. Against a backdrop of political assertiveness, changes in trade relations, participants in the financial markets were left navigating in great uncertainty.

The inauguration of President Donald Trump for a second term set the tone for an assertive U.S. stance across both domestic and international matters. Early in the quarter, Trump floated controversial proposals such as the annexation of Canada and Greenland—rhetorical perhaps, but demonstrative of a more confrontational tone. The administration quickly moved to impose tariffs on key trading partners including Canada and Mexico, citing the need to revive domestic manufacturing. The proposed tariffs unsettled global markets, prompting fears of reignited inflation and a potential upending of trade alliances as we have known them. The 25% tariffs on steel and aluminum triggered immediate retaliatory measures from the EU and vocal opposition from U.S. allies. Additional levies on auto imports were also introduced, reinforcing the “America First” doctrine and underscoring the administration’s willingness to disrupt long-standing economic alliances. The net effect was increased uncertainty, with businesses and investors struggling to interpret the long-term economic implications of such abrupt policy shifts. Domestically the administration is enacting deep spending cuts, with high-profile figures like Elon Musk increasingly involved in public governance matters—blurring the lines between business and politics. A proposed U.S. sovereign wealth fund and discussions around privatization of public services reflect the administration’s unconventional fiscal philosophy.

While the Federal Reserve kept policy rates unchanged, it revised its inflation forecasts higher and signaled more modest growth expectations—underscoring the delicate balancing act between supporting economic momentum and anchoring inflation expectations. Beyond the U.S., global dynamics were equally complex. Meanwhile, Japan’s central bank took a rare step and raised rates to 0.5%, a symbolic shift away from its ultra-loose monetary stance. In China, the government announced a 5% GDP growth target for 2025, a figure viewed as ambitious given the economic slowdown and worsening trade tensions with the U.S. China’s 10-year government bond yield fell to record lows, reflecting waning confidence in the country’s near-term prospects. Tensions escalated with military maneuvers near Taiwan and the emergence of a competitive AI language model, prompting fears of a new technology and security arms race. The geopolitical landscape remains fluid. A ceasefire between Israel and Hamas raised hopes for greater stability in the Middle East and less strain on global supply chains. Meanwhile, President Trump’s provocative proposal to take over Gaza and resettle over two million people stirred global condemnation, casting uncertainty over U.S. foreign policy direction. The war in Ukraine also continued as negotiations brokered by the U.S. were largely unconstructive.

Europe’s largest economy, Germany, officially entered a technical recession, contracting for a second consecutive year. Chancellor-designate Merz brokered a landmark deal to loosen the country’s constitutional debt brake to fund military and infrastructure investments—marking a shift in the region’s post-war fiscal orthodoxy. This coincided with mounting pressure from the U.S. for NATO members to ramp up defense spending, amid signs that the traditional security umbrella can no longer be taken for granted. Elsewhere in Europe, inflation worries were compounded by stagnant growth and political tensions.

Despite the persistent uncertainty, equity markets as a whole performed better than one would have expected. While U.S. indices like the S&P 500 and Nasdaq posted year-to-date declines in the single digits, Europe and emerging markets delivered positive performance, breaking a multi-year streak of U.S. equity dominance. The sub-advisor still sees a low-risk premium for equities on a broad level, which raises concerns as the investment environment is becoming less predictable. Cracks have started to form in confidence indicators across households, businesses, and financial markets, and the sub-advisor will see whether fundamentals will come under strain. The VIX climbed and gold reached an all-time dollar high. As policy risk takes center stage and traditional alliances are tested, navigating the path forward will require continued disciplined risk management and discernment.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Value Fund Series I	2.41	3.55	2.41	13.38	12.61	15.13	N/A	10.31
NEI Global Value Fund Series A	1.80	2.30	1.80	10.63	9.86	12.33	N/A	7.73
NEI Global Value Fund Series F	2.07	2.86	2.07	11.85	11.07	13.58	N/A	9.07
Benchmark 1: MSCI World NR Index (C$)	-1.72	4.46	-1.72	13.84	12.79	16.39	N/A	12.43

[1]Source: Morningstar. As of March 31, 2025. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark returns for Series F and Series I are 12.52 and 12.31, respectfully.

Portfolio commentary

The Fund was significantly invested in U.S. equities, albeit less than the benchmark during the period, which was a tailwind to the relative performance. This is not to be confused with a regional bias; the positioning is solely driven by the bottom-up opportunities the sub-advisor identifies. The sub-advisor also remained overweight Asia & Pacific, where the sub-advisor finds attractive idiosyncratic ideas. While short-term performance can be influenced by variables such as regional exposure and currency fluctuations, these effects are typically mitigated over the long term, as the Fund is constructed to minimize such impacts.

The portfolio's excess return is not neutralized with respect to sectors, as the aim is to invest in companies with favorable long-term prospects. Their strict bottom-up selection approach is sector agnostic, and the weightings are merely a classification label. Certain sectors, e.g., Utilities, often lack compelling opportunities based on this investment approach, as the companies on a fundamental basis often do not satisfy the quality attributes that the sub-advisor looks for. In contrast, while the sub-advisor acknowledges that quality companies are abundant within the information technology sector, many fall short with respect to the valuation criteria in their strategy. As a result, the sub-advisor was underweight the latter this quarter and still are. Currently, the Fund is significantly overweight in healthcare and consumer discretionary.

During the quarter, the Fund outperformed its benchmark. Notable positive contributors included the mining company Newmont, reflecting gold's appreciation. Nvidia, while not in their portfolio, was still a large relative performance contributor, as the tech company's shares declined on waning AI excitement and a big tech sell-off in the U.S. AutoZone was also a significant contributor to the outperformance, as the company was seen as a relative beneficiary in light of the U.S.' imposition of auto tariffs. Elevance, which had a tough time in the previous quarter, rebounded as the negative overhang disappeared and investors sought more defensive havens amid market turmoil.

Conversely, among the worst performers during the quarter was Japanese SoftBank Group. The visionary Chairman and CEO has been very explicit about his ambition for the company to take the lead in AI investments, which this quarter was at odds with skepticism around the financing thereof and the uncertainty of associated returns. Other significant detractors were Alphabet and HP, which, along with much of the tech sector, were subject to the risk-off sentiment.

Several changes were made during the last quarter. The sub-advisor sold Johnson & Johnson. While the valuation at first sight appeared undemanding, the sub-advisor was concerned with the quality of the franchise and capital allocation priorities. Spinning off its consumer healthcare business in 2022 and the more recent acquisition announcements made the sub-advisor worry about the future returns of their deployed capital. The sub-advisor replaced J&J with HCA Healthcare Inc., a leading hospital and care facility operator in the U.S. with solid fundamental attributes. It has a track record of steady growth in facility network size and operating efficiency, translating into very steady ROIC in the high teens. It satisfied the sub-advisor's criteria for high quality at an attractive valuation. The sub-advisor also sold Fiserv, which at the time was their best performer on a one-year horizon, as the market priced in the quality of the franchise. With the proceeds, the sub-advisor initiated a new position in Applied Materials, a leading producer of semiconductor capital equipment. Albeit operating in an inherently cyclical industry, the company has a long track record of steady growth in earnings. The company has an impressive ROIC profile of >30% and displays prudent capital allocation priorities: investing in the business and distributing excess cash to shareholders. The sub-advisor also sold the remainder of Packaging Corp as the valuation had risen beyond their estimate of fair value. Lastly, the sub-advisor purchased Novo Nordisk, a leading pharmaceutical company developing and producing medicines for endocrine disorders, cardiovascular and rare diseases, and obesity. The stock was purchased during a 50% drawdown as worries about competition and tariffs tainted the narrative, which the sub-advisor deems temporary and unjust given the quality of the franchise.

Outlook

The investment strategy remains firmly in place: investing in companies with proven business models, high returns on capital, and prudent capital allocation, and not overpaying. The sub-advisor strives to minimize macroeconomic variables such as country exposure, interest rate fluctuations, or currency movements as drivers of excess return. Instead of relying on external factors beyond their control, the sub-advisor tries to identify high-quality businesses to deliver a satisfactory return.

The sub-advisor had a good start to the year. It appears that markets have finally begun to acknowledge the geopolitical risks and that the cost of capital is real, which means that complacency towards valuation is unforgiving.

Geopolitical risks still loom. The ongoing war in Ukraine, tensions in the Middle East, and uncertainties surrounding Western trade relations complicate matters, and the sub-advisor expects that inflationary pressures will persist. The sub-advisor is also witnessing some changes in capital flows away from the U.S. as investors become more uncertain about the implications of the Trump administration's trade policy. While the sub-advisor still holds the view that the U.S. lists many high-quality companies that the sub-advisor looks for, the sub-advisor has long opined that valuations there have been extreme, partly due to the proliferation of price-insensitive investment vehicles. The sub-advisor thinks a likely scenario is a reversal of the trend, which has led to a worrisome concentration of risk. The sub-advisor does not claim to know what the future brings, but the sub-advisor is confident that their strategy of holding a diversified portfolio of high-quality businesses at attractive valuations is well suited for the challenging environment ahead.

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