NEI Global Value Fund

Q4 2024 Commentary

Performance

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

During the final quarter of 2024 several pivotal events transpired and influenced the global financial markets.

Arguably the most important event was the presidential election in the U.S., where Donald Trump will be inaugurated for the second time. The U.S. stock market soared on the results as market participants were incorporating expectations of a more accommodative, but to some less responsible, “US-first” policy measures. Risk aversion tied to existing economic challenges such as inflationary pressures, government debt levels and the uncertain trajectory of economic growth, was replaced by renewed hope and optimism. The sub-advisor witnessed speculative behaviors as valuations decoupled from fundamentals in certain areas of the stock market, while gold’s appreciation was superseded by crypto currencies and levered financial products. The S&P 500 reached new highs, predominantly driven by the mega caps. Small and mid-cap stocks initially delivered robust returns post the election result on expectations of lower taxes and deregulation. This proved to be short-lived, and looking under the surface, most sectors ended in the red during the quarter. Looking at the S&P500’s earning’s yield relative to real bond yields (TIPS) the spread to the 30-year has now reached the lowest levels on record, a clear sign of high-risk appetite among investors.

After implementing the first interest rate reduction in September, The Federal Reserve kept its policy stance clear in Q4; stimulate economic growth amid lower inflation numbers keep rolling in. This set precedence for other central banks. If the tariffs and trade curbs were to be implemented as proposed by the new administration, however, the trajectory of rate cuts could potentially upend as the measures could reignite inflationary pressures and hamper global competition - a fundamental condition for sustaining the quality of consumer products and services.

After the focus on the Israeli-Hamas conflict in Q3 that added a layer of uncertainty and risk to global markets during which the sub-advisor saw a shift towards safe-haven assets such as gold and U.S. Treasury bonds, the sub-advisor witnessed the revolt in Syria where a swift rebel offensive ended the Assad regime. This added to the Middle East instability which continued to linger in the quarter.

Looking more eastward, the Chinese government proposed an economic stimulus package, including monetary easing and liquidity programs to boost growth and improve investor confidence. This did not seem to spark particular interest, as investors deem the economic challenges too severe to patch. The measures were to some interpreted as a countermove in the on-going trade dispute with the U.S, which will most likely weigh on global economic growth and market sentiment. Another indication of the East-West conflict intensifying was China’s military exercises near Taiwan, yet another provocative maneuver to demonstrate intentions to reclaim the self-governed Island where one of the most important companies TSMC is located from which the U.S. imports the most advanced semiconductors used in among other military applications.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Value Fund Series I	1.11	7.34	26.18	26.18	7.81	9.18	N/A	10.32
NEI Global Value Fund Series A	0.49	6.01	23.04	23.04	5.17	6.52	N/A	7.74
NEI Global Value Fund Series F	0.77	6.60	24.39	24.39	6.34	7.71	N/A	9.08
Benchmark 1: MSCI World NR Index (C$)	6.29	11.62	29.43	29.43	11.04	13.49	N/A	13.07

*Source: Morningstar. As of December 31, 2024. 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 13.16 and 12.94, respectfully.

On April 16, 2021, the Fund changed its fundamental investment objectives to enhance the ESG characteristics of the fund in accordance with NEI's responsible approach to investing as set out in "Responsible Investing" section in Part A of the Simplified Prospectus. The performance of this Fund for the period prior to this date may have been different had the current investment objectives and strategies been in place during that period.

Portfolio commentary

The Fund was significantly invested in U.S. equities with a more than 70% avg. weight in the period, a bit less than the benchmark. 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 structured to minimize such impacts.

The Fund'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, at present, the Fund is significantly overweight in Consumer Discretionary and Financials.

In the quarter, the Fund underperformed its benchmark. Notable positive contributors included vendor of financial infrastructure and debit network operator Fiserv, closely followed by a reasonably new holding, Ameriprise Financial Inc., both benefitting from sound fundamental performance as well as a tailwind from prospective financial deregulation post U.S. election results. Alphabet Inc. was the third best contributor to the quarterly performance. Of the large cap companies, it had been a laggard and skepticism around the company's ability to keep up with AI innovation was put to rest with strong reported results and several product launches.

Conversely, among the worst performers in the Fund during the quarter was Elevance Health Inc. which faced some uncertainty around redetermination rates (Medicaid eligibility) while unit cost of treatment has increased. Shares were also affected by negative sentiment prompted by political discussions around reforms in the light of increasing healthcare costs in the U.S. The mining company, Newmont Corp., was the second largest detractor to this quarter's performance after the shares had rallied in the two preceding quarters in tandem with gold's surge. Bike parts and fishing gear maker Shimano was also a notable negative contributor as end demand in major markets remains weak, causing investors to lower expectations.

Several changes were made during the last quarter. Luxury group Kering was sold entirely as the sub-advisor became skeptical of the company's ability to turn-around its lackluster fundamentals. Proceeds were used to add to LVMH, which the sub-advisor believes has higher quality franchises and more capable management in place. The memory maker Micron was sold as the sub-advisor saw better risk/reward in Samsung which had derated materially since August, and in their view unjustifiably. Semiconductor equipment maker Teradyne was sold, as it was expensive relative to peers. For the proceeds the sub-advisor bought Japanese Lasertec Corp, a maker of photomask inspection tools used for EUV-applications when manufacturing high-performing semiconductors. Improving chip efficiency requires better and more precise photomask probing capabilities to detect defects, and Lasertec is well-positioned as the market leader in this space. The stock was purchased after a ~65% drawdown at ~18x estimated earnings. The sub-advisor believes that the market has already discounted slower growth going forward, and the pull-forward demand from China weighing negatively on the semi-cap space presented a good entry point to take stake in a supplier of critical technology with high returns on capital invested.

Outlook

The investment strategy remains firmly in place: Investing in companies with proven business models, sound balance sheets, and capable management teams, at times when they are undervalued. The sub-advisor aims to minimize macroeconomic variables such as country exposure, interest rate fluctuations, or currency movements being 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.

Looking ahead, the financial landscape in 2025 is expected to still be influenced by the effects of elevated interest rates and persistent inflationary pressures. Geopolitical risks still loom, ongoing war in Ukraine, tensions in the Middle East and uncertainties surrounding China-Taiwan relations make matters even more complicated. On a different note, the sub-advisor is also witnessing a crucial change take place in the asset management industry as allocators have shifted away from active stock-picking strategies towards index-tracking investment vehicles with "fees" and "an acknowledgement that picking winners is a fool's errand" often as the cited justification. While the sub-advisor cannot with certainty grasp the implications of these synchronous investment behaviors, the sub-advisor posits that it can lead to a dangerous concentration of risk – precisely what the sub-advisor tries to mitigate. The sub-advisor strives to have a sufficiently diversified Fund that in aggregate is characterized by a significantly higher return on invested capital (ROIC) compared to the market average, along with an attractive P/E ratio and high shareholder yield. The sub-advisor believes this strategy with an emphasis on quality and value, which empirically has performed well, is prudent to tackle the challenging environment ahead.