NEI Global Value Fund

Q4 2023 Commentary

Performance

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

The global stock market in Q4 2023 was characterized by continued very generous returns with low volatility. This extremely positive market emanated from lower yields on the back of better inflation numbers. The tightening of monetary policies and quantitative tapering seem to work for the moment, and the markets could finally breathe in relief as anxiety of the FED losing control of inflation has disappeared for the moment.

These positive markets were not evenly disturbed by the October 7th terror attack by Hamas on Israel, as this conflict for the moment is seen as being contained to a local Israel-Hamas centered skirmish. The situation is however delicate, as Hezbollah (which operates from Lebanese territory) is exchanging fire with Israel around the Golan Heights. This could propel the conflict into a much larger one, which has already demonstrably been the case with the Houthi militia effectively severing the Red Sea trade with hostilities.

Despite these difficult geopolitical challenges, the continued surge in Q4 and the rally was much broader than the eyes see: The MSCI World Equal Weighted Index performed in line with the MSCI World Market Cap weighted index despite an early setback in the quarter, which bears testimony to the fact that not only the largest companies rose during Q4.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Value Series I	9.48	7.96	23.07	23.07	6.10	7.87		8.28
NEI Global Value Series A	8.81	6.65	20.12	20.12	3.53	5.27		5.77
NEI Global Value Series F	9.11	7.24	21.44	21.44	4.69	6.45		7.12
Benchmark 1: MSCI World NR Index (C$)	8.66	7.18	20.47	20.47	8.51	12.01		10.97

[1]Source: Morningstar. As of Dec 31, 2023. 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 11.07 and 10.83, 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 portfolio is significantly invested in US equities, which is due to bottom-up perspectives. Although the subadvisor has found fewer investment candidates within the US as well as more investment candidates outside the United States, the Fund has an unbiased approach as to regional allocations.

The Fund is not excess-return neutral to sectors, in the same way as countries, currencies, interest rates etc., as they want to expose the Fund to companies that have favorable long-term prospects, and such companies rarely exist in, for example, the utilities sector. Therefore, at the time of writing, the Fund has a significant overweight in Consumer Discretionary, Communication Services with a zero-weight in the Energy sector.

American Express, KLA Corp and Barrick Gold were the best performers in Q4 2023.

American Express continued its performance roll in Q4, rising more than 20 percent, as revenues and net income continued to grow – easily beating analysts' expectations.

KLA Corp also continues to enjoy the bottoming out of the semiconductor cycle, as orders keep flowing in and revenues grow at a satisfying rate. KLA provides critical equipment to Wafer-error detection in the semiconductor industry and enjoys an almost monopoly like situation, which can be seen in the continued high ROIC the company is able to deliver.

Finally, Barrick Gold performed well in Q4, due to investors anticipating peak long-term US bond yields. The situation in the Middle East between Hamas and Israel has also added to Gold's status as a haven, and the price of Gold rose nearly 13 percent easily outperforming the global stock market. Barrick Gold rose almost 20 percent because of these two factors.

The worst performing stocks of Q4 2023 were Ahold, eBay and Kering. All three stocks were down between -5 to -10 percent due to a combination of selective factors: Ahold simply delivered subpar results for the quarter and the stock reacted promptly by a sharp drop. eBay's drop was within normal volatility for the share price and can probably be explained by ETF trades. The company's quarterly report was actually good, and the company provided solid guidance as well. Finally, Kering continued to struggle on the stock market, as investors are trying to cope with the company's take on the Gucci brand which has been of some concern lately.

During Q4 the subadvisor decided to exit the position in Intel. The proceeds from Intel were placed into Johnson & Johnson which trades at an estimated 16 times forward 12 months earnings, which the subadvisor finds attractive given the quality of the business.

Outlook

2024 may continue to be highly volatile as the markets still need to digest the rising rates. Although inflation seems to be under control for the moment, adverse development in the Middle East could easily disrupt this picture.
Historically, qualitative value has outperformed both traditional value and growth during inflationary periods – and we have a qualitatively very strong portfolio with a ROIC significantly above the market. This coupled with an attractive P/E ratio as well as high shareholder yield, should be better to hold in an inflationary environment than other strategies.

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Series F units are only available to investors who participate in eligible fee-based programs with their registered dealers that have entered into a Series F Distribution agreement with NEI Investments.

Series I have high minimum investment requirements and are typically aimed at institutional investors (such as pension plans) or investors making large investments in the fund. Funds in these series generally have lower management fees than the retail series of the same fund.

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