NEI Growth and Income Fund

Q4 2024 Commentary

Performance

The Fund underperformed its benchmark over the quarter.

Returns (%)

FUND	3 months	6 months	YTD	1 year	3 year	5 year	10 year	Since Inception
NEI Growth and Income Fund Series I	0.22	7.36	12.67	12.67	1.08	5.15	6.57	N/A
NEI Growth and Income Fund Series A	-0.46	5.89	9.65	9.65	-1.63	2.33	3.71	N/A
NEI Growth and Income Fund Series F	-0.13	6.61	11.13	11.13	-0.33	3.69	5.08	N/A
Benchmark 1: 25% FTSE Canada Universe Bond Index, 55% S&P/TSX Composite TR Index and 20% MSCI World NR Index (C$)	3.33	11.54	18.62	18.62	6.82	9.10	7.84	N/A

*Source: Morningstar. As of December 31, 2024. Since inception is only provided for Funds with less than 10 years of performance.

On November 15, 2021, NEI Global Growth Fund (formerly NEI Global Equity Fund) changed its sub-advisor and its fundamental investment objectives. The purpose of the change is to enhance the environmental, social, and governance characteristics of the Fund, with a focus on growth-style equity opportunities. 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. The NEI Global Growth Fund is an underlying fund in NEI Growth and Income Fund.

Portfolio commentary

In Global dividend equities: the main contributors to underperformance was the sector allocation, especially the underweight to the tech sector and the overweight in industrials. On top of this, the depreciation of the EURUSD was painful. During the last quarter, exposure to the UK and Japan has been increased at the expense of the US and Eurozone, especially the French market. This move, in one hand, has led to an increase to the OW and on the UK and a reduction in the overall Japan UW. The rationale behind these moves was the acknowledgement that domestic outlook in both countries had materially improved, especially for the UK in background of worrisome situation in eurozone. Repositioning in the UK was achieved mainly through higher exposure to UK Staples and Utilities sectors along with a reduction in the underweight to the Japan market. These exposure increases have been balanced by some exposure reductions. In the US, this was put in place by further reducing exposure to both US cyclical consumption and Tech sectors. In France, the rationale of the move was based on an overall reduction. In terms of risk premia chasing, in the US, exposure to US High Dividend US Value was increased at the expense of some US Quality components such as profitability.

In the Core Global Equity sleeve: 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. The largest detractor was Tesla, which is not a Fund holding. Within the sleeve, American Tower, ASML and Samsung Electronics detracted the most. 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 core global equity sub-advisor has also increased Financials and now holds a small overweight position. The sleeve'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.

In the more high-growth global equity sleeve: the top performer was fintech platform Wise - an international money transfer facilitator. Its share price has steadily risen due to operational progress evidenced through robust results. Cross-border volumes and active customer numbers have been rising. Shopify and Spotify were top contributors, benefitting from strict cost control measures. Shopify, now a pure-play in ecommerce software, is beginning to earn software-like margins. Spotify saw revenues increase +20% year-on-year, reflected in gross margin expansion. Not owning index-heavyweights NVIDIA and Tesla negatively impacted relative returns. MercadoLibre, the Latin American e-commerce and fintech company, detracted driven by a weaker third-quarter earnings report falling short of analyst expectations. Investors reacted negatively to margin compression from increased investment in its credit and logistics operations. As a long-term shareholder, the high-growth global equity sub-advisor believes these investments evidence a forward-looking expansion strategy which should bear fruit in the years to come. The sub-advisor exited Denali Therapeutics, the biotech focused on neurodegeneration, due to slow trial progress and an unexciting pipeline, despite its admirable mission to treat neurodegenerative diseases like Alzheimer's and Parkinson's. They also moved on from Chinese ecommerce company, JD.com and European sportswear giant, adidas, as competition overshadowed the companies' sustainability missions. In their place, they added US cold storage logistics business Lineage, which holds a 30% market share, offering resilience and supporting automation. Lineage's efficiency could significantly reduce food waste, potentially feeding over a billion people annually. Another new purchase is Edwards Lifesciences, a pioneer in minimally invasive heart treatments. Its transcatheter aortic valve replacement offers a less invasive alternative to open heart surgery. Despite short-term growth challenges, it has significant long-term expansion potential. A recent share price drop made it an attractive investment.

In Canadian bonds: from an allocation perspective, the sleeve's relative overweight exposure to issues within the Energy, Real Estate and Provincial sectors and relative underweight exposure to issues with the Industrial, Infrastructure, and Federal sectors, provided the largest contribution to relative returns. The relative overweight exposure to issues within the Financial and Communication sectors and relative underweight exposure to issues within the Municipal and Securitized sectors detracted from performance. From a duration perspective, while yield curve effects detracted from performance on a relative basis, the relative overweight exposure in 7- and 10-year key rates contributed positively to relative returns as a result of narrowing credit spreads. Over the quarter the sleeve increased its relative overweight exposure in 10-year key rates while decreasing its relative overweight and underweight exposures in 5- and 20-year key rates, respectively.

In Canadian equities: sector allocation and stock selection were both negatives for the Fund. Within sector allocation, the Fund's underweight to Information Technology and overweight to Communications detracted from performance. On the other hand, the Fund's overweight to Consumer Discretionary was a slight positive. Stock selection within Information Technology was a detractor, particularly the Fund's lack of exposure to Shopify and NVIDIA. Selection within Consumer Discretionary was also weak, with Fund holdings Kingfisher Plc, Linamar Corp and Canadian Tire detracting from performance. Specific stocks that contributed include Industrial names CAE Inc. and Air Canada, as well as CI Financial.

Outlook

The Canadian equities sub-advisor anticipates another year of positive but below-trend growth for the global economy. Accumulated savings should help Canadian households weather a period of higher unemployment.

In Canada, real GDP advanced 1.5% year-on-year in the third quarter. However, sequential activity weakened. Real GDP rose 0.3% quarter-on-quarter in Q3, compared to a 0.5% rate of growth recorded over the first half of the year. Notable expansions in household spending (+0.9%) and government expenditures (+1.2%) were partially offset by declines in business investment (-0.9%) and residential construction (-0.1%). Despite a competitive Canadian dollar and resilient activity in the U.S., exports also detracted from growth in the third quarter, falling 0.3% against the previous three-month period.

The unemployment rate has steadily edged up from a near-record low of 5.0% in early 2023 to 6.8% in November, a post-pandemic high. The rise is primarily due to robust labour force growth outpacing job creation, rather than being driven higher by job losses. Over the past two years, the gradual and moderate adjustment in the labour market has helped maintain household income growth at healthy levels. Indeed, average hourly earnings rose 4.1% year-on-year in November.

Solid income growth has kept household balance sheets strong. The personal savings rate rose to 7.1% in the third quarter from 6.2% in Q2, a sign that Canadians have continued to stockpile savings. Accumulated savings currently total C$370 billion (12% of GDP) and should maintain aggregate consumption in positive territory, even if the job market continues to soften in 2025.

On the fiscal front, Canada's finances are not as dire as have been portrayed. The 2024 budget deficit of C$61 billion is around 2% of domestic GDP, well below that of the U.S. (currently at 7.6% of GDP), France (6.0% of GDP) and the U.K. (4.3% of GDP). Canada's overall debt picture is also on much more solid footing than most major developed economies. On balance, the sub-advisor does not expect the recent overshooting of budget targets to be a material risk to the country's economic prospects.

The Canadian equities sub-advisor believes the Canadian economy is on track for another year of subdued, but positive, growth. Rising labour market slack and continued progress on inflation reinforce the likelihood that the Bank of Canada will continue to cut rates in the months ahead. This should help bring stability to interest-rate sensitive sectors, such as housing, later this year.

Notwithstanding the potential negative effects of U.S. tariffs on the Canadian economy, the Canadian equities sub-advisor forecasts Canadian real GDP growth in the 1.0-2.0% range in 2025.