NEI Growth and Income Fund

Q1 2025 Commentary

Performance

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

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Growth and Income Fund Series I	-0.15	0.07	-0.15	8.06	3.98	9.10	5.99	N/A
NEI Growth and Income Fund Series A	-0.82	-1.28	-0.82	5.15	1.19	6.17	3.14	N/A
NEI Growth and Income Fund Series F	-0.50	-0.63	-0.50	6.55	2.53	7.60	4.50	N/A
Benchmark 1: 25% FTSE Canada Universe Bond Index, 55% S&P/TSX Composite TR Index and 20% MSCI World NR Index (C$)	1.00	4.36	1.00	13.42	7.52	12.66	7.44	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 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 Fund's outperformance versus the benchmark could be essentially explained by both (a) the risk management of common risk factors, in particular factor and sector allocations and, (b) the selection bias. Country allocation though, detracted from performance. Worth spotting, driver of gains along style/ factor allocation were made on the grounds of hedging bias against the risk of a broad repricing, in particular the need of much higher volatility expectations (UW High beta, High residual vol stocks). The last rebalancing of the portfolio occurred in December. The next one is expected to occur in Q2 once the dust settles a bit. Overall, current positioning of the Fund against market (MSCI World) is overweight Japan, Switzerland and underweight US along the currency/ equity axis. On top of this, the Fund remains underweight on cyclicals via the Consumer Discretionary and Tech sectors. These active short bets are balanced by overweights on Defensives: Health Care, non-cyclical consumption and Telecom Services. Finally, when it comes to exposure to the equity risk premia, the Fund is solidly grounded to its fundamental bias of being underweight high beta stocks / overweight High Dividend stocks. Beyond the latter, some diversification trades have been set up.

In the core global equity sleeve: 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. 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 core global equity 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 core global equity 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 core global equity 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.

In the high-growth global equity sleeve: the largest detractors in the quarter were US companies. While sentiment for US growth companies may have hastened their descent, there were stock-specific reasons behind their falls. Illumina faced

headwinds from subdued demand in academic research due to US budget scrutiny and geopolitical pressures following its addition to China's "unreliable entities" list. Despite competitive challenges, including Roche launching a rival gene sequencer, Illumina remains dominant in clinical genomics, where its NovaSeq X platform offers transformative efficiency gains for customers. The Trade Desk experienced a sharp decline after missing revenue guidance for the first time in its history as a public company. Execution challenges from a commercial reorganization and delayed platform updates weighed on results. However, its leadership in programmatic advertising remains intact, supported by opportunities in retail media and international expansion. Recruit, the Japanese human resources company, struggled amid cyclical pressures in recruitment spending globally, particularly affecting its HR Tech segment. While near-term challenges persist, the high-growth global equity sub-advisor believes Recruit's innovative matching technologies position it well for long-term leadership in online recruitment markets as job openings recover over time. Illustrating the swings in market sentiment over the past six months, especially in the Americas, one of this quarter's top contributors to relative returns was the Fund's bottom contributor last quarter. Operationally, e-commerce and fintech platform MercadoLibre continues to purr, though, with marketplace revenues growing around a third year-on-year last quarter and the credit portfolio expanding by three quarters. The streaming platform Spotify has been a more consistent performer, with strong revenue growth and impressive profit growth. Prudential, the life insurance company, had a strong quarter underpinned by a 10% increase in operating profit and growth in new business premiums. The company exceeded expectations and demonstrated resilience in its core markets across Asia and Africa. The high-growth global equity sub-advisor believes Prudential's ability to meet rising demand from middle-class consumers ensures its long-term growth potential. This quarter, Cadence Design Systems and Synopsys were added to the portfolio, enhancing exposure to semiconductor design automation, a critical enabler of AI innovation and energy efficiency. The high-growth global equity sub-advisor also exited Amazon due to concerns over insufficient progress on climate commitments. This decision reflects the high-growth global equity sub-advisor's disciplined approach to reallocating capital towards companies better aligned with its sustainability criteria.

In Canadian bonds: the overweight exposure to Provincial government bonds and corporate bonds within the Financials sector provided the largest contribution to relative performance. Widening credit spreads during the quarter detracted from relative performance as a result of the Fund's larger corporate weighting. From a yield curve positioning standpoint, the Fund's relative overweight in 7- and 10-year key rates contributed positively to relative performance as the yield curve steepened with rates across all tenors along the yield curve declining. Over the quarter, the Fund increased its exposure to Provincial government bonds while reducing exposure to corporate bonds within the Financial and Communication sectors.

In Canadian equities: sector allocation contributed to performance while stock selection detracted. Within sector allocation, the Fund's underweight to Information Technology and overweight to Materials were positives. The Fund's overweight to Consumer Discretionary and underweight to Energy detracted from performance. Stock selection within the Industrials and Materials sectors also detracted from performance. This included the Fund's overweight allocation to Air Canada as well as the lack of exposure to Materials names Wheaton Precious Metals Corp and Agnico Eagle Mines Limited. Stock selection within the Information Technology and Financials sectors contributed. Specific names that contributed include BNP Paribas S.A. and Maple Leaf Foods Inc.

Outlook

Tariffs and trade policy uncertainty have raised fears of a global downturn. Though the climate of uncertainty has heightened risks, the Canadian equities sub-advisor believes it is too soon to conclude that current events will trigger a broad-based recession.

Canadian real GDP expanded by 0.6% quarter-on-quarter in Q4. Household spending increased 1.4% and business investment rose 2.0% from the previous quarter, indicating solid domestic demand. In the same period, exports jumped 1.8% quarter-on-quarter as U.S. customers stockpiled Canadian goods ahead of potential trade disruptions. The solid overall performance of the Canadian economy in Q4 helped raise full-year real GDP growth to 1.6% in 2024.

Consumers are well positioned to remain the driving force behind economic activity in 2025. While the unemployment rate (6.6%) is higher than a year ago (5.9%), the rise is not due to an uptick in job losses. Rather, it is a consequence of labour force growth outpacing employment growth. Indeed, the Canadian economy added 387,000 jobs over the last twelve months compared to an expansion in the labour force of 572,000 people over the same period.

Meanwhile, the Canadian workforce continues to enjoy healthy wage growth. Average hourly earnings rose by 3.8% year-on-year in February, tracking ahead of inflation (2.6%). Steady employment and wage gains have helped households maintain healthy balance sheets. The personal savings rate stands at 6.1%, well above pre-pandemic norms, a sign that Canadians are continuing to add to savings. Household finances vary considerably across the income distribution but, in aggregate, the outlook for consumption remains positive given healthy fundamentals.

Tariffs notwithstanding, none of the typical factors that trigger a sharp downturn in activity are in place. There are no distortions in the Canadian financial system or excessive imbalances in the economy. Credit losses are low by historical standards, while households have built substantial equity in their homes which helps limit increases in their debt service costs. In addition, banks have built reserves over the past two years and are well positioned to absorb economic shocks and sustain lending. Inflation is muted, creating room for the Bank of Canada to continue loosening monetary policy, further reducing the risk of a liquidity shortfall.

The threat of tariffs complicates what is otherwise a relatively sanguine outlook for the Canadian economy. A 25% broad-based tariff on Canada would be a major growth shock if sustained over an extended period. Nonetheless, the Canadian equities sub-advisor believes it is premature to forecast a recession. The Canadian economy entered this tumultuous phase in a resilient state, and Canada possesses offsets to tariff risks.

The Canadian equities sub-advisor expects Canadian real GDP to expand by 0.5-1.5% in 2025, a positive rate of growth yet lower than the IMF's current forecast of 2.0%.

The forward price-to-earnings ratio of the NEI Canadian Equity Fund is 11.15 times forward earnings compared to 13.92 to the S&P/TSX Composite Index. The portfolio of companies is very profitable, with a dividend yield of 3.78%.

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