NEI US Equity RS Fund

Q4 2024 Commentary

NEI

Performance

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

Stocks rallied globally in 2024, though regional performance was diverse. US equities eclipsed returns in Europe, Japan and emerging markets. Growth stocks outperformed during the year, largely driven by the US, with value and minimum-volatility stocks lagging. Technology was the best-performing sector for the year, while healthcare underperformed throughout 2024. During 4Q:24, global equities experienced mixed performance as uncertainty over the outcome of the US presidential election, shifting monetary policy expectations and ongoing geopolitical tensions weighed on sentiment. Fed Chair Jerome Powell characterized the US economy as being in “a really good place” but called the Fed’s latest rate cut a close call and emphasized the challenge of balancing economic growth and progress on inflation. However, uncertainty over potentially higher inflation, the Trump administration’s policy initiatives and shifting monetary policy expectations contributed to rising Treasury yields, which dampened equity market sentiment and led to a subdued finish for the quarter. US equities, as measured by the S&P 500, rose 9.02% for 4Q:24, bringing full-year returns to 36.36%, fueled by AI enthusiasm, resilient US economic growth and interest-rate cuts. (All returns in Canadian-dollar terms.)

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI US Equity RS Fund Series I	7.69	12.24	31.27	31.27	14.57	15.32	13.73	N/A
NEI US Equity RS Fund Series A	7.08	10.95	28.33	28.33	12.00	12.73	11.12	N/A
NEI US Equity RS Fund Series F	7.39	11.61	29.85	29.85	13.32	14.05	12.37	N/A
Benchmark 1: S&P 500 Index (C$)	9.02	13.97	36.36	36.36	13.76	16.92	15.58	N/A

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

Portfolio commentary

The Fund rose in absolute terms but underperformed the S&P 500 for the quarter. Security selection was negative, while sector selection was positive. Selection within consumer discretionary and an overweight to healthcare detracted, while selection within healthcare and an underweight to the materials sector contributed.

Leading detractors for the quarter included NVIDIA (underweight), Amazon (underweight) and Experian. Underweight positions in NVIDIA and Amazon detracted as mega caps outperformed post-Trump's victory. NVIDIA faced high production costs despite strong demand for its Blackwell chips. Amazon's Generative AI-driven capex cycle tempered strong 3Q:24 earnings. Experian shares declined due to interest-rate exposure and a soft consumer credit environment. Management's guidance suggested limited changes to consensus expectations, with weak performance in LatAm due to macroeconomic conditions and rising rates.

Leading contributors for the quarter included Broadcom, lululemon athletica and Fiserv. Broadcom rallied after reporting a surge in demand for its AI chips, predicting AI revenue could reach US$60–US$90 billion by 2027. Athletic apparel company lululemon athletica saw stabilization in the US market, alongside strong international revenue growth (30% YoY) and same-store sales growth of 27% YoY in China. Fiserv performed well post-election as investors viewed fintech as benefiting from a stronger economy, though it dipped in December after CEO Frank Bisignano's nomination to the Social Security Administration.

Portfolio changes during the quarter focused on adding to high-quality companies, with successful business models and strong cash-flow generation. The sub-advisor adjusted Fund weights due to valuation, increasing exposure to businesses that offer compelling valuations while taking profits in more expensive names. They added to defensives, which trade at discounted valuations, while reducing names that have increased risks. The sub-advisor has incorporated changes in the fundamental and market environment following the Trump election.

Outlook

The sub-advisor expects global growth will continue to slow, with the coming trade war likely to weigh on non-US growth in particular. Disinflation is continuing, though the pace is more rapid in countries and regions where growth is slower and is less rapid in the US, where the economy continues to expand smartly. Rate cuts will continue, moving policy setting closer to neutral after several quarters of restrictive conditions. The US is likely to lag the field in cutting rates, given the stronger growth outlook. Fiscal policy is likely to remain a source of concern, with no end to large deficits in sight. That will keep bond markets on edge and is very likely to cause bouts of market volatility.

For more performance related information about a mutual fund managed by NEI Investments, please visit the prices and performance page on neiinvestments.com.