NEI US Equity RS Fund

Q1 2025 Commentary

NEI

Performance

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

Global equities faced fresh challenges in the first quarter of 2025 amid growing trade war concerns and developments in AI. After rising to start the year, global equities lost momentum in February and March. The MSCI World Index fell 1.6% during the quarter. Two developments fueled volatility. First, the Chinese company DeepSeek unveiled a new AI model in January that undermined confidence in the earnings prospects of the Magnificent Seven US mega-caps. Second, US policy uncertainty rattled markets; in particular, the potential impact of President Donald Trump's tariffs on economic growth and businesses. After taking office in January, Trump zigzagged but ultimately imposed levies on all imports from China and on select goods from Mexico, Canada and the European Union—which all announced retaliatory tariffs. The lack of clarity around trade policy prompted a divergence in regional returns. In a sharp reversal from long-standing trends, European and EM stocks outpaced US equities during the quarter by a wide margin. By contrast, US large-caps—the clear market victors in recent years—gave ground, with the S&P 500 down 4.2%. (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	-1.62	5.95	-1.62	15.89	16.08	17.99	12.40	N/A
NEI US Equity RS Fund Series A	-2.17	4.76	-2.17	13.27	13.48	15.35	9.83	N/A
NEI US Equity RS Fund Series F	-1.88	5.37	-1.88	14.62	14.81	16.70	11.07	N/A
Benchmark 1: S&P 500 Index (C$)	-4.20	4.44	-4.20	15.13	14.34	18.86	13.95	N/A

[1]Source: Morningstar. As of March 31, 2025. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

The Fund decreased in absolute terms but outperformed the S&P 500 for the quarter. Both security and sector selection had a positive impact on relative returns. Selection within consumer discretionary and an overweight to financials contributed, while selection within technology and an underweight to consumer staples detracted.

Leading contributors for the quarter included NVIDIA (underweight), McKesson and Shell. The Fund's underweight position in NVIDIA contributed amid increased market volatility and tariff uncertainty. McKesson reported solid quarterly results, with strength in core pharma and a reacceleration in pharmacy tech business, while Shell outperformed with the broader global energy sector amid a market rotation out of growth, along with accelerated oil demand.

Leading detractors for the quarter included Broadcom, lululemon athletica and ServiceNow. Broadcom declined with the overall market as sentiment on the AI infrastructure trade continued to weaken, while lululemon fell with other consumer-discretionary stocks due to tariff uncertainty and weaker consumer sentiment. ServiceNow pulled back after the company reported 4Q:24 results and provided a more conservative full year 2025 outlook.

Portfolio changes during the quarter focused on valuation, increasing exposure to businesses that offer compelling valuations while taking profits in more expensive names. Second, the sub-advisor added to defensives in the face of greater volatility, while reducing names that have increased risks. Finally, they added to high-quality companies, with successful business models and strong cash-flow generation.

Outlook

The sub-advisor thinks a potentially inflationary environment reinforces the need to maintain meaningful exposure to equities. Their research shows that stocks have done a good job outpacing the rate of inflation—or delivering positive real returns—over more than a century. So investors who prepared for a decelerating economy may want to consider positioning for a possible acceleration of US economic growth over the next year and a modest pickup of inflation, after the US Consumer Price Index fell from a 9.1% peak in June 2022 to 2.6% in October 2024. The sub-advisor continues to look for companies that offer a combination of quality and stability at attractive prices; these three core elements underpin their investment philosophy and are key to navigating the current market environment. Quality, stable companies can cushion on the downside across a broad array of sectors and industries. The sub-advisor believes that equity portfolios designed to smooth volatility are especially appealing in the current market environment. For long-term, outcome-oriented investors, they believe that companies with these features are best positioned to deliver strong returns through changing environments.