NEI US Equity RS Fund

Q2 2024 Commentary

NEI

Performance

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

US equities continued to rally during the second quarter, with a strong May and June offsetting a weak April. The S&P 500 returned 5.5% during the quarter and posted strong first-half gains. On the surface, it might seem as though little has changed in equity markets in the 1H:24, as optimism for the beneficiaries of AI continued to drive up markets. Across regions, large-cap growth stocks outpaced defensives, value and small-cap stocks. Technology and communication services sectors again led the rally. Consumer-discretionary stocks lagged, along with defensives such as consumer staples and commodities. But beneath the surface, the Magnificent Seven, seen as some of the biggest beneficiaries of AI, no longer behaved as a consistent group. Investors adjusted to the new reality of higher-than-expected interest rates, as inflation rates varied across regions. The US Fed maintained its policy stance following a peak in April, while the ECB and the Bank of Canada cut rates to ease monetary conditions.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI US Equity RS I	4.94	16.96	16.96	26.59	15.08	14.61	13.49	N/A
NEI US Equity RS A	4.35	15.66	15.66	23.77	12.50	12.03	10.87	N/A
NEI US Equity RS F	4.66	16.34	16.34	25.23	13.82	13.33	12.12	N/A
Benchmark 1: S&P 500 Index (C$)	5.45	19.64	19.64	28.80	13.74	16.11	15.72	N/A

[1]Source: Morningstar. As of June 30, 2024. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

The Portfolio rose in absolute terms but underperformed the S&P 500 for the quarter. Security selection had a negative impact on relative returns, while sector selection was positive. Security selection with technology and an overweight to healthcare detracted, while significant contributors included security selection within consumer staples and an underweight to materials.

Leading detractors included NVIDIA (underweight), Apple (underweight) and Amdocs. The Portfolio suffered from being underweight to NVIDIA and Apple, which outperformed on strong AI-related growth and better-than-expected results, respectively. Amdocs shares fell after the company lowered its full-year guidance during its earnings report. Nonetheless, Amdocs' large deal momentum for next generation projects continued despite macro pressures.

Top contributors included Broadcom, Alphabet and Oracle. Broadcom beat and raised results, with strong AI semi growth and software performance. Alphabet shares gained from new disclosures, dividend and CFO announcement, while Oracle surged on cloud-computing growth and AI training contracts.

Portfolio changes during the quarter focused on valuation, increasing exposure to businesses that offer compelling valuations while taking profits in more expensive names. The fund added to high-quality companies with resilient demand that should demonstrate strong cash generation in the face of uncertain economic growth. It also added to defensives, which trade at discounted valuations, reducing names that have increased risks.

Outlook

The sub-advisor expects a broader equity market performance in the second half of 2024, as earnings growth becomes a key driver of returns for various sectors and industries. They believe AI enthusiasm is a real source of growth, although it poses valuation and competitive risks for the dominant mega-caps. The sub-advisor also sees opportunities in healthcare, software, digital payments and industrials, which offer innovative solutions and resilient demand. That said, the current market concentration creates price risks. They are also cautious about the inflationary pressures, slowing growth and geopolitical uncertainties that could create volatility. It is their belief that equity portfolios designed to smooth volatility are especially appealing in the current market environment. For long-term, outcome-oriented investors, the sub-advisor believes that companies with these features are best positioned to deliver strong returns through changing environments.