NEI Canadian Equity RS

Q1 2024 Commentary

Performance

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

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Canadian Equity RS I	6.66	12.02	6.66	11.58	11.11	11.38	7.98	N/A
NEI Canadian Equity RS A	6.04	10.70	6.04	8.93	8.46	8.72	5.35	N/A
NEI Canadian Equity RS F	6.35	11.37	6.35	10.27	9.79	10.05	6.63	N/A
Benchmark 1: S&P/TSX Composite TR Index	6.62	15.26	6.62	13.96	9.11	9.96	7.67	N/A

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

Portfolio commentary

The largest contribution to relative outperformance this quarter was strong selection effects for investments in materials and communications services. This was mostly offset by the drag due to cash weighting as well as selection effects in consumer discretionary. The Fund's top contributing investments in the quarter were CCL Industries, ARC Resources, and TFI International. The largest detractors were Magna International, Quebecor Inc and IA Financial Group.

The Fund initiated on one investment and exited another this quarter. It initiated on Franco Nevada and exited Agnico Eagle Corporation. Franco Nevada is primarily a gold and precious metals streaming company. It derives its earnings and revenue by purchasing commodity streaming rights on producing mines (primarily gold). This was funded by the exit of another existing gold investment, Agnico Eagle Corporation.

The sub-advisor has followed Franco Nevada closely over the years and liked the company's strong track record of capital allocation in a difficult to operate industry. The company had a rare stumble in late 2023 as a large investment (Cobre Panama) was suddenly shut down due to political turmoil in Panama. This investment was a large portion of Franco Nevada's intrinsic value and the potential failure of this investment had resulted in considerable weakness to the company's share price. While Cobre Panama does indeed stand a high chance of failure, the sub-advisor also believes that the shares of Franco Nevada have entirely discounted the failure of this investment (and then some). They took advantage of Franco Nevada's weaker valuation to initiate a position.

While they regard Agnico Eagle as a high-quality gold producer, they believe that Franco Nevada is a higher quality precious metals investment. Franco Nevada has net cash, no capital expenditure risk and in the sub-advisor's opinion, a stronger long-term track record of capital deployment. They opted to upgrade the quality of the Fund by replacing Agnico Eagle with Franco Nevada.

As the market continues to fully price in a soft landing, we have seen higher valuations on many of underlying holdings. Accordingly, the sub-advisor has trimmed CN Rail, TFI International, Brookfield Corp and Brookfield Asset Management. In all cases, they continue to view these companies as high-quality companies and long-term compounders. Given the poorer risk/reward dynamics due to share price appreciation, they felt these investments warranted lower weights regardless.

Outlook

Higher interest rates continued to weigh on the valuation of infrastructure companies and to that extent, they continued to add to some of investments in energy infrastructure. They were comfortable adding to Enbridge Inc. this quarter as it has various levers to pull in order to manage its debt metrics as it closes a major acquisition.

IA Financial has been a long-time investment in the Fund. In recent times however, IA Financial has been dealing with some operational challenges. The valuation has shrunk accordingly, and they decided to add to this position. They are optimistic that IA's near-term headwinds will not persist over the long term.

The Canadian economy appears to have avoided a deep recession for now, but they continue to see evidence of an economy that is highly variable. Some parts of the economy appear set to see some growth at least in the back half of the year, while other areas of the economy continue to deal with very low earnings visibility.

They continue to lean more defensive within the Fund. Today, the Fund has a stronger balance sheet, higher long-term profitability and lower valuation than the benchmark. They believe these factors will allow for the Fund to compound faster if the economy were to reaccelerate while protecting the downside if the economy were to deteriorate.