

# NEI Canadian Small Cap Equity Fund

## Q4 2023 Commentary



### Performance

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

Despite a challenging environment for stock selection, the strategy was able to add value in 2023.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Canadian Small Cap Equity I	6.14	4.87	11.87	11.87	4.45	8.43	4.30	
NEI Canadian Small Cap Equity A	5.45	3.51	9.01	9.01	1.78	5.66	1.61	
NEI Canadian Small Cap Equity F	5.72	4.02	10.10	10.10	2.78	6.69	2.59	
<i>Benchmark 1: S&amp;P TSX Small Cap (linked)</i>	5.98	5.14	4.79	4.79	4.57	8.58	4.43	

<sup>1</sup>Source: Morningstar. As of Dec 31, 2023. Since inception is only provided for Funds with less than 10 years of performance.

On August 1, 2023, the NEI Canadian Small Cap Equity Fund changed its sub-advisor without altering its investment objectives. Nevertheless, this transition introduced an immaterial adjustment in the fund's investment strategy, moving from a primarily fundamental analysis approach to a primarily quantitative approach. All other aspects of the investment strategy remain consistent. Please be aware that the past performance of this Fund before this change may differ if the new investment strategy had been in place during that period.

On January 21st 2019, the fund benchmark was changed. Prior to this date the fund benchmark was 50% S&P/TSX Completion Index / 50% S&P/TSX Small Cap Index.

### Portfolio commentary

The Strategy today is particularly well diversified, with holdings across every major sector. The largest overweight sectors today relative to the S&P/TSX Small Cap index are the Information Technology, Financials, and Consumer Staples sectors. Underweight sectors include Energy, Real Estate, and Materials (excluding Gold). Portfolio risk metrics remain conservative, as higher quality names continue to score well across the subadvisor's strategy. The subadvisors ensemble approach to quantitative investing seeks to diversify across style and sector and to perform well across most market environments.

### Outlook

The strategy is presently trading at only 10.6x forward earnings expectations, while the S&P/TSX Small Cap index trades at 13.6x and the S&P/TSX Composite trades at 13.9x. This valuation also looks discounted from a global context, as the MSCI ACWI Small Cap Index trades at 15.9x, while larger cap indices like the MSCI World trades at 17.6x and the S&P 500 at 20.1x, well above long-term historical averages. Ultimately, these factors suggest an improved outlook for Canadian small cap stocks in general.

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Series F units are only available to investors who participate in eligible fee-based programs with their registered dealers that have entered into a Series F Distribution agreement with NEI Investments.

Series I have high minimum investment requirements and are typically aimed at institutional investors (such as pension plans) or investors making large investments in the fund. Funds in these series generally have lower management fees than the retail series of the same fund.

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