

# NEI Clean Infrastructure Fund

## Q1 2024 Commentary



### Performance

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

The broad clean energy sector, European Utilities and renewables developers & operators performed poorly in the first quarter while U.S. utilities delivered a positive performance. European renewables and utilities were affected by falling power prices while most renewables companies globally continue to experience a derating due to fears of lower returns going forward.

U.S. utilities have stabilised in a high interest rates environment and it seems that we are witnessing a renaissance of nuclear power, for the following reasons: 1) nuclear offers 24/7/365 decarbonised electricity that can mitigate the intermittency of wind and solar, 2) the Production Tax Credit in the Inflation Reduction Act (IRA) provides a floor tariff for nuclear electricity, which supports investing to extend the life of the plants and create further value over the long-term, as well as reduces the need for hedging, 3) data centres are increasingly attracted to connect directly to the nuclear plants and seem ready to pay a premium to wholesale power prices to secure their insatiable need for green power. These attributes are particularly beneficial for unregulated nuclear plants which benefits Constellation, Public Service Enterprise, Dominion, and NextEra, among others.

European power prices have been depressed by falling natural gas prices as we have experienced a mild winter and an absence of recovery in energy demand. That has affected companies with generation exposed to spot prices and hedged prices as the market expects a lower power price capture when the hedges expire. On the positive side, solar panel prices have collapsed thereby supporting solar deployment with lower electricity tariffs but stable returns.

The public market seems to be ignoring the positive underlying signals, such as stable renewables development returns, the impact of AI on electricity demand growth, as well as low valuations and attractive yields. However, private equity and mergers and acquisitions (M&A) have been recognizing value with KKR making a takeover offer for Encavis, a German renewables company, at a 54% premium to the unaffected price (following its offer for Greenvolt in December) and Iberdrola offering to buy the minorities in Avangrid at a 6.7% premium. The KKR offer price for Encavis, which is owned in the Fund, implies a multiple that is more than 20% over the multiples of European peers such as Neoen, ERG, or EDPR.

In terms of decarbonisation impact at the end of the quarter, CO<sub>2</sub> emissions are over 72% lower per \$1 million invested in the fund compared to \$1 million invested in the MSCI World Utilities Index.

### Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception <sup>1</sup>
NEI Clean Infrastructure Fund Series I	-4.47	7.28	-4.47	-12.30	N/A	N/A	N/A	-6.05
NEI Clean Infrastructure Fund Series A	-4.97	6.15	-4.97	-14.17	N/A	N/A	N/A	-8.06
NEI Clean Infrastructure Fund Series F	-4.72	6.73	-4.72	-13.22	N/A	N/A	N/A	-7.04
<i>Benchmark 1: S&amp;P Global Infrastructure NR CAD</i>	3.78	12.06	3.78	3.11	N/A	N/A	N/A	6.16

<sup>1</sup>Source: Morningstar. As of March 31, 2024. The benchmark since inception return in the table is calculated as of the inception date of Series A. Since inception benchmark returns for Series F and Series I are 6.16 and 6.16, respectively.

## Portfolio commentary

The top 5 contributors were Public Service Enterprise Group Inc, NextEra Energy Inc, Constellation Energy Corp, Dominion Energy Inc, Encavis AG. The bottom 5 detractors were ERG SpA, ReNew Energy Global PLC, EDP Renovaveis SA, Clearway Energy Inc, EDP Energias de Portugal SA

On regions, Europe and APAC had a negative contribution while North America was positive.

During the period, the Fund saw no new additions and exited BKW AG.

## Outlook

High levels of U.S. interest rates and the expectation of delays and smaller magnitude of cuts in interest rates continue to be headwinds. It however seems increasingly likely that interest rates will be cut in the U.S. and Europe before yearend as inflation abates.

AI and data centres are becoming more prominent in supporting the expectation of electricity growth going forward, in addition to new demand from electric vehicles. As an illustration, each new potential 1000W chip would annually consume more power than a UK home and about 80% of a U.S. home. Moreover, data centre owners are showing the willingness to pay a premium for reliable and green electricity, which indicates the start of a recognition that electricity is not plentiful, and that the combination of uninterrupted and green attributes is not a commodity.

The sub-advisor also believes that valuations don't reflect the growth the sector should experience in the coming years, which is supported by the quantum increase in investments in the grid we are witnessing.

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. The views expressed herein are subject to change without notice as markets change over time. For complete information about a mutual fund managed by NEI Investments, please refer to the fund's simplified prospectus and/or Fund Facts which can be downloaded at [www.neiinvestments.com](http://www.neiinvestments.com).

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.

Information herein is believed to be reliable but NEI does not warrant its completeness or accuracy. Views expressed regarding a particular security, industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in units value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

NEI Investments is a registered trademark of Northwest & Ethical Investments L.P. ("NEI LP"). Northwest & Ethical Investments Inc. is the general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is the sole limited partner of the NEI LP. Aviso is a wholly-owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.

For more performance related information about a mutual fund managed by NEI Investments, please visit [the prices and performance](#) page on [neiinvestments.com](http://neiinvestments.com).