NEI Clean Infrastructure Fund

Q1 2024 Commentary

NEI

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_2 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[1]
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
Benchmark 1: S&P Global Infrastructure NR CAD	3.78	12.06	3.78	3.11	N/A	N/A	N/A	6.16

[1]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, respectfully.

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.