

NEI Emerging Markets Fund

Q1 2024 Commentary



Performance

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

By region, EM Asia was the best performer for the benchmark 6.23% followed by EM EMEA 3.55% and EM Latin America 1.44%. On a country level the benchmark's top performing countries were Peru 18.87%, Turkey 17.58%, Colombia 17.2% Taiwan 15.38% and Kuwait 11.17%. While among the worst performing countries were Egypt -27.88% Thailand -5.80% South Africa -5.33%, Czech Republic -5.3% and Brazil -4.93%.

Positive sentiment was mainly attributed to dovish rhetoric from the Federal Reserve which stoked hopes of interest-rate cuts midway through the year. Strong performance in the Technology.

Chinese equities underperformed the index over the quarter despite delivering a positive return. There was increasing concern about the heavily indebted property sector when a Hong Kong court ordered the liquidation of property giant Evergrande. Elsewhere in Asia, Taiwanese equities had a stellar quarter and outperformed the benchmark. The rally was led by technology shares, fuelled by continuing excitement about AI. In terms of politics, the outcome of the country's presidential election in January was in line with expectations. In Latin America, Brazilian equities declined. As expected, the central bank cut its benchmark SELIC rate by a further 50 bps to 10.75% despite inflation continuing to trend slightly above target.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Emerging Markets Fund Series I	5.32	12.39	5.32	10.83	-8.74	3.07	5.39	N/A
NEI Emerging Markets Fund Series A	4.68	11.01	4.68	8.08	-11.01	0.51	2.66	N/A
NEI Emerging Markets Fund Series F	4.94	11.57	4.94	9.18	-10.13	1.51	3.74	N/A
Benchmark 1: MSCI EM NR Index (C\$)	5.06	10.52	5.06	8.14	-2.68	2.48	5.07	N/A

¹Source: Morningstar. As of March 31, 2024.

Note: On July 13, 2020, the Fund was transitioned to an ESG mandate. As part of this transition, the sub-advisor optimized the Fund along Responsible Investing dimensions by applying a framework that entails both exclusionary screens and a proprietary scoring system that assesses securities on specified ESG metrics. The performance of this Fund for the period prior to this date may have been different had the current transition been in place during that period.

Portfolio commentary

At the sector level, Technology, Healthcare and Materials were the main contributors. Industrials, Financials and Communication Services were the main detractors. On a country level, Taiwan, Korea, and Kazakhstan were the main contributors. India, Hong Kong, and Argentina were the main detractors.

At the stock level, the following contributed to performance - TSMC is a Taiwanese semiconductor manufacturer. Share price continued to rise over the quarter following the release of Q4 profit and revenue which beat analysts' estimates. AI optimism also proved a further tailwind. Max Healthcare is an Indian hospital chain operator. Share price continued to grind higher over the period on execution excellence alongside M&A optimism which added further growth visibility. Other positions that contributed to performance included SK Hynix, Trip.com, and Nu Holdings.

Detractors from performance included AIA, HDFC Bank, PDD Holdings, AU Small Finance Bank and Baidu.

Outlook

The near-term catalyst for emerging markets will be rate cuts. Many emerging market economies are experiencing low inflationary pressure, such as Mexico, Brazil, Indonesia, India, and Poland, which are all within their respective central bank's tolerance bands. Some central banks have started easing, but the sub-advisor expects the majority take the lead from the US Fed, where the market is predicting rate cuts this year.

China's lacklustre covid recovery, property sector woes and geopolitical tensions have been weighing on the overall market. To become constructive on the overall market, the sub-advisor needs to see the government address these challenges, as well as restoring business confidence. Due to this and the deflationary environment they are focused on high conviction bottom-up ideas related to three key themes: companies exposed to increasing trade; companies providing value for money to the consumer; and companies focused on total returns.

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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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