

NEI Environmental Leaders Fund

Q1 2024 Commentary



Performance

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

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI Environmental Leaders Series I	10.74	24.19	10.74	17.98	8.01	12.13	N/A	11.82
NEI Environmental Leaders Series A	10.11	22.75	10.11	15.24	5.43	9.35	N/A	9.11
NEI Environmental Leaders Series F	10.42	23.45	10.42	16.56	6.64	10.61	N/A	10.38
<i>Benchmark 1: MSCI ACWI NR CAD</i>	11.04	20.25	11.04	23.21	9.62	11.20	N/A	10.86

¹Source: 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 10.86 and 11.31, respectfully.

Portfolio commentary

Underperformance was primarily a function of negative allocation. While the Fund's Information Technology exposure performed well in absolute terms, holdings failed to keep pace with the benchmark. On an absolute basis, the Fund benefited from Industrial and Information Technology exposure, which performed well. General Waste Management & Recycling also provided strong gains in the period, supported by a positive pricing environment with continued margin expansion. Strong quarterly results underscored the tailwinds related to energy efficiency in data centres, electricity grid upgrades, and reshoring trends driving share prices for Smart & Efficient Grid names. Holdings within the semiconductor value chain, such as equipment manufacturers or chip makers, also performed well. These companies are key enablers of digitization, driving productivity and energy efficiency enhancements across many sectors and end markets.

Contributors included: Waste Management (General Waste Management, US) provided strong gains during the first quarter. The company delivered impressive quarterly results with record level margins. Similar to Waste Management, Republic Services (General Waste Management, US) also performed well, as resilient demand and a supportive pricing environment has contributed to strong fundamentals. Continued recycling and renewable energy investments are expected to drive further incremental earnings growth for both businesses.

Detractors included: Aptiv (Advanced Road Vehicles & Devices, US) has been weak on concerns of a shorter-term slowdown in the pace of electric vehicle penetration which may impact electric vehicle architecture product offerings. While sales momentum of EVs has slowed for Aptiv's key customers in the US, the long-term trend towards increased electrification of vehicles and an increased focus on safety features remains intact. American Water Works (Water Utilities, US) underperformed during the period, driven by higher treasury yields and regulatory uncertainty. Despite share price weakness, the company has a compelling long-term earnings growth outlook and is trading at an attractive multiple. Water infrastructure remains underinvested in the US. This, combined with uplifts from PFAS & lead line replacement initiatives, as well as consolidation opportunities in a highly fragmented industry, continue to be drivers for the company.

Outlook

The sub-advisor believes that over the longer term, the environment remains supportive of opportunities across a wide range of sustainable solutions. Despite uncertainty around timing, it is widely expected the US Federal Reserve will cut interest rates several times in 2024. Lower yields should feed through to slightly lower interest rates and financing costs. In turn, this should support industrial and consumer spending, helping expected earnings growth remain positive for 2024. However, the team remains alert to the risk of continued volatility and a delayed impact in some parts of the economy from higher interest costs. While the renewables sector remains volatile, the investment team continues to maintain exposure to other de-rated sectors where there is higher confidence for earnings growth over the midterm, despite temporary challenges. This includes companies recovering from destocking, such as natural ingredients and life science & tools companies, which are showing sporadic yet visibly positive recovery trends. Meanwhile, themes such as energy efficiency, grid upgrades, and

AI-related opportunities remain tailwinds for a number of Fund holdings. The Fund remains well balanced between economically resilient businesses and businesses positioned for cyclical growth in an effort to safely navigate the different phases of the macroeconomic cycle, including the opportunity to pass-on inflationary pressures. The Focus remains on high quality companies with resilient operational business profiles, demonstrable pricing power and above average earnings growth for a potentially lower growth-higher cost of capital era, underpinned by the secular drivers of environmental markets.

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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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