NEI US Equity RS Fund

Q1 2024 Commentary

Performance

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

US equities advanced briskly in the first quarter. On the surface, it might seem as though little has changed in equity markets in the first quarter, as optimism for the beneficiaries of AI continued to drive up markets. Global growth stocks outperformed, while minimum volatility and value stocks lagged, as they did last year. Technology remained firmly as the top performer among sectors, followed by communication services. Defensive sectors, such as consumer staples and utilities lagged. But beneath the surface, the Magnificent Seven, seen as some of the biggest beneficiaries of AI no longer behaved as a consistent group. NVIDIA towered above the group, but Apple and Tesla declined.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI US Equity RS Fund Series I	11.45	20.30	11.45	28.32	15.67	14.55	13.35	N/A
NEI US Equity RS Fund Series A	10.84	18.97	10.84	25.46	13.08	11.98	10.73	N/A
NEI US Equity RS Fund Series F	11.15	19.65	11.15	26.93	14.43	13.26	11.97	N/A
Benchmark 1: S&P 500 Index (C$)	13.46	23.60	13.46	29.87	14.27	15.35	15.29	N/A

[1]Source: Morningstar. As of March 31, 2024. Since inception is only provided for Funds with less than 10 years of performance.

Portfolio commentary

Security selection was negative, while sector selection was positive. Security selection within technology and communication services detracted the most, while selection within consumer discretionary and healthcare contributed.

Detractors for the quarter included NVIDIA (underweight), Adobe and Verisign. NVIDIA continued its AI driven rally, and the lack of exposure to the stock detracted. In contrast, shares of Adobe declined on negative implications for its AI products, while Verisign detracted after the company gave a softer-than-expected outlook for 2024, and on declining demand from China.

Contributors for the quarter included Apple (underweight), AutoZone and Merck. An underweight to Apple contributed as the stock fell on several issues including deteriorated sales growth outlook in China and news of a lawsuit filed by the US Department of Justice. Elsewhere, shares of AutoZone rose as earnings revisions were positive and AutoZone reported strong margin expansion in its quarterly report, while Merck outperformed following FDA approval of its new drug for rare lung disease, which it acquired through its US$11 billion acquisition of Acceleron Pharma in 2021.

Fund changes during the quarter focused on valuation, increasing exposure to businesses that offer compelling valuations while taking profits in more expensive names. The Fund also added to defensives, which trade at discounted valuations, reducing names that have increased risks. The sub-advisor added to high-quality companies with resilient demand that should demonstrate strong cash generation in the face of uncertain economic growth.

Outlook

The sub-advisor continues to believe that a soft landing is the most likely outcome, with major economies still on course to avoid significant contractions. The economy remains resilient, but the lagged impact of past rate hikes suggest that it is likely to slow somewhat in the coming quarters.

Of course, as 2024 progresses it won't be economic variables alone that drive financial markets. Political and policy risk are very elevated and will intensify in the coming months. While history says that the impact of elections on the economy and on markets is overblown, the policy differences between the parties seem larger than typical, which could lead to increased economic volatility as well. The headline risk is the US political cycle; public pronouncements about both trade and fiscal policies could rattle the global political economy. But it isn't only the US where elections will matter in 2024. More than half of the world's population will go to the polls this year, and we have already seen meaningful—and impactful—outcomes from elections in some countries.

The sub-advisor believes that equity portfolios designed to smooth volatility are especially appealing in the current market environment. For long-term, outcome-oriented investors, they believe that companies with these features are best positioned to deliver strong returns through changing environments.