NEI Global Dividend RS Fund

Q1 2024 Commentary

Performance

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

The year started off on a high note with the MSCI World returning +11.7 (CAD) in Q1 as receding inflation data and the most likely “soft landing” economic scenario sparked strong optimism amongst investors.

Even if doubts about the fragility of the economic environment were not fully dispelled as manufacturing activity remained stuck in the contraction area in the U.S and in Europe, market sentiment was boosted by upwardly revised growth in the U.S., receding inflation and strong job data all around. Investors also looked beyond the adverse signals from central banks which toned down their dovish communication and pushed back rate cuts later in the year depending on the speed of disinflation.

Market performance for the quarter was led by growth stocks, as mega-cap tech stocks continued to produce strong returns. For example, U.S. large-cap indices outperformed with help from interest in semiconductor stocks. However, over the course of the quarter, market breadth began to expand as value outperformed growth, and the equal-weighted S&P outperformed the market-weighted index during the month of March. The best-performing equity sectors during the quarter included information technology, communication services, and energy. The largest laggards included real estate, utilities, and materials.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Dividend RS Fund Series I	8.29	12.57	8.29	8.66	7.95	9.00	8.58	N/A
NEI Global Dividend RS Fund Series A	7.67	11.25	7.67	6.10	5.40	6.42	5.94	N/A
NEI Global Dividend RS Fund Series F	7.95	11.85	7.95	7.25	6.54	7.56	7.11	N/A
Benchmark 1: MSCI World NR CAD	11.74	21.42	11.74	25.10	11.31	12.36	11.65	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

The main drivers of the relative performance were: Style allocation negatively contributed due to the underweight on outperforming Momentum stocks and to a lesser extent Large Cap stocks. Sector allocation negatively contributed due to the overweight on underperforming Utilities. Country allocation had a neutral effect. Currency allocation negatively contributed due to the overweight on depreciating JPY, CHF and NOK. Stock selection negatively contributed due to the under-exposure to best performing US large cap tech companies (NVIDIA, Meta Platforms, Microsoft, Amazon.com).

Major changes during the quarter included - Country Allocation: Decreasing exposure to North America (UW), especially on the U.S., and Europe ex EMU (OW) to the benefit of EMU countries, especially France, Germany, Italy, Austria. Increased exposure to Asia ex Japan (UW). Sector allocation: Increasing exposure to Financials (UW), Utilities (OW) and Consumer Staples (OW) at the expense of Health Care (OW) and Communication Services (OW). Factor allocation: Increasing exposure to High Beta (UW), Growth (UW) and Value (OW) at the expense of Quality (OW) and Volatility (UW). Decreasing exposure to Large Caps (UW). Stock selection: No structural change since the sub-advisor still favors companies with low leverage and options for organic growth.

Outlook

The sub-advisor believes that Momentum stocks are fading to the benefit of Value stocks consistent with the expectation of a global recovery. From fundamental standpoint, they are tentative signs that this recovery is in the making. In Europe growth in monetary aggregate M3 is stabilizing after a sharp deceleration which started by the third quarter of 2022 and led it into negative territory. This suggests that credit conditions and lending growth could improve. Secondly, manufacturing surveys have bottomed out in Germany, notably the IFO business expectations component, which may explain the fact that the unemployment rate remained stable at 5.9% in February. On top of this, in the US, the ISM manufacturing reached the threshold of 50% in March indicating a potential return to expansion for the industrial sector.

A credible rebound in capex. Since last November, the trend of the MSCI World has been linear with an average gain of 10 bp per day. As a result, equity market level – using the world all country as a proxy – currently stands 12% above its 200-day moving average consistent with a further growth expansion. This trend is fueled by an improving outlook. The sub-advisor anticipates grounds for a recovery in capex as long as profit margins keep improving and financial conditions remains benign. Capex recovery is critical to the extent that consumption will find hard to accelerate from here as disinflation is losing momentum, job markets are close to full employment and saving rates have gone back, especially in the US, to their historical lows.

The sub-advisor believes that the recovery in the current context of inflation stickiness will push central banks to maintain their status quo well beyond what the markets currently project. The main contributor to disinflation has been, for now, goods prices since services inflation is far from normalization. This leads to the sub-advisor believing this is rather bad news for financial conditions and by the same token to macro-outlook.