NEI Global Value Fund

Q1 2024 Commentary

Performance

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

The first quarter of 2024 saw the global stock and currency markets navigate through a complex landscape shaped by various economic, geopolitical, and policy factors. While the previous quarter was marked by optimism and low volatility, the dynamics this quarter were slightly more nuanced. The beginning of Q1 2024 was greeted with cautious optimism as markets continued to digest the implications of central banks' monetary policy adjustments from the previous year. Interest rates, which had been a focal point for market watchers, saw a period of stabilization as inflation rates began to align more closely with targets set by major central banks. This stabilization contributed to a tempered but positive market sentiment, encouraging a gradual return to risk assets.

However, the markets faced renewed challenges as geopolitical tensions surfaced in various regions. Notably, the escalating situation in Middle East, Eastern Europe and the South China Sea prompted concerns over global trade and energy supplies, leading to increased market volatility. Despite these tensions, the direct impact on global markets was somewhat mitigated by proactive diplomatic efforts and the diversification of energy sources by major economies.

Currency markets, in particular, experienced notable fluctuations, influenced by diverging monetary policies among leading economies. The US dollar showed resilience, buoyed by a robust domestic economy and expectations of a cautious but steady monetary tightening by the Federal Reserve. In contrast, the Euro and the British Pound faced headwinds amid ongoing political uncertainties in the European Union and the UK, respectively.

Technology stocks, which had been market leaders in the rally of the previous quarters, faced a period of correction as investors began to question valuations amidst rising interest rates. Despite this correction, the sector ended up on a robust tone during the quarter.

Artificial intelligence has been a theme which the market has been revolving around for some time, and in Q1 this really reached new highs mainly due to the advancement of OpenAI's systems. This theme seems to be one that could continue well into the future and especially for the remainder of the year.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception[1]
NEI Global Value Fund Series I	13.98	24.78	13.98	29.35	7.99	8.81	N/A	9.91
NEI Global Value Fund Series A	13.22	23.19	13.22	26.16	5.35	6.17	N/A	7.34
NEI Global Value Fund Series F	13.52	23.86	13.52	27.54	6.53	7.36	N/A	8.70
Benchmark 1: MSCI World NR Index (C$)	11.74	21.42	11.74	25.10	11.31	12.36	N/A	12.25

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 12.34 and 12.11, respectfully.

On April 16, 2021, the Fund changed its fundamental investment objectives to enhance the ESG characteristics of the fund in accordance with NEI's responsible approach to investing as set out in "Responsible Investing" section in Part A of the Simplified Prospectus. The performance of this Fund for the period prior to this date may have been different had the current investment objectives and strategies been in place during that period.

Portfolio commentary

Meta Platforms, Micron Technology and Softbank were among the best performers in Q1 2024.

Meta Platforms demonstrated robust performance in Q1 2024, due to the company's continued efforts to refine its advertising algorithms and enhance user engagement on its social media platforms contributed to a significant uptick in ad revenues, reassuring investors about its growth trajectory. Cost cutting also helped the company to beat the expectations easily. The stock soared more than 37 percent in Q1.

Micron Technology also benefited greatly from the surging demand for memory chips, driven by the expansion of 5G infrastructure and the continued growth in the cloud computing and data center sectors. The introduction of AI and server based LLM's with deep neural networks also adds a demand layer on top of the existing PC and Cloud update cycle. The company's strategic partnerships and efficient supply chain management also played crucial roles in optimizing production costs and improving profit margins. The stock rose more than 37 percent during the quarter.

SoftBank Group Corp saw its performance soar in Q1 2024 due to the successful IPOs of several companies within its Vision Fund portfolio, primarily ARM. ARM was acquired for around 25 billion USD, and after the IPO of the company, the value put on ARM by the market easily exceeded 100 billion USD. Additionally, SoftBank's focus on AI, robotics, and renewable energy sectors began to bear fruit positioning the company at the forefront of technological innovation and sustainability. Softbank's stock rose around 40 percent during Q1.

Among the worst performing stocks of Q1 2024 were Roche and Sony. These stocks were down between 5 to 7 percent due to a combination of selective factors: Roche and Sony delivered subpar results for the quarter and the stocks reacted by a meager performance.

During Q1 the sub-advisor decided to exit their position in eBay as well as Tokyo Electron. The proceeds were used to establish new positions in AutoZone as well as Kroger.

Although eBay is "cheap" the sub-advisor has become less confident in the turnaround plans that the CEO is still trying to implement. Consequently, the sub-advisor decided to exit eBay and buy AutoZone, which is less vulnerable to eCommerce and second-hand market items. AutoZone also has a very disciplined capital allocation culture which the sub-advisor believe is superior to the average of the market.

Tokyo Electron on the other hand was a successful investment in the sense that the stock got ahead of the fundamentals. With a P/E ratio exceeding 30, the sub-advisor believe it was more than prudent to exit entirely, and invest the proceeds in Kroger, which at the time of investment traded around 10 times earnings and 10 times free cash flow. Kroger, like AutoZone, also exhibits a superior capital allocation culture: The company is consistently returning cash to shareholders as both dividends and share buybacks.

Outlook

2024 will continue to be highly volatile as the markets still need to digest the rising rates. Although inflation seems to be under control for the moment adverse developments in either the Middle East or Eastern Europe could easily disrupt this picture.

Historically, qualitative value has outperformed both traditional value and growth during inflationary periods – and the sub-advisor has a qualitatively very strong portfolio with a ROIC significantly above the market. This coupled with an attractive P/E ratio as well as high shareholder yield, should be better to hold in an inflationary environment than other strategies.