NEI Growth and Income Fund

Q4 2023 Commentary

NEI

Performance

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

Returns (%)

FUND	3 MO	6 MO	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	Since Inception
NEI Growth and Income I	7.96	4.30	9.73	9.73	1.65	5.78	6.30	
NEI Growth and Income A	7.22	2.87	6.78	6.78	-1.08	2.93	3.44	
NEI Growth and Income F	7.58	3.56	8.20	8.20	0.23	4.31	4.78	
Benchmark 1: 25% FTSE Canada Universe Bond Index, 55% S&P/TSX Composite TR Index and 20% MSCI World NR Index (C$)	8.28	5.64	12.25	12.25	6.30	9.08	7.12	

*Source: Morningstar. As of December 31, 2023 + Since inception is only provided for Funds with less than 10 years of performance.

On November 15, 2021, NEI Global Growth Fund (formerly NEI Global Equity Fund) changed its sub-advisor and its fundamental investment objectives. The purpose of the change is to enhance the environmental, social, and governance characteristics of the Fund, with a focus on growth-style equity opportunities. 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. The NEI Global Growth Fund is an underlying fund in NEI Growth and Income Fund.

Portfolio commentary

In Canadian equity: the underperformance against the benchmark was primarily from sector allocation, while stock selection had a minimal overall impact on results for the quarter. Underweighting the Information Technology sector was a key detractor, partially offset by a positive benefit from underweighting the Energy and Materials sectors. Looking at individual positions, investments in Franco Nevada, Cogeco Communications and AMS-OSRAM AG were positive contributors to performance for the quarter, where in contrast positions in Cenovus Energy, CI Financial and GFL Environmental were detractors of performance.

In Global equities: the main drivers of relative performance in the dividend sleeve were: Currency allocation was a positive due to the overweight on appreciating CHF, SEK and JPY. Sector allocation negatively contributed due to the underweight on outperforming Semiconductors and the overweight on underperforming Telecom. Style allocation negatively contributed due to the underweight on outperforming High Beta stocks while stock selection negatively contributed due to the poor performance of Exelon Corporation, Pfizer, Bristol-Myers Squibb Company, Cisco Systems, Arthur J. Gallagher.

In the Core Global Equity sleeve: from a sector viewpoint, the largest contributions to relative returns came from stock selection in Information Technology, Financials and Health Care and the underweight position in Energy, which outweighed detractions from selection in Materials and Consumer Discretionary. On a regional basis, contributions from selection in North America and Europe outweighed the detraction from selection in Japan. Capital One Financial, ASML and Advanced Micro Devices (AMD) contributed the most to relative returns. Capital One Financial highlighted an improving backdrop, coupled with a focus on operational efficiency, driven by investments in technology. ASML reported solid earnings, driven by demand for its lower spec DUV machines, that are not subject to restrictions, from China. The company’s guidance for 2024 was modest, but it expects significant growth in 2025. Sentiment was also boosted by falling yields that benefited growth stocks. AMD is seeing accelerating demand, driven by a faster pace of AI Infrastructure across a variety of industries, while new product innovation provides further opportunities. Panasonic, Hess and Pfizer detracted the most. Panasonic’s results and guidance were broadly in line with expectations, but a cut to domestic automotive battery production weighed on sentiment. Hess was initially strong following the announcement that it would be acquired by Chevron but its share price ultimately declined alongside the oil price, despite decent results. Pfizer cut guidance reflecting lower demand in its Covid franchise.

In the more high-growth global equity sleeve: strong company results contributed to outperformance, with many reporting strong earnings and revenue results for the quarter. Canadian e-commerce services provider, Shopify, achieved its first quarterly profit in two years driven by impressive revenue growth (25% year-on-year increase) and strategic cost-cutting.

Meanwhile, Japanese recruitment giant, Recruit – owner of well-known platforms Glassdoor and Indeed.com, reported robust second-quarter results in November with operating profit growing by 18% year-on-year. Recruit's diversified business model which spans various human resources-related sectors such as temporary staffing, education and HR technology, has mitigated risks associated with any individual segment, thus aiding resilience.

In Canadian bonds: the strategy has a long duration relative to the benchmark, with overweight exposure to the middle of the curve and an underweight exposure to the short and long end of the curve. This contributed to relative returns during the quarter as the middle of the curve provided the best value. An underweight allocation to communication bonds added value, while being underweight in the strong performing energy and infrastructure sectors detracted. Credit selection within financials was also a contributor particularly mid-term bank bonds.

Outlook

The Canadian Equity subadvisor believes that despite fears of a recession, concerns over inflation and policy rate uncertainty, equity markets rallied strongly in the fourth quarter and ended the year in positive territory.

The lagged impact of cumulative monetary tightening points to softer economic activity in the year ahead. The IMF forecasts global real GDP growth of 2.9% in 2024. Excess savings of C$369 billion should help Canadian households navigate a period of higher unemployment and elevated borrowing costs. The subadvisor forecasts Canadian real GDP growth in the range of 0.5-1.5% in 2024. They see many signs that the global economy has turned the corner on high inflation and believe policy interest rates may be at or near their peak in the cycle.

While prospects for aggregate company earnings are tempered by an expected slowdown in economic growth, they believe portfolio holdings are well-positioned to remain resilient despite more challenging fundamentals. Their equity holdings are well diversified across sectors and trade at a discount to market indexes. The forward price-to-earnings ratio of the Fund is 9.98 times estimated 2024 earnings compared to 13.8 to the TSX /SPX.