

NEI U.S. Equity RS Fund

Q2 2026 Commentary



Performance

NEI U.S. Equity RS Fund, Series I (the Fund), underperformed the benchmark for the quarter.

U.S. equities have been experiencing volatility, driven initially by generative AI trends and later by the Iran crisis. Early on, stocks rose but industry performance varied, with software and information services broadly punished amid fears of AI disruption. The market failed to distinguish resilient companies from those truly at risk. In the second half, both defensive and risky assets sold off; typically stable sectors like consumer staples and pharma declined more than others, suggesting many defensive names are oversold. Energy shocks pose immediate risk—rising costs could fuel global inflation and stall monetary policy relief, potentially leading to stagflation and sustained equity pressure. Energy producers would benefit, while energy-intensive businesses face rising costs; those with strong pricing power are better positioned. The impact depends on the Iran conflict's duration, with a swift resolution possibly prompting a rapid market rebound. Meanwhile, private credit markets show stress among tech-enabled borrowers, signaling potential risks in the AI ecosystem.

Returns

Fund	3 months	6 months	YTD	1 year	3 years	5 years	10 years	Since inception ¹
NEI U.S. Equity RS Fund Series O	11.40	5.89	5.89	12.25	16.90	13.95	N/A	14.24
NEI U.S. Equity RS Fund Series I	11.41	5.92	5.92	12.30	16.95	14.00	13.91	N/A
NEI U.S. Equity RS Fund Series A	10.79	4.74	4.74	9.79	14.33	11.44	11.34	N/A
NEI U.S. Equity RS Fund Series F	11.11	5.34	5.34	11.07	15.67	12.76	12.59	N/A
<i>Benchmark: S&P 500 Index (C\$)</i>	17.12	14.07	14.07	27.19	23.45	16.53	16.53	N/A

¹Source: Morningstar. As of Jun 30, 2026. Since inception returns are only provided for funds with less than 10 years of performance. The since inception benchmark return for Series O is 16.44.

Portfolio commentary

For the quarter and the year to date, the Fund increased in absolute terms but underperformed the S&P 500. Both security and sector selection had a negative impact on relative returns during the quarter. Security selection within technology and industrials detracted, while selection within consumer staples and communication services contributed.

McKesson pulled back with medical distributors as sentiment cooled after Cencora's earnings miss and concerns about GLP-1 revenue capture. Shell and the broader energy sector underperformed as oil prices corrected sharply following easing Middle East tensions and a preliminary U.S.-Iran peace agreement. Gilead Sciences was pressured by pipeline disappointments, a slow Yeztugo script trajectory and rotation away from defensive biopharma.

Cisco Systems, TSMC and KLA contributed as AI-related infrastructure and semiconductor demand strengthened. Cisco benefited from accelerating AI hyperscaler and networking orders tied to an enterprise refresh cycle; TSMC from multiyear pricing power in leading-edge foundry and advanced packaging; and KLA from upward revisions to hyperscale capex and wafer fabrication equipment demand.

Fund changes during Q2 were in three buckets. First, the sub-advisor reduced exposure to companies exposed to disruption risk in digital and service industries. Second, they increased weights in quality companies exposed to physical infrastructure in technology and industrials. Finally, they also increased exposure to quality, stability and price companies across the physical and digital world.

Outlook

The Fund has faced three headwinds: outperformance of speculative generative AI infrastructure, oversold disrupted industries and defensive quality underperformance. The sub-advisor believes these will become tailwinds in the second half of 2026.

The sub-advisor expects to face challenges if speculative growth continues to lead the AI infrastructure trade but believes this dynamic will reverse as the capex cycle decelerates and market euphoria abates. In parallel, quality companies with proprietary data, resilient platforms and embedded software should re-rate as monetization accelerates and fundamentals reassert themselves. The AI buildout continues to create opportunities, but rising issuance, slowing capex growth and macro uncertainty leave little room for error. With expectations already reflecting elevated technology spending and crowded AI trades priced for near-flawless execution, any sentiment shift could trigger volatility.

The sub-advisor believes investors should be prepared for a wider range of outcomes. The Fund is invested in quality business models the sub-advisor believes are resilient or can monetize generative AI. The sub-advisor also believes companies with proprietary data embedded in enterprise workflows that are monetizing AI have been oversold. They have conviction that quality, stable companies at attractive prices will mitigate risk and outperform amid generative AI and Iran crisis risks in 2026.

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