Mawer Canadian Equity Fund, Series A

Q1 2024 | Performance Commentary

Market Overview

The first quarter of 2024 saw a divergence in fortunes between equity and fixed income markets; equities continued surging forward thanks to resilient economic data while fixed income had a harder go of it due to rising bond yields. Resilient corporate earnings, positive sentiment around the potentially transformational impact of AI, and expectations of eventual rate cuts also provided fuel to rocket risk assets higher.

Economic growth in Canada and the U.S. came in surprisingly strong and while key inflation measures dipped marginally in Canada versus a small rise in the U.S., both countries still have some work to do to get inflation down to the long-term targets.

The S&P/TSX Index posted another excellent quarter with gains in nine of eleven sectors. Strong gains in energy reflect rising energy prices while communications and utilities were the only sectors to post negative returns in the quarter.

Performance Commentary

The portfolio outperformed the benchmark in the quarter.

Integrated oil giants Canadian Natural Resources (CNQ) and Suncor both had strong quarters buoyed by strong oil prices. With the expansion of the Trans Mountain Pipeline nearly complete, CNQ should benefit from improved crude oil pricing going forward. Of note for Suncor, their newly appointed CEO started putting his mark on the company through a cost reduction program. Suncor also reported that 2023 was its best year ever in terms of worker safety. While only covering a relatively short time period, this is encouraging news for a company that has had one of the poorer workplace safety track records in the industry.

A number of our holdings posted strong operating results in the fourth quarter:

- **Canadian Pacific Kansas City** railroad operator noted higher rail volumes, higher revenues, and flat expenses.
- **Loblaw** showed the company's ability to pass on inflation driving EBITDA growth.
- **Topicus**, the European-focused spinoff of Constellation Software and recent addition to the portfolio, generated strong organic growth but had a quieter quarter on the M&A front.
- In addition to strong operating results, **Constellation Software** announced that it started considering buying Canadian venture capital backed companies. This is a shift for the company as they typically acquire businesses from founders or large corporations. With the higher

funding cost environment for start-ups means and slowdown in the IPO market, VC-backed companies potentially provide Constellation another attractive avenue for deploying capital.

While most of the stocks in the portfolio generated positive returns in the period, a few were unable to keep up with the gains of the broader market.

Richelieu Hardware saw margins normalize after having expanded significantly over the last three years due to high demand and operating leverage. Management has also been investing to modernize and expand facilities and this appears to have layered in some added costs. Overall, the balance sheet remains strong, and Richelieu is well positioned to weather any slowdown in demand.

Contact centre software maker **Enghouse Systems** sold off on concerns that advancements in AI pose a risk to the interactive management segment, as contact centre automation is expected to increase. Competitive intensity remains elevated in the telecom space, particularly in wireless.

After a strong finish to 2023, **TD Bank** shares traded lower. The bank continues to be one of our top two bank picks due to its scale and low funding costs, but recent turnover amongst the executive ranks does lower our management score for the company at the margin.

Recreational vehicle maker **BRP Inc** reported mixed quarterly results. Revenue and EBITDA both declined as dealers experienced lower demand and high floor plan financing costs. On the positive side, management estimates $750mm of free cashflow generation this year and BRP continues to take market share. The company also continues adding innovative new products. The company's consistent dedication to R&D and new products is a formula that's worked well for BRP in the past and continues to add value.

Looking Ahead

The current bull market is a sign of confidence in the durability of the global economy, the continued robustness of corporate earnings, and that central banks' actions against inflation are having their intended effect. During the last several years, macro factors have had an outsized influence on equity markets: e.g., the initial demand destruction caused by COVID-19, the impact of the ensuing stimulus in propelling markets higher, and the duration effects of inflation and higher discount rates that whipsawed stock prices in 2022 and 2023. But in 2024, investors have been unfazed by the influence of central banks: equities have marched higher despite a pullback in expectations for rate cuts. While there may indeed be some hype associated with artificial intelligence and uncertain future demand, it does appear to be backed by genuine earnings growth (which will need to persist in order to justify valuations) and many businesses exposed seem to enjoy strong moats.

With a higher cost of capital and an economy that seems to be coping reasonably well with that cost of capital, a greater discernment of fundamentals, genuine earnings potential, and ultimately long-term wealth creation is welcome. Big-picture risks to the outlook are always present, hence our focus on a well-balanced portfolio of defensible businesses that can withstand shocks. Should the current “goldilocks” scenario endure, we believe our clients will continue to participate; but should there be negative surprises, we are confident in the resiliency of this portfolio.

Canadian Equity Fund

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Performance Summary[1] (%)
As of March 28, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	6.7	6.7	12.3	8.1	8.5	7.7	9.1
BENCHMARK	6.6	6.6	14.0	9.1	10.0	7.7	8.5

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	9.4	-5.6	23.7	2.7	20.7	-9.8	8.7	15.8	-0.3	15.8
BENCHMARK	11.8	-5.8	25.1	5.6	22.9	-8.9	9.1	21.1	-8.3	10.6

[1]Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.
[2]Mawer Canadian Equity Fund Series A Inception: June 3, 1991

Selections from Mawer’s Art of Boring blog and podcast:

Quarterly Update | Q1 2024 | EP152
As markets continue on a dynamic trend, fixed income portfolio manager Crista Caughlin discusses the economy and factors that drove markets in the first quarter of 2024. In addition, the reemergence of a more typical correlation pattern between stocks and bonds, getting central banks off the sidelines, and the concern that markets may be being too complacent.

Why Position Size Matters in Investing | EP151
Portfolio Manager Manar Hassan-Agha discusses the importance of position sizing in investing and how factors like behavioural biases, market structures, and optimal betting strategies under the Kelly Criterion can impact returns at varying position weights.

The Power of Latent Earnings
In today’s markets, most investors recognize that smaller start-up companies need to reinvest

heavily in their businesses to accelerate growth and capture market share and scale, accepting lower profitability today for greater potential profits tomorrow.

Disclaimer

Opinions and Forecasts:
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Benchmarks:

FUND	BENCHMARK
Mawer Canadian Equity Fund	S&P/TSX Composite Index

Performance Disclosure and Requirements:
Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts and the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values

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