# Mawer Global Balanced 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 global economic data while bonds suffered from rising yields. Strong corporate earnings, positive sentiment around the potentially transformational impact of artificial intelligence, and expectations of eventual rate cuts also provided fuel to rocket equities higher. From a regional perspective, developed markets continued to outperform their emerging market peers mainly due to continued economic challenges in China.

### Performance Commentary

The portfolio underperformed the blended benchmark over the quarter as the global equity holdings underperformed the MSCI ACWI Index (Net) in the period.

A primary source of relative underperformance for the global equity holdings came from some of our exposure in the more defensive consumer staples and healthcare industries. Coffee marketer and distributor **JDE Peet's** and global food and beverage company **Nestlé** both had challenging quarters as increased pricing to offset inflation has caused some consumers to down-trade and some retailers to push back on premium pricing. JDE Peet's also announced the abrupt dismissal of their CEO with a current executive at the firm stepping in as interim CEO while a search process is carried out. Majority ownership of the business is held by a consumer goods focused family office. This ownership group is well-aligned with the interest of common shareholders and our recent conversations with members of JDE Peet's management team gives us some comfort that the change in direction is a rational move by the company.

Pharmaceutical and diagnostics maker **Roche** and healthcare insurer and service provider **UnitedHealth Group** continued trading lower on softer near-term outlooks while Japanese telecom KDDI made a head-scratching acquisition. **KDDI** and the Mitsubishi conglomerate teamed up to fully acquire Lawson, Japan's second largest convenience store chain. KDDI intends to leverage Lawson's ~15k stores to promote its banking and insurance products along with smartphone support services at the stores. The market reaction seemed to question the strategic fit of the acquisition—as did we. However, the acquisition is modest in size compared to KDDI's enterprise value and KDDI has a decent historical track record of capital allocation relative to other Japanese companies we've observed. Therefore, we currently view this as a small negative risk and not a terminal one.

Much like last quarter, the majority of the portfolio's equity holdings posted positive results with a number of our largest holdings being the biggest contributors to relative performance:

- Diabetes-focused pharmaceutical company **Novo Nordisk** moved from strength to strength. Financial results were positive, consumer demand remains elevated, and the company made a meaningful acquisition of manufacturing capacity. Novo Nordisk acquired three manufacturing sites to help boost the supply of Wegovy and Ozempic production. The acquisition price seems elevated, but the move is in line with Novo's stated ambition to significantly accelerate its capacity to meet market demand.
- French communications and advertising giant **Publicis** reported strong organic growth in the quarter. The company also announced an internally funded EUR300mm investment in AI in conjunction with a strategic shift from a "platform" to an "intelligent system" company where all 100k employees become data analysts with information at their fingertips.
- Software maker **Microsoft** continued to ride the AI wave with Azure posting strong growth and AI related revenue accelerating as well.
- Reference data provider **Wolters Kluwer** saw recurring revenues, which include subscriptions and other renewing revenue streams, tick up one percent to 82% of total revenues and grew 7% organically.
- Lastly, insurance broker and consulting firms **Aon** and **Marsh & McLennan** continued executing on their core businesses with strong organic growth.

Despite the divergence in the returns of equities and fixed income, balanced investors have benefited from another notable quarter of strong returns from equities. While some central banks have communicated the possibility of lower policy rates, the timing and extent remain uncertain as the economy, notably in the U.S., has remained resilient and inflation has been difficult to fully tame. This uncertainty has led to a tempering in expectations for the number of possible policy rate cuts to come this year. Ultimately, yields slightly increased and Canadian bonds finished the quarter in negative territory.

## 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 businesses that can withstand shocks.

# Global Balanced 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 | 3.9 | 3.9 | 11.2 | 5.8 | 6.7 | 7.5 | 8.3 |
| BENCHMARK | 6.1 | 6.1 | 14.5 | 5.2 | 6.8 | 7.4 | 8.2 |

### Calendar Year, as of December 31:

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| FUND | 13.1 | -10.9 | 12.9 | 9.4 | 14.1 | 3.5 | 11.0 | -0.6 | 14.6 | 11.8 |
| BENCHMARK | 13.9 | -11.3 | 8.1 | 12.4 | 13.5 | 1.3 | 9.9 | 2.0 | 12.9 | 11.7 |

[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 Global Balanced Fund Series A Inception: July 3, 2013

## 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

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**Benchmarks:**

| FUND | BENCHMARK |
| --- | --- |
| Mawer Global Balanced Fund | Jan 2013: 5% FTSE Canada 91 Day Treasury Bill, 35% FTSE Canada Universe Bond, 60% MSCI World Net (Cdn$)<br>Aug 2013: MSCI World Net (Cdn $) returns is used to calculate the blended benchmark from inception. Previously, MSCI World Gross (Cdn $) was used.<br>Oct 2015: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI World Net (Cdn$)<br>Oct 2016: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI ACWI (net)<br>June 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 60% MSCI ACWI (Net) |

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