Mawer Global 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 the U.S. came in surprisingly strong and key inflation measures continued moving in the right direction, though perhaps slower than the Federal Reserve would like to see. The Fed didn't make any changes to the overnight interest rate in the period, though the dot plots kept inching towards a scenario of less hikes in 2024 than was expected just a few months ago.

The strength of the gains in the index were broad based with every sector posting positive returns and Latin America being the only region that didn't end the quarter in the green. Regionally, Japan posted exceptional returns with the U.S. stock market close behind, as U.S. markets continued defying gravity with Nvidia and several other semiconductor stocks leading the charge. While the information technology sector posted stellar results again this quarter, we saw a broadening in sector performance with great results from communication services, energy, financials, and industrials.

Performance Commentary

The portfolio underperformed the benchmark in the quarter.

A primary source of relative underperformance 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 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.

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.

Global 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	6.9	6.9	16.7	9.8	10.2	11.1	12.0
BENCHMARK	11.0	11.0	23.1	9.6	11.2	11.0	11.4

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	17.1	-11.2	21.3	9.8	20.7	4.3	17.5	-0.4	21.5	14.5
BENCHMARK	18.9	-12.4	17.5	14.2	20.2	-1.3	15.8	3.1	18.9	14.4

[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 Equity Fund Series A Inception: October 22, 2009

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.

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Benchmarks:

FUND	BENCHMARK
Mawer Global Equity Fund	Oct: 2009: MSCI World (net) Oct 2016: MSCI ACWI (net)

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