Mawer International 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 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 risk assets higher.

While the information technology sector posted stellar results again this quarter led mainly by its semiconductor constituents, many cyclical sectors also led the charge: industrials, financials, and discretionary stocks. 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 outperformed its benchmark in the first quarter.

Positions in semiconductor companies **TSMC**, **ASML**, and **ASM International** all benefitted from the explosive growth in demand expectations for the industry. All three companies possess robust competitive advantages: TSMC as the leading manufacturer of the most advanced chips, and both ASML and ASM International as the only companies in the world capable of supplying critical tools in the most sophisticated manufacturing processes, namely EUV lithography machines and single wafer atomic layer deposition, respectively.

Elsewhere, winners from 2023 continued to perform strongly in the first quarter: defense companies **Rheinmetall** and BAE on continued geopolitical concerns and higher defense spending, pharmaceutical company **Novo Nordisk** thanks to its blockbuster obesity treatments, and reference data providers **Wolters Kluwer** and **RELX** on strong execution and organic growth.

Partially offsetting these positives, two Japanese companies fell on weaker-than-expected results as costs rose greater than revenues. Management consultant **BayCurrent** continues to hire aggressively to take advantage of what should be a long runway in IT consulting in Japan, but in the near-term utilization rates have moved lower. Drug store operator **Tsuruha** continues to suffer from a pandemic hangover, with demand for COVID-19 related products declining. Additionally, shares had risen last year on the hopes that Tsuruha would be acquired given the involvement of an activist investor, but have subsequently fallen as this hasn't materialized.

Finally, the threat of AI continues to plague shares of outsourced customer service company **Teleperformance**; just as the market has rewarded AI-winners like Nvidia, it has punished contact center operators. We're not blind to the significant risk that AI might pose to Teleperformance's business model; however, the company remains the market leader, is gaining share, is tremendously cash generative, and trades at a valuation that appears very compelling under most scenarios other than complete obsolescence. Admittedly, our fair value range for Teleperformance's intrinsic value is among the widest in the portfolio given the risks, and we have correspondingly allowed its weight to fall.

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.

International 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	7.9	7.9	13.4	3.0	5.5	7.1	7.7
BENCHMARK	7.3	7.3	13.1	4.4	6.2	6.4	5.4

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Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	12.7	-16.7	7.3	12.4	14.4	-4.0	22.6	-3.3	20.3	9.1
BENCHMARK	12.5	-9.9	6.9	8.7	15.4	-6.5	18.8	-3.0	19.0	3.7

[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 International Equity Fund Series A Inception: November 6, 1987

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 International Equity Fund	Jan 1988: MSCI EAFE (net) Oct 2016: MSCI ACWI ex-USA (net)

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