Mawer Tax Effective 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 in the quarter.

Technology focused businesses were some of the strongest performers in the first quarter, especially among those positioned to benefit from artificial intelligence and semiconductor demand. This rally was not solely based on optimism, there were fundamental underpinnings given the strength in reported earnings.

- Our holdings in **TSMC**, a leading semiconductor manufacturer, along with **ASML** and **ASM International**, suppliers of critical tools in the sophisticated semiconductor manufacturing process, all benefitted from the explosive growth in demand expectations for the industry. All three companies possess robust competitive advantages largely tied to technological know-how, reputation, high barriers to entry—both financially and with respect to learning curves—and significant market shares. ASML, for instance, is the only company in the world capable of making EUV lithography machines used in the production of the most technologically advanced chips.
- Some of our other top technology focused performers included value-added resellers **Converge Technology Solutions**, **Softchoice**, and **Softcat**. These companies' stocks performed well as the economy's continued resilience has improved the outlook for their customers looking to acquire software services or hardware. They additionally are positioned

to benefit from exploration and deployment of artificial intelligence technologies by their customers.

However, our lack of exposure to NVIDIA and Meta was a hindrance on relative performance this quarter as the market has continued to look at these companies favourably.

While the advancements in artificial intelligence have helped propel many technology companies higher, not all companies have been winners from this development—businesses models that may be disrupted by this technology were some of our weaker performing holdings over the quarter including a provider of contact center software, **Enghouse Systems**, and contact center operator, **Teleperformance**.

Elsewhere, momentum continued for some of our stronger performing holdings from 2023.

- The stocks for defense-oriented companies such as **Rheinmetall**, **BAE Systems**, and **BWX Technologies** moved higher on continued geopolitical concerns and higher defense spending.
- **Microsoft**, **Amazon**, and **Alphabet** had another strong quarter, as they continued to report strong fundamentals and are also positioned to benefit from artificial intelligence advancements.

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.

We made a few adjustments to our target asset mix weights in the quarter. As equities have continued to climb, we trimmed back our weight in U.S. equity and added to Canadian bonds. We also reallocated a portion of our U.S. equity weight to our U.S. mid cap equity strategy as we believe this will improve the overall diversification of the portfolio.

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.

We continue to balance the risks, managing exposure to sharp edges by constructing portfolios we believe to be resilient.

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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	4.6	4.6	10.7	3.3	5.5	6.5	7.6
BENCHMARK	4.7	4.7	11.3	4.5	6.4	6.3	7.7

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	10.1	-12.4	9.2	10.7	14.9	-0.3	9.9	3.3	10.2	12.2
BENCHMARK	11.2	-9.6	10.0	10.7	14.2	-2.7	8.4	7.4	6.2	9.5

[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 Tax Effective Balanced Fund Series A Inception: January 8, 1988

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:

This report includes certain statements that are "forward looking information" or "forward looking statements" (collectively, "forward looking information") within the meaning of applicable securities legislation. All statements, other than statements of historical fact, included in this report that address activities, events or developments that the portfolio advisor, Mawer Investment Management Ltd., expects or anticipates will or may occur in the future, including such things as anticipated financial performance, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations, are forward looking information. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", "will" and similar expressions are intended to identify forward looking information. Undue reliance should not be placed on forward looking information. Forward looking information is subject to various risks described in the Simplified Prospectus, uncertainties, and assumptions about the Fund, capital markets and economic factors, which could cause actual results to vary and in some instances to differ materially from those anticipated by the portfolio advisor and expressed in this report. Material risk factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. The foregoing list of risk factors is not exhaustive.

All opinions contained in forward looking information are subject to change without notice and are provided in good faith and are based on the estimates and opinions of the portfolio advisor at the time the information is presented. The portfolio advisor has no specific intention of updating any forward looking information whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but cannot be guaranteed to be current, accurate or complete and is subject to change without notice.

Benchmarks:

FUND	BENCHMARK
Mawer Tax Effective Balanced Fund	Jan 2012: 5% 91 Day Treasury Bill, 35% FTSE TMX Canada Universe Bond, 15% S&P/TSX Composite, 15% S&P 500, 15% MSCI EAFE (net), 7.5% BMO Weighted Small Cap (Blended), 7.5% Russell Global Small Cap Aug 2013: MSCI EAFE (net) returns is used to calculate the blended benchmark from inception. Previously, MSCI EAFE (gross) was used. Oct 2015: 5% 91 Day Treasury Bill, 30% FTSE TMX Canada Universe Bond, 5% FTSE WGBI, 15% S&P/TSX Composite, 7.5%

	BMO Small Cap (blended), 15% S&P 500, 15% MSCI EAFE (net), 7.5% Russell Global Small Cap Oct 2016: 5% 91 Day Treasury Bill, 30% FTSE TMX Canada Universe Bond, 5% FTSE WGBI, 15% S&P/TSX Composite, 7.5% S&P/TSX Small Cap, 15% S&P 500, 15% MSCI ACWI ex-USA (net), 7.5% MSCI ACWI Small Cap (net) Jun, 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 15% S&P/TSX Composite, 7.5% S&P/TSX Small Cap, 15% S&P 500, 15% MSCI ACWI ex-USA (net), 7.5% MSCI ACWI Small Cap (net)

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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