Mawer EAFE Large Cap Fund, Series A

Q2 2024 | Performance Commentary

Market Overview

Globally, the second quarter of 2024 saw a continuation of the key themes and results from the first quarter: strength in public equity markets led largely by artificial intelligence (AI). However, given that international developed markets have relatively less exposure to technology companies than the U.S. or emerging markets, the MSCI EAFE was a laggard among the major global indices during the quarter. Emerging markets equities led the advance given heavier exposure to semiconductor-related businesses, most notably Taiwan's stock market. Similarly, U.S. growth stocks surged lifting the results of the broader U.S. market while performance was more modest in Europe, and negative in Japan after adjusting for the depreciating yen.

Compared to the first quarter, market expectations for future interest rate cuts were reduced as the U.S. Federal Reserve grappled with stubborn inflation. Meanwhile, central bankers in Canada and Europe have begun reducing policy rates, but their messaging to market participants has stressed that policy action will be measured and data dependent.

Performance Commentary

The portfolio's return underperformed its benchmark in the second quarter.

Two distribution business models in the portfolio suffered from weaker results. Chemicals distributor **Brenntag**'s earnings failed to meet expectations as an oversupply of chemicals upstream reduced its distribution margins. Plumbing and HVAC equipment distributor **Ferguson** also guided for lower margins citing deflation in pricing. And while we don't possess a crystal ball, neither set of results portends well for the broader economy.

Within health care, two companies showed further evidence that their earnings power is well below what had been unsustainably boosted by COVID-19 demand: **Sartorius Stedim**, a company that provides equipment and consumables used at various stages in the production of biologic drugs, and **Eurofins Scientific**, a European lab-testing company.

Partially offsetting these negatives—though luxury conglomerates **LVMH** and **Kering** fell alongside other discretionary stocks—the portfolio's underweight exposure to consumer-related sectors was beneficial for relative performance. **Novo Nordisk** continues to benefit from strong sentiment related to its blockbuster obesity treatments and even further possible health benefits. And companies whose business models may benefit from the introduction of AI into their value proposition to customers also performed well, such as reference data providers **Wolters Kluwer** and **RELX**. Both companies continue to deliver excellent results.

Looking Ahead

Thinking longer-term, we worry about the trend toward more protectionist policies, less globalization, more conflict, and a multi-polar world. In 1989, the fall of the Berlin Wall was an inflection point that served to catalyze more inclusive global economic growth, increased productivity, trade, and formidable stock market returns over the ensuing three decades. While global economic growth remains positive, it has slowed and we note that the word "deflation" has started to occasionally creep into conversations with company executives, a shift relative to the last few years. Current trends, along with a higher cost of capital, may imply lower real returns from equities moving forward.

As for the AI-related market darlings, the late Roy Amara once said, "We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run." Put differently, there's a risk of over-exuberance in markets extrapolating today's pace of AI-related demand, with many companies lacking the data or infrastructure to deploy generative AI widely within their organizations. Return on investment is also unknown. But the mismatch between the timing of investment and returns may create significant future opportunities, particularly where competitive advantages are strongest.

As always, valuation is the great equalizer and both axes of our Matrix—quality and valuation—are important. AI-related or not, companies with competitively advantaged revenue streams should benefit from continued economic growth while providing a measure of defensiveness should the macroeconomic environment deteriorate. Purchasing such securities at a discount to their intrinsic values should, in theory, offer greater upside in a bullish scenario yet better downside protection should markets correct. We aim to get the balance right. While not a formula for avoiding shorter-term negative returns, we believe this approach should minimize the probability of permanent impairment of capital while leading to long-term compounding of wealth.

EAFE Large Cap Fund

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

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	4.6	-3.1	11.7	3.3	-	-	7.4
BENCHMARK	9.3	0.8	15.3	6.4	-	-	10.0

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Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	17.4	-17.1	15.0	-	-	-	-	-	-	-
BENCHMARK	15.1	-8.2	10.3	-	-	-	-	-	-	-

[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 EAFE Large Cap Fund Series A Inception: May 29, 2020

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

Quarterly Update | Q2 2024 | EP161
Portfolio Manager Crista Caughlin discusses the economy and factors that drove markets in the second quarter of 2024.

Navigating the U.S. Mid-Cap Landscape: Resilience Amid Uncertainty | EP160
In this episode, Portfolio Manager Jeff Mo makes the case for investing in U.S. mid-cap equities, highlighting the country's strong business environment, large domestic market, and GDP growth. He discusses current market trends, including artificial intelligence, and his team's risk management evaluation, especially with a pivotal U.S. election looming on the horizon.

From Buy to Bye: Sell Discipline and Overcoming Behavioral Biases | EP159
Portfolio Manager Jeff Mo discusses common behavioral biases that can hinder clear sell decisions, and the tools, such as checklists and trigger points, that can help slow down emotional thinking.

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Benchmarks:

FUND	BENCHMARK
Mawer EAFE Large Cap Fund	MSCI EAFE Index (net)

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