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Mawer Emerging Markets Equity Fund, Series A

Q2 2024 | Performance Commentary

Market Overview

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). Information technology comfortably led all sectors in performance as the demand for advanced chips continued unabated. Even the utilities sector enjoyed an AI-related boost given expectations that more data centers should lead to more electricity demand.

Regionally, emerging markets equities outperformed their developed market peers given heavier exposure to semiconductor-related businesses, most notably Taiwan's stock market. Indian equities performed well as election results suggest a continuation of Prime Minister Modi's pro-growth agenda. By contrast, Latin American markets such as Brazil and Mexico suffered from weaker currencies due to fiscal uncertainties in Brazil and the landslide victory of a left-wing candidate in Mexico's presidential elections.

Performance Commentary

The portfolio return narrowly underperformed that of its benchmark in the second quarter.

Three Indian companies were top contributors to relative performance: chemicals logistics company **Aegis**, **HDFC Bank**, and **360 One**, India's largest non-bank wealth manager. We have high regard for their management teams who are executing well on long growth runways tied to India's bright economic outlook, both with respect to under-developed banking and wealth management industries as well as global supply chains diversifying away from China.

Excitement around AI helped propel manufacturer **TSMC** to all-time highs—a benefit to the portfolio in absolute terms but a detractor from relative performance. For the past four years, TSMC has been the portfolio's top-weighted holding near our self-imposed 6% maximum position size, but the strong share performance has propelled the benchmark's weight even higher. Vietnamese IT consultant **FPT** has also performed well given its growing reputation for providing end-to-end advice to customers seeking to implement technology transformations.

Offsetting these positives, three Brazilian companies were hurt by the weaker domestic macro backdrop: facilities management company **GPS**, broker-dealer **XP**, and energy company **Prio**. Though their revenues and earnings continue to grow, they were unable to escape broad-based weakness in Brazilian financial markets tied to concerns with the fiscal spending ambitions of the left-leaning federal government.

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 value 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.

Emerging Markets Equity 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	18.2	6.4	26.5	-1.9	3.7	-	5.2
BENCHMARK	11.5	6.5	16.4	-1.9	4.0	-	5.7

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	17.1	-29.0	0.8	20.4	9.7	-6.2	-	-	-	-
BENCHMARK	6.9	-14.3	-3.4	16.2	12.4	-6.9	-	-	-	-

[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 Emerging Markets Equity Fund Series A Inception: January 31, 2017

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 Emerging Markets Equity Fund	MSCI Emerging Markets Index (net)

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