# Mawer Global Balanced Fund, Series A

## Q2 2024 | Performance Commentary

### Market Overview

The second quarter of 2024 saw a continuation of the key themes from the first quarter as strength in public equity markets was led largely by artificial intelligence related companies. Even the utilities sector enjoyed an AI-related boost given expectations that more data centres should lead to increased electricity demand.

Regionally, emerging markets equities led the advance given heavy exposure to semiconductor-related businesses, most notably via 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.

The Canadian equity market also faced headwinds from a more challenging growth outlook. The Bank of Canada diverged from the U.S. Federal Reserve and began reducing policy interest rates during the quarter. In Canada, a surprise move higher for inflation near the end of the quarter makes the job of the Bank of Canada harder given the stagnating economy; even so, their messaging to market participants has stressed that policy action will be measured and data dependent. Market participants reduced expectations for U.S. interest rate cuts this year as the Federal Reserve remains on pause as it grapples with stubborn inflation that has yet to be fully tamed.

Canadian bonds had positive returns this quarter as the short end of the yield curve moved lower and long-term yields remained mostly unchanged.

### Performance Commentary

The portfolio underperformed the blended benchmark over the quarter as the global equity holdings underperformed the MSCI ACWI Index (Net) in the period.

A primary source of relative underperformance of the portfolio's equity holdings came from not owning any semiconductor stocks or Apple, the sum effect of which accounted for approximately half of the strategy's negative relative performance in the period.

Two of our top holdings, insurance broker **Aon** and car manufacturer **BMW**, had more challenging quarters for their stock prices. Aon reported earnings growth that fell short of investor expectations and peers. The disappointment in organic growth is mainly attributed to Aon's underexposure to the faster growing mid-market, something the company's acquisition of NFP late last year seeks to address by bolstering its presence in that segment of the market. BMW cut its dividend but still has a healthy shareholder cash back yield and is undergoing an elevated investment period in the transition to electric vehicles which has modestly pressured margins.

After an excellent 2023, Brazilian broker-dealer **XP Inc.** traded lower in the quarter in sympathy with broad-based weakness in Brazilian financial markets. Investor concerns appear to be growing about the fiscal spending ambitions of the left leaning federal government.

**Insperity** and **TriNet** provide outsourced HR, benefits, and workers compensation to small and medium enterprises. Both company's reported softer margins in the quarter; Insperity because of higher health insurance costs and Trinet because of investments being made in their new partnership with Workday.

U.S. technology focused stocks were the big winners in the portfolio. **Microsoft** and **Alphabet** both saw excellent growth in their cloud computing businesses and for Alphabet, the main concern from the past year that generative AI will materially impair Google's search business, appears to be waning as the company integrates AI technology into its search product.

**Novo Nordisk**, the diabetes focused pharmaceutical company, reported another strong quarter as weight loss drug demand continued to outstrip supply. **Booking Holdings** also had another stellar quarter. The world's largest online travel agency saw gross booking up +10% year-over-year with more customers booking with greater frequency suggesting strong ongoing customer stickiness.

Zooming a bit further out to one year performance for the global equity holdings, narrow market leadership has translated into meaningful short-term return deviations from the MSCI ACWI Index (Net) because of a handful of holdings and non-holdings. Specifically, a combination of underexposure to AI-related mega cap stocks as well as cycle weakness/recession anticipation affecting consumer, capital goods, employment stocks in the portfolio such as **LVMH**, **JDE Peet's**, **BMW**, and **Insperity**.

Many of the same themes from this quarter were also the primary sources of relative underperformance for the global equity holdings over the past year, namely some of our financial service firms such as **Aon** and **XP** retrenching after previously strong returns and a lower exposure to AI-beneficiaries in general and semiconductor stocks in particular.

With businesses like Aon and XP, we continue to feel that the fundamentals are strong and, as such, maintain our conviction in these holdings. With high momentum stocks like Nvidia, we continue to closely monitor them but ultimately in our view, the range of outcomes for these types of companies are very wide and current valuations reflect market assumptions that earnings growth rates and margins will stay elevated for many years to come. While of course possible, we find these sorts of scenarios hard to envision with high probability. This reduces our confidence that these stocks are trading below intrinsic value and ultimately reinforces our belief that sticking to our philosophy and process, despite the temptation to chase the current trend, is a sound strategy.

## Looking Ahead

Though we are very much bottom-up investors, the juxtaposition of the current macroeconomic and geopolitical backdrop with many equity markets at, or close to, all-time highs is increasingly

puzzling. Beneath the surface of the headline performance of many global indices, there is a noticeable lack of breadth in the markets' recent advance. Consumer-related stocks and more traditional industrial bellwether segments point to potential underlying weakness. 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.

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. We worry that current trends (more protectionist policies, less globalization, more conflict, and a multi-polar world), 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 strong, recurring revenues 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 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 benchmark-relative underperformance or negative returns in the short run, we believe this approach should minimize the probability of permanent impairment of capital while leading to long-term compounding of wealth.

# Global Balanced Fund

## Q2 2024 | Performance Commentary

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

| | YTD | 3 Mo. | 1 Yr. | 3 Yrs. | 5 Yrs. | 10 Yrs. | Since Inception[2] |
|---|---|---|---|---|---|---|---|
| FUND | 3.8 | -0.1 | 9.1 | 4.1 | 6.2 | 7.5 | 8.1 |
| BENCHMARK | 9.1 | 2.8 | 15.3 | 5.0 | 7.0 | 7.5 | 8.3 |

**Calendar Year, as of December 31:**

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| FUND | 13.1 | -10.9 | 12.9 | 9.4 | 14.1 | 3.5 | 11.0 | -0.6 | 14.6 | 11.8 |
| BENCHMARK | 13.9 | -11.3 | 8.1 | 12.4 | 13.5 | 1.3 | 9.9 | 2.0 | 12.9 | 11.7 |

[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 Global Balanced Fund Series A Inception: July 3, 2013

## 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 Global Balanced Fund | Jan 2013: 5% FTSE Canada 91 Day Treasury Bill, 35% FTSE Canada Universe Bond, 60% MSCI World Net (Cdn$)<br>Aug 2013: MSCI World Net (Cdn $) returns is used to calculate the blended benchmark from inception. Previously, MSCI World Gross (Cdn $) was used.<br>Oct 2015: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI World Net (Cdn$)<br>Oct 2016: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI ACWI (net)<br>June 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 60% MSCI ACWI (Net) |

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