Mawer Global Equity Fund, Series A

Q2 2024 | Performance Commentary

Market Overview

The story of the second quarter of 2024 was a continuation of the key themes and results of the first quarter—strength in public equity markets led largely by artificial intelligence (AI) related businesses and rising bond yields weighing on fixed income returns.

Information technology comfortably led all sectors in performance as the demand for semiconductor chips continued unabated. Communication services was the next best performer thanks largely to Alphabet (Google), and coming in third was utilities, a sector impacted by AI exuberance because of expectations that more data centers being built will lead to more electricity demand.

Regionally, Asia ex-Japan saw the highest returns in part because Chinese authorities took action to support a weak real estate sector. The Taiwanese stock market in particular along with a number of other countries in the region benefited from their heavy exposure to semiconductor related businesses. Similarly, large cap U.S. growth stocks surged lifting the results of the broader U.S. market while returns were much 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 significantly underperformed the benchmark in the quarter.

A primary source of relative underperformance came from not owning any semiconductor stocks or Apple, the sum effect of which accounted for 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; Trinet because of higher health insurance costs and Insperity 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, narrow market leadership has translated into meaningful short-term return deviations from the benchmark 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 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

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.

Global Equity 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	6.2	-0.6	12.3	7.2	9.5	11.0	11.7
BENCHMARK	15.5	4.1	23.4	9.0	11.8	11.3	11.5

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	17.1	-11.2	21.3	9.8	20.7	4.3	17.5	-0.4	21.5	14.5
BENCHMARK	18.9	-12.4	17.5	14.2	20.2	-1.3	15.8	3.1	18.9	14.4

[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 Equity Fund Series A Inception: October 22, 2009

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 Equity Fund	Oct: 2009: MSCI World (net) Oct 2016: MSCI ACWI (net)

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