

Mawer International 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 Q1: 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 centres should lead to more electricity demand.

Regionally, 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 underperformed its benchmark in the second quarter, largely due to three positions held within the financials sector:

- One of our top holdings, insurance broker **Aon**, reported earnings growth that fell short of investor expectations and peers. The disappointment in organic growth is mainly attributed to Aon's under-exposure to the faster-growing mid-market, something the company's acquisition of NFP late last year seeks to address by bolstering its presence in this segment of the market.
- Payments processor **Adyen's** stock price has been quite volatile over the recent past as investors have reacted forcefully to its earnings announcements. Though its stock price has almost doubled over the past nine months, it took a leg down in Q2 as the company's take-rate narrowed. We continue to believe the company's technological leadership should result in a long runway for growth.
- French meal, food, and fuel voucher company **Edenred** suffered from political and regulatory uncertainty in its domestic market due to the surprise upcoming French legislative election. Additionally, the company's Brazilian business has been exposed to a weakening Brazilian real.

Partially offsetting these negatives, the portfolio's semiconductor holdings continue to enjoy AI-related tailwinds propelling their share prices to all-time highs: manufacturer **TSMC**, advanced lithography machine producer **ASML** and single wafer atomic layer deposition technology company **ASM International**. And though luxury conglomerate **LVMH** fell alongside other discretionary stocks, the portfolio's underweight exposure to consumer-related sectors was beneficial for relative performance.

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.

International Equity Fund

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Performance Summary¹ (%) As of June 28, 2024

| | YTD | 3 Mo. | 1 Yr. | 3 Yrs. | 5 Yrs. | 10 Yrs. | Since Inception ² |
|-----------|-----|-------|-------|--------|--------|---------|------------------------------|
| FUND | 8.5 | 0.5 | 13.6 | 2.1 | 5.0 | 7.0 | 7.7 |
| BENCHMARK | 9.7 | 2.2 | 15.4 | 3.9 | 6.5 | 6.6 | 5.5 |

Calendar Year, as of December 31:

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|-----------|------|-------|------|------|------|------|------|------|------|------|
| FUND | 12.7 | -16.7 | 7.3 | 12.4 | 14.4 | -4.0 | 22.6 | -3.3 | 20.3 | 9.1 |
| BENCHMARK | 12.5 | -9.9 | 6.9 | 8.7 | 15.4 | -6.5 | 18.8 | -3.0 | 19.0 | 3.7 |

¹Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.

²Mawer International Equity Fund Series A Inception: November 6, 1987

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.

Disclaimer

Opinions and Forecasts:

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Benchmarks:

| FUND | BENCHMARK |
|---------------------------------|---|
| Mawer International Equity Fund | Jan 1988: MSCI EAFE (net) Oct 2016: MSCI ACWI ex-USA (net) |

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