Mawer Canadian Equity Fund, Series A

Q3 2024 | Performance Commentary

Market Overview

In the third quarter of 2024, under the weight of previous central bank interest rate increases, global growth continued to slow. But in September, the U.S. Federal Reserve made its first interest rate cut this cycle, joining the Bank of Canada and other central banks who had already begun reducing rates due to retreating inflation. The Bank of Canada also cut their target rate 25 basis points bringing it to 4.25%. This has provided some relief for certain households and businesses who have been struggling with a higher interest rate environment. While the path of inflation and interest rates are never certain, it does seem we are now clearly on the easing side of this cycle.

Equity market performance in Canada was very strong in the third quarter, with interest rate sensitive sectors such as real estate, utilities, and financials leading performance along with healthcare. After a strong start to the year, energy producers cooled off though tensions in the Middle East flared up to end the quarter. Tighter credit spreads and all-time highs for several equity markets may suggest that investors have priced in a low probability of a recession.

Performance Commentary

The portfolio underperformed the benchmark in the quarter.

The biggest factors that detracted from relative performance in the quarter was a lack of exposure to gold producers and our underweight position in banks. Gold miners have benefited from falling bond yields and geopolitical tensions boosting the price of gold, while banks enjoyed improving net interest margins.

After a very strong start to 2024, the stock price of energy producers **Canadian Natural Resources** and **Suncor** took a breather.

Boyd Group Services stock continued pulling back this quarter, likely driven by shorter-term weather-related issues and consumers deferring claims given concerns about insurance premium increases. However, long-term opportunities for growth through M&A appear intact for the auto collision repair operator. Lastly, shares of outsourced provider of digital customer service **Telus International** also continued to slide in the quarter. Please see the activity section for more details as we exited our position in the third quarter.

All of our biggest contributors to performance were financial and real estate related businesses. **Royal Bank** and **Bank of Nova Scotia** both popped on healthy results driven by net interest margin expansion, positive operating leverage, and strong capital markets performance. Insurer **IA Financial** did better than the street expected primarily due to results in its core insurance service unit. The firm remains conservatively managed with a low-risk appetite around both their policy underwriting and investment portfolio, which we appreciate.

Real estate brokerage and asset manager **Colliers Group** reported improved leasing activity in 2024, with office and industrial both growing north of ten percent. While margins are at cycle lows, there is potential upside from a capital markets recovery.

Straddling both financial and real estate exposure, asset manager **Brookfield Corporation** grew distributable earnings, largely driven by insurance earnings and higher cash flows from direct investments. Cash flows improved on real estate assets and fee-bearing capital as well.

Looking Ahead

While corporate earnings remain on an upward trajectory, many of the world's economic engines such as the U.S. and Europe are slowing with PMI data declining across the globe. Further, there are both top-down and bottom-up signals that the world's 2nd-most impactful economic force given its size and purchasing power—the U.S. consumer—might be facing headwinds. (Editors' note: the Fed is likely #1). As an example, a meaningful slowdown in the auto sector, which is a significant driver of manufacturing activity and jobs in the West, doesn't portend well for aggregate demand. While central banks should be commended for their handling of the economy over the last two years, investors may be placing too high a probability on a "no landing" scenario.

On the other hand, speaking of central banks, the denominator impact of lower rates and the start of the easing cycle should generally be supportive of risky assets on the assumption that inflation is falling for the right reasons and not due to more worrisome deflationary forces.

Looking ahead, there will undoubtedly be no shortage of events to preoccupy markets; war and the upcoming U.S. election spring immediately to mind. But to paraphrase former U.S. Defense Secretary Donald Rumsfeld, it's the "unknown unknowns" that often produce the largest surprises … much like a global pandemic to the vast majority of market prognosticators prior to 2020.

This is why "Prepare, don't predict" is such an important mindset at Mawer and lies at the heart of our investment process. Investing in a diversified portfolio of real businesses with strong competitive advantages, that generate recurring revenues, that have flexibility in their cost base, that maintain dominant industry positions, that are run by competent managers, and that refrain from taking undue risk from a leverage perspective, should lead to genuine wealth creation. While market sentiment can shift quickly and unpredictably in the short-run, attractive risk-adjusted returns over the long-term is the real prize.

Performance Summary[1] (%)
As of September 30, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	15.2	8.7	24.3	8.2	9.2	7.9	9.2
BENCHMARK	17.2	10.5	26.7	9.5	10.9	8.1	8.6

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	9.4	-5.6	23.7	2.7	20.7	-9.8	8.7	15.8	-0.3	15.8
BENCHMARK	11.8	-5.8	25.1	5.6	22.9	-8.9	9.1	21.1	-8.3	10.6

[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 Canadian Equity Fund Series A Inception: June 3, 1991

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

Quarterly Update | Q3 2024 | EP168

Portfolio Manager Crista Caughlin discusses the economy and factors that drove markets in the third quarter of 2024.

Navigating the Canadian Equity Landscape: Dispersion, Energy Transition, and Opportunities | EP163

In this episode of the podcast, Mark Rutherford, Co-Manager of the Canadian large-cap equity strategy, discusses the current investment landscape in Canada, highlighting the wide dispersion in sector performance and the impact of central bank policies.

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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Opinions and Forecasts:

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Benchmarks:

FUND	BENCHMARK
Mawer Canadian Equity Fund	S&P/TSX Composite Index

Performance Disclosure and Requirements:
Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts and the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Mawer Funds are managed by Mawer Investment Management Ltd.

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