Mawer Emerging Markets 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 other influential central banks such as the ECB and the Bank of England (the Bank of Japan and the People's Bank of China the major exceptions) who had already begun reducing rates due to retreating inflation. Bonds rallied as rates snapped a two-quarter streak of rising yields. We are now on the easing side of this cycle, and tighter credit spreads suggest that investors have priced in a low probability of a global recession.

Equity market performance broadened over the third quarter as most major indices posted mid- to high-single digit returns. In contrast to earlier this year, the technology sector lagged as investors questioned higher valuations for companies benefiting from spending on AI. Equity markets were further buoyed toward the end of the quarter by a raft of meaningful stimulus measures in China aimed at supporting domestic consumption, the housing market, and the Chinese stock market. Beyond Chinese companies, this provided an end-of-quarter rally for those industries and businesses with significant revenue exposure to China.

Performance Commentary

The portfolio's return lagged that of its benchmark in the third quarter, primarily due to its relative posture in China.

The portfolio began the quarter with a 16.5% weight in China/Hong Kong, significantly below the benchmark's 25%. The end-of-quarter stimulus-driven rally propelled the stock prices of many large and previously beaten-down benchmark constituents that we don't own such as Alibaba, Meituan, JD.com, and a host of Chinese banks. In addition, portfolio holding **Greentown Management**, the leading construction project manager in China, announced the abrupt departure of its CEO and a number of his direct reports. The loss of a founding figure who had an outsized influence on execution and capital allocation impacted the stock price as well as our investment thesis, prompting our exit.

Partially offsetting these negatives, "Be Boring" investments such as classifieds operator **Baltic Classifieds**, Dubai-based toll road operator **Salik,** and Taiwanese game developer company **IGS** appreciated on investor-pleasing results that suggest our long-term investment theses remain intact. And share prices of several Chinese companies we owned did indeed benefit from the rally in China, notably **Tencent** and mall operator **MIXC**.

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. The most recent stimulus in China is a great example of the impulse and impact to sentiment that this denominator effect can provide. "Don't fight the Fed" has been a rather prudent mantra historically.

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 borrow from 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 are 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	22.1	3.3	26.3	0.5	5.1	-	5.5
BENCHMARK	19.7	7.3	26.0	2.6	6.2	-	6.4

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 | Q3 2024 | EP168

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

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.

Watts Up? The Challenges and Opportunities of Powering AI | EP158
In this episode, we explore the growing electricity demands of data centers stemming from artificial intelligence (AI) with Chris Silvestre, Analyst on the U.S. Equity Team.

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Benchmarks:

FUND	BENCHMARK
Mawer Emerging Markets Equity Fund	MSCI Emerging Markets Index (net)

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