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Mawer Global 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. 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 on the easing side of this cycle.

Equity market performance remained strong while broadening out over the third quarter with interest rate sensitive sectors such as real estate, utilities, and financials performing well, propelling several stock market indices to all-time highs. The technology sector lagged, however, as investors questioned higher valuations for companies benefiting from artificial intelligence spending. Though performance was strong overall in the quarter, we did see bouts of volatility and market drawdowns, particularly in late July/early August when the U.S. posted weaker economic data and the Bank of Japan hiked interest rates. Despite the volatility, tighter credit spreads and all-time highs for several equity markets may suggest that investors have priced in a low probability of a recession.

Regionally, Canadian equities led the advance in the third quarter given heavy exposure to interest rate sensitive industries, followed by Asia ex Japan, and the U.K. 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 underperformed the benchmark in the quarter.

Overall, we would characterize the current market as exuberant—the market, as defined by MSCI ACWI is up 32% over the past year. This type of outlier performance in the market, with extremely narrow leadership and strong momentum, is typically an environment where our quality at the right price investment style is challenged to keep pace. Insurance broker Marsh & McLennan's performance of +18% the past year is an example of a be-boring company that has done well ... but not kept pace with the market leaders. And given the magnitude of the underperformance over the past 12-months, this has impacted more medium-term results.

We have been here before with our global equity strategy, both in 2016 with the aggressive rally after President Trump's election victory and in late 2020 when the COVID-19 vaccines were approved and rolled out causing a pop in lower quality businesses. In both cases, we stuck to our philosophy and

process and clients were ultimately rewarded with strong bounce backs in performance. We always try to balance sticking with the plan with continuous improvement.

The more recent performance seemed in-line with our expectations earlier in the quarter: we outperformed in late July/early August where the macro-economic situation appeared more precarious and underperformed later in the quarter as the market started pricing in a goldilocks scenario. We feel that the portfolio is resilient and well set up for a multitude of alternative histories.

The standout performers in the third quarter were all steady, defensive portfolio stalwarts across a range of sectors. “Be boring” investments and many of our top holdings such as insurance broker **Aon**, recurring consumables distributor **Bunzl**, health insurer **UnitedHealth,** and IT consultant **CGI** appreciated on investor-pleasing results that suggest our long-term investment theses remain intact. In Aon’s case, the results were welcome given that strong organic growth and a positive impact from recently acquired NFP helped to allay concerns that had weighed on the stock earlier in the year. In Japan, telecom **KDDI**, enjoyed a significant bump after lagging earlier in the year. KDDI is a domestically focused business; as a result, North American investors further benefitted from the significant appreciation of the Japanese yen.

Ultimately though, it was a quarter where a few stocks really drove our relative underperformance. In particular:

- **Moderna** – stock was down sharply on lower sales guidance due to weaker demand for its covid-19 vaccine. Our thesis has always been predicated primarily on the company’s R&D platform, with its focus on scalability and learning speed corroborated by their pipeline of drugs that are in development (47 development programs, 9 in late-stage trials). That remains the case today though we do acknowledge the near-term headwinds from the slowing COVID-19 franchise.
- **Novo Nordisk** – the stock sold off this quarter on increasing regulatory risk concerns and ongoing market share losses to competitors but is still up 30% over a one-year period. We have been taking profits along the way for more than three years now. We continue to hold a position in the company due to its focused approach to drug pipeline development, high calibre of scientists, and economies of scale in R&D and commercialization.
- **FedEx** – after an excellent Q2 earnings thanks to evidence that their cost cutting program was on track, the stock dropped 15% after Q3 earnings that showed weaker business-to-business volumes (particularly in the U.S.) and mix shift from priority to deferred services. Our investment case remains intact with meaningful potential earnings improvements from self-help initiatives and focus on improving ROIC—which new management is now incented on—alongside embedded optionality in spin-off of its leading less-than-truckload freight business.
- **BMW** – the company materially cut it’s 2024 guidance due to a large one-time vehicle recall related to faulty braking systems and economic malaise of the Chinese consumer. We continue to like the company because of its leading premium/luxury brand position, reoccurring elements of the business including customer loyalty rates and captive financing, and an attractive valuation and cash back yield supported by a robust balance sheet.

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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 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 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	9.1	2.7	16.6	6.8	9.8	11.2	11.7
BENCHMARK	21.6	5.3	31.7	10.4	12.6	11.6	11.7

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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 | Q3 2024 | EP168
Portfolio Manager Crista Caughlin discusses the economy and factors that drove markets in the third quarter of 2024.

Marbles and Billiards: Navigating the Highs and Lows in Global Equity | EP162
In this episode, Portfolio Manager Manar Hassan-Agha discusses how the Global Equity Team navigates an exuberant market environment while staying true to Mawer's disciplined investment approach.

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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