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Mawer International 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. Interest rate-sensitive sectors such as real estate, utilities, and financials performed well while 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 outpaced its benchmark in the third quarter, largely thanks to several long-standing portfolio stalwarts and a number of companies based in Japan.

"Be boring" investments and top 10 holdings such as insurance broker Aon, recurring consumables distributor Bunzl, and caterer Compass Group 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, management consultant **BayCurrent**, telecom **KDDI**, and B2B maintenance, repair and operations distributor **MonotaRO** all enjoyed significant bumps after lagging earlier in the year. BayCurrent continues to hire to take advantage of a long runway in IT consulting in Japan given that Japanese corporates have historically underinvested in IT, and the market cheered as the company reported higher-than-expected revenue per consultant. In addition, KDDI, BayCurrent, and MonotaRO are all domestically focused businesses; as a result, North American investors further benefitted from the significant appreciation of the Japanese yen.

Partially offsetting these positives, portfolio constituents with AI-related exposure took a breather during the quarter: advanced lithography machine producer ASML, single wafer atomic layer deposition technology company ASMI, and semiconductor manufacturer Samsung Electronics. Novo Nordisk also pulled back after a torrid few years due to increasing regulatory risks and a potential rise in future competitive intensity in obesity pharmaceuticals.

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 is the real prize.

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

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	16.0	6.9	25.5	4.2	6.8	7.9	7.8
BENCHMARK	17.0	6.7	25.3	6.4	8.0	7.4	5.6

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

[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 International Equity Fund Series A Inception: November 6, 1987

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.

Semiconductors, GLP-1s, and Defense Companies: Powering the International Equity Strategy | EP167

Peter Lampert, lead portfolio manager of the International Equity Strategy, provides insights on the team's investment process, the state of the portfolio, and the main drivers that are currently having an outsized impact on performance, namely, semiconductors, obesity medicines, and defense companies. He details his team's rigorous approach to evaluating management teams from both a quantitative and qualitative standpoint, providing an in-depth example of Hitachi. The conversation concludes with a brief discussion of the current macro environment.

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

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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