Mawer Global Balanced Fund, Series A

Q4 2024 | Performance Commentary

Market Overview

Global central banks continued to ease this quarter, though the pace of easing varied as diverging policies highlighted economic disparities between nations. In December, the U.S. Federal Reserve communicated a more cautious approach to future interest rate cuts given solid economic activity while inflation concerns remained. The Canadian economy remained sluggish, with slowing GDP growth, cooling inflation, and rising unemployment. Ongoing interest rate cuts by the Bank of Canada were meant to counteract the economic softness, while trade threats and political developments in Ottawa weighed heavily on confidence. The Canadian dollar weakened in the quarter, on account of continued strength in the U.S. dollar and diverging economic outlooks for the countries.

The final quarter of 2024 presented mixed market performances and evolving macroeconomic dynamics. U.S. equities continued to perform well, bolstered by optimism surrounding deregulation and a business-friendly environment under the incoming administration. Meanwhile, Canadian equities showed modest positive performance, while international and emerging market equities lagged the U.S. reflecting broader global challenges, including geopolitical fragmentation, a stronger U.S. dollar, and trade tensions.

Performance Commentary

The portfolio underperformed the benchmark in the quarter as the equity holdings underperformed the MSCI ACWI Index (Net). Despite high absolute returns for a balanced strategy, the magnitude of relative underperformance of our equity holdings was a headwind for the portfolio in 2024.

All five of the biggest positive contributors to the performance of our equity holdings over the quarter were U.S. listed businesses. **Amazon** and **Alphabet** continued to be beneficiaries of substantial corporate spending on cloud while online travel agency **Booking Holdings** saw travel strength persisting. Room nights at Booking grew ~8% y/y, which is ~35% higher than comparable 2019 levels. Booking is adding AI features to its platform to improve the customer experience (e.g., delivers a tailored list of properties that match your honeymoon preferences), joining a list of incumbents who are making the "new thing" into a "feature" (e.g., Google with AI summaries or Apple Intelligence).

Insurance broker **Aon** posted a solid quarter with management reporting the recent NFP acquisition positively contributed to overall company performance. Newly initiated athletic apparel provider **Lululemon** also reported solid earnings with U.S. sales showing some signs of improvement while revenues from China continue to grow substantially. Sticking to the company's grassroots marketing approach, 15k guests participated in brand activations (e.g., yoga sessions) across China with ~4B impressions. Gross margins continue to be healthy suggesting minimal need for heavy discounting of inventory sold to consumers.

Amongst the largest detractors to our equity holdings' performance were healthcare companies Novo Nordisk and UnitedHealth Group. **Novo Nordisk** stock continued to sell off potentially due to increasing regulatory risk concerns around pricing, ongoing market share losses to GLP-1 competitors due to Novo being supply constrained, and a weight-loss drug trial disappointment relative to high expectations. We have been taking profits along the way for more than three years now and believe the risk/reward is more balanced here. Health care service provider **UnitedHealth Group** traded lower possibly in part because of the perceived growing risk of regulatory scrutiny from the incoming Trump administration and the tragic murder of the health insurance division CEO which triggered widespread public venting about health insurer practices. We think these risks are mitigated by UnitedHealth being the largest vertically integrated health care insurer and thus the most efficient operator given the cost advantages that accrue to scale, which regulation is likely to favor; and strong alignment with insiders both in terms of skin in the game; and, compensation metrics which include customer net promoter scores.

A tougher macroeconomic environment likely weighed on short-term results from Brazilian broker dealer **XP Inc**. After a period of steady interest rate cuts by the Brazilian central bank, the Bank reversed course this quarter by raising benchmark interest rates. Macroeconomic concerns including fiscal deficits weighed on the Brazilian currency and 10-year bond yields, increasing the risk premium of Brazilian assets broadly. Higher overnight rates lower the opportunity cost of being invested in cash, which can be a headwind for inflows for XP; net inflows for the company decelerated -3% quarter-over-quarter. In our view, management is doing a strong job controlling what they can and investing in the business to widen the moat while returning more capital to investors. In our opinion, the management team is a group of rational and engaged owners who have steered XP through many Brazilian economic cycles including recessions and political turmoil while growing "assets under custody" secularly.

Overall, we would characterize the current market as exuberant—the market, as defined by MSCI ACWI Index (Net) was up 28% over the past year after rising 19% in 2023. 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. And given the magnitude of the underperformance over the past 12-months, this has impacted more medium-term results. We believe that the desire to outperform all the time is usually an obstacle to performance over time.

Businesses that are closest to the infrastructure/capex AI build-out have been the primary initial beneficiaries of AI advancements so far. While we have relatively less direct exposure to this theme than the broader market, we believe we have significant exposure to potential long-term beneficiaries from AI-related applications including capital-light and data businesses such as **Wolters Kluwer**, **Booking Holdings**, and **Publicis**.

Additionally, boring businesses like some of those that we have in the financials sector such as insurance brokers **Marsh & McLennan** and **Aon**, data provider **S&P Global**, and P&C insurer **Admiral Group** have all done well by typical market standards, but not as well compared to a 28% return on the benchmark.

We believe there are many vulnerabilities present in the market today including:

- A lack of broad market diversification (across geography, sector, and market cap). For example, the top 10 largest stocks represented 24.7% of the MSCI ACWI Index at the end of 2024 versus 8.8% for the top 10 a decade ago.
- Elevated consumer and government debt levels.
- High valuations in certain pockets of the market.
- Complacency, fear of missing out, and momentum chasing in place of long-term thinking.

Mawer has been investing on our client's behalf for over fifty years, always with the same investment approach, discipline, and humility. While market sentiment can shift quickly and unpredictably in the short run, the equity portfolio is likely to be resilient and well set up for a multitude of alternative histories. At the same time, we are not resting on our laurels as we continuously seek to improve our process, stay open-minded (i.e., look at new companies), and seek disconfirming evidence to adjust our priors.

Looking Ahead

The economy in Canada faces a mixed outlook as declining interest rates may stimulate consumer spending and business investment, but challenges such as low productivity, high housing costs, and trade uncertainties linked to the incoming U.S. administration policies could create economic turbulence. Potential tariffs targeting Canadian exports, despite a weaker Canadian dollar, add further pressure, particularly for industries reliant on cross-border trade. Yet, companies with U.S. dollar revenues or global operations could capitalize on these dynamics, while a weaker Canadian dollar may drive a surge in M&A activity.

There are times when a quality style approach to investing may seem out of favor, especially in markets driven by speculative enthusiasm. However, we remain steadfast in our belief that disciplined adherence to our philosophy yields attractive, long-term results over entire economic cycles. Our investment approach is about ignoring fads, staying grounded, and focusing on sustainable wealth-creation rather than getting swept up in market frothiness.

At Mawer, we maintain a long-term investment perspective regardless of market conditions. Through careful analysis and selection of quality investments, we work to grow our clients' capital over time, while acknowledging that market fluctuations are an inherent part of the investment journey.

Performance Summary[1] (%)
As of December 31, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	8.3	0.9	8.3	2.9	6.2	7.2	8.1
BENCHMARK	18.2	3.3	18.2	6.1	7.7	7.8	8.7

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	8.3	13.1	-10.9	12.9	9.4	14.1	3.5	11.0	-0.6	14.6
BENCHMARK	18.2	13.9	-11.3	8.1	12.4	13.5	1.3	9.9	2.0	12.9

[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 Global Balanced Fund Series A Inception: July 3, 2013

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

Quarterly Update | Q4 2024 | EP178
We discuss 2024's economic landscape and what to expect in 2025, with Crista Caughlin, lead portfolio manager of the Mawer Canadian bond strategy. Crista highlights U.S. and Canadian growth trends, central bank rate adjustments, housing market dynamics, equity and fixed-income performance, and political uncertainties. She also discusses Mawer's asset allocation strategy, balancing risks with opportunities amidst shifting fiscal policies, trade tensions, and global economic developments heading into 2025.

The "S&P 493": Managing Risks and Opportunities in the Global Equity Strategy | EP173
we discuss the global equity strategy with Christian Deckart, chief investment officer and portfolio manager at Mawer. Christian stresses managing absolute risk over relative risk for better long-term outcomes and details Mawer's approach to risk management, focusing on decision-making, portfolio risks, and external factors such as government debt and rising rates. He also discusses adapting to AI trends, preferring companies leveraging AI applications over infrastructure investments. He emphasizes maintaining focus on fundamentals amid evolving global and technological landscapes.

Marbles and Billiards: Navigating the Highs and Lows in Global Equity | EP162
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. He delves into the potential impacts of emerging trends, namely artificial intelligence (AI), and provides examples of the team's measured approach to evaluating the hype and sustainability of these trends. He emphasizes the value of temperament, alignment, and identifying mispriced high-quality companies.

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. He provides examples of companies that he and his team properly exited based on changing fundamentals as well as those they may have held onto for a bit too long, proving the power of the endowment bias.

Disclaimer

Opinions and Forecasts:

This report includes certain statements that are “forward looking information” or “forward looking statements” (collectively, “forward looking information”) within the meaning of applicable securities legislation. All statements, other than statements of historical fact, included in this report that address activities, events or developments that the portfolio advisor, Mawer Investment Management Ltd., expects or anticipates will or may occur in the future, including such things as anticipated financial performance, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations, are forward looking information. The words “may”, “could”, “would”, “should”, “believe”, “plan”, “anticipate”, “expect”, “intend”, “forecast”, “objective”, “will” and similar expressions are intended to identify forward looking information. Undue reliance should not be placed on forward looking information. Forward looking information is subject to various risks described in the Simplified Prospectus, uncertainties, and assumptions about the Fund, capital markets and economic factors, which could cause actual results to vary and in some instances to differ materially from those anticipated by the portfolio advisor and expressed in this report. Material risk factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. The foregoing list of risk factors is not exhaustive.

All opinions contained in forward looking information are subject to change without notice and are provided in good faith and are based on the estimates and opinions of the portfolio advisor at the time the information is presented. The portfolio advisor has no specific intention of updating any forward looking information whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but cannot be guaranteed to be current, accurate or complete and is subject to change without notice.

Benchmarks:

FUND	BENCHMARK
Mawer Global Balanced Fund	Jan 2013: 5% FTSE Canada 91 Day Treasury Bill, 35% FTSE Canada Universe Bond, 60% MSCI World Net (Cdn$) Aug 2013: MSCI World Net (Cdn $) returns is used to calculate the blended benchmark from inception. Previously, MSCI World Gross (Cdn $) was used. Oct 2015: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI World Net (Cdn$)

	Oct 2016: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI ACWI (net) June 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 60% MSCI ACWI (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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