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Mawer Global Equity Fund, Series A

Q4 2024 | Performance Commentary

Market Overview

The fourth quarter of 2024 marked significant shifts in global markets and economic trends. U.S. equities demonstrated particular strength amid robust economic fundamentals and momentum-driven fund flows, posting the best back-to-back yearly returns since 1997 and 1998 in local currency (the run-up to the dot-com bubble bursting). This markets strength reflects growing investor confidence, particularly regarding potential policies around deregulation, corporate tax reform, and infrastructure investment.

Global equity markets continued to show notable divergence this quarter. While the U.S. economy maintained its strong trajectory thanks to productivity gains and sustained growth, Europe and several Asian economies experienced a more gradual resumption of growth. This was reflected in diverging regional equity market performance with the U.S. posting the best regional results while Europe, the U.K, Japan, and Asia ex-Japan, all posted negative returns.

The Federal Reserve continued the cutting cycle it kicked off in Q3, with two 25-basis point reductions in the quarter, but appeared to spook the markets in their December rate decision communications which suggested fewer cuts in 2025 than were previously priced in.

After a brief pause last quarter, the technology sector resumed its upward ascent as did the communication services and consumer discretionary sectors led largely by the usual suspects (U.S. mega-cap technology focused companies). Healthcare and materials were two notable laggards.

Performance summary

The portfolio underperformed the benchmark in the quarter.

All five of the biggest positive contributors to performance 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 portfolio 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 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**, 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 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

Admittedly, there are important transitions occurring in the world today. Election results in 2024 can be broadly summarized as a resounding rejection of status quo incumbents and a swing to the right. A shift toward the G-Zero model coined by Ian Bremmer—a multipolar world devoid of global leadership—appears to have accelerated, with mercantilist trade policies and conflict on the ascendency. There's the promise of artificial intelligence. And bond investors appear increasingly wary of stretched government coffers.

In the 50 years of managing public equities at Mawer, we've lived through many transitions before: the fall of the Berlin wall; the advent of the Internet; China's accession to the WTO; the global financial crisis; the European sovereign debt crisis; and COVID-19. Each has produced winners and losers, albeit not always immediately obvious in the moment.

Throughout, we've abided by and iterated on a process designed to level temperament in the face of greed and fear. We've employed a risk management framework focused on guarding against the permanent impairment of capital—an absolute metric. And we've adhered to a philosophy focused on businesses that can withstand turbulence by, quite simply, selling a good or service their clients value at a price that more-than-covers the cost of capital by virtue of a competitive advantage, thereby creating wealth.

Investment firms traditionally mark their year-end commentary with forecasts for the coming year, and your news feeds will likely feature numerous predictions for 2025. Only one from us here at Mawer: that our commitment to the systematic application of our philosophy and process will remain.

Thank you for your continued trust and partnership.

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

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	10.7	1.5	10.7	4.8	8.9	10.6	11.6
BENCHMARK	28.1	5.4	28.1	10.1	12.4	11.7	11.8

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	10.7	17.1	-11.2	21.3	9.8	20.7	4.3	17.5	-0.4	21.5
BENCHMARK	28.1	18.9	-12.4	17.5	14.2	20.2	-1.3	15.8	3.1	18.9

[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 Equity Fund Series A Inception: October 22, 2009

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.

Banks Around the World: What Makes Top Financial Institutions Stand Out | EP171

Mawer portfolio managers and analysts discuss what they fundamentally look for in a bank as an investment. Specifically, how they view banks and the industry trends, as well as local dynamics, and ultimately what makes each of these businesses both unique and attractive. David Ragan discusses Scandinavian banks, highlighting Handelsbanken's smart lending and DNB's stability. Josh Samuel analyzes DBS in Singapore, emphasizing its low cost of funds and high ROE. Grayson Witcher focuses on J.P. Morgan in the U.S., noting its strong management and unique financial assets, while Alex Romaines examines First Citizens Bank in the U.S., which capitalized on market turmoil. Mark Rutherford covers Canadian banks, noting their conservative strategies and high ROE. Siying Li discusses HDFC Bank in India, and Asim Hussain explores Mitsubishi UFJ in Japan, emphasizing their unique upward-sloping yield curve.

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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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