Mawer Tax Effective Balanced Fund, Series A

Q4 2024 | Performance Commentary

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 had a positive return in the fourth quarter, closing off a strong 12-month period given double-digit returns across most equity markets, and mid-single digit returns from Canadian bonds.

The portfolio underperformed the benchmark this quarter as a result of the relative underperformance of some of our equity strategies. Our U.S. equity strategy struggled to keep pace with a market driven by a few high-flying technology and consumer stocks (i.e. NVIDIA, Broadcom, Tesla, Meta, Netflix, and Apple). The reality is that an environment where the market is driven by narrow market leadership is not a period in which we would expect our style to outperform.

Performance for our global small cap equity strategy fell short of our expectations due to our underweight in U.S.—an area of the market that has experienced exuberance, especially relative to European peers—and headwinds facing some holdings. That being said, we believe the portfolio is well-positioned for the future given our disciplined focus on valuation and that some of the headwinds may be temporary. The environment has also created opportunities to add to holdings where we believe we are being properly compensated over the long run.

Despite international equities lagging the U.S. market, the outperformance of our international equity strategy relative to its benchmark helped relative performance of the overall balanced portfolio in the quarter. Our Canadian bonds performed in line with their benchmark.

Looking back over the last year it is hard to not be delighted with the large absolute returns for the portfolio, although we are mindful of the relative underperformance compared to the benchmark. The magnitude of underperformance of some of our underlying equity strategies was challenging for the portfolio in 2024. We continue to focus on investing in high quality companies that meet our investment criteria, rather than getting swept up in market exuberance.

Many of our financials sector holdings performed well this quarter, benefiting from general optimism in the outlook for capital markets. **Brookfield Asset Management** delivered solid fee-related earnings across multiple segments. Management noted an improved outlook for asset sales as interest rates decline and liquidity returns to markets. Canadian life and health insurance company, **iA Financial**, also performed well, exceeding earnings expectations with solid results across its insurance and wealth management divisions

Another high-quality Financials sector business, **Aon**, an insurance brokerage and consulting firm, posted a solid quarter with management reporting the recent NFP acquisition positively contributed to overall company performance. **Visa** delivered solid results and reaffirmed guidance for the next year, helping investors shrug off concerns from an antitrust case. In addition, **CME Group**, benefitted from heightened volatility experienced during the period, which leads to an increase in trading volume.

Advanced semiconductor manufacturer, **TSMC**, continued to benefit from increasing spending on AI infrastructure while its technological leadership provides the competitive advantage to translate higher demand into genuine wealth-creation. In addition, **Amphenol**, a manufacturer of electrical interconnect products, continued its positive trajectory, with AI-related products driving significant growth. However, shares of companies that supply critical tools for semiconductor manufacturing, **ASML** and **ASM International**, declined due to concerns over geopolitical tensions and potential weakening demand.

Uncertainties introduced by the incoming administration in the U.S. has in part affected several Health Care sector holdings. Service providers **UnitedHealth Group** and **CVS Health** traded lower possibly because of the perceived growing risk of regulatory scrutiny. Elsewhere, leading manufacturer of life science products **Danaher** noted weaker demand from its small, early-stage biopharmaceutical customers as they remain cautious with their investments. Similarly, global pharmaceutical names like **Novo Nordisk** and **AstraZeneca**, detracted from performance. Shares of Novo Nordisk also faced challenges due to weaker-than-expected results for a new treatment.

From an asset mix perspective, our equity weight has been drifting higher from strong returns from equity markets. We took the opportunity to make a small change in the quarter trimming our Canadian mid large cap equity and international equity allocation, while adding to U.S. mid cap equity. As of the end of the year, we continue to be overweight U.S. in our balanced portfolio, an area of the market that has been one of the strongest globally.

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	11.0	0.6	11.0	2.3	5.3	6.4	7.7
BENCHMARK	15.2	2.0	15.2	5.0	7.1	6.8	7.8

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	11.0	10.1	-12.4	9.2	10.7	14.9	-0.3	9.9	3.3	10.2
BENCHMARK	15.2	11.2	-9.6	10.0	10.7	14.2	-2.7	8.4	7.4	6.2

[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 Tax Effective Balanced Fund Series A Inception: January 8, 1988

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.

Looking Past the Pitfalls: Focusing on Managing Risk in the Balanced Portfolio | EP169
In this episode, Steven Visscher, lead manager of the balanced strategies, discusses the impact of

rising interest rates and inflation on the balanced portfolio in recent years, Mawer's disciplined and collaborative approach to portfolio construction, and the importance of having a long-term perspective. He spoke about recent changes and additions to the balanced portfolio and provided an update on the performance of the balanced portfolio thus far in 2024.

Recession Fears and Credit Spreads: A Comprehensive Fixed Income Update | EP164

In this episode, Crista Caughlin, lead Portfolio Manager of the Canadian Bond Strategy, and Brian Carney, lead Portfolio Manager of the Global Credit Opportunities Strategy, provide their thoughts on recent economic data releases, a shift in central bank language, and recent market volatility. They delve into new issuance activity in the U.S. and Canada, widening spreads in the investment-grade and high-yield markets, and current portfolio positioning. The conversation concludes with an update on the growth and expansion of Mawer's fixed income team.

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.

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Benchmarks:

FUND	BENCHMARK
Mawer Tax Effective Balanced Fund	Jan 2012: 5% 91 Day Treasury Bill, 35% FTSE TMX Canada Universe Bond, 15% S&P/TSX Composite, 15% S&P 500, 15% MSCI EAFE (net), 7.5% BMO Weighted Small Cap (Blended), 7.5% Russell Global Small Cap Aug 2013: MSCI EAFE (net) returns is used to calculate the blended benchmark from inception. Previously, MSCI EAFE (gross) was used. Oct 2015: 5% 91 Day Treasury Bill, 30% FTSE TMX Canada Universe Bond, 5% FTSE WGBI, 15% S&P/TSX Composite, 7.5% BMO Small Cap (blended), 15% S&P 500, 15% MSCI EAFE (net), 7.5% Russell Global Small Cap Oct 2016: 5% 91 Day Treasury Bill, 30% FTSE TMX Canada Universe Bond, 5% FTSE WGBI, 15% S&P/TSX Composite, 7.5% S&P/TSX Small Cap, 15% S&P 500, 15% MSCI ACWI ex-USA (net), 7.5% MSCI ACWI Small Cap (net) Jun, 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 15% S&P/TSX Composite, 7.5% S&P/TSX Small Cap, 15% S&P 500, 15% MSCI ACWI ex-USA (net), 7.5% MSCI ACWI Small Cap (net)

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