



Mawer Quarterly

Second Quarter 2024

Market Overview

The second quarter of 2024 saw a continuation of the key themes from the first quarter, as strength in public equity markets was led largely by artificial intelligence related companies. Even the utilities sector enjoyed an AI-related boost given expectations that more data centres should lead to increased electricity demand.

Regionally, emerging markets equities led the advance given heavy exposure to semiconductor-related businesses, most notably via Taiwan's stock market. Similarly, U.S. growth stocks surged lifting the results of the broader U.S. market while performance was more modest in Europe, and negative in Japan after adjusting for the depreciating yen.

The Canadian equity market also faced headwinds from a more challenging growth outlook. The Bank of Canada diverged from the U.S. Federal Reserve and began reducing policy interest rates during the quarter. In Canada, a surprise move higher for inflation near the end of the quarter makes the job of the Bank of Canada harder given the stagnating economy; even so, their messaging to market participants has stressed that policy action will be measured and data dependent. Market participants reduced expectations for U.S. interest rate cuts this year as the Federal Reserve remains on pause as it grapples with stubborn inflation that has yet to be fully tamed.

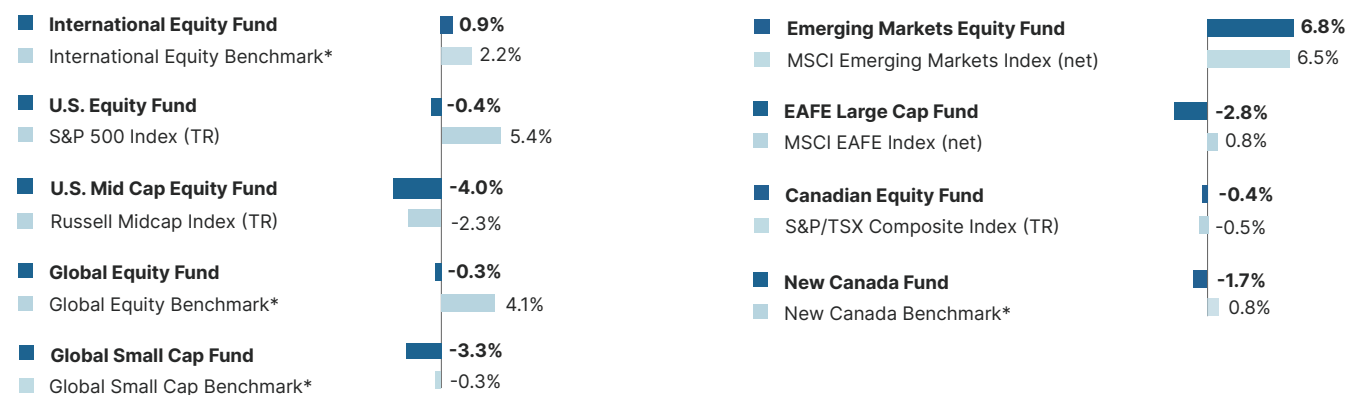
Canadian bonds had positive returns this quarter as the short end of the yield curve moved lower and long term yields remained mostly unchanged.

How Did We Do?

Performance has been presented for the O-Series Mawer Mutual Funds in Canadian dollars and calculated gross of management fees and net of operating expenses for the 3-month period ending June 28, 2024.

Equities

Chart A: Q2 2024, Series O, Gross of fees



How Did We Do? (cont'd)

During the last quarter several equity markets reached new highs driven by a narrow segment of the market, notably technology-focused companies that either form the supply chain for semiconductors or are positioned to develop/benefit from AI-related advancements.

- Our semiconductor holdings continued to enjoy tailwinds including manufacturer **TSMC**, single wafer atomic layer deposition technology company **ASM International**, and EUV lithography machine manufacturer **ASML**. These companies have robust competitive advantages largely tied to technological know-how, reputation, high barriers to entry, and significant market shares.
- Companies that may benefit given their competitively advantaged position of access to large amounts of proprietary data and information also performed well including provider of insurance underwriting data **Verisk Analytics**, and reference data providers **RELX** and **Wolters Kluwer**.
- Global technology mega companies such as **Microsoft** and **Alphabet** also continued on their incredible runs.

Consumer weakness has been a growing concern as the eroding of purchasing power from high inflation has the potential to impact spending.

- Stock prices for our holdings in **Sleep Country Canada** and premium pet store **Pet Valu** were lower given concerns around the strength of consumer demand for their products.
- Luxury goods company **LVMH** faced headwinds similar to many consumer discretionary companies, as did apparel company **Nike** which is also losing market share to competitors.

Consumers trading down can have a different effect depending on the business model: **Dollarama** had another strong quarter as their product assortment and price points continue to drive a differentiated value proposition for consumers.

Regionally, our holdings in France were impacted by investor sentiment around the election and increased uncertainty. Industrial gas supplier **Air Liquide**, voucher solution provider **Edenred**, and research company **Ipsos** were amongst many of our French holdings that lagged this quarter.

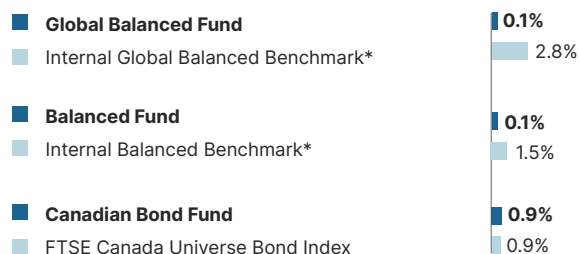
For several of our equity strategies (U.S. and Global), the significant underperformance this quarter was in part reflective of the challenges to keeping pace with a market that is driven by a few high-flying technology stocks. Amongst a period of such narrow market leadership, we continue to closely monitor the high momentum stocks like Nvidia. The range of outcomes for these types of companies are very wide and current valuations reflect market assumptions that earnings growth rates and margins will stay at elevated for many years to come. While of course possible, we find these sorts of scenarios hard to envision with high probability. This reduces our confidence that these stocks are trading below intrinsic value and ultimately reinforces our belief that sticking to our philosophy and process, despite the temptation to chase the current trend, is a sound strategy.

For balanced investors, this quarter was relatively flat as positive returns for bonds and money market securities offset the slight decline from many of our equity strategies. From an asset mix perspective, we modestly added to our bond weight at the beginning of June to account for drift and as of quarter end we remain underweight bonds. We also reallocated an additional portion of our U.S. equity weight to U.S. mid cap equity in our balanced strategy as we believe this improves the diversification of the U.S. equity portion of the portfolio.

How Did We Do? (cont'd)

Balanced and Canadian Bond

Chart B: Q2 2024, Series O, Gross of fees



Looking Ahead

Though we are very much bottom-up investors, the juxtaposition of the current macroeconomic and geopolitical backdrop with many equity markets at or close to all-time highs is increasingly puzzling. Beneath the surface of the headline performance of many global indices, there is a noticeable lack of breadth in the markets' recent advance. Consumer-related stocks and more traditional industrial bellwether segments point to potential underlying weakness. While global economic growth remains positive, it has slowed and we note that the word "deflation" has started to occasionally creep into conversations with company executives, a shift relative to the last few years.

In 1989, the fall of the Berlin Wall was an inflection point that served to catalyze more inclusive global economic growth, increased productivity, trade, and formidable stock market returns over the ensuing three decades. We worry that current trends (more protectionist policies, less globalization, more conflict, and a multi-polar world), along with a higher cost of capital, may imply lower real returns from equities moving forward.

As for the AI-related market darlings, the late Roy Amara once said: "We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run." Put differently, there's a risk of over-exuberance in markets extrapolating today's pace of AI-related demand, with many companies lacking the data or infrastructure to deploy generative AI widely within their organizations. Return on investment is also unknown. But the mismatch between the timing of investment and returns may create significant future opportunities, particularly where competitive advantages are strongest.

As always, valuation is the great equalizer and both axes of our Matrix—quality and valuation—are important. AI-related or not, companies with strong, recurring revenues should benefit from continued economic growth while providing a measure of defensiveness should the macroeconomic environment deteriorate. Purchasing such securities at a discount to their intrinsic value should offer greater upside in a bullish scenario yet better downside protection should markets correct. We aim to get the balance right. While not a formula for avoiding benchmark-relative underperformance or negative returns in the short run, we believe this approach should minimize the probability of permanent impairment of capital while leading to long-term compounding of wealth.

Total Gross Returns (Series O)

For periods ending June 28, 2024

Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	9.3	0.9	15.1	3.5	6.4	8.4	9.1
International Equity Benchmark*	9.7	2.2	15.4	3.9	6.5	6.6	6.1
Mawer U.S. Equity Fund	10.6	-0.4	18.1	9.7	12.5	14.8	10.9
S&P 500 Index	19.6	5.4	28.8	13.8	16.1	15.7	11.1
Mawer U.S. Mid Cap Equity Fund	5.9	-4.0	16.2	-	-	-	4.7
Russell Midcap Index (TR)	8.9	-2.3	16.7	-	-	-	4.8
Mawer Global Equity Fund	6.9	-0.3	13.7	8.6	10.9	12.5	13.2
Global Equity Benchmark*	15.5	4.1	23.4	9.0	11.8	11.3	11.5
Mawer Global Small Cap Fund	0.3	-3.3	8.7	-0.8	5.6	9.9	12.0
Global Small Cap Benchmark*	6.1	-0.3	14.4	2.6	8.3	8.8	7.2
Mawer Emerging Markets Equity Fund	19.1	6.8	28.4	-0.5	5.3	-	6.8
MSCI Emerging Markets Index (net)	11.5	6.5	16.4	-1.9	4.0	-	5.7
Mawer EAFE Large Cap Fund	5.2	-2.8	13.2	4.7	-	-	8.8
MSCI EAFE Index (net)	9.3	0.8	15.3	6.4	-	-	10.0
Mawer Canadian Equity Fund	6.6	-0.4	13.1	7.0	9.2	8.3	10.1
S&P/TSX Composite Index	6.1	-0.5	12.1	6.0	9.3	7.0	7.7
Mawer New Canada Fund	6.5	-1.7	15.6	1.9	10.0	8.3	13.3
New Canada Benchmark*	8.8	0.8	14.4	1.3	8.1	3.1	6.1
Balanced funds							
Mawer Global Balanced Fund	4.4	0.1	10.2	5.2	7.3	8.6	9.3
Internal Global Balanced Benchmark*	9.1	2.8	15.3	5.0	7.0	7.5	8.3
Mawer Balanced Fund	4.8	0.1	10.8	2.9	5.8	7.2	7.9
Internal Balanced Benchmark*	6.3	1.5	12.1	3.5	6.3	6.2	6.2
Mawer Tax Effective Balanced Fund	4.9	0.1	10.8	2.9	5.8	7.2	7.8
Internal Tax Effective Balanced Benchmark*	6.3	1.5	12.1	3.5	6.3	6.2	6.2
Income funds							
Mawer Global Credit Opportunities Fund¹	-	-	-	-	-	-	-
ICE BofA Global Corporate & High Yield Index	-	-	-	-	-	-	-
Mawer Canadian Bond Fund	-0.2	0.9	4.1	-1.5	0.3	2.0	3.6
FTSE Canada Universe Bond Index	-0.4	0.9	3.7	-1.8	0.0	1.9	3.5
Mawer Canadian Money Market Fund	2.5	1.2	5.0	2.9	2.0	1.4	1.4
FTSE Canada 91 Day TBill Index	2.6	1.3	5.1	3.1	2.2	1.5	1.6

¹ Funds with less than 1 year of performance cannot be shown.

* Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

Mawer Mutual Funds are managed by Mawer Investment Management Ltd. O-Series returns for the Mawer Mutual Funds are reported in Canadian dollars and calculated before management fees and after operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

Total Net Returns (Series A)

For periods ending June 28, 2024

Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	8.5	0.5	13.6	2.1	5.0	7.0	7.7
International Equity Benchmark*	9.7	2.2	15.4	3.9	6.5	6.6	5.5
Mawer U.S. Equity Fund	10.0	-0.7	16.8	8.5	11.2	13.6	8.7
S&P 500 Index	19.6	5.4	28.8	13.8	16.1	15.7	10.7
Mawer U.S. Mid Cap Equity Fund	5.2	-4.3	14.6	-	-	-	3.3
Russell Midcap Index (TR)	8.9	-2.3	16.7	-	-	-	4.8
Mawer Global Equity Fund	6.2	-0.6	12.3	7.2	9.5	11.0	11.7
Global Equity Benchmark*	15.5	4.1	23.4	9.0	11.8	11.3	11.5
Mawer Global Small Cap Fund	-0.6	-3.7	6.8	-2.5	3.9	8.1	10.0
Global Small Cap Benchmark*	6.1	-0.3	14.4	2.6	8.3	8.8	7.2
Mawer Emerging Markets Equity Fund	18.2	6.4	26.5	-1.9	3.7	-	5.2
MSCI Emerging Markets Index (net)	11.5	6.5	16.4	-1.9	4.0	-	5.7
Mawer EAFE Large Cap Fund	4.6	-3.1	11.7	3.3	-	-	7.4
MSCI EAFE Index (net)	9.3	0.8	15.3	6.4	-	-	10.0
Mawer Canadian Equity Fund	6.0	-0.7	11.8	5.8	8.0	7.1	9.0
S&P/TSX Composite Index	6.1	-0.5	12.1	6.0	9.3	7.0	8.4
Mawer New Canada Fund	5.8	-2.0	14.1	0.5	8.5	6.8	12.7
New Canada Benchmark*	8.8	0.8	14.4	1.3	8.1	3.1	7.3
Balanced funds							
Mawer Global Balanced Fund	3.8	-0.1	9.1	4.1	6.2	7.5	8.1
Internal Global Balanced Benchmark*	9.1	2.8	15.3	5.0	7.0	7.5	8.3
Mawer Balanced Fund	4.4	-0.2	9.8	2.0	4.9	6.3	7.9
Internal Balanced Benchmark*	6.3	1.5	12.1	3.5	6.3	6.2	7.7
Mawer Tax Effective Balanced Fund	4.5	-0.1	9.9	2.0	4.8	6.3	7.6
Internal Tax Effective Balanced Benchmark*	6.3	1.5	12.1	3.5	6.3	6.2	7.7
Income funds							
Mawer Global Credit Opportunities Fund¹	-	-	-	-	-	-	-
ICE BofA Global Corporate & High Yield Index	-	-	-	-	-	-	-
Mawer Canadian Bond Fund	-0.6	0.7	3.4	-2.2	-0.4	1.3	4.9
FTSE Canada Universe Bond Index	-0.4	0.9	3.7	-1.8	0.0	1.9	5.9
Mawer Canadian Money Market Fund	2.2	1.1	4.5	2.5	1.6	1.0	3.0
FTSE Canada 91 Day TBill Index	2.6	1.3	5.1	3.1	2.2	1.5	3.8

¹ Funds with less than 1 year of performance cannot be shown.

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Mawer Mutual Funds are managed by Mawer Investment Management Ltd. A-Series returns for the Mawer Mutual Funds are reported in Canadian dollars and calculated after management fees and after operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

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