



# Mawer Quarterly

## Third Quarter 2024

### 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 the Bank of Canada and other central banks who had already begun reducing rates due to retreating inflation. This has provided some relief for certain households and businesses who have been struggling with a higher interest rate environment. While the path of inflation and interest rates are never certain, we are now on the easing side of this cycle.

Equity market performance broadened out over the third quarter with interest rate sensitive sectors such as real estate, utilities, and financials performing well, propelling several stock market indices to all-time highs. The information technology sector lagged, however, as investors questioned higher valuations for companies benefiting from artificial intelligence spending. Tighter credit spreads and continued exuberance across several equity markets may suggest that investors have priced in a low probability of a recession.

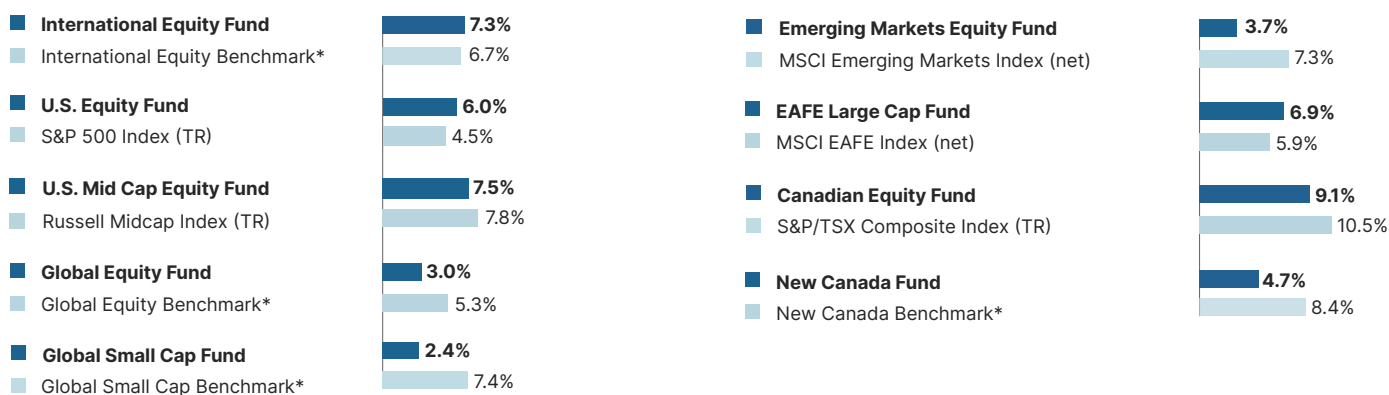
Regionally, Canadian equities led the advance in the third quarter given heavy exposure to interest rate sensitive industries, followed by Europe, Japan and emerging markets on a weaker U.S. dollar. Chinese stimulus announcements provided an end of quarter share price rally for some industries and companies with exposure to China, despite lingering longer-term challenges. Bonds also rallied this quarter as rates snapped a two-quarter streak of rising yields.

### 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 September 30, 2024.*

#### Equities

Chart A: Q3 2024, Series O, Gross of fees



## How Did We Do? (cont'd)

For the most part, “Be Boring” companies performed better in the third quarter compared to the previous two quarters. Several holdings shined despite some market volatility experienced during July and August.

Colliers International Group, a diversified service provider for commercial real estate, performed strongly due to an improved outlook for the industry and lower interest rates. Industrial REIT, Granite Real Estate Investment Trust, similarly benefited from an improving real estate outlook.

Meanwhile, insurance broker Aon posted strong organic growth in its recent reporting period, and is now seeing a positive impact from a recent acquisition that weighed on the stock earlier this year. iA Financial, did better than the street expected primarily due to results in its core insurance service unit. The firm remains conservatively managed with a low-risk appetite around both their policy underwriting and investment portfolio, which we appreciate.

Financial exchange operators Intercontinental Exchange and CME Group were other examples of antifragile businesses that did well last quarter—as they benefit from volatility—and played a key role in protecting the portfolio against market uncertainty. Heightened volatility experienced during the quarter has led to a substantial increase in trading volume across exchanges, and CME Group expanded its margins as it continued showing strong cost control.

Some of our companies based in Japan did quite well this quarter. Management consultant BayCurrent Consulting, 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.

Unlike previous quarters, portfolio constituents with AI-related exposure did not keep up with the market over the last three months including advanced lithography machine producer ASML and single wafer atomic layer deposition technology company ASM International.

Outside of AI, Novo Nordisk also pulled back due to increasing regulatory risks and a potential rise in competitive intensity in obesity pharmaceuticals.

Like last quarter, households continue to face financial strain under a rising cost of living which has impacted some of our consumer holdings including Dollar General, luxury goods company LVMH Moët Hennessy, Nike, BMW, and cosmetics company Estée Lauder Companies.

Some of this weakness in consumer names was partially offset by better performance from other consumer holding stalwarts. Share prices of the recurring consumables distributor Bunzl and caterer Compass Group benefited from better-than-expected results that suggest our long-term investment theses for both remains intact.

Our underweight to the energy sector helped this quarter as oil prices declined on concerns of slowing demand. Meanwhile the spot price of gold reached an all-time high as interest rates declined and the U.S. dollar depreciated, which negatively impacted performance given our overall lack of exposure to the metals and mining industry. Our investment philosophy favors businesses that are wealth creating with sustainable competitive advantages. So far, we have found it challenging to invest in gold producers that meet our investment criteria.

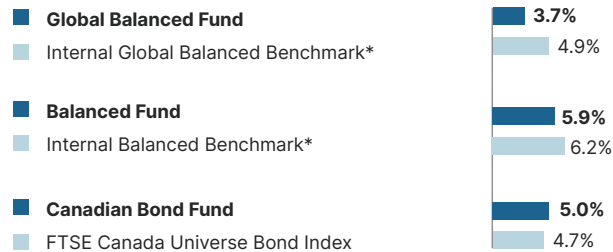
For balanced investors, there was improved absolute performance compared to the previous quarter on certain equity strategies and reasonable performance of bonds as interest rates declined. Given our neutral position on credit exposure, we did not benefit from a further tightening of credit spreads. As interest rates continued to decline this quarter, the balanced strategy further deployed cash into bonds, moving both asset classes closer to

# How Did We Do? (cont'd)

their strategic target weight. The incrementally higher allocation to fixed income provides a degree of downside protection to a slowdown or recession scenario, while also recognizing the current lower expected return on cash holdings.

## Balanced and Canadian Bond

Chart B: Q3 2024, Series O, Gross of fees



## Looking Ahead

A new development arose this quarter as several stock markets reached all-time highs in the absence of leadership from the technology sector. During the first half of this year, the big theme was strength in public equity markets largely led by artificial intelligence (AI) related companies. This quarter, as inflation further slowed, market exuberance continued with a broadening out of sector leadership to include the more interest rate sensitive sectors such as real estate, utilities, and financials as interest rates declined.

At the margin, the market seems less certain than it was six months ago with respect to AI. The real question now is whether AI is a real trend. We believe that it is, and we've likely gone through the initial hype stage, where people are super excited about a paradigm-shifting technology. As we've seen in the past, that hype often outruns reality in the short term, leading to some degree of correction. In other words, early technology innovators are not always the longer-term winners, and innovation has not always led to long-term profitability.

While we are on the easing side of this economic cycle, volatility and further changes in market leadership seem closely tied to the path of interest rate expectations. Tighter credit spreads and all-time highs for several equity markets may suggest that investors have already priced in a low probability of a recession and a further decline in interest rates.

We are mindful that the path of inflation and interest rates is never certain, and the start of a rate cutting cycle hasn't necessarily provided any ability to predict a recession or the direction of the stock market over the near term. 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 goal.

# Total Gross Returns (Series O)

For periods ending September 30, 2024

Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
<b>Mawer International Equity Fund</b>	<b>17.2</b>	<b>7.3</b>	<b>27.2</b>	<b>5.7</b>	<b>8.3</b>	<b>9.4</b>	<b>9.4</b>
International Equity Benchmark*	17.0	6.7	25.3	6.4	8.0	7.4	6.3
<b>Mawer U.S. Equity Fund</b>	<b>17.3</b>	<b>6.0</b>	<b>25.1</b>	<b>10.2</b>	<b>12.7</b>	<b>15.1</b>	<b>11.0</b>
S&P 500 Index	25.1	4.5	36.2	14.3	16.4	15.5	11.2
<b>Mawer U.S. Mid Cap Equity Fund</b>	<b>13.8</b>	<b>7.5</b>	<b>23.9</b>	<b>8.2</b>	-	-	<b>6.8</b>
Russell Midcap Index (TR)	17.4	7.8	29.2	8.0	-	-	7.0
<b>Mawer Global Equity Fund</b>	<b>10.2</b>	<b>3.0</b>	<b>18.1</b>	<b>8.2</b>	<b>11.2</b>	<b>12.6</b>	<b>13.2</b>
Global Equity Benchmark*	21.6	5.3	31.7	10.4	12.6	11.6	11.7
<b>Mawer Global Small Cap Fund</b>	<b>2.7</b>	<b>2.4</b>	<b>11.5</b>	<b>-0.9</b>	<b>6.3</b>	<b>10.2</b>	<b>11.9</b>
Global Small Cap Benchmark*	14.0	7.4	24.5	4.8	9.8	9.8	7.6
<b>Mawer Emerging Markets Equity Fund</b>	<b>23.5</b>	<b>3.7</b>	<b>28.2</b>	<b>2.1</b>	<b>6.7</b>	-	<b>7.0</b>
MSCI Emerging Markets Index (net)	19.7	7.3	26.0	2.6	6.2	-	6.4
<b>Mawer EAFE Large Cap Fund</b>	<b>12.5</b>	<b>6.9</b>	<b>25.2</b>	<b>6.0</b>	-	-	<b>10.0</b>
MSCI EAFE Index (net)	15.8	5.9	24.7	7.8	-	-	10.8
<b>Mawer Canadian Equity Fund</b>	<b>16.2</b>	<b>9.1</b>	<b>25.8</b>	<b>9.4</b>	<b>10.5</b>	<b>9.2</b>	<b>10.4</b>
S&P/TSX Composite Index	17.2	10.5	26.7	9.5	10.9	8.1	8.1
<b>Mawer New Canada Fund</b>	<b>11.5</b>	<b>4.7</b>	<b>26.0</b>	<b>1.8</b>	<b>10.1</b>	<b>8.6</b>	<b>13.3</b>
New Canada Benchmark*	18.0	8.4	25.1	4.9	10.1	4.9	6.4
<b>Balanced funds</b>							
<b>Mawer Global Balanced Fund</b>	<b>8.2</b>	<b>3.7</b>	<b>16.2</b>	<b>5.5</b>	<b>7.8</b>	<b>8.8</b>	<b>9.4</b>
Internal Global Balanced Benchmark*	14.4	4.9	23.5	6.4	7.7	7.8	8.5
<b>Mawer Balanced Fund</b>	<b>11.0</b>	<b>5.9</b>	<b>19.9</b>	<b>4.3</b>	<b>6.7</b>	<b>7.8</b>	<b>8.1</b>
Internal Balanced Benchmark*	13.0	6.2	21.8	5.6	7.4	6.8	6.5
<b>Mawer Tax Effective Balanced Fund</b>	<b>11.1</b>	<b>5.9</b>	<b>19.9</b>	<b>4.4</b>	<b>6.6</b>	<b>7.7</b>	<b>8.1</b>
Internal Tax Effective Balanced Benchmark*	13.0	6.2	21.8	5.6	7.4	6.8	6.4
<b>Income funds</b>							
<b>Mawer Global Credit Opportunities Fund<sup>1</sup></b>	-	-	-	-	-	-	-
ICE BofA Global Corporate & High Yield Index	-	-	-	-	-	-	-
<b>Mawer Canadian Bond Fund</b>	<b>4.7</b>	<b>5.0</b>	<b>13.7</b>	<b>0.2</b>	<b>1.0</b>	<b>2.4</b>	<b>3.8</b>
FTSE Canada Universe Bond Index	4.3	4.7	12.9	-0.1	0.6	2.3	3.7
<b>Mawer Canadian Money Market Fund</b>	<b>3.7</b>	<b>1.1</b>	<b>5.0</b>	<b>3.3</b>	<b>2.1</b>	<b>1.5</b>	<b>1.5</b>
FTSE Canada 91 Day TBill Index	3.8	1.2	5.1	3.5	2.3	1.6	1.7

<sup>1</sup> Funds with less than 1 year of performance cannot be shown.

\* Refer to [www.mawer.com/funds/performance/](http://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 September 30, 2024

Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
<b>Mawer International Equity Fund</b>	<b>16.0</b>	<b>6.9</b>	<b>25.5</b>	<b>4.2</b>	<b>6.8</b>	<b>7.9</b>	<b>7.8</b>
International Equity Benchmark*	17.0	6.7	25.3	6.4	8.0	7.4	5.6
<b>Mawer U.S. Equity Fund</b>	<b>16.3</b>	<b>5.7</b>	<b>23.6</b>	<b>9.0</b>	<b>11.5</b>	<b>13.8</b>	<b>8.8</b>
S&P 500 Index	25.1	4.5	36.2	14.3	16.4	15.5	10.8
<b>Mawer U.S. Mid Cap Equity Fund</b>	<b>12.6</b>	<b>7.1</b>	<b>22.2</b>	<b>6.8</b>	-	-	<b>5.4</b>
Russell Midcap Index (TR)	17.4	7.8	29.2	8.0	-	-	7.0
<b>Mawer Global Equity Fund</b>	<b>9.1</b>	<b>2.7</b>	<b>16.6</b>	<b>6.8</b>	<b>9.8</b>	<b>11.2</b>	<b>11.7</b>
Global Equity Benchmark*	21.6	5.3	31.7	10.4	12.6	11.6	11.7
<b>Mawer Global Small Cap Fund</b>	<b>1.3</b>	<b>2.0</b>	<b>9.6</b>	<b>-2.6</b>	<b>4.5</b>	<b>8.3</b>	<b>10.0</b>
Global Small Cap Benchmark*	14.0	7.4	24.5	4.8	9.8	9.8	7.6
<b>Mawer Emerging Markets Equity Fund</b>	<b>22.1</b>	<b>3.3</b>	<b>26.3</b>	<b>0.5</b>	<b>5.1</b>	-	<b>5.5</b>
MSCI Emerging Markets Index (net)	19.7	7.3	26.0	2.6	6.2	-	6.4
<b>Mawer EAFE Large Cap Fund</b>	<b>11.4</b>	<b>6.6</b>	<b>23.6</b>	<b>4.6</b>	-	-	<b>8.5</b>
MSCI EAFE Index (net)	15.8	5.9	24.7	7.8	-	-	10.8
<b>Mawer Canadian Equity Fund</b>	<b>15.2</b>	<b>8.7</b>	<b>24.3</b>	<b>8.2</b>	<b>9.2</b>	<b>7.9</b>	<b>9.2</b>
S&P/TSX Composite Index	17.2	10.5	26.7	9.5	10.9	8.1	8.6
<b>Mawer New Canada Fund</b>	<b>10.4</b>	<b>4.4</b>	<b>24.3</b>	<b>0.4</b>	<b>8.7</b>	<b>7.1</b>	<b>12.8</b>
New Canada Benchmark*	18.0	8.4	25.1	4.9	10.1	4.9	7.5
<b>Balanced funds</b>							
<b>Mawer Global Balanced Fund</b>	<b>7.3</b>	<b>3.4</b>	<b>14.9</b>	<b>4.4</b>	<b>6.6</b>	<b>7.7</b>	<b>8.2</b>
Internal Global Balanced Benchmark*	14.4	4.9	23.5	6.4	7.7	7.8	8.5
<b>Mawer Balanced Fund</b>	<b>10.3</b>	<b>5.7</b>	<b>18.8</b>	<b>3.4</b>	<b>5.7</b>	<b>6.8</b>	<b>8.0</b>
Internal Balanced Benchmark*	13.0	6.2	21.8	5.6	7.4	6.8	7.8
<b>Mawer Tax Effective Balanced Fund</b>	<b>10.4</b>	<b>5.7</b>	<b>18.9</b>	<b>3.5</b>	<b>5.7</b>	<b>6.8</b>	<b>7.7</b>
Internal Tax Effective Balanced Benchmark*	13.0	6.2	21.8	5.6	7.4	6.8	7.8
<b>Income funds</b>							
<b>Mawer Global Credit Opportunities Fund<sup>1</sup></b>	-	-	-	-	-	-	-
ICE BofA Global Corporate & High Yield Index	-	-	-	-	-	-	-
<b>Mawer Canadian Bond Fund</b>	<b>4.2</b>	<b>4.8</b>	<b>12.9</b>	<b>-0.5</b>	<b>0.3</b>	<b>1.7</b>	<b>5.0</b>
FTSE Canada Universe Bond Index	4.3	4.7	12.9	-0.1	0.6	2.3	6.0
<b>Mawer Canadian Money Market Fund</b>	<b>3.3</b>	<b>1.0</b>	<b>4.5</b>	<b>2.8</b>	<b>1.8</b>	<b>1.1</b>	<b>3.0</b>
FTSE Canada 91 Day TBill Index	3.8	1.2	5.1	3.5	2.3	1.6	3.8

<sup>1</sup> Funds with less than 1 year of performance cannot be shown.

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