Mawer Global Small Cap Fund, Series A

Q4 2024 | Performance Commentary

Market Overview

Over the course of the year, the market narrative appears to have shifted from expecting a "hard landing" to expecting "no landing" more recently with the U.S. benefitting the most by far, especially relative to European peers. To put this in perspective, U.S. small caps (based on the Russell 2000 Index) posted double-digit gains in two of the past six months; a first since the 1980s when the index was launched.

International and emerging market equities lagged the U.S. given broader global challenges, including geopolitical fragmentation, the potential for further trade tensions, and an incredibly strong U.S dollar.

Global central banks continued to ease this quarter, though the pace of easing varied. In December, the U.S. Federal Reserve communicated a more cautious approach to future interest rate cuts given solid economic and labour market activity while inflation concerns remained. Diverging policies highlighted economic disparities between nations, as growth indicators in Europe, China, and Japan are less robust.

Performance Summary

The performance of the portfolio in 2024 fell short of expectations. It has been a challenging market for our investment style and our companies have generally underperformed the benchmark.

During the quarter—and the year—a few stocks listed below drove the underperformance as they faced near-term headwinds that we deem temporary. On the bright side, it also created opportunities to add to our positions where we believe we are being adequately compensated for over the long run. This is not new to the strategy; we added to **De'Longhi** in 2022 on share price weakness when it faced headwinds from increased marketing costs. When spending and margins normalized, we were well-positioned to benefit from the following market appreciation of its stock.

Positions we have added to:

- **Alten** – we initiated a small position earlier in 2024 in the engineering firm and knew there were possibilities of headwinds coming up due to wage inflation that had yet to be passed through and a weaker macro environment (notably from the auto industry in Europe). As we believe these are temporary pressures weighing on its share price, we continued building our position on weakness over the year. At current valuation, the market is pricing in negative revenue growth whereas Alten has historically grown at +12% annually while generating high ROIC.
- **GPS** – despite the Brazilian facility management company reporting strong results year-on-year, macro factors have weighed on its stock price. Following broad-based weakness in Brazil, the local currency weakened compared to the Canadian dollar which led to a substantial negative currency impact. We opportunistically added on weakness over the year as valuation has become more attractive and its fundamentals have remained solid. Helped by its leading position in a highly fragmented market, GPS' management team has consistently delivered sustainable

value through the execution of tuck-in acquisitions; a self-help lever that we believe will cut through external factors overtime.

- **Insperity** – professional employer organizations provide health benefits to their worksite employees, and rising healthcare costs have weighed on Insperity's margins. However, these have generally been passed through as insurance products are repriced on an annual basis to adjust for higher costs and to ensure profitability. Additionally, Insperity announced a strategic partnership with Workday to develop and market a preeminent comprehensive HR solution that merges technology and expert services. As long-term business owners, we believe this partnership makes strategic sense and provides great optionality/upside, but it also affects short-term margins which has weighed on market price. We have added to our position on share price weakness earlier this year.

Positions we have trimmed:

- **Ipsos** – the market research industry, including Ipsos, experienced a modest decline in demand from U.S. tech clients who reduced their research and marketing budgets, as well as from public sector organizations, due to uncertainty surrounding the elections in France and the United States—two countries where Ipsos generates a significant portion of its revenue. Despite these headwinds, management has continued to improve its margins and generate high returns on invested capital. We made slight adjustments earlier in the year to manage our single-name exposure.
- **SoftwareOne** – weaker demand from customers emphasizing cost-cutting strategies and delaying their purchasing choices has been impacting value-added resellers such as SoftwareOne. In addition, the company encountered internal challenges after restructuring their sales and marketing strategy. Now under new leadership, management has put forward changes that might improve its financial performance, but, they have also announced a large acquisition—diluting equity shareholders in the process—which has led us to significantly reduce our position.

Here's the silver lining: we believe the quality of our holdings has remained strong while the gap between their market and intrinsic value has expanded, suggesting a higher return potential for the portfolio. While in the short-term it certainly can be more challenging, we believe the portfolio is positioned well for the future, further supported by its key metrics:

- Higher return on invested capital: ROIC of 15.9% vs. 6.7% for the benchmark
- Higher earnings growth: 5Y EPS growth of 10.1% vs. 8.3% for the benchmark
- Substantially less leverage: D/E of 0.5x vs. 1.0x for the benchmark
- Lower relative valuation: forward P/E of 15.0x vs. 19.2x for the benchmark

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 over 50 years of managing public equities at Mawer, we've lived through many transitions: 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	-3.7	-5.0	-3.7	-3.4	1.6	7.4	9.5
BENCHMARK	17.4	3.0	17.4	5.2	8.9	9.6	7.6

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	-3.7	13.9	-17.7	4.8	14.8	24.4	-2.6	20.8	-0.7	29.1
BENCHMARK	17.4	13.7	-12.8	15.1	14.3	18.4	-6.7	15.7	8.3	18.3

[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 Small Cap Fund Series A Inception: October 2, 2007

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.

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Benchmarks:

FUND	BENCHMARK
Mawer Global Small Cap Fund	Oct 2007: Russell Global Small Cap Oct 2016: MSCI ACWI Small Cap (net) Total Return index

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