Mawer Balanced Fund, Series A

Q1 2023 | Performance Commentary

Market overview

Equity markets were resilient in the first quarter of 2023 finishing with a strong positive return despite ongoing recession risks. Markets benefitted from a combination of factors including inflation falling in some regions, the anticipation by market participants that the U.S. Federal Reserve may be nearing the end of its rate hike cycle, and reduced fears of a hard landing for the economy. At the same time, corporate earnings have been quite resilient. In Canada, inflation continued to ease, and the Bank of Canada paused further hikes to allow the impacts of previous tightening to make their way through the economy. Canadian bonds also finished in positive territory as yields fell across the curve. That said, the market's advance was far from a straight line. Both equities and bonds experienced volatility, especially in connection to the bank collapses in the U.S. and Europe which sent reverberations across the world. While the possibility of further instability remains, swift intervention seemed to have restored confidence and prevented contagion across the broader banking industry.

Performance commentary

After a challenging year in 2022, balanced investors benefited from a rise in equity markets and Canadian bonds in the quarter. Even though each underlying asset class in the portfolio delivered positive returns, the portfolio modestly underperformed the blended benchmark largely driven by the relative underperformance of our U.S. equities.

Many of the companies that faced stock price headwinds in 2022 as interest rates were rising performed well in the first quarter of 2023. Higher growth technology-focused businesses were some of the strongest including Microsoft, Alphabet, and Amazon, backed by falling discount rates and enthusiasm tied to cost containment measures. Elsewhere, several high-quality stalwarts and long-standing holdings had strong returns including luxury goods conglomerate LVMH, and reference data providers Wolters Kluwer and RELX. Holdings in defense companies such as Rheinmetall, Thales, and BAE Systems also performed well reflecting expectations for structurally higher defense spending by NATO countries.

Conversely, many banks struggled in the quarter as the industry faced challenges as a result of the well-publicized collapse of Silicon Valley Bank and Credit Suisse. Generally, our equity portfolios have lower exposure to banks than their benchmarks, and we tend to focus on well-run, conservative banks that have clear competitive advantages in the markets in which they operate. Even so, several of our bank holdings lagged in the quarter including Italian bank FinecoBank, Swedish bank Handelsbanken, and Canadian bank TD.

We made a change to our asset mix targets earlier in the quarter and increased modestly our Canadian bonds target, though we still remain underweight Canadian bonds relative to our benchmark until we feel there is a better sense of whether central banks' battle with inflation is over. Our overall equity weight also remains near neutral.

Looking ahead

We have often noted that one of the major risks facing markets is if something breaks when major macroeconomic variables shift quickly. And indeed, after one of the fastest periods of policy interest rate hikes by central banks, some less well-managed banks in the U.S. and Europe needed to be rescued. The possibility of further instability remains, although for now confidence in the banking system appears to be restored.

A high level of uncertainty remains not only with how high the U.S. Federal Reserve will go with the federal funds rate, but also how long it remains elevated. The tightening of credit as a result of U.S. regional bank turmoil may impact economic activity, and while a pause by the U.S. Federal Reserve may be near, challenges abating U.S. inflation partially caused by a tight employment market may require rates to stay higher. There is also often a lag between monetary policy and the resulting economic impact. We are not trying to predict the next move for policy makers, but rather ensuring our portfolio is resiliently positioned for a variety of scenarios.

With uncertainty as to the path forward, there are bound to be other unanticipated surprises on the horizon. Even the strongest businesses have vulnerabilities that can be exposed by the right trigger. This is why we tend to emphasize non-predictive decision making that focuses on steering away from areas where those vulnerabilities are sharpest as opposed to forecasting specific events. This requires a disciplined investment process, a culture in which different points of view are celebrated, and appropriate diversification that builds natural contradictions into the portfolios. And even though this "boring" approach may sacrifice possible short-term gains in certain market environments, we believe it should lead to better and more consistent outcomes over time.

As we often say it is difficult to predict when the tides will change for the better or for the worse. That is why we prepare, rather than predict.

Performance summary[1] (%)

As of March 31, 2023:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	4.0	4.0	(1.3)	6.0	4.6	7.3	7.9
BENCHMARK	4.7	4.7	(1.7)	9.1	5.1	6.6	7.6

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(12.5)	9.3	10.6	15.0	(0.3)	10.0	3.2	10.5	12.1	20.2
BENCHMARK	(9.6)	10.0	10.7	14.2	(2.7)	8.4	7.4	6.2	9.5	14.6

[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 Balanced Fund Series A Inception: February 12, 1988

Selections from Mawer's Art of Boring blog and podcast:

[The Case for Non-Predictive Decision Making]
How do investors figure out what a company is worth? (Especially in a higher inflationary and interest rate environment?)

[Inflation's one-two punch]
It's inflation's second punch that can deliver a blow that investors may not be expecting.

[Post-Mortem: Learnings from 2022 | EP128]
Chief Investment Officer Paul Moroz shares takeaways from the Research team's annual post-mortem discussions.

Balanced Fund

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Disclaimer

Opinions and Forecasts:
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Benchmarks:

FUND	BENCHMARK
Mawer 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% ACWI Small Cap (net) June 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)

Performance Disclosure and Requirements:

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts and the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Mawer Funds are managed by Mawer Investment Management Ltd.

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