Mawer Global 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 benefitted from a rise in equity markets and Canadian bonds in the quarter. The portfolio modestly outperformed the blended benchmark in the quarter, driven by the relative outperformance of the portfolio's global equity holdings.

Reflecting the broad nature of the market's advance, most equity holdings delivered positive returns. Security selection in the industrial and consumer discretionary sectors were the biggest drivers of positive outperformance for the portfolio's equity holdings. Two of our top performers were critical professional service data providers RELX and Wolters Kluwer. The products and services offered by both firms are deeply embedded in their customers' businesses and typically represent a small portion of their cost structure—a highly attractive dynamic. Both companies reported strong organic revenue growth and underlying operating profit growth for fiscal 2022.

Another industrial company, FedEx, reported good quarterly results relative to expectations lifting the stock price higher in the quarter. FedEx greatly benefited from a spike in parcel volumes post COVID but as growth rates moderate, it continues to focus on improving operational efficiency. The company is lowering its capital intensity with an efficiency over growth posture and a focus on return on invested capital, in other words continuing to ensure a sharp focus on wealth creation. On the other side of the COVID consumer demand shock, Booking Holdings benefited from room bookings surpassing 2019 levels in the fourth quarter by 10% with all major regions above pre-pandemic levels. It also continued gaining market share in the U.S. where it has historically under-indexed. The business model is asset-light (somewhat unique amongst consumer discretionary businesses) and generates a lot of free cash flow, which is sensibly allocated to buy back shares.

Given the outsized positive returns of many technology-oriented companies after a rough 2022, for this rate sensitive group it's not surprising some of our top performers in the portfolio were Microsoft, Amazon, and Alphabet. However, our meaningful net underweight to technology was the main detractor of relative performance for the portfolio's equity holdings. In a similar vein, though in the opposite market direction, several of our health care holdings gave back some of last years gains despite continued positive data in their underlying businesses. Moderna released interim data on its Phase III flu candidate which had good results against Influenza A strains (responsible for 95% of influenza-related hospitalization in adults). Organon saw strong growth in its key contraceptive asset and biosimilar franchise though its fertility portfolio was hampered by COVID in China. However, demand is recovering and could be a positive tailwind in 2023.

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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	5.7	5.7	1.7	7.0	6.1	-	8.0
BENCHMARK	5.5	5.5	(0.2)	6.5	5.0	-	7.6

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015
FUND	(10.9)	12.9	9.4	14.1	3.5	11.0	(0.6)	14.6
BENCHMARK	(11.3)	8.1	12.4	13.5	1.3	9.9	2.0	12.9

[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 Balanced Fund Series A Inception: July 3, 2013

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?)

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[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.

Disclaimer

Opinions and Forecasts:

This report includes certain statements that are "forward looking statements". All statements, other than statements of historical fact, included in this report that address activities, events or developments that the portfolio advisor, Mawer Investment Management Ltd., expects or anticipates will or may occur in the future, including such things as anticipated financial performance, are forward looking statements. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective" and similar expressions are intended to identify forward looking statements. These forward looking statements are subject to various risks and uncertainties, including the risks described in the Simplified Prospectus of the Fund, uncertainties and assumptions about the Fund, capital markets and economic factors, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed. Economic factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

All opinions contained in forward looking statements are subject to change without notice and are provided in good faith but without legal responsibility. The portfolio advisor has no specific intention of updating any forward looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain research and information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.

Benchmarks:

FUND	BENCHMARK
Mawer Global Balanced Fund	July 2013: 5% FTSE Canada 91 Day Treasury Bill, 35% FTSE Canada Universe Bond, 60% MSCI World Net (Cdn$) Aug 2013: MSCI World Net (Cdn $) returns is used to calculate the blended benchmark from inception. Previously, MSCI World Gross (Cdn $) was used. Oct 2015: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI World Net (Cdn$) Oct 2016: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI ACWI (net) June 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 60% MSCI ACWI (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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