Mawer Global Small Cap Fund, Series A

Q1 2023 | Performance Commentary

Market overview

Bolstered by hopes inflation has peaked and that central banks may be near the end of their hiking cycle, global equity markets seemingly looked beyond uncertainties from last year as investors' enthusiasm lifted practically all boats in January. And while it was sufficient to carry the MSCI ACWI Small Cap to its third consecutive quarter of positive return, enthusiasm progressively wore off as concerns emerged in the market (e.g., duration mismatch and capitalization of banks). Areas that had been hardest hit last year, notably information technology and consumer discretionary, rallied off their lows and led the market in Q1. European small cap equities outperformed U.S. peers as easing concerns on the energy front relieved some pressure off companies within the region.

Performance commentary

Driven by a balanced mix of exposures, the portfolio outperformed its benchmark this quarter and continued its advance following an eventful year.

A number of economic concerns seemingly took a backseat as market participants turned to areas generally more sensitive to market cycles amidst falling discount rates. One sector where we outperformed the market was consumer discretionary where holdings like pre-owned store franchisor Winmark, manufacturer of braking systems Brembo, and premium gym equipment manufacturer Technogym all delivered double digit returns. As a byproduct of our philosophy, we have historically had a preference towards business models that prove resilient throughout cycles. Given the large investable universe for the strategy, there was no direct exposure to the banking industry (as defined by GICS) which contributed to our outperformance in Financials as we largely avoided the turmoil caused by the recent bank failures. Finally, in a reversal from last year, easing concerns around supply levels of energy, especially in Europe, led to downward pressure on related commodity prices. The absence of holdings in the underperforming energy sector helped from a relative perspective.

Partially offsetting these positives, some of our noncyclical exposure weighed on relative performance. Japanese drugstore operators Tsuruha and Kusuri No Aoki continued to work through higher utility and labour costs, however there seems to be early indications that they have had success in passing along some of the inflation to customers. Pharmaceutical company Organon had margins partially impacted in the fourth quarter as management continues to invest for future growth in its innovative women's health segment.

Elsewhere, growth-oriented industries such as semiconductor manufacturers were favoured by the market within the information technology sector over our holdings which we believe have more stable, albeit boring, revenue such as value-added resellers PC Connection and recently-initiated SoftwareOne. The former was punished as the demand for endpoint devices continues to be challenged in the near term but growing demand for advanced technology solutions seems to remain robust over time.

Looking ahead

As we mark the first year of an ongoing historical monetary tightening cycle, effects of higher interest rates have been more evident in certain areas of the market (e.g., valuations from discount rate impact), but remain largely unpredictable in other areas—especially those with vulnerabilities—given its knock-on effects on various parts of the financial system (e.g., the fall of Silicon Valley Bank).

And while these knock-on effects typically have a specific trigger (in hindsight), a better approach in our view is non-predictive decision making, i.e., focus on identifying vulnerabilities as opposed to forecasting specific outcomes and anticipating triggers. In other words, we aim for the centre of the green rather than take a more direct line at the pin. Interpreting this back to the portfolio, many of the key themes behind our activity last year continued to be in focus this quarter including reducing our exposure to areas with higher risks (e.g., companies with higher debt on their balance sheet), improving resilience, and ensuring diversification. We continue to lean heavily on our philosophy as we calibrate different exposures via one common lens: companies with enduring competitive advantages, led by able and honest management teams who have substantial skin in the game, and purchased at an attractive price.

Now, global market expectations seem to be such that large rate hikes may be over—for instance, as recently shown by the recent Fed's decision on its key rate—and inflation has peaked, leading to a softer landing. However, different scenarios could play out as the second-order effects of higher interest rates continue revealing themselves. Dealing with uncertainty is embedded in how we think about portfolio construction. Ultimately, our non-predictive decision-making process helps us maintain a balanced approach with respect to different exposures, allowing us to be prepared irrespective of which scenario plays out. Over time we believe this approach increases the odds that the underlying criteria of our investment philosophy prevails over time (wealth-creating businesses, excellent management teams, trading at a discount to intrinsic value). Aiming for fairways and avoiding sand traps may perhaps be an obvious (and boring) advice, but it typically improves the odds of shooting a great round!

Performance summary[1] (%)

As of March 31, 2023:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	5.0	5.0	(1.1)	7.4	4.3	11.6	10.3
BENCHMARK	4.1	4.1	(2.0)	16.0	5.2	9.9	6.8

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(17.7)	4.8	14.8	24.4	(2.6)	20.8	(0.7)	29.1	12.1	47.0
BENCHMARK	(12.8)	15.1	14.3	18.4	(6.7)	15.7	8.3	18.3	9.1	33.7

[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:

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.

Global Small Cap Fund

Q1 2023 | Performance Commentary

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

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Global Small Cap Fund

Q1 2023 | Performance Commentary

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.

The Funds mentioned in this document are not registered with the United States Securities and Exchange Commission and they are sold in the United States only in reliance on exemptions from registration.

MAWER

Be Boring. Make Money.™