Mawer EAFE Large Cap Fund, Series A

Q2 2023 | Performance Commentary

Market Overview

The MSCI EAFE Index posted modestly positive gains in the quarter.

Providing a modicum of relief for central banks globally, inflation continued to decelerate in the quarter, though core inflation which strips out more volatile food and energy prices remained stubbornly sticky in many countries. Despite the deceleration in price growth overall, many central banks including the Bank of England, European Central Bank, and Reserve Bank of Australia raised rates at their most recent meetings, and while the Federal Reserve paused in June, Chairman Powell continued to jawbone markets into expecting several more hikes before 2023 is through.

After a brief steepening in many developed market yield curves in April following the U.S. regional banking crisis, yield curves reversed course and resumed inverting to end the quarter. What the markets appear to be signalling is that with every rate increase by central banks, the risk of a policy error grows. Despite this tug-of-war between central banks and market participants, it's hard to imagine central bank resolve to tame inflation abating until after there are clear, sustained real economic indicators that the fight has been won.

Corporate profits remain broadly resilient while a potential recession remains one of the most widely anticipated on record.

Regionally, European stocks took a breather with modest gains in the quarter after being leaders last quarter, while Japanese stocks posted strong returns. Japanese stocks have been on fire this year, thanks to a confluence of factors: (1) the return of modest inflation after decades of deflation which has given Japanese companies a degree of domestic pricing power (2) the chilling of US-China relations boosting returns of Japanese defense and semiconductor related stocks and (3) a push by policymakers to encourage a greater focus on profitability and returns to shareholders for listed Japanese companies.

China's much talked about re-opening has been more fizzle than sizzle contributing to negative performance across the broader Asia Pacific region.

Performance Commentary

The portfolio modestly underperformed the benchmark in the quarter.

The portfolio's Japanese stock exposure was beneficial with six of the top 10 performers coming from Japan with two semiconductor equipment manufacturers leading the way. Disco Corporation focuses on wafer dicing and grinding technologies where they enjoy between 60%-80% market share. In addition to possible future AI demand, they are currently benefiting from the shift to electric vehicles (EVs) as chips that have improved electrical properties require more grinding intensity and recently announced plans to open a new production site in Hiroshima which will triple capacity over the next 10 years. Tokyo Electron reported better-than-expected quarterly profit on strong sales to the U.S. and China and a buyback program up to 2.1% of its shares.

Several of our UK-based holdings were also top performers in the quarter including Feguson Plc, Ashtead Group, and Compass Group. Distributor of plumbing and other building products Ferguson Plc. saw strong stock performance despite pressure from a slowdown in residential construction. Management continues to focus on targeting mega construction projects as an offset. Equipment rental company Ashtead Group continued to show revenue growth momentum in the quarter as the onshoring theme in the U.S. has acted as a catalyst for Ashtead (they earn 90% of their revenue in the U.S.). The world's largest on-premise catering

company Compass Group continues to benefit from inflation driving outsourcing of food services, particularly in Europe, as many organizations struggle to breakeven on their food offerings when managed internally.

A potential early signal that central bank policy is working to slowdown the global economy, specialty chemicals distributor IMCD N.V. traded lower in the quarter. IMCD's end customers are sensitive to the macroeconomic environment and evidence of destocking, whereby customers drawdown their existing chemical inventories instead of making new orders, is gathering momentum.

One of our top performers last quarter, luxury goods conglomerate Kering, saw a meaningful slowdown in sales growth due to underperformance by Gucci in China and Balenciaga's poorly received marketing campaign. Anglo American miner also saw mixed results with strength in iron ore production offset by weaker cooper results. The company also lowered production guidance for the next 3 years.

Sartorius Stedim Biotech, supplier to the biomanufacturing industry, issued a negative guidance revision as customer inventory destocking has been worse than expected and demand has been slightly weaker. Weaker capital markets have also impacted some of their small biotech customers, but the long-term demand picture remains highly positive as advances in life sciences are proliferating in the form of novel pharmaceuticals.

Looking Ahead

The combination of historically inverted yield curves, strong year-to-date gains in equity prices, benign credit spreads, and well-anchored longer-term breakeven inflation expectations are all consistent with the consensus outlook for a soft landing; put differently, that central banks will be successful in their fight against inflation without causing too much harm to the economy. The widely anticipated recession, should it ever arrive, is expected to be mild.

The risks lie on both sides of this consensus: either that the impact of recent monetary policy impairs demand more substantially than expected (a hard landing), or that inflation persists longer than projected, emboldening policymakers to hike even further than currently expected. Both would likely be negative for equities.

Yield curve inversion has historically been a reliable predictor of recessions, and the transmission mechanism is worth understanding. Inversions tend to hurt the balance sheets and business models of banks, who borrow short to lend long. Higher short-term borrowing costs result in lower bank profitability, and the banks typically adjust by cutting back on lending which has a ripple effect across the economy. We've seen some indications of these ripples—the notable regional bank failures in the U.S., UK Gilt crisis, etc.—but they haven't materialized to the extent one might have anticipated given the degree of curve inversion. It's possible that any reduction in liquidity from the banks is being offset by other sources, e.g., excess consumer pandemic savings, private credit markets, and government fiscal policy. Nevertheless, it would be very unusual by historical standards to have the degree of yield curve inversion seen in many major economies today without an associated recession.

To prepare against the risks, we've leaned into our bottom-up approach. Our investment philosophy naturally leads us to businesses with more stable demand given the criticality of the products and services they provide to their customers, and we always have an eye on our companies' balance sheets as lower debt provides resilience in times of crisis. Our forensic accounting checklist is designed to ensure that we avoid getting caught up in narrative, and instead methodically comb through financial statements for clues with respect to changes in business or management quality. In the current environment, and especially as COVID-19 supply shocks have encouraged many companies to build up their inventories, companies with excess inventory

levels may face gross margin pressures in the coming quarters should demand abate from its current trend. As such, in addition to continuing to understand how companies are coping with inflation, we're looking closely at cash conversion and days of inventory, especially when coupled with valuation levels that, year-to-date, have outpaced earnings.

Yes, "boring" work. But ultimately an approach that should prepare the portfolio to be resilient for the multitude of scenarios that may play out going forward.

Performance Summary[1] (%)
As of June 30, 2023:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	9.9	(0.1)	19.6	5.3	-	-	6.0
BENCHMARK	9.1	0.7	21.8	7.9	-	-	8.3

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(17.1)	15.0	-	-	-	-	-	-	-	-
BENCHMARK	(8.2)	10.3	-	-	-	-	-	-	-	-

[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 EAFE Large Cap Fund Series A Inception: May 29, 2020

Selections from Mawer's Art of Boring Blog and Podcast:

[Rising Debt and its Potential Consequences: Canada's New Normal?]
We need to understand where we are in the debt super cycle to inform our investment decision making.

[Artificial Intelligence: The Return of The Centaurs]
Recent AI breakthroughs are underscoring the power of the centaur model—humans + machines—creating something more potent than either model operating independently.

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

Disclaimer

Opinions and Forecasts:
This report includes certain statements that are "forward looking information" or "forward looking statements" (collectively, "forward looking information") within the meaning of applicable securities legislation. 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, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations, are forward looking information. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", "will" and similar expressions are intended to identify

forward looking information. Undue reliance should not be placed on forward looking information. Forward looking information is subject to various risks described in the Simplified Prospectus, uncertainties, and assumptions about the Fund, capital markets and economic factors, which could cause actual results to vary and in some instances to differ materially from those anticipated by the portfolio advisor and expressed in this report. Material risk 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. The foregoing list of risk factors is not exhaustive.

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

Benchmarks:

FUND	BENCHMARK
Mawer EAFE Large Cap Fund	MSCI EAFE Index (net)

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)

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.