Mawer Global Balanced Fund, Series A

Q2 2023 | Performance Commentary

Market Overview

Globally, equity markets continued to be resilient in the second quarter with U.S. equites being among the stronger performers. U.S. equity strength was driven by a handful of large technology-focused companies, including some that have been in the spotlight as notable advancements in artificial intelligence dominated news headlines. Meanwhile, Chinese equities declined in the quarter as growth anticipated from the lift in COVID-19 restrictions fell short of expectations.

In Canada, headline inflation declined while GDP growth and the employment market remained resilient despite the challenging monetary policy environment. Ultimately, the Bank of Canada reconfirmed their commitment to fighting inflation as it raised the policy interest rate 0.25% in the quarter. With yields rising over the period, Canadian bonds declined.

The Canadian dollar appreciated this quarter against many currencies, reducing the return of foreign asset classes. One notable exception was the British pound, which strengthened relative to the Canadian dollar as the Bank of England raised interest rates 0.50% in June. The Japanese yen also experienced notable weakness in the period.

Performance Commentary

The portfolio delivered positive returns and modestly underperformed the benchmark in the quarter. Our global equity holdings modestly underperformed the MSCI ACWI Index (Net) in the period.

Within the equity holdings, standout positive performers were concentrated in the non-bank financial and technology sectors. Brazilian broker-dealer XP Inc. continued to execute in a challenging capital markets environment where the Brazilian overnight rate is 13.75%. The company reported strong quarterly results thanks to a cost-cutting program that improved margins paired with a gain of 80bps in market share from incumbent banks. Insurance brokerage and consulting firms Marsh & McLennan and Aon continued their steady revenue growth and improving margins while providing less cyclical exposure to the portfolio.

Our equity holdings underweight to the technology sector detracted from relative performance though Microsoft, Amazon, and Alphabet were three of our top performers. These businesses benefited from a combination of bullishness around generative artificial intelligence (AI), the end of the rate hiking cycle potentially approaching, and continued execution in their core businesses. Lastly, BMW reported expanded auto margins and increased sales penetration of fully electric cars, and an announcement of another buyback program of EUR2B (equivalent to 3% of current market cap).

On the other side of the ledger, healthcare stocks Moderna and Organon continued to give back some of last year's gains. The largest U.S.-based value-added reseller of IT hardware, software, and services, CDW saw sales volumes lag expectations in the quarter with the company highlighting caution from customers in anticipation of a potential recession. After a very strong Q1, FTI Consulting gave back some of their gains, though the bankruptcy and restructuring consultancy remains well-positioned to benefit from a potential acceleration in bankruptcy activity.

Looking Ahead

The yield curves in many major economies remain inverted likely signaling we are heading towards a recession, the severity and timing of which is still highly uncertain. With the market remaining hopeful for a soft landing, any perceived deviation from this path could result in volatility for equities. The renewed fight against inflation after a previous pause by the Bank of Canada also points to a potential prolonged period of higher interest rates ahead, an outcome that is also likely in Europe and the United States.

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While the banking sector appears to have stabilized for now, the risk of something breaking remains. One well-reported area of concern is commercial real estate, a segment that is experiencing high vacancies and an uncertain outlook given the work-from-home trend.

To prepare against the risks, we've leaned into our bottom-up approach. Our equity investment philosophy naturally leads us to businesses with more stable demand given the criticality of the products and services they provide to their customers. 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 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.

With recession uncertainty still clouding the outlook, we continue to focus on maintaining the course, sticking with the key tenets of our investment philosophy, being balanced, and prepared for a variety of different scenarios.

Performance Summary[1] (%)

As of June 30, 2023:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	7.6	1.8	12.9	4.6	6.1	-	8.0
BENCHMARK	7.8	2.1	13.0	4.2	5.2	-	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?)

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.

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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 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)

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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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