

Mawer New Canada Fund, Series A

Q2 2023 | Performance Commentary

Market Overview

The S&P/TSX Small Cap Index moved lower this quarter, as companies in the volatile Materials sector were down in the period after being strong performers in the last quarter. 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, Canadian bonds declined over the period, and the Canadian Dollar also strengthened against the U.S. Dollar.

Performance Commentary

The portfolio outperformed the S&P/TSX Small Cap Index over the quarter. A mix of holdings led the way to the portfolio's outperformance, and in a reversal from the previous two quarters, absence from gold producers had a positive impact.

Pressure-treated lumber company, Stella-Jones was the top individual performer for the quarter. While different factors helped propel the stock price higher; a leading driver has been the strength in the business's utility poles segment. Its customers—electric transmission and distribution utilities—are increasingly investing in their networks to withstand extreme weather events and to service the greater demand from electrification themes. Sleep Country was also a top contributor as the mattress retailer continues to win market share in Canada through strong execution in a tougher macro environment.

The portfolio's financials holdings fared well over the quarter as well. Element Fleet Management continues to benefit from its past restructuring efforts by winning additional clients while remaining a stable and well-run business. Meanwhile, specialty insurer, Trisura, which pulled back last quarter due to a write-down of a reinsurance recoverable, rebounded as the write-down concerns eased. Furthermore, alternative lender, EQ Bank has benefitted from gaining market share from prime lenders while also experiencing deposit growth.

In contrast to the noted contributors of the quarter, value-added IT reseller, Converge Technologies was the greatest detractor from performance. Continued uncertainty around IT spending as well as a souring towards companies with a growth-by-acquisition focus, has weighed on the company's stock price.

Looking Ahead

The combination of historically inverted yield curves, strong year-to-date gains in global 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.

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

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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 Summary¹ (%)

As of June 30, 2023:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	4.2	2.8	9.2	8.4	7.2	9.9	12.7
BENCHMARK	(0.3)	(4.6)	5.3	12.7	3.4	4.9	7.1

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(18.7)	18.1	19.3	28.8	(10.2)	3.9	19.3	1.9	12.1	49.4
BENCHMARK	(9.3)	20.3	12.9	15.8	(18.2)	2.8	35.5	(13.8)	(0.1)	7.8

¹Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.

²Mawer New Canada Fund Series A Inception: January 8, 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?)

[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.

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

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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 New Canada Fund	Jan 1988: BMO Weighted Small Cap (Blended) Oct 2016: S&P/TSX Small Cap

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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