

# Mawer EAFE Large Cap Fund, Series A

Q3 2022 | Performance Commentary

## Market overview

Investors looking for a volatility breather in Q3 were disappointed as equity markets continued their bruising run in 2022. Despite some optimism early in the summer that led to a brief rally, most asset classes resumed their downtrends as the U.S. Federal Reserve and an increasing number of influential central banks have been unequivocal in their commitment to fighting inflation, which has increased the probability of a global recession. 10-year U.S. Treasury yields approached 4%, credit spreads widened, while the British pound, euro, and Japanese yen weakened precipitously relative to the U.S. dollar.

## Performance commentary

With the backdrop of a more uncertain economic environment, the Fund was unable to escape a negative return during the third quarter. Some of the companies that had the largest negative impact on the portfolio's performance were those with margin pressures. Paper-based personal care products producer **Essity** is a good example; though the company has been increasing its prices, they haven't fully kept up with inflation. UK automobile insurer **Admiral Group** is another example: whereas COVID-19 associated lockdowns reduced the number of accidents, thereby boosting Admiral's earnings, this trend has since reversed with more drivers on the road, especially as competition is intensifying and Admiral has not been fully able to pass through increased claims inflation to its customers.

That said, the Fund meaningfully outperformed its benchmark in Q3 as "boring" worked. Top holdings such as reference data provider **Wolters Kluwer**, and recurring consumables distributor **Bunzl** posted steady increases in revenues and operating profits reflecting the stability of their businesses.

Financial holdings in the fund also shined this quarter with strong positive returns. Notably, Singaporean bank DBS, whose lending book is tilted toward floating rate loans tied to the U.S. Fed Funds rate, has benefited from the associated higher net interest margins. **Deutsche Boerse**, **Sampo Oyj** and **Svenska Handelsbanken** also contributed to positive returns.

Other companies whose stock prices had been hit hard earlier in the year bounced as their businesses proved more resilient than the market feared. Construction equipment rental company **Ashtead's** most recent results demonstrated how quickly they have been able to pass along cost of goods sold (COGS) inflation. Ashtead has a leading position in a fragmented market which requires its smaller peers to pass inflation along rapidly or become unprofitable. The year-to-date phenomenon of COGS inflation above operating expense inflation has translated into margin expansion and the opportunity for Ashtead to gain market share.

## Looking ahead

As the performance of various asset classes suggests, risks are clear and present: inflation, central bank tightening, and the associated impacts. The probability of a global recession appears high. In retrospect, the COVID-induced recession that we surely would have had two years ago were it not for policy intervention may merely have been delayed, with the trigger now being higher rates.

As such, this is a transition period: from the era of unusually accommodative monetary policy that persisted since the Global Financial Crisis toward one of structurally higher rates. Just as in life, transition periods in markets are often volatile and can be long-lasting. But the valuation correction experienced in 2022—while far from pleasant—has its benefits in that gravity is being restored to the system. Investment across the economy can occur in a more efficient manner when there is a genuine cost of capital. Moreover, as investors, discounted cash flow models have more meaning when discount rates aren't unusually low.

# Mawer EAFE Large Cap Fund, Series A

## Q3 2022 | Performance Commentary

Activity in the portfolio so far this year has broadly focused on two key themes: improving diversification (often by reducing interest rate sensitivity) and improving economic resilience. Process-wise, we have been focused on building our high-quality inventory list of companies we'd love to buy when the opportunity presents itself. But we're also being patient. On the one hand, the risks are hard to ignore and future earnings estimates could see further downside, but the spring appears tightly wound on the bearish side too: any signs of moderation in the run-rate of inflation may precipitate a sizable relief rally.

And regardless of how the economic outlook may evolve, we take comfort in the notion that over the long term, stock prices tend to follow wealth-creation. As such, we continue to lean heavily into the durability of our philosophy and process in an effort to responsibly steward our clients' investments through uncertainty.

### Performance summary<sup>1</sup> (%)

As of September 30, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	Since Inception <sup>2</sup>
FUND	(25.4)	(2.1)	(21.3)	-	-	(0.8)
BENCHMARK	(20.7)	(3.4)	(18.8)	-	-	0.6

Calendar Year, as of December 31:

	2021
FUND	15.0
BENCHMARK	10.3

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

<sup>2</sup>Mawer EAFE Large Cap Fund Series A Inception: May 29, 2020

### Selections from Mawer's Art of Boring blog and podcast:

[Quarterly Update | Q3 2022 | EP118](#)

Market swings, central bank moves, and rising interest rates. A look at Q3.

[An energy-fuelled debate: Are renewables actually becoming cheaper? | EP114](#)

The team debates the thesis that renewables are becoming "cheaper" than traditional energy sources, unpacks why the ultimate cost to the end consumer shouldn't be missing from the conversation, and delves into the investment implications.

### 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",

# Mawer EAFE Large Cap Fund, Series A

## Q3 2022 | Performance Commentary

"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 EAFE Large Cap Fund	MSCI EAFE Index (net)

The MSCI information may only be used for your internal use, may not be reproduced or disseminated 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](http://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.