

# Mawer Emerging Markets Equity 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 most currencies weakened relative to the U.S. dollar. Emerging markets stocks ultimately lagged their developed market peers, largely driven by weakness in China where a slowing economy and concerns about the real estate sector continue to weigh on equity returns.

### Performance commentary

With the backdrop of a more uncertain economic environment, the Fund was unable to escape a negative return during the third quarter. Notably, semiconductor manufacturer **TSMC** fell as it faces a less robust outlook in demand for its products, while China's **Alibaba** and **Tencent** traded lower given a slowing domestic economy, greater competition, and the longer duration profile of their cash flows. Perhaps most exposed to the slowdown in China was waterproofing construction materials company **Oriental Yuhong**, given that its customers are mostly real estate developers.

That said, the Fund outperformed its benchmark in Q3 thanks to good stock selection. Companies like **Sporton**, which provides testing services for wireless products and other electronics, **Great Tree Pharmacy**, a drug store chain in Taiwan, and **LiveChat**, a software business that provides website chat tools, were all rewarded for their strong fundamentals. Management at Great Tree continue to execute brilliantly on their strategy to consolidate a very fragmented market in Taiwan, whereas LiveChat's business model has proven resilient given the diversified nature of its end customers, the recurrence of its revenues, and a net cash balance sheet.

Other companies whose stock prices had been hit hard earlier in the year bounced back during the quarter. **Kaspi**, the dominant fintech company in Kazakhstan that offers loans, payments solutions, and an e-commerce platform, enjoyed strong results backed by a resilient domestic economy. Political unrest in Kazakhstan had weighed on Kaspi's stock price earlier in the year, but this has since stabilized, the country has been able to maintain its investment grade rating thanks to its strong fiscal management, and it's an economy that benefits from higher energy prices.

### Looking ahead

As the performance of various asset classes suggests, risks are clear and present: inflation, central bank tightening, geopolitical tensions, a slowdown in China, 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.

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Activity in the portfolio so far this year has broadly focused on two key themes: re-establishing diversification given the lower duration role that many of the Russian holdings we held coming into the year played in the portfolio, 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	(33.9)	(4.9)	(33.8)	(5.8)	(2.2)	(0.4)
BENCHMARK	(20.8)	(5.8)	(22.0)	(0.8)	0.1	2.7

Calendar Year, as of December 31:

	2021	2020	2019	2018
FUND	0.8	20.4	9.7	(6.2)
BENCHMARK	(3.4)	16.2	12.4	(6.9)

<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 Emerging Markets Equity Fund Series A Inception: January 31, 2017

### 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",

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### Benchmarks:

FUND	BENCHMARK
Mawer Emerging Markets Equity Fund	MSCI Emerging Markets Index (net)

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### Performance Disclosure and Requirements:

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