Mawer Global Balanced Fund, Series A

Q3 2022 | Performance Commentary

Market overview

Numerous equity markets declined (in local currency terms) during a volatile third quarter, despite some optimism early in the period that led to a brief rally. Many central banks have continued to hike interest rates and the U.S. Federal Reserve has been unequivocal about its plan to fight inflation; ultimately, how far and how fast the U.S. Federal Reserve will go has been a key factor driving markets. Additionally, currency markets experienced significant volatility and the U.S. dollar was considerably strong against many other currencies.

The Bank of Canada has also remained committed to ensuring that higher prices do not get entrenched into expectations. Headline inflation eased slightly in Canada but remained elevated and Canadian bonds finished the quarter with a positive return as longer dated interest rates moved modestly lower.

Performance commentary

The Mawer Global Balanced Fund performed in line with its benchmark during the third quarter.

With the backdrop of a more uncertain economic environment, "boring" worked in Q3. Top holdings such as insurance broker Aon, reference data provider Wolters Kluwer, and manufacturer of electronic connectors and cables Amphenol posted steady increases in revenues and operating profits reflecting the stability of their businesses. Coffee marketer JDE Peet's was rewarded for reporting strong organic sales growth, all attributed to pricing. In other words (and as many here at Mawer can attest!), the demand for coffee is quite inelastic.

The lack of direct energy exposure continues to hurt the portfolio's relative performance. However, this was partially offset by strong fuel margins at convenience store operator Alimentation Couche-Tard.

Speaking of margins, some of the companies that had the largest negative impact on the portfolio's performance were those with margin pressures. UK automobile insurer Admiral Group is a good 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. Paper-based personal care products producer Essity is another example; though the company has been increasing its prices, they haven't fully kept up with inflation.

Finally, shares of recently introduced parcel carrier FedEx fell sharply after it reported lackluster results and withdrew its earnings forecast citing difficult business conditions, particularly in Asia. Nevertheless, the portfolio's lack of holdings in China, which is indeed experiencing an economic slowdown, had an offsetting positive impact on relative performance.

Looking ahead

As we move forward, the market will continue to keep a close eye on economic data that may signal how central banks will respond in the coming months. Given the macroeconomic headwinds facing markets, the probability of a global economic slowdown remains high—though we will point out the market has the potential to be surprised if inflation moderates faster than expected. Supply chains have improved and commodity prices have moderated. Some companies also noted elevated inventory levels in the quarter, a sign that demand may be softening.

Higher discount rates combined with the potential for diminished earnings growth can have a material impact on company valuations. While markets globally may have the rise in discount rates priced in, many still do not have an earnings recession reflected in valuation. Ultimately, additional headwinds to company valuations might remain.

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As we have mentioned before, one of the risks is something breaks. We don't have to look further than the recent mini-budget announcement in the U.K. to see the delicateness in the current market environment. The British pound nearly hit parity with the U.S. Dollar and U.K. yields were sent soaring on the news. The vast speed the situation unfolded highlights how sensitive the market can be to surprises.

With all the macroeconomic headlines dominating markets, we continue to stick to our bottom-up process and focus on the quality of the companies we purchase. At the same time, we are being cognizant of thematic or macroeconomic exposures to determine if there are sharp corners that require addressing. 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[1] (%)
As of September 30, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	Since Inception[2]
FUND	(15.3)	(0.3)	(10.8)	2.6	5.3	7.3
BENCHMARK	(15.6)	(0.2)	(11.9)	1.9	4.2	6.7

Calendar Year, as of December 31:

	2021	2020	2019	2018	2017	2016	2015	2014
FUND	12.9	9.4	14.1	3.5	11.0	(0.6)	14.6	11.8
BENCHMARK	8.1	12.4	13.5	1.3	9.9	2.0	12.9	11.7

[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:

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.

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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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