Mawer Global 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 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, "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: while 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. In addition, Admiral's competition is intensifying and the company 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 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.

Global Equity Fund

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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[1] (%)
As of September 30, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	(18.0)	(0.8)	(11.9)	4.9	8.1	12.1	11.1
BENCHMARK	(19.1)	(0.7)	(13.9)	5.0	6.4	11.4	9.9

Calendar Year, as of December 31:

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
FUND	21.3	9.8	20.7	4.3	17.5	(0.4)	21.5	14.5	34.3	16.8
BENCHMARK	17.5	14.2	20.2	(1.3)	15.8	3.1	18.9	14.4	35.2	13.3

[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 Equity Fund Series A Inception: October 22, 2009

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

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Benchmarks:

FUND	BENCHMARK
Mawer Global Equity Fund	Oct: 2009: MSCI World (net) Oct 2016: MSCI ACWI (net)

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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.