Mawer New Canada Fund, Series A

Q3 2022 | Performance Commentary

Market overview

Investors looking for a volatility breather in Q3 were disappointed. The rally early in the summer gave way to a continued downtrend as the U.S. Federal Reserve and an increasing number of other central banks have been unequivocal in their commitment to fighting inflation which has increased the probability of a global recession.

The Bank of Canada has also remained committed to ensuring that higher prices do not get entrenched into expectations, as headline inflation eased slightly in Canada but remained elevated above target. In the quarter, prices for commodities such as oil, gasoline, and gold also moderated from highs. Currency markets also experienced significant volatility and the U.S. dollar strengthened.

Performance commentary

While tamer compared to the second quarter of 2022, the Canadian Small Cap market continued with its drawdown over the third quarter but outperformed its benchmark.

The quarter's top individual performers exemplify the importance of a long-term focus. Companies whose share prices pulled back in the recent past due to shorter-term fears and issues, fared better as these factors resolved.

- Element Fleet Management, which struggled last year due to a semi-conductor shortage and less miles driven due to COVID-19, had a second consecutive quarter of strong performance. The company's backlog in deliveries have begun to ease given the improvement in semiconductor chip supply.
- Operator of auto-collision repair shops, Boyd Group, was also a notable performer for the quarter. The company experienced higher labour inflation and while there was a lag, the company has displayed its pricing power by passing on much of these increased costs.
- Some companies such as Stella-Jones and Converge Technologies were indiscriminately punished by the market and have since rebounded.

All told, these companies and others in the portfolio will inevitably see their stocks impacted by shorter-term market noise, but we remain focused on their long-term wealth creation potential.

Negatively impacting portfolio performance have been holdings tied to the real estate market. The stock price of Dye & Durham, provider of legal software and data, has suffered due to its exposure to the weakening Canadian housing market and the market's reticence to invest in companies with growth-by-acquisition strategies which can lead to complex financial statements. Other holdings such as commercial real estate broker Colliers International Group and operator of residential apartments Mainstreet Equity also saw their stock prices decline.

Looking ahead

In the shorter term, fragile market psychology may continue to create higher equity market volatility, as investors look to inflation and other macroeconomic data to predict the intentions of central banks. Regardless of how central banks navigate from here, the probability of a U.S. 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, we may be in a transition period from the era of unusually accommodative monetary policy that persisted since the Global Financial Crisis toward an era of rates approaching their historical norms. Just as in life, transition periods in markets can be painful and last longer than anticipated, though they do always end. Investments across the economy can occur in a more discriminating manner when the cost of capital is not abnormally low. Moreover, as investors, discounted cash flow models have more meaning when discount rates aren't unusually low.

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	(24.3)	(2.3)	(24.0)	4.4	5.6	10.6	12.6
BENCHMARK	(16.3)	(2.5)	(13.8)	6.5	2.4	3.2	7.1

Calendar Year, as of December 31:

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
FUND	18.1	19.3	28.8	(10.2)	3.9	19.3	1.9	12.1	49.4	16.4
BENCHMARK	20.3	12.9	15.8	(18.2)	2.8	35.5	(13.8)	(0.1)	7.8	2.5

[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 New Canada Fund Series A Inception: January 8, 1988

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 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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