

Mawer U.S. 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

The Mawer U.S. Equity Fund underperformed its benchmark during the third quarter.

Components of the portfolio that showed strength during the quarter were:

- Electronic and fiber optic connector producer **Amphenol** saw its profits rise in the quarter driven by double-digit sales growth across all of its segments despite facing continued inflationary pressures and supply chain disruptions.
- **Amazon** rose on a positive third quarter revenue forecast despite posting earnings that were below expectations during the quarter. Despite continued inflationary pressures in fuel, energy, and transportation costs, the company is making progress on their more controllable costs particularly improving the productivity of their fulfillment network.
- Elsewhere, insurance broker **Arthur Gallagher** saw its shares rise on higher revenues and sees a strong labor market favorably impacting their human resource and benefits consulting business and claims management operations.

Areas of weakness for the portfolio during the quarter were:

- Laboratory instrument company **Waters Corporation** declined as the company saw its sales grow only marginally, but sees strong momentum and customer demand with double digit growth across several of its product lines.
- Google parent company **Alphabet** experienced some share price weakness as the company posted lower than expected revenue and earnings during the quarter. Revenue growth slowed in the quarter from the previous year when the company was benefitting from the post-pandemic reopening as consumer spending was on the rise.

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.

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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 summary¹ (%)

As of September 30, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	(18.9)	(0.2)	(10.2)	6.1	11.0	14.8	8.3
BENCHMARK	(17.2)	1.3	(8.3)	9.5	11.3	15.5	9.8

Calendar Year, as of December 31:

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
FUND	23.6	14.7	25.7	9.6	12.8	5.5	19.3	20.9	41.8	12.0
BENCHMARK	27.6	16.3	24.8	4.2	13.8	8.1	21.6	23.9	41.3	13.4

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

²Mawer U.S. Equity Fund Series A Inception: December 11, 1992

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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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", "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.

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Benchmarks:

FUND	BENCHMARK
Mawer U.S. Equity Fund	S&P 500 Index

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.