

Mawer Canadian Equity Fund, Series A

Q4 2022 | Performance Commentary

Market overview

Equity markets attempted to add a bit of polish in the fourth quarter to an otherwise brutal year, the worst calendar year since 2008 for many global markets. In contrast, Canadian equities fared better during the year in part due to its resources-heavy market. It was a mixed picture for Canada's economy, however, as ongoing inflationary pressures clashed with growing recessionary concerns. In Q4, markets were bolstered by signs that inflation may finally be peaking and the hope that central banks may not need to be as aggressive as feared in tightening monetary policy, potentially softening the negative impact on the global economy. The S&P/TSX Composite Index saw strong broad-based advances in every sector except Health Care and Utilities, although Canadian equities did lag their global peers.

Performance commentary

In the fourth quarter, the Mawer Canadian Equity Fund underperformed the S&P/TSX Composite Index.

Companies that added value during the quarter include industrial equipment dealer **Finning International** which reported strong results, driven by continued healthy demand in both Western Canada and Chile, that led to a record order backlog. The company's strong execution and supply chain management enables them to capitalize on continued momentum in their end markets and meet growing demand from their customers. Oil and gas producer **Canadian Natural Resources** saw its shares advance as the company posted higher revenues driven by a focus on continuous improvement, cost control and a disciplined approach to capital allocation. Additionally, **Canadian Pacific Railway** performed well during the quarter as the company posted solid results supported by volume growth, and strong pricing, that more than offset increased fuel costs. The company remains well positioned to benefit from grain and potash bulk volume increases, coupled with resilient pricing.

Companies that detracted from relative performance included names held within the Information Technology and Materials sectors. As an example, **Telus International** declined over the quarter despite strong operational and financial results across their business lines in the face of a challenging macroeconomic environment. Potash producer **Nutrien's** shares fell during the quarter as revenues were lower than expected on the back of reduced demand, due to higher fertilizer prices and a shortened application season as a result of weather patterns. However, the underlying demand drivers remain strong, and global fertilizer supply challenges persist, creating a supportive environment for the company going forward. Label maker and specialty packaging company **CCL Industries** experienced some bearishness following a period of healthy performance, despite posting another quarter of strong results driven by organic growth, as concerns around weaker economic growth and the potential for reduced demand set in.

Looking ahead

Looking ahead to 2023, given the delay between the implementation of monetary policy and the ultimate impact on the broader economy, the path forward for inflation, central bank resolve in continuing to tighten policy, and the associated earnings and economic impacts remain hotly debated topics. All signs point to a global recession, with higher real rates, inverted yield curves, and contracting PMIs occurring in many of the world's major economies. However, the consensus view—reinforced late in the year by moderating inflation data—currently anticipates a softer landing and a milder recession.

Of course, the world could evolve in different ways. Inflation may prove to be more stubborn, or central banks misjudge those policy lags prompting a deeper recession. Geopolitical flare-ups are always a risk. On the other hand, inflation might temper more quickly than anticipated: incredibly, natural gas prices in Europe are currently lower than prior to Russia's invasion of Ukraine.

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Activity in the portfolio in 2022 broadly focused on three key themes that we believe will continue to be important as we look forward to 2023:

- Ensuring diversification, most notably with respect to interest rate sensitivity.
- Improving resilience, including adding to steady well-run businesses, while reducing the portfolio's exposures to areas with higher risks (e.g., poor management execution, companies with higher debt).
- Continuing to ensure a robust inventory list of investment options focused on all three tenets of our investment philosophy and taking advantage of the opportunities that volatility presents.

On this last point, if we are indeed likely to enter a recession, companies that can generate consistently profitable cash flows—through strong pricing power backed by competitive advantages, by providing valuable products and services to their clients, and through excellent management—may be rewarded. In other words, the return of a genuine cost of capital may prove to be fruitful for a “Be Boring” investment approach.

Performance summary¹ (%)

As of December 31, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	(5.6)	5.4	(5.6)	6.2	5.5	9.1	9.1
BENCHMARK	(5.8)	6.0	(5.8)	7.5	6.8	7.7	8.3

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(5.6)	23.7	2.7	20.7	(9.8)	8.7	15.8	(0.3)	15.8	25.4
BENCHMARK	(5.8)	25.1	5.6	22.9	(8.9)	9.1	21.1	(8.3)	10.6	13.0

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 Canadian Equity Fund Series A Inception: June 3, 1991

Selections from Mawer's Art of Boring blog and podcast:

[Inflation's one-two punch](#)

It's inflation's second punch that can deliver a blow that investors may not be expecting

[The art of discount rates | EP122](#)

How do investors figure out what a company is worth? (Especially in a higher inflationary and interest rate environment?)

[What the end of Moore's Law means for the semiconductor industry | EP121](#)

A deep dive—right to the atomic level—of how semiconductors work and the potential implications for the industry when Moore's Law comes to an end.

[Beware the linearity bias](#)

We tend to think of our world in linear terms, where the output of a system is proportional and directly correlated to its inputs.

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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 Canadian Equity Fund	S&P/TSX Composite 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.

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