

Mawer EAFE Large Cap 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 return for the MSCI EAFE since the European sovereign debt crisis of 2011. 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 looking forward. European stocks, which had been hardest hit through the first nine months of the year, led the advance globally in Q4, outpacing both emerging markets and U.S. equities. The MSCI EAFE was led by economically sensitive sectors such as industrials, materials, financials, and energy which outperformed more defensive industries. Strong gains in the euro, British pound, and Japanese yen also helped to strengthen returns for North American investors.

Performance commentary

The portfolio underperformed its benchmark during the fourth quarter.

Reflecting the broad nature of the market's advance during the quarter, the vast majority of portfolio holdings delivered positive returns. Standouts included Danish health care companies **Novo Nordisk** and **Genmab**, and luxury retailer **LVMH**, all benefitting from strong results reflecting impressive growth. Another strong contributor was defensive defense equipment manufacturer **BAE Systems**, which is witnessing very a favorable demand outlook, is able to pass on cost inflation, and has been steadily increasing its payout to shareholders amid rising profits.

On the other hand, the portfolio's cash weight was a drag on relative performance in a strongly rising market. More defensive businesses like Japanese telecom **KDDI** and reference information provider **Wolters Kluwer** failed to keep up with the market's robust advance. While Novo Nordisk is moving from strength to strength, **Roche** discontinued most clinical trials of an experimental Alzheimer's drug due to poor efficacy, a setback given the high hopes for the treatment. Japanese IT consultant **Nomura Research Institute** reported disappointing results, with flat earnings attributed to sluggish sales and the restructuring costs associated with its recent acquisition of Core BTS.

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.

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 by reducing interest rate sensitivity. A sizable proportion of the portfolio's underperformance in 2022 can be attributed to the month of January and the market's

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initial adjustment to higher interest rate expectations, which disproportionately hurt the portfolio given our focus on higher quality businesses. In retrospect, we acknowledge that the portfolio could have been better balanced from a duration perspective coming into the year, and much of the activity in the early part of the year sought to re-establish this balance.

- Improving resilience, including the additions of steady businesses such as coffee marketer **JDE Peet's** and grocer **Ahold Delhaize**, as well as defense contractors such as **BAE Systems**, while reducing the portfolio's exposures to areas with higher risks.
- Continuing to ensure a robust inventory list of investment options focused on all three tenets of our investment philosophy.

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, after a difficult few years, 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	(17.1)	11.1	(17.1)	-	-	-	3.4
BENCHMARK	(8.2)	15.7	(8.2)	-	-	-	6.4

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(17.1)	15.0	-	-	-	-	-	-	-	-
BENCHMARK	(8.2)	10.3	-	-	-	-	-	-	-	-

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 EAFE Large Cap Fund Series A Inception: May 29, 2020

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

[Quarterly Update | Q4 2022 | EP125](#)

A review of last quarter, the major themes and takeaways from 2022, and what's on the horizon for the new year.

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

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

[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.

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Opinions and Forecasts:

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Benchmarks:

FUND	BENCHMARK
Mawer EAFE Large Cap Fund	MSCI EAFE Index (net)

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