Mawer Emerging Markets 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 return for the MSCI Emerging Markets Index since 2008. 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. Chinese equities, which had been among the hardest hit through the first nine months of the year, helped lead the advance in Q4 with the relaxation of the COVID zero policy; conversely, with oil prices moderating, Middle Eastern markets lagged.

Performance commentary

The portfolio underperformed its benchmark during the fourth quarter.

Reflecting the broad nature of the market's advance, the majority of portfolio holdings delivered positive returns. Standouts included Asian life insurer AIA, Kazakhstan's dominant fintech company Kaspi, and Polish grocer Dino Polska which all benefitted from strong results reflecting impressive growth and an improved outlook for the economies in which they operate. Recently introduced Brazilian oil producer Petro Rio was rewarded for providing further evidence of its effectiveness in turning around neglected fields efficiently.

On the other hand, several of our Chinese companies trailed their domestic peers. Great River and Milkyway, which operate petrochemical storage terminals and chemical logistics respectively, lagged as commodity prices moderated. Hydroelectric utility Yangtze Power suffered from drought conditions and a shortage of water inflow into its generating stations. Finally, Vietnamese electronics and appliances retailer Mobile World offered a weak outlook with respect to consumer confidence, both with respect to revenues and profitability.

Looking ahead

Looking ahead to 2023, a key debate has to do with policy lags given the delay between the implementation of monetary policy and the ultimate impact on the broader economy. As such, 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 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, especially with emerging markets. 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: The portfolio's underperformance in 2022 can almost all be attributed to the first quarter with the market's initial adjustment to higher interest rate expectations and the negative impact of our Russian holdings. In retrospect, we acknowledge that the portfolio could have been better balanced from a duration perspective coming into the year, and the lower duration offsets we held were too concentrated in a single jurisdiction. Much the year's activity has sought to re-establish that balance.

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- Improving resilience, including the additions of steady, well-run businesses while reducing the portfolio's exposures to areas with higher risks (e.g. companies with more discretionary demand, China/Taiwan).
- 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 global 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 year, the return of a genuine cost of capital may prove to be fruitful for a "Be Boring" investment approach.

Performance summary[1] (%)

As of December 31, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	Since Inception[2]
FUND	(29.0)	7.4	(29.0)	(4.8)	(2.4)	0.8
BENCHMARK	(14.3)	8.2	(14.3)	(1.3)	0.2	4.0

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018
FUND	(29.0)	0.8	20.4	9.7	(6.2)
BENCHMARK	(14.3)	(3.4)	16.2	12.4	(6.9)

[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 Emerging Markets Equity Fund Series A Inception: January 31, 2017

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

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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Opinions and Forecasts:
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Benchmarks:

FUND	BENCHMARK
Mawer Emerging Markets Equity Fund	MSCI Emerging Markets Index (net)

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