Mawer Global Balanced Fund, Series A

Q4 2022 | Performance Commentary

Market overview

Equity markets had a positive return in the fourth quarter offering a brief reprieve from the turmoil that roiled markets in 2022—although December saw many give back some of these gains. And, after one of the worst years on record, Canadian bonds finished near flat for the quarter. In the end, 2022 goes down as a difficult year for financial markets dominated by widespread inflation, higher interest rates, geopolitical tensions, and global growth concerns. The Bank of Canada and the U.S. Federal Reserve continued to raise policy interest rates, and while the path forward remains uncertain, the Bank of Canada left the door open to slowing its hiking cycle. For Canadian investors, the return of many foreign asset classes, with the exception of the U.S., benefitted from a currency translation effect over the quarter.

Performance commentary

The Mawer Global Balanced fund outperformed its blended benchmark over the quarter.

Reflecting the broad nature of the market's advance during the quarter, the majority of portfolio holdings delivered positive returns. Standouts included health care companies Novo Nordisk and recently introduced Moderna. Novo Nordisk reported outstanding results given their success in applying their expertise in diabetes to adjacent areas such as obesity, a potentially massive market, while mRNA treatment developer Moderna announced exciting results from trials of an mRNA-based personalized cancer vaccine, highlighting the optionality of their mRNA platform beyond COVID-19.

While the absence of Apple and Tesla in the portfolio have often taken away from relative performance over the past few years, our lack of exposure to both companies was a positive in the fourth quarter given their well-publicized challenges. By contrast, our position in rival automaker BMW benefitted from strong results despite an uncertain environment, including a doubling of its sales of electrical vehicles. It is worth noting that BMW has considerable experience in managing cost containment and execution through many cycles by virtue of its long history and the nature of the industry in which it operates, in contrast to many big tech giants.

On the other hand, the portfolio's lack of energy and base metals companies continues to be a drag on relative performance. FTI Consulting, a leading advisor to bankruptcies and restructurings, gave back some of its gains on the year with a less dour economic outlook. Google's parent company Alphabet is adjusting to a sharp slowdown in growth and greater competition in its main revenue driver, online advertising. And 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.

From an asset mix perspective, we did not make any adjustments this quarter. The future remains quite uncertain and there wasn't a high degree of conviction or perceived edge to deviate from a near neutral equity weight while also holding a higher-than-normal level of cash equivalents. There are many narratives of possible paths forward; we are not looking to predict this path, but stay open to multiple scenarios and guard against heavily tilting towards one outcome.

Looking ahead

There is little doubt that it has been a tough year for markets, and the path central banks take in 2023 is still up for debate as inflation remains high, global growth appears to be slowing, and the employment market remains resilient. Further complicating matters, yield curves are inverted which historically has been a fairly reliable indicator of recessions. Whether we end up with a soft or hard landing may rest on how persistent inflation will be.

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Compared to historical standards, we are experiencing a very rapid pace of interest rate hikes by central banks, notably after a prolonged period of loose monetary policy. With corporate debt levels higher than the recent past and with elevated interest rates, there is the potential for interest expenses to rise materially for companies with higher leverage. Depending on the path forward, the environment for companies with more corporate debt could prove more challenging.

This year we have seen gravity restored to the system as discount rates have increased. While this adjustment process, along with its impact on valuations, can be volatile and difficult, we believe we are ultimately heading to a place where returns will be driven more directly by company fundamentals. We also recognize that in times when emotions run high, we must guard most fiercely against temptations to stray from our philosophy and process. We continue to play the plan focusing on buying wealth-creating companies, with excellent management teams, trading at a discount to our estimate of intrinsic value.

Performance summary[1] (%)

As of December 31, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	Since Inception[2]
FUND	(10.9)	5.2	(10.9)	3.3	5.4	7.6
BENCHMARK	(11.3)	5.0	(11.3)	2.5	4.4	7.1

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015
FUND	(10.9)	12.9	9.4	14.1	3.5	11.0	(0.6)	14.6
BENCHMARK	(11.3)	8.1	12.4	13.5	1.3	9.9	2.0	12.9

[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 Global Balanced Fund Series A Inception: July 3, 2013

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.

S-Curves and the Adoption Cycle | EP124
What investors can learn from the S-curves of technologies both old and new.

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?)

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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 Global Balanced Fund	July 2013: 5% FTSE Canada 91 Day Treasury Bill, 35% FTSE Canada Universe Bond, 60% MSCI World Net (Cdn$) Aug 2013: MSCI World Net (Cdn $) returns is used to calculate the blended benchmark from inception. Previously, MSCI World Gross (Cdn $) was used. Oct 2015: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI World Net (Cdn$) Oct 2016: 20% FTSE Canada Universe Bond, 20% FTSE WGBI, 60% MSCI ACWI (net) June 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 60% MSCI ACWI (Net)

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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.

The Funds mentioned in this document are not registered with the United States Securities and Exchange Commission and they are sold in the United States only in reliance on exemptions from registration.

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