Mawer Global 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 ACWI 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. 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 ACWI was led by economically sensitive sectors such as industrials, materials, financials, and energy. Strong gains in the euro, British pound, and Japanese yen also helped to strengthen returns for North American investors.

Performance commentary

The portfolio delivered a return that approximated that of its benchmark during the fourth 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.

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 the additions of steady, well-run businesses while reducing the portfolio's exposures to areas with higher risks (e.g. semiconductors, 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 summary[1] (%)
As of December 31, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	(11.2)	8.2	(11.2)	5.7	8.3	12.5	11.6
BENCHMARK	(12.4)	8.2	(12.4)	5.5	6.9	11.8	10.4

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(11.2)	21.3	9.8	20.7	4.3	17.5	(0.4)	21.5	14.5	34.3
BENCHMARK	(12.4)	17.5	14.2	20.2	(1.3)	15.8	3.1	18.9	14.4	35.2

[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 Equity Fund Series A Inception: October 22, 2009

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?)

Playing the plan: Mawer's global equity portfolio | EP119
The "Swiss cheese" mental model for risk management, why we initiated in Moderna, and how to test if you have a variant perception from the broader market.

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 Global Equity Fund	Oct: 2009: MSCI World (net) Oct 2016: 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.

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