

# Mawer Global Small 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 difficult year, the worst calendar year return for the MSCI ACWI Small Cap 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. 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 Small Cap Index (in local currency) 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 Mawer Global Small Cap Equity Fund outperformed its benchmark during the quarter.

Regionally, the outperformance came predominantly from our overweight position in Europe ex UK, which was a region that performed very well over the quarter.

Reflecting the broad nature of the market's advance during the quarter, the vast majority of portfolio holdings delivered positive returns. Companies that stood out include two Italian companies: manufacturer of premium coffee and home appliances **De'Longhi**, and braking systems manufacturer **Brembo**. De'Longhi was among the portfolio's bottom contributors over the past year in part due to margin pressure from delays in passing on increasing input costs. However, the markets concern around this was reduced when the company showed yet another quarter of increased pricing. Tied to the automobile industry, Brembo's cyclical exposure faced headwinds throughout the year from macroeconomic factors including the energy crisis, but the performance turned around this quarter as the company saw continued strong demand for its products. Finally, after languishing for much of the past few years, Japanese drug store operator **Tsuruha** performed well after early evidence that it is finally passing along pricing increases to its customers.

On the other hand, the portfolio's cash weight was a drag on relative performance in a strongly rising market. Other detractors include **Aramex**, a parcel delivery company focused on Africa and the Middle East, which experienced declining volumes in its courier business which pressured margins. **Synsam**, a leading eyewear retailer in the Nordics, saw inflationary pressure compress margins. This was compounded by a slowness in passing on these higher costs to customers in an effort to gain market share. However, the management team has already taken measures to compensate for these increased costs, which are expected to have full effect during 2023. Finally, business-to-business distributor of industrial products **Global Industrial Company** saw its stock sell off on weaker earnings as the company is seeing sales growth decelerate more sharply than expected as customers appear to be tightening their budgets. More short-term in nature, we deem this a temporary rather than fundamental issue, leaving our long-term thesis on the company intact.

### 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.

# Global Small Cap Fund

## Q4 2022 | Performance Commentary

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<sup>1</sup> (%)

As of December 31, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception <sup>2</sup>
FUND	(17.7)	10.6	(17.7)	(0.4)	3.7	11.8	10.2
BENCHMARK	(12.8)	8.9	(12.8)	4.7	4.9	10.6	6.8

### Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(17.7)	4.8	14.8	24.4	(2.6)	20.8	(0.7)	29.1	12.1	47.0
BENCHMARK	(12.8)	15.1	14.3	18.4	(6.7)	15.7	8.3	18.3	9.1	33.7

<sup>1</sup>Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.

<sup>2</sup>Mawer Global Small Cap Fund Series A Inception: October 2, 2007

### 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.

# Global Small Cap Fund

Q4 2022 | Performance Commentary

## 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.

All opinions contained in forward looking statements are subject to change without notice and are provided in good faith but without legal responsibility. The portfolio advisor has no specific intention of updating any forward looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain research and information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.

### Benchmarks:

FUND	BENCHMARK
Mawer Global Small Cap Fund	Oct 2007: Russell Global Small Cap Oct 2016: MSCI ACWI Small Cap (net) Total Return index

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. ([www.msci.com](http://www.msci.com))

# Global Small Cap Fund

Q4 2022 | Performance Commentary

**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.