Mawer New Canada 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. 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 Canadian and U.S. equities. Within the Canadian Small Cap universe, Metals and Mining companies propelled higher as gold prices advanced with investors perhaps looking for a potential inflation hedge.

Performance commentary

The portfolio underperformed the S&P/TSX Small Cap Index by over the fourth quarter.

The most notable detractor for the portfolio was its lack of exposure to gold producers which were among the strongest performers. In a high-inflationary market, the strength of gold is not surprising, and it may very well persist into the new year. It is worth noting that our team has been evaluating companies within the space for some time, but thus far, companies which meet all of our investment criteria have been difficult to come by. Aside from an absence of gold investments, the portfolio's overweight exposure to technology continued to weigh on relative performance.

A key component of our portfolio risk management framework is to select holdings that are inherently contradicting in the macroeconomic variables that will drive their profits. Holdings that contradicted our weaker performers inevitably had a positive impact on performance. Most notably, specialty insurer Trisura had a strong fourth quarter. While many businesses were hurt by rising rates, Trisura benefitted as its investment income increased. Furthermore, the insurance industry follows a cycle somewhat independent of the general economic cycle, and conditions for insurance providers are actually improving currently, even as the general economy weakens.

Other businesses such as Element Fleet Management and pressure treated wood producer Stella-Jones also performed well over the quarter as they demonstrated the inelastic demand for their offerings as well as less economic and interest rate sensitivity. Lastly, given the continued strength of oil and gas and following strong production results, oil producer, International Petroleum Corporation (IPCO) increased over the quarter which positively contributed to the portfolio.

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.
- 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	(18.7)	7.3	(18.7)	4.6	5.5	9.1	12.8
BENCHMARK	(9.3)	8.4	(9.3)	7.2	6.8	7.7	7.3

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(18.7)	18.1	19.3	28.8	(10.2)	3.9	19.3	1.9	12.1	49.4
BENCHMARK	(9.3)	20.3	12.9	15.8	(18.2)	2.8	35.5	(13.8)	(0.1)	7.8

[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 New Canada Fund Series A Inception: January 8, 1988

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.

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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 New Canada Fund	Jan 1988: BMO Weighted Small Cap (Blended) Oct 2016: S&P/TSX Small Cap

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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