

Mawer U.S. Mid Cap 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 for equity markets 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. U.S. equities also performed well, though, led by economically sensitive sectors such as industrials, materials, financials, and energy.

Performance commentary

The Mawer U.S. Mid Cap Equity Fund underperformed its benchmark over the fourth quarter.

As was the story throughout the year, our exclusion of commodities, particularly the strongly performing Energy sector (up 16.4% and the top-performing sector in the index), was a detriment to our performance. Having cash in a standard mutual fund structure while the index did not, was also a drag. These two allocation factors accounted for about a 1% deduction against the index.

Security selection bolstered our relative performance by +0.4%, with all of our Information Technology holdings except one, Elastic NV, beating the sector's 2.1% advance. Larger weighted CDW, Amphenol, Concentrix and KLA all returned double digits. Meanwhile, the "Silicon Valley"-type stocks, which we will define for these purposes as companies trading at higher multiples of revenue and no earnings due to aggressive growth investments, continued to suffer, with several examples down over 30%. This led to our IT selections adding 2.5% of relative value.

Unfortunately, some of that relative value was given back as a strong rebound in industrials cyclicals (with several companies up over 30%) and Healthcare outpaced our picks in each sector.

Looking ahead

Looking ahead to 2023, given the delay between the implementation of monetary policy and the ultimate impact on the broader economy, hotly debated topics will be the path forward for inflation, central bank resolve in continuing to tighten policy, and the associated earnings and economic impacts. All signs point to a global recession, with higher real rates, inverted yield curves, and PMIs contracting 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.

Overall, we were pleased that the portfolio exhibited strong characteristics both in upside participation and downside protection. We believe our focus on buying wealth-creating companies trading at a discount to intrinsic value has allowed us to create a portfolio with similar valuation metrics as the index but with superior compounding potential as the competitive advantages come to the fore. While 2022's equity returns were largely driven by the spectre of a recession, should one actually occur in 2023, we believe that a portfolio of competitively-advantaged companies should provide a high degree of resilience.

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Performance summary¹ (%)

As of December 31, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	(14.5)	6.7	(14.5)	-	-	-	-6.6
BENCHMARK	(11.3)	7.7	(11.3)	-	-	-	-4.7

Calendar Year, as of December 31:

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FUND	(14.5)	-	-	-	-	-	-	-	-	-
BENCHMARK	(11.3)	-	-	-	-	-	-	-	-	-

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

²Mawer U.S. Mid Cap Equity Fund Series A Inception: September 27, 2021.

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.

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 U.S. Mid Cap Equity Fund	Russell Midcap Index (TR)

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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