# MAWER quarterly

First Quarter 2022

## Market overview

2022 started with a difficult and volatile period for financial markets globally. The long rally in equities, since the COVID-19 recession, came under stress with central banks turning more hawkish towards inflation. This was compounded by the uncertainties caused by the war in Ukraine including the resulting impact on commodity markets. While there was some variability across regions, many global equity indices entered correction territory during the quarter, although by the end of the period, most markets had partially recovered from their lows. A notable departure from this theme was commodity-heavy markets such as Canadian equities, which moved higher given their larger exposure to energy and mining companies.

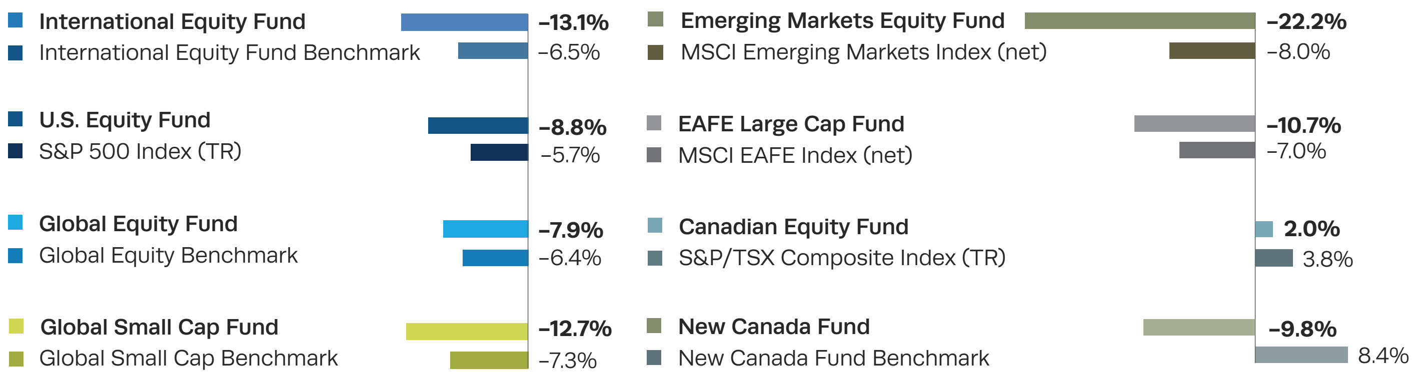
Supply uncertainty unleashed by the war in Ukraine added to existing inflationary pressures, sending commodity prices higher for crops, oil and gas, and metals. With inflation reaching multi-decade highs, the U.S. Federal Reserve and the Bank of Canada raised interest rates while also indicating the likelihood for more hikes this year. The market's anticipation for an accelerated pace of rate hikes led Canadian bonds to suffer one of their worst quarters in decades. The Canadian dollar also strengthened against many foreign currencies this quarter, hampering the return of foreign asset classes.

## How did we do?

*Performance has been presented for the A-Series Mawer Mutual Funds in Canadian dollars and calculated net of fees for the 3-month period of January 1 – March 31, 2022.*

### Equities

**Chart A: Q1 2022, Series A, Net of fees**




Within the volatility of global markets, our relative performance this quarter lagged across our equity asset classes—in some cases substantially. A perfect storm emerged as many high-growth and high-quality businesses experienced a pullback, while less competitively advantaged, commodity-focused businesses led the market by a wide margin. In this environment, our equity strategies' long-term focus on companies with enduring competitive advantages was undoubtedly overshadowed.

# How did we do? (cont'd)

- Many of our higher-growth technology-focused holdings, whose cash flows skew further out into the future, have had their valuations more challenged by central banks' decisions to raise rates in the face of inflationary pressures. Examples include e-commerce platform **Shopify**, accounting and tax software provider **Intuit**, and payments processor **Adyen**.

- Wealth-creating companies, by virtue of the strength of their competitive advantages and the sustainability of their cash flows, are often priced at above-market price-to-earnings multiples to reflect this high quality and, as such, their valuations can exhibit greater sensitivity to rising interest rates. Examples consist of holdings that had their share price pull back this quarter after being terrific compounding investments over the last few years including reference data provider **Wolters Kluwer**, IT consultant **Accenture**, and specialty chemicals company **Sika**.

- Other holdings that displayed notable weakness this quarter included those that have revenue tied to financial market levels such as investment fund distribution platform **Allfunds Group**, and private investments companies such as **Bridgepoint Group** and **Partners Group** which also experience headwinds from higher rates, lower valuations, and potentially lower fees.

Given our philosophy, we tend to have lower exposure to commodity-focused business models. Hence, our underweight in the energy sector and metals and mining industry hampered relative performance this quarter.

- Where we have exposure to the energy sector in Canada, our holdings generally had strong returns including energy producers **Canadian Natural Resources** and **Suncor Energy**.

- Similarly, where we have invested in the metals and mining industry, our holdings performed well including copper miner **Grupo Mexico**, gold miner **Agnico Eagle Mines**, and base metals miner **Lundin Mining**.

We also had some holdings that are not commodity-focused have relatively strong returns this quarter.

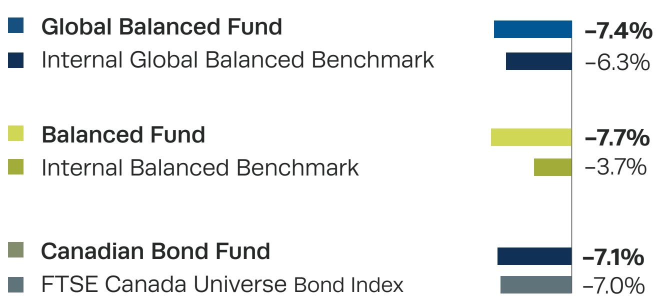
- Exchange operators including **Deutsche Boerse** and **CME Group** had strong returns as the companies are positioned to possibly benefit from higher interest rates and rate volatility.

- Holdings that may benefit from the inflationary environment also performed well including insurance broker **Aon** given its commission structure, and convenience store operator **Alimentation Couche-Tard** given higher fuel margins and the relatively price-insensitive nature of its merchandise customers.

Emerging Markets was one of the lower performing regions over the quarter, facing headwinds in China as the country grappled with COVID-19 lockdowns. Russia was also obviously a notable driver of weakness for the region. For balanced investors Mawer's direct exposure to Russia was very limited and, as the Russia-Ukraine conflict unfolded, we made the decision to exit all our Russian holdings across our portfolios. The timing for exiting our remaining Russian holdings remains uncertain given interruptions in the ability to trade.

### Balanced and Canadian Bonds

**Chart B: Q1 2022, Series A, Net of fees**



# How did we do? (cont'd)

Balanced investors were affected this quarter by negative returns from bonds and most equity asset classes as it was the weakest period for global equities since the COVID-19 recession. While often bond returns dampen or offset the effect of equity markets, both asset classes experienced similar levels of decline given the dramatic relative rise in yields.

From an asset mix perspective, we trimmed our equity target on two occasions, once in January and another late in the quarter. Rather than adding the proceeds to bonds, we elected to increase our cash target to help lower the sensitivity of the portfolio to rising interest rates. For balanced investors with dedicated Canadian equity allocations, the trim to equities left our Canada weight untouched as we have been comfortable seeing our allocation to Canada drift higher. We believe this helps provide more resilience in scenarios of elevated commodity prices or additional supply shocks arising from geopolitical events. Given the current market environment we are more comfortable keeping a lid on our overall equity weight, although we still remain overweight compared to the benchmark.

# Outlook

As we move forward, the range of possible scenarios is wide as market participants navigate an environment of rising interest rates while also trying to understand the ramifications of the war in Ukraine. With the Russian economy effectively shut off from the western world due to sanctions, we appear to be experiencing a shift away from globalization, the long-term implications of which remain to be seen. In the short-term, inflationary pressures have accelerated with supply chain disruptions persisting and commodity markets running rampant, increasing the challenges for central banks to tame inflation without hampering growth. The U.S. and Canadian yield curves also flattened in the quarter, a potential warning sign for a future slowdown in growth. Yet, on the encouraging side, there are still potential positive offsets from consumers with pent-up demand, a healthy employment environment, and the hope for a resolution to the conflict in Ukraine.

With the degree of realized volatility across asset classes during the first quarter, one of the risks is that something breaks. The suspension of nickel trading on the London Metal Exchange in March is one sign of something breaking, but the greater risk is that the volatility we've seen upsets more fundamental parts of the financial or banking system, areas we are watching closely for signs of distress.

In the middle of a storm, we believe what's most important is being disciplined in adhering to our investment philosophy—and the consistent execution of our process. Predicting the economy's future is an exceptionally tough task and we do not believe we can do so with any degree of statistically significant success. Rather, we aim to build a resilient portfolio through our bottom-up process: analyzing companies' competitive advantages and the strength of their management teams, while taking a probabilistic approach to estimating valuation. Given a wide range of possible scenarios, we remain balanced in our approach in an effort to build resilience over the long-term and not being overly exposed to any one outcome. As always, we remain committed to helping our clients manage through uncertainty.

# Total net returns (Series A)

**For periods ending March 31, 2022**

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| Equity funds | YTD | 3-Mo | 1-Yr | 3-Yr | 5-Yr | 10-Yr | Since Inception* |
|---|---|---|---|---|---|---|---|
| **Mawer International Equity Fund** | **-13.1** | **-13.1** | **-6.1** | **3.8** | **5.5** | **9.1** | **7.7** |
| International Equity Benchmark* | -6.5 | -6.5 | -2.1 | 5.1 | 5.4 | 8.7 | 5.3 |
| **Mawer U.S. Equity Fund** | **-8.8** | **-8.8** | **11.3** | **13.4** | **13.9** | **16.2** | **8.8** |
| S&P 500 Index (TR) | -5.7 | -5.7 | 14.9 | 16.3 | 14.5 | 17.2 | 10.4 |
| **Mawer U.S. Mid Cap Equity Fund**[1] | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Russell Midcap Index (TR) | - | - | - | - | - | - | - |
| **Mawer Global Equity Fund** | **-7.9** | **-7.9** | **9.6** | **10.5** | **11.4** | **13.7** | **12.6** |
| Global Equity Benchmark* | -6.4 | -6.4 | 6.6 | 11.2 | 10.2 | 13.0 | 11.6 |
| **Mawer Global Small Cap Fund** | **-12.7** | **-12.7** | **-11.0** | **5.6** | **7.9** | **14.2** | **11.2** |
| Global Small Cap Benchmark* | -7.3 | -7.3 | -1.0 | 9.3 | 8.1 | 11.7 | 7.6 |
| **Mawer Emerging Markets Equity Fund** | **-22.2** | **-22.2** | **-22.0** | **-1.8** | **1.9** | **-** | **2.7** |
| MSCI Emerging Markets Index (net) | -8.0 | -8.0 | -11.9 | 2.6 | 4.6 | - | 6.0 |
| **Mawer EAFE Large Cap Fund** | **-10.7** | **-10.7** | **3.4** | **-** | **-** | **-** | **9.2** |
| MSCI EAFE Index (net) | -7.0 | -7.0 | 0.5 | - | - | - | 9.9 |
| **Mawer Canadian Equity Fund** | **2.0** | **2.0** | **16.8** | **11.6** | **8.5** | **10.7** | **9.6** |
| S&P/TSX Composite Index (TR) | 3.8 | 3.8 | 20.2 | 14.1 | 10.3 | 9.1 | 8.9 |
| **Mawer New Canada Fund** | **-9.8** | **-9.8** | **0.2** | **14.0** | **8.3** | **12.9** | **13.4** |
| New Canada Benchmark* | 8.4 | 8.4 | 18.8 | 15.5 | 7.2 | 5.6 | 8.0 |

| Balanced funds | YTD | 3-Mo | 1-Yr | 3-Yr | 5-Yr | 10-Yr | Since Inception* |
|---|---|---|---|---|---|---|---|
| **Mawer Global Balanced Fund** | **-7.4** | **-7.4** | **4.8** | **6.9** | **7.6** | **-** | **8.8** |
| Internal Global Balanced Benchmark* | -6.3 | -6.3 | 1.9 | 6.7 | 6.7 | - | 8.4 |
| **Mawer Balanced Fund** | **-7.7** | **-7.7** | **0.8** | **6.1** | **6.3** | **8.7** | **8.2** |
| Internal Balanced Benchmark* | -3.7 | -3.7 | 4.3 | 7.6 | 6.5 | 7.6 | 7.8 |
| **Mawer Tax Effective Balanced Fund** | **-7.8** | **-7.8** | **0.6** | **6.0** | **6.3** | **8.6** | **7.8** |
| Internal Tax Effective Balanced Benchmark* | -3.7 | -3.7 | 4.3 | 7.6 | 6.5 | 7.6 | 7.9 |

| Income funds | YTD | 3-Mo | 1-Yr | 3-Yr | 5-Yr | 10-Yr | Since Inception* |
|---|---|---|---|---|---|---|---|
| **Mawer Canadian Bond Fund** | **-7.1** | **-7.1** | **-5.2** | **0.1** | **1.0** | **1.9** | **5.3** |
| FTSE Canada Universe Bond Index | -7.0 | -7.0 | -4.5 | 0.4 | 1.6 | 2.5 | 6.3 |
| **Mawer Canadian Money Market Fund** | **0.0** | **0.0** | **0.0** | **0.4** | **0.4** | **0.3** | **3.0** |
| FTSE Canada 91 Day TBill Index | 0.1 | 0.1 | 0.3 | 0.8 | 0.9 | 0.9 | 3.8 |

* Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

[1] Fund performance is not available for funds with a history of less than one year. The Fund launched on September 27, 2021.

Mawer Mutual Funds are managed by Mawer Investment Management Ltd. Mawer Mutual fund returns are reported in Canadian dollars and calculated after management fees and operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

Index returns are supplied by a third party—we believe the data to be accurate, however, cannot guarantee its accuracy. Index returns are sourced from FTSE Russell, FactSet, and BMO Capital Markets.

Performance returns for the Mawer Mutual Funds and benchmarks are calculated by Mawer Investment Management Ltd. These returns are historical simple returns for the 3 month, YTD, and 1 year periods, and annualized compounded total returns for periods after 1 year.

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