Mawer U.S. Equity Fund, Series A

Q1 2024 | Performance Commentary

Market Overview

The S&P 500 logged its best start of the year since 2019 fueled by resilient corporate earnings, positive sentiment around the potentially transformational impact of AI, and expectations of eventual rate cuts.

Economic growth in the U.S. came in surprisingly strong and key inflation measures continued moving in the right direction, though perhaps slower than the Federal Reserve would like to see. The Fed didn't make any changes to the overnight interest rate in the period, though the dot plots kept inching towards a scenario of less hikes in 2024 than was expected just a few months ago.

The strength of the gains in the index were broad based with every sector posting positive returns. While the information technology sector posted stellar results again this quarter led by Nvidia and several other semiconductor stocks, we saw a broadening in sector performance with great results from communication services, energy, financials, and industrials.

Performance Commentary

The portfolio delivered strong returns this quarter despite trailing its benchmark.

The main drivers of performance last year have persisted into 2024, which may bring some sense of déjà vu to this section. Enthusiasm has continued within the more economically sensitive areas of the market including the "Magnificent Seven," which we have exposure through **Alphabet**, **Amazon**, **Microsoft**, but less than the benchmark. As far as the portfolio's best performers go, Microsoft and Amazon were amongst the top of the list as they continue to execute on a fundamental basis and have business segments that should continue to benefit from AI-related tailwinds.

Leading the overall performance of the portfolio is **Amphenol**, one of the largest manufacturers of connectors, interconnect products antennas, and sensors globally. Excellent results were reported, driven by strong demand from various industries such as automotive and data communication markets (e.g., AI data centers). Also, supplier of aggregates and building materials **Martin Marietta** proved the strength of their value-over-volume strategy and achieved their most profitable—and safest—year ever and should benefit from continued demand for infrastructure and domestic manufacturing projects.

But consumer demand appears to be still dragging for global leader of athletic footwear **Nike** and its growth in China has been slower-than-expected, both of which we believe to be temporary in nature. Management remains focused on improving margins and profitability with cost cutting and product innovation amongst its key strategic projects. And they are not the only one being cost conscious; IT consultant **Cognizant** noticed weaker discretionary spending from its clients, and while **S&P Global**'s renewal rates have remained strong for its information solutions, a slight number of their clients have scaled back their subscriptions. Finally, in more recent news, the U.S. government announced lower-than-expected Medicare Advantage reimbursement rates, which affected healthcare insurers including portfolio holding **UnitedHealth**, who are also facing higher medical costs.

Looking Ahead

The current bull market is a sign of confidence in the durability of the global economy, the continued robustness of corporate earnings, and that central banks' actions against inflation are having their intended effect. During the last several years, macro factors have had an outsized influence on equity markets: e.g., the initial demand destruction caused by COVID-19, the impact of the ensuing stimulus in propelling markets higher, and the duration effects of inflation and higher discount rates that whipsawed stock prices in 2022 and 2023. But in 2024, investors have been unfazed by the influence of central banks: equities have marched higher despite a pullback in expectations for rate cuts. While there may indeed be some hype associated with artificial intelligence and uncertain future demand, it does appear to be backed by genuine earnings growth (which will need to persist in order to justify valuations) and many businesses exposed seem to enjoy strong moats.

With a higher cost of capital and an economy that seems to be coping reasonably well with that cost of capital, a greater discernment of fundamentals, genuine earnings potential, and ultimately long-term wealth creation is welcome. Big-picture risks to the outlook are always present, hence our focus on a well-balanced portfolio of defensible businesses that can withstand shocks. Should the current "goldilocks" scenario endure, we believe our clients will continue to participate; but should there be negative surprises, we are confident in the resiliency of this portfolio.

U.S. Equity Fund

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Performance Summary[1] (%)
As of March 28, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	10.8	10.8	22.5	10.8	12.2	13.6	8.8
BENCHMARK	13.5	13.5	29.9	14.3	15.3	15.3	10.6

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	14.4	-12.1	23.6	14.7	25.7	9.6	12.8	5.5	19.3	20.9
BENCHMARK	22.9	-12.2	27.6	16.3	24.8	4.2	13.8	8.1	21.6	23.9

[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 U.S. Equity Fund Series A Inception: December 11, 1992

Selections from Mawer's Art of Boring blog and podcast:

Quarterly Update | Q1 2024 | EP152
As markets continue on a dynamic trend, fixed income portfolio manager Crista Caughlin discusses the economy and factors that drove markets in the first quarter of 2024. In addition, the reemergence of a more typical correlation pattern between stocks and bonds, getting central banks off the sidelines, and the concern that markets may be being too complacent.

Why Position Size Matters in Investing | EP151
Portfolio Manager Manar Hassan-Agha discusses the importance of position sizing in investing and how factors like behavioural biases, market structures, and optimal betting strategies under the Kelly Criterion can impact returns at varying position weights.

The Power of Latent Earnings
In today's markets, most investors recognize that smaller start-up companies need to reinvest heavily in their businesses to accelerate growth and capture market share and scale, accepting lower profitability today for greater potential profits tomorrow.

Disclaimer

Opinions and Forecasts:
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and in some instances to differ materially from those anticipated by the portfolio advisor and expressed in this report. Material risk 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. The foregoing list of risk factors is not exhaustive.

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

Benchmarks:

FUND	BENCHMARK
Mawer U.S. Equity Fund	S&P 500 Index

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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