Mawer U.S. Mid Cap Equity Fund, Series A

Q1 2024 | Performance Commentary

Market Overview

The first quarter of 2024 saw a divergence in fortunes between equity and fixed income markets; equities continued surging forward thanks to resilient global economic data—particularly in the U.S.—while bonds suffered from rising yields. Strong corporate earnings, positive sentiment around the potentially transformational impact of artificial intelligence, and expectations of eventual rate cuts also provided fuel to rocket risk assets higher.

Unsurprisingly, given the buoyant economy, many cyclical sectors within the Russell Midcap Index led the charge: industrials, financials, energy, and discretionary stocks. And though the larger-cap S&P 500 Index outpaced the Russell Midcap Index in the first quarter, the former's inclusion of red-hot Nvidia was the only difference, a sign of greater breadth of participation in the bull market as compared to a year earlier.

Performance Commentary

The portfolio also delivered strong returns but underperformed its benchmark in the first quarter, a fairly common pattern of behaviour for Mawer portfolios in strongly rising markets given our preference for steadier business models.

Positions in companies exposed to artificial intelligence such as **KLA** and **CDW** both benefitted from the explosive growth in demand expectations. Both companies possess robust competitive advantages: KLA, for example, is the dominant market leader in semiconductor manufacturing process control and wafer inspection, crucial in ensuring high yields in their customers' production processes. CDW's exposure to AI is more indirect: as a value-added reseller, it provides advice to customers looking to acquire IT hardware and/or software, and at three times the size of its next largest competitor in the U.S., CDW benefits from scale—not only in securing better procurement terms, but also in offering better internal expertise to handle their clients' increasingly complex IT needs.

Elsewhere, winners from 2023 continued to perform strongly. Two examples include household appliance designer **SharkNinja** on excellent execution and organic growth, and electronic interconnect producer **Amphenol** given strength across its broadly diversified end markets (e.g., data centers, military applications, mobile networks, automobiles) amid the electronification of the world.

Among the largest detractors were Concentrix and Humana. The threat of AI continues to plague shares of customer service outsourcing company **Concentrix**; just as the market has rewarded AI-winners like Nvidia, it has punished contact center operators. We're not blind to the significant risk that AI might pose to Concentrix's business model; however, the business is highly cash generative and trades at a valuation that appears very compelling under most scenarios other than complete obsolescence. Admittedly, our fair value range for Concentrix's intrinsic value is among the widest in the portfolio given the risks. Shares of **Humana** dropped after announcing weaker Medicare reimbursement rates. While both Humana and the broader industry have managed to reprice plans and recover their profitability in the past, it's something that we're monitoring closely.

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. Mid Cap 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	9.9	9.9	20.8	-	-	-	5.5
BENCHMARK	11.5	11.5	22.3	-	-	-	6.2

Calendar Year, as of December 31:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
FUND	17.7	-14.5	-	-	-	-	-	-	-	-
BENCHMARK	14.1	-11.3	-	-	-	-	-	-	-	-

[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. Mid Cap Equity Fund Series A Inception: September 27, 2021.

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:
This report includes certain statements that are "forward looking information" or "forward looking statements" (collectively, "forward looking information") within the meaning of applicable securities legislation. 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, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations, are forward looking information. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", "will" and similar expressions are intended to identify forward looking information. Undue reliance should not be placed on forward looking information. Forward looking information is subject to various risks described in the Simplified Prospectus, uncertainties, and assumptions about the Fund, capital markets and economic factors, which could cause actual results to vary 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. 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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