

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

## Q1 2025 | Performance Commentary

### Market Overview

The first quarter of 2025 saw significant shifts in global economic momentum. Escalating tariff threats and trade tensions—which have compounded even further since the end of the quarter—cloud the economic outlook and intensify inflationary pressures. This creates a challenging environment for global central banks tasked with managing inflation while countering slowing growth.

Enthusiasm for U.S. equities pulled back amid weaker economic data, a drop in consumer sentiment, trade policy, and scrutiny over the pace of AI adoption. Technology and more discretionary sectors tended to lag. Notably, the performance of last year's narrow group of U.S. technology companies that had an outsized influence on overall market gains reversed in Q1. By contrast, European equities have risen driven by expectations for increased fiscal spending tied to defense and infrastructure commitments, decent corporate earnings, and a low starting point given that valuations in Europe have been far less elevated than in the U.S.

### Performance Commentary

The portfolio marginally underperformed its benchmark during the first quarter.

Several of the portfolio's financials holdings, including many that had thrived in 2024 and especially after the election, fell as the enthusiasm for the new administration's policies around regulation gave way to concern with respect to economic growth. These include regional bank **First Citizens** and niche electronic brokerage **Interactive Brokers**. **Donnelley Financial Solutions** also fell given that its core business is in helping companies with their regulatory filings amid a significant decrease in year-over-year IPO activity.

Trade-related concerns—both in terms of higher input costs and potentially more stretched consumers—impacted household appliance maker **SharkNinja** as well as **XPEL**, a leading provider of protective films and coatings for automotive and architectural applications. We reduced our position in SharkNinja in light of these risks and have since moved to eliminate XPEL from the portfolio in April. While SharkNinja should still create wealth due to its R&D advantage and potential offsets via international growth, XPEL was facing a challenging backdrop even before the most recent escalation in trade policy.

Partially offsetting these negatives, recently initiated **OSI Systems**, one of the leading providers of security scanning equipment to border authorities and airports, rose after posting excellent results. Management has done a good job taking share, improving margins, and capturing the increasing desire for governments to scan vehicles and other cargo as they enter via border crossings or ports. And despite offering more cautious guidance, shares of aftermarket retailer **O'Reilly Automotive** rose as the company continues to out-execute its peers.

### Looking Ahead

As we wrote under this banner three months ago, we are living through a period of substantial transition. Look no further than the steady stream of executive orders emanating from the Trump

administration, the dramatic escalation in trade barriers, or Germany’s recent commitment to spend €1 trillion on defense and infrastructure, forsaking its once unimpeachable debt brake.

Further complicating matters, while a realignment of the world economic and geopolitical order is occurring rapidly, the degree of policy uncertainty evokes the image of a four-way traffic stop, each driver glancing at the other waiting for the next move. Consumers debating whether to spend, central banks deliberating over the appropriate course of action, and companies determining if/when/where to make investments may delay these decisions in the face of heightened policy uncertainty.

At times like these, temperament matters as much as analysis. The temptation to react impulsively—to slam on the brakes or to accelerate too quickly—can be costly. While transitions create uncertainty, they also generate opportunity for those who remain clear-eyed.

The road ahead will have its twists, but our approach remains the same: prioritize resilience over reaction and discipline over distraction. Our North Star: a focus on attractively valued, well-run businesses that can withstand turbulence by, quite simply, selling a good or a service their clients value at a price that more than-covers the cost of capital by virtue of a competitive advantage, thereby creating wealth.

Just like at a busy intersection, apply the right balance of focus, patience, and decisiveness.

**Performance Summary<sup>1</sup> (%)**

**As of March 31, 2025**

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception <sup>2</sup>
FUND	-3.9	-3.9	0.2	8.1	-	-	3.9
BENCHMARK	-3.3	-3.3	9.1	9.7	-	-	7.0

**Calendar Year, as of December 31:**

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	14.6	17.7	-14.5	-	-	-	-	-	-	-
BENCHMARK	25.8	14.1	-11.3	-	-	-	-	-	-	-

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

<sup>2</sup>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 2025 | EP 185](#)

In this Quarterly episode, Crista Caughlin, lead portfolio manager for Canadian bonds, and Jeff Mo, lead portfolio manager for U.S. midcaps, discuss market performance through Q1 2025 and the significant volatility that followed in early Q2—particularly after "Liberation Day" when the Trump administration imposed sweeping tariffs, followed by retaliation from other countries, and then a partial pause. The discussion explores how these trade tensions have created uncertainty affecting business confidence, consumer spending, and investment decisions. Crista explains that the growth outlook has worsened due to this uncertainty, regardless of whether tariffs ultimately reach 10%, 25% or are delayed. Both emphasize the team's investment approach during this volatility relies on maintaining a disciplined process, avoiding "hero trades," and carefully modeling potential impacts on individual companies.

### [U.S. Equity Insights: The Impact of Policy Shifts and AI | EP182](#)

In this episode, we discuss the early months of the new U.S. administration with Grayson Witcher, lead portfolio manager for the U.S. equity strategy at Mawer. Grayson touches on the impact of tariffs, including the practical and unpredictable aspects of tariffs and how they influence decision-making. Grayson also shares insights on the potential long-term effects of the AI boom and highlights recent portfolio adjustments in response to evolving market dynamics.

### [An AI Efficiency Breakthrough: DeepSeek's Impact](#)

A sudden release from a Chinese AI start-up rocked markets last week. DeepSeek, a new large-language model (LLM), has demonstrated performance comparable to OpenAI's ChatGPT while dramatically reducing compute and power costs through innovative design and optimizations. This news has the potential to upend the current AI narratives and surrounding technology ecosystem that have been driving financial markets this cycle. This article delves into a number of technological, financial market, and portfolio construction implications from this AI-related news.

## Disclaimer

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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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