

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

Q3 2022 | Performance Commentary

Market overview

Investors looking for a volatility breather in Q3 were disappointed as equity markets remained highly volatile, with a rally early in the summer giving way to a continued downtrend as the U.S. Federal Reserve and an increasing number of influential central banks have been unequivocal in their commitment to fighting inflation, which increased the probability of a global recession. 10-year U.S. Treasury yields approached 4%, credit spreads widened, while the British pound, euro, and Japanese yen weakened precipitously relative to the U.S. dollar.

Performance commentary

The Mawer U.S. Mid Cap Equity Fund marginally outperformed its benchmark in the third quarter.

Components of the portfolio that showed strength during the quarter were:

- After-market automotive product manufacturer **XPEL Inc** posted strong quarterly results, in the face of continuing headwinds related to on-going tight new car inventory, COVID-related impacts in China and the strengthening U.S. dollar. The company continued to see robust demand for their products and services across most of their regions.
- HVAC components and industrial chemical products company **CSW Industrials** rose on record quarterly revenues and earnings. The company continued to focus on operational excellence and updated their outlook for revenue growth for the rest of the year.
- Elsewhere, franchisor of used goods retailers **Winmark Corporation** saw its shares rise on higher net income for the quarter and six month period as a weakening economy drove more consumption toward used products.

Areas of weakness for the portfolio during the quarter were:

- Digital intelligence company **Cellebrite** declined as revenues in the second quarter of the year were lower than expected while its previously announced plans to increase sales and development investments was unchanged. The company continued to see a healthy market in the adoption of digital intelligence solutions which enabled them to continue delivering robust growth and consistent high retention rates.
- **Concentrix**, a business services company specializing in customer engagement and business performance, experienced some share price weakness as the company reported third quarter earnings that missed analysts' forecasts and revenue that fell short of expectations.

Over the one-year period ending September 30th the portfolio slightly underperformed the benchmark. Despite a more volatile stock market and business climate, we continue to believe that resiliency is provided by focusing on our investment philosophy, buying businesses with strong competitive advantages that give the ability to exercise pricing power in an inflationary environment, and that are run by able and honest managers purchased at a discount to intrinsic value.

Looking ahead

In the shorter-term, fragile market psychology may continue to create higher equity market volatility, as investors look to inflation and other macroeconomic data to predict the intentions of central banks. Regardless of how central banks navigate from here, the probability of a U.S. recession appears high. In

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retrospect, the COVID-induced recession that we surely would have had two years ago were it not for policy intervention may merely have been delayed, with the trigger now being higher rates.

As such, we may be in a transition period from the era of unusually accommodative monetary policy that persisted since the Global Financial Crisis toward an era of rates approaching their historical norms. Just as in life, transition periods in markets can be painful and last longer than anticipated, though they do always end. Investments across the economy can occur in a more discriminating manner when the cost of capital is not abnormally low. Moreover, as investors, discounted cash flow models have more meaning when discount rates aren't unusually low.

Activity in the portfolio so far this year has broadly focused on two key themes: improving diversification (often by reducing interest rate sensitivity) and improving economic resilience. Process-wise, we have been focused on building our high-quality inventory list of companies we would like to buy when the opportunity presents itself. But we're also being patient. On the one hand, the risks are hard to ignore, and future earnings estimates could see further downside, but the spring appears tightly wound on the bearish side too as any signs of moderation in the run-rate of inflation may precipitate a new uptrend in equity valuations.

Regardless of how the economic outlook may evolve, we take comfort in the notion that over the long-term, stock prices tend to follow wealth-creation. As such, we continue to lean heavily into the durability of our philosophy and process in an effort to responsibly steward our clients' investments through uncertainty.

Performance summary¹ (%)

As of September 30, 2022:

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	(19.8)	3.0	(13.9)	-	-	-	(13.9)
BENCHMARK	(17.6)	2.9	(12.6)	-	-	-	(12.6)

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:

[Quarterly Update | Q3 2022 | EP118](#)

Market swings, central bank moves, and rising interest rates. A look at Q3.

[Playing the plan: Mawer's U.S. mid cap equity portfolio | EP117 | Mawer](#)

What makes the U.S. mid cap investable universe unique, some key learnings since the strategy's launch, and how inflation can be a "positive" for wealth-creating companies.

[An energy-fuelled debate: Are renewables actually becoming cheaper? | EP114](#)

The team debates the thesis that renewables are becoming "cheaper" than traditional energy sources, unpacks why the ultimate cost to the end consumer shouldn't be missing from the conversation, and delves into the investment implications.

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Disclaimer

Opinions and Forecasts:

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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.