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

Q3 2024 | Performance Commentary

Market Overview

In the third quarter of 2024, under the weight of previous central bank interest rate increases, global growth continued to slow. But in September, the U.S. Federal Reserve made its first interest rate cut this cycle, joining other influential central banks who had already begun reducing rates due to retreating inflation. Bonds rallied as rates snapped a two-quarter streak of rising yields. We are now on the easing side of this cycle, and tighter credit spreads suggest that investors have priced in a low probability of a global recession.

Equity market performance broadened over the third quarter as most major indices posted mid- to high-single digit returns. Interest rate-sensitive sectors such as real estate, utilities, and financials performed well while the technology sector lagged as investors questioned higher valuations for companies benefiting from spending on AI.

Performance Commentary

The portfolio underperformed that of its benchmark in the third quarter.

Our holdings within the consumer discretionary sector were a notable point of strength. Our top holding, household appliance designer **SharkNinja**, continued to demonstrate consistently strong execution and market share gains. The stock has more than doubled since our initiation a year ago, and we have been trimming our position to keep its weight within our self-imposed 6% limit.

Other recent initiations have performed strongly too. **Masterbrand** is the largest kitchen cabinet manufacturer in the U.S. and **DR Horton** is the nation's largest homebuilder. Both companies are beneficiaries of lower rates and a resilient economy, but their valuations also embed a margin of safety should more adverse scenarios play out. In addition, they are led by competent management teams who have improved the quality of their businesses.

Offsetting these positives, the portfolio's lack of exposure to the utilities and real estate sectors was a headwind to relative performance. And weak results from dollar store operator **Dollar General** and contact center operator **Concentrix** caused their stock prices to sell off sharply. Both businesses are facing pressures: Dollar General given weakness in its lower-income customer base and Concentrix given the impact that AI may have on its business model. In both cases, despite undemanding valuations, the recent results suggest our investment theses have been impaired, and we have subsequently eliminated both holdings from the portfolio.

Looking Ahead

While corporate earnings remain on an upward trajectory, many of the world's economic engines such as the U.S. and Europe are slowing with PMI data declining across the globe. Further, there are both top-down and bottom-up signals that the world's 2nd-most impactful economic force given its size and purchasing power—the U.S. consumer—might be facing headwinds. (Editors' note: the Fed is likely #1). As an example, a meaningful slowdown in the auto sector, which is a significant driver of manufacturing activity and jobs in the West, doesn't portend well for aggregate demand. While central banks should be commended for their handling of the economy over the last two years, investors may be placing too high a probability on a "no landing" scenario.

On the other hand, speaking of central banks, the denominator impact of lower rates and the start of the easing cycle should generally be supportive of risky assets on the assumption that inflation is falling for the right reasons and not due to more worrisome deflationary forces. The most recent stimulus in China is a great example of the impulse and impact to sentiment that this denominator effect can provide. "Don't fight the Fed" has been a rather prudent mantra historically.

Looking ahead, there will undoubtedly be no shortage of events to preoccupy markets; war and the upcoming U.S. election spring immediately to mind. But to paraphrase former U.S. Defense Secretary Donald Rumsfeld, it's the "unknown unknowns" that often produce the largest surprises… much like a global pandemic and ensuing vicissitudes to the vast majority of market prognosticators prior to 2020.

This is why "Prepare, don't predict" is such an important mindset at Mawer and lies at the heart of our investment process. Investing in a diversified portfolio of real businesses with strong competitive advantages, that generate recurring revenues, that have flexibility in their cost base, that maintain dominant industry positions, that are run by competent managers, and that refrain from taking undue risk from a leverage perspective, should lead to genuine wealth creation. While market sentiment can shift quickly and unpredictably in the short run, attractive risk-adjusted returns over the long term are the real prize.

Performance Summary[1] (%)
As of September 30, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	12.6	7.1	22.2	6.8	-	-	5.4
BENCHMARK	17.4	7.8	29.2	8.0	-	-	7.0

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 | Q3 2024 | EP168

Portfolio Manager Crista Caughlin discusses the economy and factors that drove markets in the third quarter of 2024.

Navigating the U.S. Mid-Cap Landscape: Resilience Amid Uncertainty | EP160

In this episode, Portfolio Manager Jeff Mo makes the case for investing in U.S. mid-cap equities, highlighting the country's strong business environment, large domestic market, and GDP growth. He discusses current market trends, including artificial intelligence, and his team's risk management evaluation, especially with a pivotal U.S. election looming on the horizon.

The U.S. Equity Landscape: Inflation, Artificial Intelligence, and Elections | EP166

In this episode, Grayson Witcher, the lead manager of the U.S. Equity Strategy, discusses the key drivers currently impacting the U.S. economy, including inflation, interest rates, artificial intelligence, and the upcoming presidential election. He emphasizes the importance of diversification and avoiding sharp edges—particularly during an election year. Grayson outlines the importance of and reasoning for his team's practice of monitoring company management changes in real-time and the value of investing in companies with strong leadership.

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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.

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