Mawer U.S. Equity Fund, Series A

Q4 2024 | Performance Commentary

Market Overview

The fourth quarter of 2024 marked significant shifts in global markets and economic trends. U.S. equities, especially at the larger end of the capitalization spectrum, demonstrated strength amid robust economic fundamentals and posted their best calendar return in over a decade. Momentum-driven fund flows reflected surging investor confidence, especially regarding potential policies from the incoming Trump administration around deregulation, corporate tax reform, and the ensuing impacts on growth.

International and emerging market equities lagged the U.S. given broader global challenges, including geopolitical fragmentation, the potential for further trade tensions, and an incredibly strong U.S. dollar.

Global central banks continued to ease this quarter, though the pace of easing varied. In December, the U.S. Federal Reserve communicated a more cautious approach to future interest rate cuts given solid economic and labor market activity while inflation concerns remained. Diverging policies highlighted economic disparities between nations, as growth indicators in Europe, China, and Japan are less robust.

Performance Summary

The portfolio underperformed its benchmark in the fourth quarter.

The biggest positive contributors included **Amazon** and **Alphabet** as both continued to benefit from substantial corporate spending on cloud services. **Visa** delivered solid results and reaffirmed guidance for the next year, helping investors shrug off concerns from the antitrust case filed by the Department of Justice over its U.S. debit business. For what it's worth, this segment represents a fraction of Visa's revenue, and we doubt the potential impact of the case will materially change the company's growth trajectory. Financial exchange operator **CME Group** benefitted from heightened volatility experienced during the quarter, which has led to a substantial increase in trading volume, and the company is focused on improving its margins through cost management.

Businesses that are closest to the infrastructure/capex AI build-out have been the primary initial beneficiaries so far; we have some of these companies, but less exposure to this theme than the broader market. A notable example in the portfolio is interconnect manufacturer **Amphenol**, which saw its sales from AI-related products increase by 60% organically over the last year. We do, however, have significant exposure to potential long-term beneficiaries from AI related applications. It may take several years for these companies to see the benefits of AI in their bottom lines, but we believe it should lead to sustainable long-term advantages. For instance, Alphabet has been using artificial intelligence to improve its return on ad spend through both automated ad creation and improved targeting, value-added features that have enticed customers spending.

Uncertainties introduced by the new administration in the U.S. has, in part, affected politically salient industries. Health care service providers **UnitedHealth Group** and **CVS Health** traded lower possibly because of the perceived growing risk of regulatory scrutiny, and **CACI International**, an IT consultant whose expertise mainly lies in developing systems for agencies under the U.S. Department of Defense, was likely impacted by concerns of a decrease in government spending. Elsewhere, leading manufacturer of life science products **Danaher** continues to perform well but noted weaker demand from its small, early-stage biopharmaceutical customers as they remain cautious with their investments. Finally, management consultant **FTI Consulting** experienced slightly weaker revenue as certain large clients' projects concluded. Worth noting that more difficult economic times are generally favorable for FTI due to its restructuring and bankruptcy business.

Overall, we would characterize the current market as exuberant—the market, as defined by the S&P 500, was up 36% over the past year. This type of outlier performance in the market with extremely narrow leadership and strong momentum is typically an environment where our investment style is challenged to keep pace. And given the magnitude of the underperformance over the past 12-months, this has impacted more medium-term results.

Additionally, "boring" businesses with strong competitive advantages like some of those that we have in the financials sector such as insurance brokers **Marsh & McLennan** and payment networks **Visa** and **Mastercard** have all done well by typical market standards but fell shy of the 36% return on the benchmark.

We believe there are many vulnerabilities present in the market today including a lack of diversification, elevated consumer and government debt levels, well above average valuations in certain pockets of the market, and complacency, greed, fear, and a potential sacrificing of long-term thinking by some investors. Mawer has been investing on our client's behalf for over fifty years, always with the same investment approach, discipline, and humility. While market sentiment can shift quickly and unpredictably in the short run, we feel that the portfolio is resilient and well set up for a multitude of alternative histories.

Portfolio Activity

There was one new addition to the portfolio during the quarter. We initiated a position in **OSI Systems**, one of the leading providers of security scanning equipment to border authorities and airports. Customers tend to stick with trusted providers due to the criticality of the technology, and OSI is most dominant in cargo scanning, a fast-growing segment where management has successfully gained market share over the years. Increased regulations and security spending provides additional skew to the investment case.

Earlier in the quarter we met with the management team of **Cognizant** and have subsequently decided to exit our position. We believe that IT consulting firms require exceptionally skilled management teams to 1) navigate an environment that is constantly evolving, and 2) execute sensible acquisitions that ultimately solidify their competitive advantages. Cognizant seems to have recently shifted its corporate strategy, notably its M&A strategy, to grow into new service lines and geographies rather than focus on its core activities. In an increasingly competitive industry, these changes raise concerns and may now put the company at greater risk of losing ground against competitors.

We have also exited our position in **Dollar General**. The dollar store operator seems to be unable to turn its operations around, partially due to a weaker macroeconomic environment for its lower-income consumer base, and potentially due to its lack of eCommerce capabilities. At risk of losing customers and sales to competitors offering greater convenience, Dollar General is in the unenviable position of needing to invest heavily in its technological capabilities. Finally, we eliminated **Pepsi** as we believe it faces limited growth from both pricing and volume, in addition to heightened uncertainties including the impact of GLP-1s drugs.

Elsewhere, we managed our utilities exposure by reducing our position in **Southern Company** in favor of **American Electric Power**. While both are well-managed businesses, American Electric Power benefits slightly more from a continued shift towards capital-intensive renewables and higher exposure to data centers. We also added to **Bio-Rad Laboratories** as early signs are suggesting that the demand for its consumables and life science instruments is recovering after customers such as pharmaceutical and biotech companies had been destocking some of its inventory.

Looking Ahead

Admittedly, there are important transitions occurring in the world today. Election results in 2024 can be broadly summarized as a resounding rejection of status quo incumbents and a swing to the right. A shift toward the G-Zero model coined by Ian Bremmer—a multipolar world devoid of global leadership—appears to have accelerated, with mercantilist trade policies and conflict on the ascendency. There's the promise of artificial intelligence. And bond investors appear increasingly wary of stretched government coffers.

In the 50 years of managing public equities at Mawer, we've lived through many transitions before: the fall of the Berlin wall; the advent of the Internet; China's accession to the WTO; the global financial crisis; the European sovereign debt crisis; and COVID-19. Each has produced winners and losers, albeit not always immediately obvious in the moment.

Throughout, we've abided by and iterated on a process designed to level temperament in the face of greed and fear. We've employed a risk management framework focused on guarding against the permanent impairment of capital—an absolute metric. And we've adhered to a philosophy focused on businesses that can withstand turbulence by, quite simply, selling a good or service their clients value at a price that more-than-covers the cost of capital by virtue of a competitive advantage, thereby creating wealth.

Investment firms traditionally mark their year-end commentary with forecasts for the coming year, and your news feeds will likely feature numerous predictions for 2025. Only one from us here at Mawer: that our commitment to the systematic application of our philosophy and process will remain.

Thank you for your continued trust and partnership.

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Performance Summary[1] (%)
As of December 31, 2024

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	21.7	4.7	21.7	7.0	11.6	13.0	8.9
BENCHMARK	36.4	9.0	36.4	13.8	16.9	15.6	11.0

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	21.7	14.4	-12.1	23.6	14.7	25.7	9.6	12.8	5.5	19.3
BENCHMARK	36.4	22.9	-12.2	27.6	16.3	24.8	4.2	13.8	8.1	21.6

[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 | Q4 2024 | EP178
We discuss 2024's economic landscape and what to expect in 2025, with Crista Caughlin, lead portfolio manager of the Mawer Canadian bond strategy. Crista highlights U.S. and Canadian growth trends, central bank rate adjustments, housing market dynamics, equity and fixed-income performance, and political uncertainties. She also discusses Mawer's asset allocation strategy, balancing risks with opportunities amidst shifting fiscal policies, trade tensions, and global economic developments heading into 2025.

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

Maintaining an All-Weather Strategy: The U.S. Mid Cap Equity Landscape | EP175
In this episode, we discuss the U.S. mid-cap landscape with Jeff Mo, manager of the U.S. mid cap equity strategy at Mawer. Jeff touches on risk management, emphasizing disciplined adherence to investment philosophy and the benefits of balancing risk and return through natural contradictions, like pairing discretionary consumer-focused SharkNinja with countercyclical firms such as FTI Consulting.

Additional topics include preemptive risk management, maintaining an all-weather portfolio, and leveraging a robust inventory process to adapt.

Banks Around the World: What Makes Top Financial Institutions Stand Out | EP171

Mawer portfolio managers and analysts discuss what they fundamentally look for in a bank as an investment. Specifically, how they view banks and the industry trends, as well as local dynamics, and ultimately what makes each of these businesses both unique and attractive. David Ragan discusses Scandinavian banks, highlighting Handelsbanken's smart lending and DNB's stability. Josh Samuel analyzes DBS in Singapore, emphasizing its low cost of funds and high ROE. Grayson Witcher focuses on J.P. Morgan in the U.S., noting its strong management and unique financial assets, while Alex Romaines examines First Citizens Bank in the U.S., which capitalized on market turmoil. Mark Rutherford covers Canadian banks, noting their conservative strategies and high ROE. Siying Li discusses HDFC Bank in India, and Asim Hussain explores Mitsubishi UFJ in Japan, emphasizing their unique upward-sloping yield curve.

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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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