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

Q4 2024 | Performance Commentary

Market Overview

The fourth quarter of 2024 marked significant shifts in global markets, economic trends, and the political landscape. U.S. equities, particularly at the larger end of the capitalization spectrum, demonstrated strength amid robust economic fundamentals and momentum-driven fund flows reflecting surging investor confidence, especially regarding potential policies from the incoming Trump administration around deregulation, corporate tax reform, and the ensuing impacts on growth. Canadian investors also benefitted from a sharply appreciating U.S. dollar.

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 Commentary

The portfolio lagged its benchmark during the fourth quarter, with some holdings influenced by developments in the political and economic landscapes. **CACI International**, a consultant whose expertise mainly lies in developing systems for agencies under the U.S. Department of Defense, was impacted by concerns of a decrease in government spending. Management consultant **FTI Consulting**, whose business tends to thrive during periods of stress given its restructuring and bankruptcy segments, also lagged given the optimism around economic growth.

Weaker results from **Advanced Drainage Systems**, a provider of plastic underground pipes, septic tanks, and other solutions used in stormwater and wastewater management systems, **Masterbrand**, the largest kitchen cabinet manufacturer in the U.S., and homebuilder **DR Horton** also weighed on portfolio performance. All three are exposed to housing, where unsold inventories of new single-family homes have been on the rise.

Partially offsetting these negatives, the portfolio exhibited real strength within its financials holdings as **Interactive Brokers**, **LPL Financial**, **First Citizens**, and **Pathward Financial** posted double-digit returns. All four were introduced to the portfolio within the last 18 months, and their share prices reflect enthusiasm for the benefits that the election results in both the executive and legislative branches of government may have for their businesses as well as the potential for interest rates to remain higher than previously anticipated.

Looking back over the full calendar year, we have mixed feelings. Delivering positive absolute performance on the back of several strong individual holdings should allow any bottom-up investor some modicum of satisfaction. Identifying the laser focus of CEO and co-founder Mark Barrocas in developing better household appliances at **SharkNinja** or the innate flywheel of better technology and better pricing that Thomas Peterffy built at **Interactive Brokers** did produce sizeable gains. But the satisfaction was tempered by a few clear analytical overreaches as a deterioration in fundamentals that weighed on stock prices for beauty and personal care retailer **Ulta**, dollar store operator **Dollar General**, health insurer **Humana**, and contact center operator **Concentrix** detracted meaningfully from overall returns. Most notably, we were too optimistic on a potential turnaround in Dollar General's operations with only limited evidence, and too persistent in our belief that the deductive reasons for artificial intelligence's ability to shrink Concentrix's contact centre outsourcing's addressable market were disproportionate. However, despite the intellectual setback in 2024, we remain cohesive and united as a team, and, most importantly, still possess the same unwavering belief that wealth-creating companies protected by competitive advantages, when assembled into a concentrated but diversified portfolio, is the most reliable way to create long-term wealth for our clients with below market levels of risk.

Portfolio activity

A benefit of having a single investment philosophy across Mawer's equity platform is that it leads to meaningful collaboration between asset classes and enhances our research process along with the quality of our decisions. All three of the initiations during the quarter benefitted from this inter-asset class dialogue with our U.S. equity and global small cap colleagues, and all three businesses benefit from market-leading positions and sterling reputations within the niches in which they operate:

- **OSI Systems** is one of the leading providers of security scanning equipment. OSI is most dominant in cargo scanning, where it enjoys a strong reputation and a technological edge, and 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. We believe the current valuation underestimates the quality of the business, while increasing regulations and security spending provides additional skew to the investment case.
- **AptarGroup** is a leader in producing nasal spray mechanisms and injectable closures with applications primarily for customers in the pharmaceuticals and consumer products industries. Over the last few years, we've seen more focused capital allocation, better execution, and a valuation that doesn't seem to reflect the strides the company has made in the interim. Aptar's products are mission-critical to their customers, despite being low cost, and the pharmaceutical segment especially benefits from having a treatment's dispensing mechanism included as part of the FDA approval.
- **Esquire** is a niche bank lending to U.S. plaintiff law firms that offers favorable loans for case-specific expenses while paying less for deposits. Securing funding from traditional banks is typically difficult for law firms as most banks lack the expertise to lend based on the asset value of the case, and cash flows are lumpy as they occur when cases are resolved which may take a few years. However, Esquire is one of the few banks with the expertise to underwrite large loans while having solid risk management guidelines.

Though we made a positive return over our year invested in specialty beauty and personal care product retailer **Ulta**, stiffer competition from Sephora reveals that our assessment of the strength of Ulta's competitive advantages may have been too optimistic. This, coupled with a slower macro environment and a full valuation, prompted an about-face.

By contrast, **Humana** has suffered a string of negative developments, the latest of which was a downgrade in its STARS rating by the Centers of Medicare and Medicaid Services, which will have a meaningful impact on Humana's competitive positioning. While margins have decreased in the last year due to a tougher reimbursement level, this deterioration in internal execution caught us by surprise. With both internal and external competitive pressures, the range of outcomes has become quite wide. We acknowledge that the company may turn around in the coming years and this would thus appear to be an attractive valuation, but the amassing negative developments and the lack of confidence that the company will return to wealth-creation led to the elimination.

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 50 years of managing 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.

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

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	14.6	1.7	14.6	4.9	-	-	5.5
BENCHMARK	25.8	7.1	25.8	8.4	-	-	8.7

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	-	-	-	-	-	-	-

[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 | 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.

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.

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.

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.

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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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