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

Q3 2025 | Performance Commentary

Market Overview

Strong corporate earnings, steady economic growth, and declining interest rates helped drive both stock and bond markets higher this quarter. While markets reacted sharply to the initial round of U.S.-led tariffs back in April, the anticipated risks of a tariff-driven recession or a spike in inflation have not yet materialized as originally feared and equity markets have been ebullient since.

The Federal Reserve cut interest rates in September, its first cut in 2025. Even so, interest rates remain restrictive versus the Fed's long-term target and markets expect further reductions later this year and into 2026, further elating equity investors. Meanwhile, gold, which is typically regarded as a hedge against inflation, set an all-time high in the quarter.

Virtually all sectors in the Russell MidCap Index delivered positive returns during the quarter, but mid cap stocks underperformed both their larger and smaller peers during the period. Smaller companies were greater beneficiaries of the excitement associated with rate cuts, while larger-cap companies continued to be led by technology stocks, and specifically those tied to AI and semiconductors. Defensive sectors like consumer staples lagged, though virtually all sectors delivered positive returns during the quarter.

Performance Commentary

The portfolio was unable to keep pace with its benchmark during the third quarter; however, there were a number of standout performers. Shares of contract research organization (outsourced pharmaceutical R&D and clinical trial operator) **Medpace** were up more than 50% post-earnings after the company announced better-than-expected results, accelerating growth guidance and a large share buyback, which seemingly triggered a "short squeeze" given high short interest going into the results. We think the results are incremental validation of the strength of the management team, but made a small trim given the large pull forward of returns. Connector manufacturer **Amphenol** continued to perform strongly given the AI backdrop and the explosion in demand for Amphenol's products from data centers. And recently initiated defense contractor **Northrop Grumman** rose thanks to a strong quarter and, with the passage of the "One Beautiful Bill," further evidence that U.S. defense priorities align well with Northrop Grumman's product portfolio.

However, offsetting these positives, a number of the portfolio's fintech holdings suffered pullbacks. Payments processor **Shift4**, electronic fixed income trading platform **TradeWeb**, and global corporate payments company **Corpay** reported weaker-than-expected transaction volumes and some margin pressures. Of the three, TradeWeb suffered the steepest decline given less interest rate volatility. In response, we added slightly to both Shift4 and TradeWeb on a more attractive valuation given we believe our investment thesis to be intact, whereas we held steady in Corpay given its above-average weight in the portfolio.

Finally, accounting firm **CBIZ** delivered results that underwhelmed the market, with management pointing to weaker non-recurring demand as the culprit. We remain positive on the company given its strong reputation, long-tenured management team, and a recent acquisition that should deliver meaningful synergies.

Looking Ahead

Markets are booming; what pockets of weakness exist are seemingly judged to be immaterial or benign. The juxtaposition of the generational rise in a commodity like gold, which is typically associated with periods of apprehension, while credit spreads grind ever tighter and equity markets set new record highs is admittedly curious. But even a significant shift lower in the U.S. dollar this year doesn't seem to have bothered the exuberant sentiment globally.

After a decade of concern about under-investment (recall some market commentators bemoaning the plethora of stock buybacks and lack of investment over the past 15 years), we are now in an era of massive capital expenditures. Estimates for corporate spending on data center infrastructure and semiconductors are projected to be several trillion dollars over the next three years, and those projections seem to rise every week. To borrow from a recent note from a JPMorgan strategist, since the introduction of ChatGPT in November 2022, AI related stocks are associated with 90% of capital spending growth, 80% of the earnings growth, and 75% of the returns for the S&P 500, a phenomenon that portfolios underexposed to this theme know all-too-well.

The (several) trillion-dollar question is: how will these investments be funded, and when will the return on investment take place? On the one hand, many of the tech giants making these capital expenditures are tremendously cash generative, governments are getting more involved given strategic imperatives, and the long-term potential of AI is indeed transformative. On the other, history reminds us that periods of rapid investment can invite excess. Elevated spending, even when well-intentioned, can lead to overcapacity or misallocation, especially if expectations for future demand prove too optimistic. While the current wave of enthusiasm for AI infrastructure is grounded in real technological progress, the path from investment to realized returns is rarely smooth or predictable.

Against this backdrop, we remain focused on the fundamentals. We prefer companies with meaningful competitive advantages, prudent balance sheets, and the ability to generate sustainable cash flows across a full cycle—not just on the upswing. While we are attentive to new opportunities, we are equally mindful of the risks that can emerge when optimism runs high. The approach is balanced, steady, disciplined, and rooted in the belief that despite inevitable periods of underperformance, boring can be sensible … especially when markets are anything but.

Performance Summary[1] (%)
As of September 30, 2025

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	2.7	4.2	4.4	13.9	-	-	5.1
BENCHMARK	6.8	7.4	14.4	18.2	-	-	8.8

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.

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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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