

## **Manulife U.S. Mid-Cap Equity Fund**

# Discovering a land of investment opportunity — one stock at a time.



The U.S. mid cap market offers an extremely wide range of investment opportunities. The official Standard & Poors definition for mid caps is companies with a market capitalization between USD 3.6 billion to USD 13.1 billion<sup>1</sup>; but defining mid caps solely through a market capitalization lens doesn't do justice to the mid cap space, or to the investment strategies that focus on it. Stock prices—and, therefore, market caps—can swing wildly these days without changes in underlying fundamentals.

Mawer Investment Management believe that market cap alone shouldn't be the sole criterion used to define a mid-cap strategy like the Manulife U.S. Mid-Cap Equity Fund. Mid-caps should be analyzed through a qualitative lens as well, as they tend to share certain characteristics that put them in the middle between stability and potential growth. Mawer defines mid caps as companies that are at a point where they've typically figured out the growing pains that small caps face—such as finding the right product-market fit, building out their sales and operational infrastructure, and knowing how to scale their business—but haven't yet reached full maturity.

This broader definition allows Mawer's portfolio managers the flexibility to consider companies from a market capitalization of just below USD 1 billion, all the way to USD 60 billion, and find companies that have compelling—and distinct—characteristics. Within that very wide canvas, mid cap companies they tend to favour and select for the Manulife U.S. Mid-Cap Equity Fund can be separated into two main categories:

<sup>1</sup> <https://www.spglobal.com/spdji/en/indices/equity/sp-400/#overview>

## 1. Established companies in niche industries

Mid cap companies aren't typically household names, but that doesn't mean they can't be dominant in their respective industry. It just means that the industry may be smaller or overlooked.

Humana, for example, has grown about 1% faster than industry average over the last 10 years. The company is also embarking on an interesting strategy, being very well positioned to benefit from the growth in value-based care.

Another example is FTI Consulting. Not many everyday investors know that company by name, but they are the largest provider in the U.S. of bankruptcy and insolvency consulting.<sup>2</sup>

## 2. Potential leaders in fast-growing industries

A bittersweet sentiment that most mid cap portfolio managers face during their career is to see a holding company grow to a point where it ultimately exits the mid cap investable universe. This typically happens when a company dominates an industry that grows above average for a long period.

A mid cap company that Mawer believes could be in this position of becoming a "leader in a fast-growing industry" is Charles River Laboratories. Charles River is a leading provider of preclinical contract research outsourcing work for large pharmaceutical companies and smaller biotech companies. It has supported the development of more than 80 percent of the drugs approved by the U.S. Food and Drug Administration (FDA) over the past three years.<sup>3</sup> Biotechnology Research & Development spending has increased significantly over the past 30 years,<sup>4</sup> as the cost of discovering and developing a newly approved drug is becoming increasingly expensive, and Mawer's portfolio management team believes that Charles River could be well-positioned to benefit from that trend.

Mawer's goal as portfolio managers for Manulife U.S. Mid-Cap Equity Fund is to build a well-diversified, standalone strategy, and not necessarily improve diversification vis-à-vis U.S. large caps specifically. However, they are strongly convinced that the above examples are high quality companies that have no large-cap equivalents in their respective niche industries and offer the potential to be a good complement to an investor's U.S. large cap exposure.

<sup>2</sup> Mawer's "The Art of Boring" Podcast, Episode 95, September 30, 2021.

<sup>3</sup> <https://www.criver.com/about-us>

<sup>4</sup> <https://www.science.org/content/blog-post/eroom-s-law>

## For more information, contact your advisor or visit [manulifeim.ca/usmidcap](https://manulifeim.ca/usmidcap)

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