# Mawer Balanced Fund, Series A

## Q1 2025 | Performance Commentary

### Market Overview

The first quarter of 2025 saw notable shifts in global economic momentum. Escalating tariff threats and trade tensions—which have compounded even further since the end of the quarter—cloud the economic outlook globally while intensifying inflationary pressures. This creates a challenging environment for central banks tasked with managing inflation while countering slowing growth.

Enthusiasm for U.S. equities pulled back amid weaker economic data, a drop in consumer sentiment, trade policy, and scrutiny over the pace of AI adoption. Notably, last year's narrow group of U.S. technology focused companies that had an outsized influence on overall market gains reversed in the first quarter. By contrast, European equities have risen driven by expectations for increased fiscal spending tied to defense and infrastructure commitments, decent corporate earnings, and a low starting point given that valuations in Europe have been far less elevated than in the U.S. Meanwhile, Chinese equities were buoyed by rising private sector confidence and enthusiasm for AI advancements, in part tied to the noteworthy release of DeepSeek's Large Language Model.

Canadian equities outperformed U.S. equities this quarter, largely due to the continued surge in gold prices—a safe haven amongst global uncertainty—which significantly benefited Canada's mining sector. Despite this positive for many metals and mining companies, Canada faces challenges from U.S. tariffs and is in the midst of a federal election campaign. Business confidence has also been dampened as trade tensions dominate the headlines. In an attempt to counter economic headwinds, the Bank of Canada cut interest rates twice during the quarter.

### Performance Commentary

Perhaps surprisingly given the backdrop, the first quarter of 2025 delivered positive returns for the overall balanced portfolio. Relative performance versus the benchmark was strong, driven primarily by outperformance from several of our equity strategies.

Our U.S. equity strategy benefited from strong performance of many resilient business models while many technology-focused companies pulled back—a net positive for the portfolio as we have a lower exposure to this theme than the broader market. Our global small cap equity strategy benefited this quarter as its underweight exposure to the U.S. and greater emphasis on European markets where valuations remained more favorable led to strong relative performance. Our international equity strategy also continued to perform well; a significant driver of outperformance was the portfolio's defense-related holdings as a rapidly evolving geopolitical landscape and rising defense spending in Europe have significantly increased demand expectations. Canadian bonds also delivered positive returns this quarter, providing some stability amongst the equity market volatility. The price of gold continued to rise throughout the quarter driven by global economic and geopolitical uncertainty. Our lack of direct exposure to the commodity in our Canadian equity strategy and Canadian small cap equity strategy was a headwind for their relative performance.

Some of our stronger performing holdings this quarter were defense-related: Germany's Rheinmetall, France's Thales, UK's BAE Systems, and Italy's Leonardo experienced stellar returns. A rapidly evolving geopolitical landscape and rising defense spending in Europe have significantly increased demand expectations. Additionally, all four companies stand to benefit from the critical importance of their products, and decades of consolidation and underinvestment in areas where they hold key competitive advantages.

A volatile backdrop proved beneficial for several of our holdings in financial exchange operators. Deutsche Boerse, CME Group, and TMX Group have been a beneficiary of greater interest rate volatility and volumes on their platforms. Intercontinental Exchange has also benefited from higher volumes.

Lower growth expectations combined with sticky inflation in the United States has led investors towards businesses with defensible revenue streams and relatively low economic sensitivity. These elements are foundational to insurance brokers holdings such as Arthur J. Gallagher, Marsh & McLennan, and Aon, all three delivered strong returns during the past quarter.

However, some of our semiconductor holdings took a breather this quarter after a brilliant few years prior. Leading manufacturer TSMC and single wafer atomic deposition provider ASM International suffered in part due to concerns about the sustainability of AI growth and how tariffs may disrupt the global supply chain. Similarly, many large technology focused companies including Alphabet, Microsoft, and Amazon declined this quarter with concerns around the pace of AI adoption and a slowdown in their cloud solutions.

CGI was potentially affected by negative sentiment from U.S. government cost cutting measures which weighed on many consulting businesses. Elsewhere, policy uncertainty and budget cuts have weighed on the biotech industry, including manufacturer of life science tools Bio-Rad Laboratories and Danaher, despite robust bioprocessing related orders.

Trucking company TFI International's U.S. segment saw a slowdown in volumes while tariff uncertainty likely also weighed on the stock. We remain confident in management given their historical track record.

From an asset mix perspective, in March we decreased our U.S. equity allocation as the valuation appeared more expensive than our other equity asset classes. We offset by increasing our international equity and global small cap equity allocation. This provides more exposure to European equities which have performed very well to start the year and may continue to benefit from some potential structural tailwinds including greater fiscal spending and broader commitments to increase defense spending. We believe this also improves the valuation characteristics within the broader portfolio, with our global small cap equity strategy valuation characteristics appearing especially attractive.

## Looking ahead

We are living through a period of substantial transition. Look no further than the steady stream of executive orders emanating from the Trump administration, the dramatic escalation in trade barriers, or Germany's recent commitment to spend €1 trillion on defense and infrastructure, forsaking its once unimpeachable debt brake.

Further complicating matters, while a realignment of the world economic and geopolitical order is occurring rapidly, the degree of policy uncertainty evokes the image of a four-way traffic stop, each driver glancing at the other waiting for the next move. Consumers debating whether to spend, central banks deliberating over the appropriate course of action, and companies determining if/when/where to make investments may delay these decisions in the face of heightened policy uncertainty.

At times like these, temperament matters as much as analysis. The temptation to react impulsively—to slam on the brakes or to accelerate too quickly—can be costly. While transitions create uncertainty, they also generate opportunity for those who remain clear-eyed.

The road ahead will have its twists, but our approach remains the same: prioritize resilience over reaction and discipline over distraction. Our North Star: a focus on attractively valued, well-run businesses that can withstand turbulence by, quite simply, selling a good or a service their clients value at a price that more-than-covers the cost of capital by virtue of a competitive advantage, thereby creating wealth.

Just like at a busy intersection, apply the right balance of focus, patience, and decisiveness.

### Performance Summary[1] (%)
### As of March 31, 2025

| | YTD | 3 Mo. | 1 Yr. | 3 Yrs. | 5 Yrs. | 10 Yrs. | Since Inception[2] |
|---|---|---|---|---|---|---|---|
| FUND | 2.6 | 2.6 | 8.9 | 6.0 | 7.5 | 5.9 | 8.0 |
| BENCHMARK | 1.0 | 1.0 | 11.1 | 6.7 | 9.9 | 6.3 | 7.8 |

### Calendar Year, as of December 31:

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| FUND | 10.9 | 10.1 | -12.5 | 9.3 | 10.6 | 15.0 | -0.3 | 10.0 | 3.2 | 10.5 |
| BENCHMARK | 15.2 | 11.2 | -9.6 | 10.0 | 10.7 | 14.2 | -2.7 | 8.4 | 7.4 | 6.2 |

[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 Balanced Fund Series A Inception: February 12, 1988

### Selections from Mawer's Art of Boring blog and podcast:

**Quarterly Update | Q1 2025 | EP 185**
In this Quarterly episode, Crista Caughlin, lead portfolio manager for Canadian bonds, and Jeff Mo, lead portfolio manager for U.S. midcaps, discuss market performance through Q1 2025 and the significant volatility that followed in early Q2—particularly after "Liberation Day" when the Trump administration imposed sweeping tariffs, followed by retaliation from other countries, and then a partial pause. The discussion explores how these trade tensions have created uncertainty affecting business confidence,

consumer spending, and investment decisions. Crista explains that the growth outlook has worsened due to this uncertainty, regardless of whether tariffs ultimately reach 10%, 25% or are delayed. Both emphasize the team's investment approach during this volatility relies on maintaining a disciplined process, avoiding "hero trades," and carefully modeling potential impacts on individual companies.

### A "Balanced" Perspective Amid High Uncertainty | EP180

In this episode, balanced portfolio manager, Steven Visscher, covers 2024 performance, asset allocation decisions, trade uncertainty, potential tariffs, and AI-driven productivity growth. Above all, he emphasizes long-term discipline, diversification, and avoiding emotional investment decisions in an unpredictable market environment.

### An AI Efficiency Breakthrough: DeepSeek's Impact

A sudden release from a Chinese AI start-up rocked markets last week. DeepSeek, a new large-language model (LLM), has demonstrated performance comparable to OpenAI's ChatGPT while dramatically reducing compute and power costs through innovative design and optimizations. This news has the potential to upend the current AI narratives and surrounding technology ecosystem that have been driving financial markets this cycle. This article delves into a number of technological, financial market, and portfolio construction implications from this AI-related news.

## Disclaimer

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**Benchmarks:**

| FUND | BENCHMARK |
|---|---|
| Mawer Balanced Fund | Jan 2012: 5% 91 Day Treasury Bill, 35% FTSE TMX Canada Universe Bond, 15% S&P/TSX Composite, 15% S&P 500, 15% MSCI EAFE (net), 7.5% BMO Weighted Small Cap (Blended), 7.5% Russell Global Small Cap<br>Aug 2013: MSCI EAFE (net) returns is used to calculate the blended benchmark from inception. Previously, MSCI EAFE (gross) was used.<br>Oct 2015: 5% 91 Day Treasury Bill, 30% FTSE TMX Canada Universe Bond, 5% FTSE WGBI, 15% S&P/TSX Composite, 7.5% BMO Small Cap (blended), 15% S&P 500, 15% MSCI EAFE (net), 7.5% Russell Global Small Cap<br>Oct 2016: 5% 91 Day Treasury Bill, 30% FTSE TMX Canada Universe Bond, 5% FTSE WGBI, 15% S&P/TSX Composite, 7.5% S&P/TSX Small Cap, 15% S&P 500, 15% MSCI ACWI ex-USA (net), 7.5% ACWI Small Cap (net)<br>June 2021: 5% FTSE Canada 91 Day TBill Index, 35% FTSE Canada Universe Bond, 15% S&P/TSX Composite, 7.5% S&P/TSX Small Cap, 15% S&P 500, 15% MSCI ACWI ex-USA (net), 7.5% MSCI ACWI Small Cap (net) |

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