Mawer EAFE Large Cap Fund, Series A

Q1 2025 | Performance Commentary

Market Overview

The first quarter of 2025 has seen significant 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 and intensify inflationary pressures. This creates a challenging environment for global 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 companies that had an outsized influence on overall market gains reversed in Q1. 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.

Performance Summary

The portfolio delivered solid returns but underperformed its benchmark in the first quarter, a fairly common pattern of behaviour for Mawer portfolios in strongly rising markets given our preference for steadier business models.

On the positive side, the portfolio's defense-related holdings were standouts: Germany's **Rheinmetall** more-than-doubled during the quarter, while France's **Thales**, the UK's **BAE**, and recently initiated **Leonardo** also experienced stellar returns. A rapidly evolving geopolitical landscape and rising defense spending in Europe have significantly increased demand expectations. Additionally, all four companies benefit from their existing customer base, the critical importance of their products, and decades of consolidation and underinvestment in areas where they hold key competitive advantages.

Elsewhere, exchange operator **Deutsche Boerse** has been a beneficiary of greater interest rate volatility and volumes on its platforms. And the portfolio's banks such as Norway's **DNB**, Sweden's **Handelsbanken**, and Japan's **Mitsubishi UFJ** all posted terrific returns, even though the portfolio's aggregate underweight to banking was a headwind to benchmark-relative returns.

Offsetting these positives, a number of our semiconductor equipment companies such as **Disco**, **Tokyo Electron**, and **ASML** took a breather after a brilliant few years prior. Pharmaceutical giant **Novo Nordisk** fell on greater competitive intensity in the obesity market, which it pioneered. We have trimmed Novo Nordisk five times over the past two years. Most of these trims were followed by an ever-advancing stock price. But the valuation discipline has proven worthwhile, materially reducing the impact of this past quarter's stock price movement vs. had we continued to let the position size run.

Finally, companies with exposure to the U.S. pulled back given a combination of a recalibration of the strength of the U.S. economy, risks associated with tariffs, and a weaker U.S. dollar. Examples include beverage and spirits company **Diageo**, hospitality provider **InterContinental Hotels**, recurring consumables distributor **Bunzl**, and construction equipment rental company **Ashtead**, all of which derive a substantial portion of their revenues from the U.S.

Looking Ahead

As we wrote under this banner three months ago, 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 recent 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	5.9	5.9	5.8	7.5	-	-	8.2
BENCHMARK	6.9	6.9	11.7	11.2	-	-	10.7

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	7.8	17.4	-17.1	15.0	-	-	-	-	-	-
BENCHMARK	13.2	15.1	-8.2	10.3	-	-	-	-	-	-

[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 EAFE Large Cap Fund Series A Inception: May 29, 2020

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.

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.

Dead Reckoning: Investing Lessons from the High Seas

This article will illustrate several ideations and tools investors can incorporate into their processes to navigate the choppy, mercurial waters of investing.

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Benchmarks:

FUND	BENCHMARK
Mawer EAFE Large Cap Fund	MSCI EAFE Index (net)

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