

# Mawer Global Small Cap Fund, Series A

## Q1 2025 | Performance Commentary

### Market Overview

The first quarter of 2025 saw 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 materially outpaced its benchmark in the first quarter of the year.

Some of the best performers this quarter were holdings that faced near-term temporary headwinds last year. Notably, engineering consulting firm Alten and professional employer organization Insperity, both of which we opportunistically added to on share price weakness in 2024. The management team at Alten reported stabilizing margins while being well positioned to gain market share as customers are placing greater reliance on their engineering outsourcing. Insperity reported a strong selling season in the fall in addition to early enthusiasm from clients for its new offering rolling out later this year in partnership with Workday.

Elsewhere, resilient European businesses in the portfolio have performed well including Orkla, a consumer-packaged goods company operating in the Nordics. The company continued improving its return on capital employed, sold a non-core asset to simplify the business, and achieved a second consecutive year of elevated cash returns via special dividends. Pension consultant XPS, a recent addition to the portfolio, noted strong demand from regulatory changes, new clients, and the strength of its resilient business model bolstered by inflation-linked contracts. Pharmaceutical company Fagron reported solid results and anticipates stronger growth and margin expansion driven by the addition of new supply capacity and the contributions from recent acquisitions. Finally, Bravida, a company that specializes in the servicing of HVAC and electrical systems, benefited from the stability of its maintenance activity and reported its installation volumes are set to gradually improve, fueled by lower interest rates and rising demand for renovations, infrastructure, and new construction.

Partially offsetting some of these positives, some of last year's largest contributors faced near-term setbacks: IT consulting firm Netcompany cautiously revised its growth outlook, as did provider of financial solutions Donnelley due to continued softness in the capital markets' transactional environment. Distributor of industrial products RS Group also faced weaker demand, but management remains focused on improving operations and is on track to deliver significant cost savings, which should improve margins. A downshift in sentiment towards business exposed to cyclical spending—whether from consumers or corporations—affected luxury watch retailer Watches of Switzerland Group, and market research firm Ipsos despite reporting solid results.

### 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 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<sup>1</sup> (%)

As of March 31, 2025

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception <sup>2</sup>
FUND	2.7	2.7	-4.3	2.0	5.8	6.4	9.6
BENCHMARK	-3.9	-3.9	6.0	6.5	14.0	7.8	7.3

## Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	-3.7	13.9	-17.7	4.8	14.8	24.4	-2.6	20.8	-0.7	29.1
BENCHMARK	17.4	13.7	-12.8	15.1	14.3	18.4	-6.7	15.7	8.3	18.3

<sup>1</sup>Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.

<sup>2</sup>Mawer Global Small Cap Fund Series A Inception: October 2, 2007

## **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 Global Small Cap Fund	Oct 2007: Russell Global Small Cap Oct 2016: MSCI ACWI Small Cap (net) Total Return index

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