Mawer Tax Effective Balanced Fund Series A

Q1 2026 | Performance Commentary

Market Overview

Headline returns for the first quarter masked a tremendous amount of dispersion across sectors, regions, and individual securities, as the war in the Middle East led to heightened volatility. The energy sector was the big winner, thanks to the surge in oil and gas prices. Despite support from a narrow set of commodity-linked companies, the broader risk is that a sustained energy shock could slow global growth, compress margins, and keep monetary policy tighter than markets had hoped.

Canadian equities were a beneficiary of this environment, supported by surging energy prices and elevated levels in gold and base metals. Gold, which many investors view as a traditional hedge, has been less reliable than expected, underscoring how unusual this regime shift has been. U.S. mega-cap technology faced a reckoning with questions about the return on hyperscaler capital expenditure, and there are also fears that AI is disrupting the software industry faster than anticipated.

Central banks navigated a difficult backdrop. The Bank of Canada continued to hold its policy rate steady following cuts towards the end of last year, and the U.S. Federal Reserve stayed on hold as re-emerging inflation pressures from higher oil prices complicated the case for further easing. Bond yields moved higher on heightened fears around the inflationary impacts of war and lofty energy prices. The market also faced concerns about private credit quality rippling through the financial system.

Performance Commentary

Over the full quarter, the balanced portfolio underperformed the benchmark. The Canadian bond strategy performed in line with the FTSE Canada Universe Bond Index over the quarter and our allocation to the global credit opportunities strategy enhanced the overall fixed income return. In the first two months of the year the balanced portfolio lagged the broader market as several of our quality-oriented equity strategies were unable to keep pace with their benchmarks. By contrast, as markets declined in March, the balanced portfolio offered downside protection.

With the conflict involving Iran disrupting the strait of Hormuz, the destruction of oil and gas infrastructure, and the resulting release of oil reserves around the world, there has been a surge in oil and gas prices. Some of our top performing holdings were energy companies that benefited from the price development including oil and gas producers **Suncor Energy**, **Canadian Natural Resources**, and **Parex Resources**. However, our underweight energy in the Canadian mid large cap equity and Canadian small cap equity strategies was ultimately a headwind to relative performance. In our Canadian strategies we increased our energy weight during the quarter, managing our exposure to this development. Another headwind for our Canadian strategies was from software business models which are being pressured by AI enthusiasm. This includes companies such as the ecommerce platform **Shopify**, and mission critical software providers **Constellation Software** and **Topicus.com**. We believe the market may be over-discounting the AI risk.

In the first two months of the year, our international equity strategy lagged the fervent advance of MSCI ACWI ex USA Index (Net) primarily due to weakness in a number of software and asset-light businesses. Notable examples include Japanese consultants **Nomura Research Institute** and **BayCurrent Consulting**, reference information providers **RELX** and **Wolters Kluwer**, and Chinese giant **Tencent Holdings**. Even businesses with more limited AI exposure, such as insurance broker **Aon**, payments platform **Adyen**, and Italian digital bank **FinecoBank**, were caught up in the sell-off. By contrast, as markets declined in March, the international equity strategy offered significant downside protection. The portfolio's energy exposure, including **Shell** and recent initiations in Brazil's **Prio**, Australian LNG leader **Woodside Energy**, and Norway's **Equinor**, provided ballast. The portfolio's defense holdings, led by South Korea's **LIG Nex1**, the UK's **BAE Systems**, and Italy's **Leonardo** also played their role from a portfolio construction perspective in offering shelter in an increasingly fractured geopolitical world.

Our U.S. equity strategy performed in line with the S&P 500 Index in the quarter. The market experienced a sharp rotation, with capital flowing towards areas of the market perceived as less vulnerable to disruption from AI, reflecting a growing preference for steady, cash flowing businesses with physical assets. In addition to reporting solid results, this has created tailwinds for some of our investments including telecommunications company **Verizon Communications**, and utilities **The Southern Company** and **American Electric Power Company**. While the impact of geopolitical developments in the Middle East continues to make waves in global markets, defense-related companies have helped mitigate some of the risks currently unfolding and provided a hedge in the portfolio. This includes our positions in defense manufacturer **Northrop Grumman** and supplier of nuclear reactors for departments of the U.S. government **BWX Technologies**. Elsewhere, the market has been pressuring the hyperscalers this quarter—namely **Microsoft**, **Amazon.com**, and **Alphabet**—as investors have been digesting massive, reported capex commitments that could weigh on margins before revenue benefits are realized. Concerns in the market also grew around businesses that may be at risk of disruption by AI, which dragged down payment networks **Visa** and **Mastercard**, along with insurance broker **Arthur J. Gallagher**.

Our global small cap equity strategy underperformed this quarter, most notably from concerns growing around businesses that may be at risk of disruption by AI and the market indiscriminately dragged down a multitude of software providers and capital-light businesses. Share prices of human resources companies **Barrett Business Services** and **Insperity**, as well as consulting firms **Alten** and **XPS Pensions Group**, declined as their business models are perceived by the market as potentially being negatively affected by AI.

Despite the current environment, we believe quality as an investment style remains enduring. Quality has a strong track record of holding up better than the broader market when conditions begin to deteriorate, and of recovering strongly when fundamentals reassert themselves. Characterized by a more contested and complex global order, we believe that the current environment warrants heightened diversification to manage uncertainty and better withstand a wider range of potential outcomes. The changes we made to our equity portfolios over the last few quarters fell into broad themes: conflict in the Middle East and rising geopolitical risk, AI disruption (perceived or real), and broadening diversification.

The Balanced portfolio entered the quarter with a fairly neutral overall asset mix, consistent with our broader effort to increase diversification and avoid concentrated tilts in an uncertain environment. As the equity weight moved higher early in the period, we trimmed back to maintain this neutral stance while adding to Canadian bonds and global credit. Over the prior year, we slightly tilted the portfolio away from U.S. equities on concerns about extended valuations, while also directing proceeds toward global credit to reduce overall portfolio duration and capture yields meaningfully higher than money market alternatives. This quarter, we restored our neutral U.S. equity weight, adding to both U.S. equity and U.S.

mid cap while reducing global small cap and, to a lesser extent, international equity. While U.S. valuations remain elevated in absolute terms, valuation is not the only factor we consider. The resilience of U.S. growth, the economy's relative insulation from higher energy costs, and subsiding concerns about the U.S. dollar's reserve currency status all factored into our thinking.

Looking ahead

The most immediate question facing markets concerns the war in the Middle East. Several paths remain plausible: a relatively brief and contained conflict; a more prolonged disruption to energy supply that keeps oil prices elevated and complicates the job of central banks as inflation re-emerges; or a broader escalation that weighs more heavily on the global economy and reshapes the energy and security landscape for longer than markets currently expect.

Stepping back, however, this is not an isolated shock. The rules-based global order and the period of relative peace that followed the Second World War have been weakening for some time. Assumptions that once felt durable—stable globalization, low inflation, and low capital intensity—look less reliable today. Supply chains are being tested by geopolitics. Energy, input costs, and other “harder” assets have reasserted their economic importance.

At the same time, AI is accelerating competitive change across industries while also amplifying market narratives in ways that can detach short-term pricing from underlying business value. When market movements are broader and more thematic, periods of under-performance have historically proven to be longer-lasting and more acute. But it also means the payoff for investors who continue to adhere to a sensible investment strategy can be larger.

Our focus remains on the familiar questions: where are the real competitive advantages, how durable are they, what returns can be earned on incremental capital, and are management teams allocating that capital with discipline? Those questions still anchor our bottom-up equity process, even if the world around them has become more noisy and more complex.

But it also means adapting; to borrow from Canadian Prime Minister Mark Carney, “Nostalgia is not a strategy.” There is a relentless need to be forward-looking. A different regime calls for refinements to the playbook: broader diversification, careful position sizing, and a willingness to respond as probabilities shift rather than anchoring on yesterday’s conditions. Patience remains essential, but so does agility when the facts change.

If there is a steadying thought in all of this, it is that the core drivers of long-term investment results have not changed. Markets will continue to swing between fear and greed. The short-term “voting machine” will often overshadow the long-term “weighing machine.” Narratives will periodically run ahead of evidence. Our task isn’t to predict every headline, but to build resilient portfolios of wealth-creating businesses, bought with discipline, and managed with a clear-eyed view of risk. In a world that is asking more of investors than it did a few years ago, that discipline matters more, not less.

Performance Summary[1] (%)

As of March 31, 2026

	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception[2]
FUND	**0.0**	**0.0**	**6.5**	**8.7**	**5.0**	**6.4**	**7.6**
BENCHMARK	1.6	1.6	16.9	13.0	8.2	8.1	8.0

Calendar Year, as of December 31:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FUND	**3.3**	**9.9**	**-0.3**	**14.9**	**10.7**	**9.2**	**-12.4**	**10.1**	**11.0**	**9.3**
BENCHMARK	7.4	8.4	-2.7	14.2	10.7	10.0	-9.6	11.2	15.2	16.1

[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 Tax Effective Balanced Fund Series A Inception: January 8, 1988

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Benchmarks:

FUND	BENCHMARK
Mawer Tax Effective 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 Aug 2013: MSCI EAFE (net) returns is used to calculate the blended benchmark from inception. Previously, MSCI EAFE (gross) was used. 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 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% MSCI ACWI Small Cap (net) Jun, 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)

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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