Mawer Balanced Fund, Series F

Q2 2026 | Performance Commentary

Market Overview

Headline returns in the second quarter looked strong, but the underlying drivers were AI-related technology companies, particularly semiconductors and memory manufacturers, many of which are concentrated in Asia (regional leadership from South Korea and Taiwan). Hyperscaler capital expenditures fueled global demand for memory and advanced logic chips which flowed through companies such as TSMC, Samsung, and SK Hynix (to name a few) and beneath them, many parts of their respective supply chains. Importantly, this quarter was not just a story of valuation expansion but of strong fundamentals. The capital spending is real, with hyperscalers committing to ever higher levels of investment.

The Initial Public Offering (IPO) market has also come alive in a way that warrants attention. SpaceX completed the largest IPO in U.S. history in June with other large IPOs planned—but not confirmed—for this year which has elevated both enthusiasm and potential risk. A hot IPO market is not, on its own, proof of a bubble, but it is one more data point in a broader mosaic of speculative enthusiasm that merits continued attention.

In Canada, inflation accelerated more than expected, driven by rising gasoline prices as the impact of the Iran conflict continued to filter through energy costs. A U.S.-Iran interim agreement opened a window during which the Strait of Hormuz partially reopened, pushing crude prices sharply lower. That relief proved temporary as renewed military strikes between the two countries have reignited the conflict, and oil prices have moved back modestly higher. A full return to pre-war oil production levels may be further out in the future depending on how this escalation unfolds.

Central banks navigated a materially more complicated quarter than the one before. The Bank of Canada held its overnight rate steady this quarter, choosing to look through what it views as a supply-driven inflation shock rather than tighten into an economy that contracted for a second consecutive quarter. In the United States, the Federal Reserve also held its rate steady, but the June meeting marked a significant shift in tone with roughly half of the Fed committee members projecting at least one rate increase this year. The Fed is not yet raising rates, but the committee seems to be less patient with persistent inflation. Elsewhere, the European Central Bank delivered a rate increase.

Performance Summary

Despite underperforming the benchmark during the quarter, the portfolio captured a meaningful portion of the market's advance, resulting in strong absolute returns. We are pleased with the way our quality-oriented equity portfolios performed this quarter, as we wouldn’t expect the equity strategies to keep pace with their benchmarks in this surging market environment that has been dominated by AI enthusiasm and capital expenditure. Given our diversified investment approach and the S&P 500's narrow concentration, our U.S. equity strategy was the most significant underperforming equity strategy within the portfolio. Canadian bond and global credit opportunities strategies delivered modest positive returns, the component of the balanced strategy that is intended to be a stabilizer during periods of volatility.

Some of the strongest performers this quarter, almost without exception, were companies tied to the building of artificial intelligence. This includes expectational performance from memory stocks: **Kioxia Holdings**, **SK Hynix**, and **Kokusai Electric**. Other strong performers were tied directly to AI infrastructure buildout. **Amphenol** benefited from demand for its interconnect products, which **NVIDIA** uses to connect GPUs; **AAON** from its data center cooling systems; **King Slide Works** which makes the rail kits that hold servers in their racks; and **Texas Instruments** from its power-management components used in data centers. Other standouts included advanced foundry **TSMC** and equipment makers such as lithography leader **ASML Holdings** and atomic layer deposition specialist **ASM International**.

Much of our discounted cash flow work has focused on the supply and demand bottlenecks at the heart of the AI theme: how durable they are, what incremental capex and capacity look like, and what it means for pricing, cash flows, and wealth creation. The honest answer is that the range of plausible outcomes is exceptionally wide and we are closely monitoring our positions and diversifying our exposure within the AI supply chain.

On the other side of the artificial intelligence trade are the perceived market losers from wider AI adoption. U.S. companies such as **CACI International** and **FTI Consulting** as AI clouds the outlook for consulting services, **Intercontinental Exchange** as its mortgage software business faces AI disruption risk, and Chinese **Tencent Holdings** on a negative sentiment towards Chinese internet stocks and the perception of being an AI loser.

When a company is faced with AI related concerns; we responded case by case, maintaining positions where competitive advantages remain rooted in proprietary data, deep workflow integration, client trust, and regulatory moats, and trimming where the balance of risk and reward became less favourable. In Canada, while **Shopify** was also viewed as potential AI casualty by the market, we added to the position in our Canadian mid large cap equity strategy on stock price weakness after strong earnings and a positive growth outlook as AI is helping with onboarding and improving customer service.

Despite ongoing uncertainty surrounding the conflict in the Middle East, oil prices moderated during the quarter as it appeared that the worst-case scenario for exports through the Strait of Hormuz had been avoided. This led to a decline in stock price for many of our energy holding including **Canadian Natural Resources**, **International Petroleum Corporation**, **Shell**, **Equinor**, **Prio**, and **Parex Resources**.

Near-term performance in gold related holdings such as **Agnico Eagle Mines**, **Franco-Nevada**, **OR Royalties**, **Sprott**, and **Skeena Resources** was weak as gold pulled back from prior highs. These moves did not materially alter our longer-term rationale for owning real assets as a portfolio diversifier and hedge against persistent geopolitical risk.

Within the balanced strategy, equity appreciation naturally drifted the asset mix higher; we trimmed back the areas of greatest strength and redirected proceeds into fixed income to bring the portfolio closer to its intended center. We retain a preference for international equity and emerging markets, where valuations remain more reasonable relative to the U.S., while our U.S. equity strategy's lower exposure to the most concentrated AI leaders serves as a partial hedge should those names come under pressure.

Looking Ahead

With the World Cup capturing the world's attention, a soccer analogy feels timely. A winning team does not field eleven of the same position. Each player has a job, and how they work together matters as much as any individual's brilliance. A team built to win over a full season needs players for every role and every condition: goal scorers undoubtedly, but also midfielders who control the run of play and defenders who keep the ball out of the net when the opposition presses.

Since the release of ChatGPT in November 2022, the strikers have been running up the score. Artificial intelligence has become the single force pulling the market along, and in many cases making portfolios that aren't fielding an overabundance of strikers look silly by comparison. The result is a market and a global economy where growth has been concentrated more than at almost any point in living memory. Profit inflections are lighting up the highlight reel as opposed to profit stability.

Markets have always produced a small number of giants, with the distribution of corporate success lopsided by nature: finance professor Hendrik Bessembinder's fascinating research covering a century of stock price returns demonstrates that there is a profound skewness in individual stock returns, with a relatively small proportion of companies driving the lion's share of the overall market's wealth-creation over the long term.

The lesson we draw from this is not that one should chase whatever is winning. Our portfolios certainly do field strikers; memory being the clearest example over the past year. We've been selective and disciplined: identifying terrific, wealth-creating companies when the odds were in our favour and carefully managing position sizes thereafter.

But this brings us back to the rest of the team. The businesses that have appeared dull of late (think: distributors that quietly pass rising costs through, exchanges and payments companies that benefit from strong network effects, the insurance brokers and credit card providers that simply keep compounding) are not players we have forgotten to substitute. They are on the pitch by design. Their ballast carries a cost in a market currently shaped by a few extraordinary winners, but we regard it as a price worth paying.

In investing, matches aren't won by the side that attacks most furiously for only twenty minutes, nor by the one so afraid of conceding that it never ventures forward. Both are required. Our intention is to keep fielding a team that can play well across a full season with room for genuine stars, but anchored by businesses with durable advantages, sound balance sheets, and the ability to generate sustainable cash flows across a full cycle.

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Performance Summary[1] (%)

As of June 30, 2026

	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception[2]
FUND	**7.2**	**7.2**	**10.5**	**10.9**	**5.7**	**6.9**	**8.1**
BENCHMARK	8.4	10.2	21.4	15.8	9.0	8.6	8.2

Calendar Year, as of December 31:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FUND	**3.2**	**10.0**	**-0.3**	**15.0**	**10.6**	**9.3**	**-12.5**	**10.1**	**10.9**	**9.2**
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 Balanced Fund Series F Inception: February 12, 1988

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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 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% ACWI Small Cap (net) 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)

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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