Mawer EAFE Large Cap Fund, Series F

Q2 2026 | Performance Commentary

Market Overview

Equities had a remarkable quarter, with the MSCI EAFE Index advancing +12.7%, one of its best quarterly performances since mid-2009 when markets began to rebound off their Global Financial Crisis lows. Whereas that advance in 2009 was fairly widespread, market leadership today has been extraordinarily narrow, concentrated in the machinery of artificial intelligence: semiconductors, the hardware around them, and the equipment that makes them.

To be fair, this momentum hasn't been unmoored from fundamentals; corporate earnings have been robust with net margins near record levels. The capital spending is real, with hyperscalers committing to ever higher levels of investment, and many of the profit inflections are substantial: look no further than memory companies where bottlenecks in supply have radically reshaped the nature of pricing and contracts with their customers.

On the other hand, energy completed a round trip: the surge on the Iran shock unwound almost entirely in Q2 as Brent fell back toward the low $70s. Perhaps surprisingly, given what feels like a world of greater conflict, the defense industry lagged in Q2, most notably as Germany signaled it may abandon a warship program.

Performance Summary

Given our diversified investment approach and the exuberant nature of the environment, we weren't surprised that the portfolio's return fell just shy of that of its benchmark.

The largest contributors were, almost without exception, companies tied to the building of artificial intelligence. Memory manufacturer **Kioxia** almost quadrupled in the quarter alone. Much of our discounted cash flow work in recent weeks has focused on the supply and demand bottlenecks at the heart of Kioxia's advance: how durable it is, 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 day-to-day the stock has been volatile. Beyond Kioxia, other standouts included lithography leader **ASML** and semiconductor equipment manufacturers **Tokyo Electron** and **DISCO**.

Offsetting these positives, the largest drags on performance came from areas that lagged the broader market: energy and defense. **Shell** gave back ground as energy prices fell from their Middle East conflict-driven spike, while defense businesses such as **Rheinmetall** and **BAE** retreated. Rheinmetall's fall provides some validation to our decision to meaningfully reduce our position a year ago on concerns that its valuation may underestimate that rearmament budgets are merely intentions before they become earnings. Finally, **Ahold Delhaize** detracted as well for the unremarkable reason that a steady grocer holds little appeal in a quarter when investors are enthralled by silicon.

Looking Ahead

With the World Cup this summer, 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; semiconductor-related business such as Kioxia, ASML, and Tokyo Electron the clearest current examples. 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 that benefit from strong network effects, the grocers and insurance companies 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.

Performance Summary[1] (%)
As of June 30, 2026

	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception[2]
FUND	**11.7**	**10.4**	**14.5**	**13.8**	**7.8**		**9.8**
BENCHMARK	12.7	13.3	25.0	19.2	12.1		13.5

Calendar Year, as of December 31:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
FUND	-	-	-	-	-	**15.0**	**-17.1**	**17.4**	**7.8**	**15.9**
BENCHMARK	-	-	-	-	-	10.3	-8.2	15.1	13.2	25.1

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

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Benchmarks:

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

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