Mawer Tax Effective Balanced Fund, Series F

Q3 2026 | Performance Commentary

Market Overview

After a torrid spring, equity markets delivered more muted returns in the third quarter. Corporate earnings, and especially those tied to the AI buildout, remain historically strong. Energy stocks thrived on higher commodity prices, related closely to the ongoing conflict in the Middle East. But these were offset by a pullback in sentiment for some of the year's highest-flyers (i.e., memory chip companies) while consumer-oriented parts of the market weakened in the face of rising costs.

Fixed income markets were more challenging. Longer-term government bond yields in developed markets rose meaningfully as investors demanded greater compensation for holding long-term debt. Persistent inflation, stronger growth expectations, and widening fiscal deficits all contributed to the move. The Bank of Canada held its overnight rate steady, while the Federal Reserve and several other influential central banks raised rates during the quarter.

The balancing act between a resilient economic backdrop and numerous risks continues to persist. Healthy nominal growth and corporate earnings may continue to support equities, particularly if interest rates stabilize. At the same time, higher yields are tightening financial conditions through mortgage costs and debt-service burdens, while risks are emerging in lower-quality areas of credit markets.

Performance Summary

The portfolio modestly underperformed its benchmark this quarter as gains in equities were not enough to offset weakness in fixed income. Rising global bond yields weighed on Canadian bonds, although our underweight to Canadian bonds and the inclusion of an allocation to global credit opportunities, which outperformed domestic fixed income helped cushion the impact. Within equities, the portfolio's larger capitalization strategies delivered positive returns. Meanwhile, smaller capitalization asset classes such as global small cap and U.S. mid cap suffered negative returns, and Canadian small cap posted a small gain. Emerging markets also pulled back on negative sentiment surrounding memory chip companies. Our equity strategies delivered mixed results relative to their benchmarks this quarter.

Technology related holdings remained an important influence on performance, particularly companies exposed to computing infrastructure and data centre investment, however returns were more mixed than in the previous quarter, underscoring the continued volatility of AI-related investments. Among the strong performers were **King Slide Works**, a Taiwan-based manufacturer of server rail kits, and **ASPEED Technology**, a Taiwan-based fabless semiconductor company specializing in baseboard management controllers. Both companies have benefited from aggregate investment in AI and data centre capacity. Conversely, memory-related holdings detracted following a strong advance in the first half of the year. **Kioxia Holdings,** a Japanese supplier of flash-memory products, declined alongside **SK Hynix**, **Sandisk**, and **Samsung Electronics**. **Hammond Power Solutions**, a manufacturer of electrical transformers, and **Acter Group**, an engineering firm specializing in clean room design serving semiconductor manufacturers, also detracted after performing well in the first half of the year. Meanwhile, **Microsoft** and **NVIDIA** continued to advance higher, backed by greater AI adoption.

Several of our energy holdings benefited from the stronger commodity price environment. In Canada this included **Suncor**, **Canadian Natural Resources**, and **Gibson Energy**, while international beneficiaries included **Shell**, **Prio**, and **Equinor**. Gold-related holdings also benefited from higher prices, including **Franco-Nevada**, a royalty and streaming company, and **Agnico Eagle Mines**, a gold producer. We continue to view real assets as an important source of diversification in an environment characterized by fiscal pressures, geopolitical uncertainty, and evolving expectations for interest rates and inflation.

Select financials businesses contributed more strongly as interest-rate expectations evolved. **Intercontinental Exchange, Deutsche Boerse,** and **CME Group**, operators of leading financial exchanges and market infrastructure, benefited from robust trading activity. Meanwhile, rate sensitive businesses detracted including utilities **American Electric Power** and **Southern Company**. Rising mortgage rates also posed headwinds for aggregates supplier **Martin Marietta Materials**, given its exposure to residential and commercial construction. **CTP**, an Eastern European industrial real estate company, declined as rising bond yields put pressure on property valuations and its leverage profile.

The portfolio maintained a modest overweight to equities for most of the quarter before we reduced the allocation toward neutral in late August. Proceeds were directed primarily to fixed income and cash equivalents, which we believe should provide greater resilience in the portfolio. As we have become increasingly cautious amid higher global bond yields, this adjustment also reduced the portfolio's overall exposure to longer-duration assets.

Looking Ahead

As we've written in the last few quarters, in addition to well-publicized headline challenges (inflation, war, upcoming elections), the investment landscape is shifting rapidly: the recent sharp rise in bond yields is just another question in a world already in the midst of a changing technological and geopolitical regime.

On the one hand, discount rates are the foundation for valuing all cash-producing assets, and equities certainly have duration (think: 2022). On the other hand, investors have been willing to pay less for each dollar of profit, but growing earnings have helped cushion the impact, leading to a gradual decline in share prices rather than a sharp drop. The question now is whether that adjustment is complete.

This environment presents genuine opportunities and real challenges; portfolio turnover that has been higher than historical norms is a natural outcome given the environment, especially given outsized stock price movements. While higher rates have provided opportunities for attractive entry points for many steady compounders, the pace of technological change and capital redeployment is accelerating and genuine wealth-creators solving novel problems still deserve meaningful exposure. The discipline lies in careful position sizing and, at a portfolio level, how much we commit to each.

That balance and humility—preparation without overconfidence, conviction without rigidity—is both our sword and our shield.

Performance Summary[1] (%)

As of September 30, 2026

	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception[2]
FUND	**-0.6**	**6.6**	**6.6**	**11.7**	**5.4**	**6.5**	**7.7**
BENCHMARK	-0.3	9.8	12.5	16.5	8.9	8.1	8.1

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 F 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)

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