Mawer Balanced Fund, Series A

Q2 2025 | Performance Commentary

Market Overview

The second quarter of 2025 was marked by a strong rebound in equity markets as global stocks recovered from April's tariff concerns. The market's strength suggested some investor optimism that trade negotiations could eventually yield results, such as less disruptive trade relationships. However, the complex interplay of trade policy tensions and renewed geopolitical risks—most notably the conflict in the Middle East—remains at the forefront. Protectionist measures continued to weigh on sentiment, with the expiration of the 90-day tariff reprieve looming in early July and the risk of new unilateral tariffs remaining elevated.

The intermittent nature of tariff threats from Washington, combined with the risk of further escalation in the Middle East, continued to create a challenging environment for global central banks and investors. The Bank of Canada (BoC) held rates steady at 2.75% this quarter, citing stronger-than-expected inflation and GDP, as well as ongoing trade uncertainty. The U.S. Federal Reserve also held rates steady throughout the second quarter, with ongoing strength in the labor market and the potential for inflationary pressures to grow.

Equity market leadership rotated back to the recurring 2024 theme of U.S. large-cap technology stock outperformance after they collectively posted generally strong earnings results. Easing trade tensions also supported European and Asian equities. Despite the war between Israel and Iran, the energy sector was a laggard as OPEC announced increased production quotas which weighed on oil prices. The performance of healthcare stocks was also generally challenged after a decent start to the year.

Performance Commentary

The portfolio delivered positive returns this quarter but underperformed the benchmark. Relative performance was driven by the underperformance of our U.S. equity strategy, which has faced challenges as the underweight to market leading tech-focused companies was a headwind while at the same time some of the more traditionally stable businesses in the portfolio sold off.

The prospect of an increase in global defense spending and considerably heightened geopolitical risk have led to strong performance from companies positioned to benefit from the development. Our international equity holdings in Germany's **Rheinmetall** and UK's **BAE Systems** continued to be strong performers as a result of expectations for increased European defense spending and strong internal execution. South Korea's **LIG Nex1**, a holding with a focus on electronics for military systems including air defense systems, also had a standout quarter. Elevated U.S. government spending on defense, modernization, and national security priorities has expanded the contract opportunities for defense contractor **CACI International** and supplier of nuclear components and fuel **BWX Technologies**. BWX Technologies has seen greater demand for its nuclear components and services, particularly for the

U.S. Navy and nuclear modernization programs. Our diversified holdings in the defense industry are a product of each company offering a differentiated and unique thesis that reflects our fundamental research. As some global defense stocks have rallied recently, we remain attentive to valuation.

Our holding in advanced semiconductor manufacturer **TSMC** benefitted from increasing spending on AI infrastructure while its technological leadership provides the competitive advantage to translate higher demand into genuine wealth creation. **ASM International** and **DISCO**, two companies in TSMC's supply chain, similarly enjoyed strong performance.

Within our underlying equity holdings there were several areas that underperformed over the quarter. Insurance brokers **Aon**, **Marsh & McLennan**, and **Arthur J. Gallagher** reported results that disappointed relative to expectations as margin pressures weighed on their traditionally defensive profiles. Shares of luxury goods conglomerate, **LVMH**, declined over the past three months due to ongoing macro uncertainty and softer demand from American, Chinese, and Japanese consumers. Recurring consumables distributor **Bunzl** fell sharply on a profit warning, with management citing increased competition and internal execution issues.

Several healthcare holdings, including **UnitedHealth Group** and **Becton Dickinson**, experienced significant declines this past quarter. A portion of UnitedHealth's business, Medicare Advantage, has been under pressure from lower reimbursement by the U.S. government while it has seen higher cost due to increased claims. This came out while the company is under investigation for Medicare fraud, replaced their CEO, and missed guidance for the first time in over a decade, which has caused the market to lose confidence. Provider of medical supplies Becton Dickinson saw its stock price impacted by tariff headwinds.

From an asset mix perspective, we made a modest reduction to our U.S. equities weight, reallocating some of the proceeds to our global small cap equity and emerging markets equity strategies. These adjustments enhance the geographic and currency diversification of our overall equity exposure. While we remain slightly overweight U.S. equities relative to our benchmark, our weight is noticeably lower than the last few years.

Looking ahead

Despite many equity markets nearing or reaching all-time highs, we are in a period of significant uncertainty as we navigate a complex geopolitical environment. Escalating tariff and trade tensions cloud the economic outlook and may intensify inflationary pressures. Ultimately, the secular themes of de-globalization, protectionism, increased geopolitical conflict, stretched government finances, and a multi-polar world continue to gain momentum.

Last quarter, we noted that the degree of policy uncertainty evokes the image of a four-way traffic stop, with each driver glancing at the others, waiting for the next move. This dynamic continues, as businesses delay investment decisions until a more certain future becomes apparent. Consumers face a similar challenge as they debate whether to spend amid uncertainty around how their finances will evolve. Returning to the four-way traffic stop analogy, it appears that, for now, businesses and consumers don't mind waiting if it means avoiding a crash in the intersection.

In times like these, we are reminded of the importance of having strong management teams at the helm of our portfolio companies—teams that we believe are positioned not only to navigate through uncertainty but also to capitalize on opportunities as they arise. We believe that maintaining a high-quality, diversified portfolio with prudent risk management is as important as ever, especially as new market dynamics continue to emerge.

Performance Summary[1] (%)
As of June 30, 2025

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	5.9	3.2	12.5	10.7	6.2	6.4	8.1
BENCHMARK	5.4	4.4	14.2	12.2	8.3	6.8	7.8

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	10.9	10.1	-12.5	9.3	10.6	15.0	-0.3	10.0	3.2	10.5
BENCHMARK	15.2	11.2	-9.6	10.0	10.7	14.2	-2.7	8.4	7.4	6.2

[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 A Inception: February 12, 1988

Selections from Mawer's Art of Boring blog and podcast:

Quarterly Update | Q2 2025 | EP 193
In this episode Canadian bond portfolio manager, Crista Caughlin, and balanced portfolio manager, Steven Visscher discuss Q2's market and economic activity. Topics covered include "Liberation Day's" tariff shocks, central bank policies, inflation, and other themes.

Customizing the Last Mile: AI, Innovation, and Mawer's Tech Evolution | EP 192
In this episode, Justin Anderson, Mawer's Chief Technology Officer, sits down to discuss the evolving "build-in vs. build-out" technology framework. Justin explains how Mawer approaches technology decisions—balancing vendor solutions with in-house customization—and shares practical examples from the firm, including proprietary solutions such as trade&MAWER and M42. The conversation explores how advances in AI and large language models are accelerating the shift toward more tailored, efficient solutions. He also offers insights for investors on what to look for in management teams as organizations adapt to rapid technological change.

[The Art of Quality Investing: Balancing Discipline and Opportunity](#)

Quality investing focuses on identifying and investing in companies with strong, enduring fundamentals, at the right price. These companies typically possess competitive advantages, maintain dominant market positions, exhibit comfortable financial leverage, generate sustainable free cash flow, and are led by management teams with a history of deploying capital effectively. This article will delve into the characteristics of quality companies, the metrics used to quantify quality, and the durability of quality through market cycles.

Disclaimer

Opinions and Forecasts:

This report includes certain statements that are "forward looking information" or "forward looking statements" (collectively, "forward looking information") within the meaning of applicable securities legislation. All statements, other than statements of historical fact, included in this report that address activities, events or developments that the portfolio advisor, Mawer Investment Management Ltd., expects or anticipates will or may occur in the future, including such things as anticipated financial performance, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations, are forward looking information. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", "will" and similar expressions are intended to identify forward looking information. Undue reliance should not be placed on forward looking information. Forward looking information is subject to various risks described in the Simplified Prospectus, uncertainties, and assumptions about the Fund, capital markets and economic factors, which could cause actual results to vary and in some instances to differ materially from those anticipated by the portfolio advisor and expressed in this report. Material risk factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. The foregoing list of risk factors is not exhaustive.

All opinions contained in forward looking information are subject to change without notice and are provided in good faith and are based on the estimates and opinions of the portfolio advisor at the time the information is presented. The portfolio advisor has no specific intention of updating any forward looking information whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but cannot be guaranteed to be current, accurate or complete and is subject to change without notice.

Benchmarks:

FUND	BENCHMARK
Mawer Balanced Fund	Jan 2012: 5% FTSE Canada 91 Day TBill Index, 35% FTSE 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% FTSE Canada 91 Day TBill Index, 30% FTSE Canada Universe Bond, 5% FTSE World Government Bond Index (WGBI), 15% S&P/TSX Composite, 7.5% BMO

	Weighted Small Cap (Blended), 15% S&P 500, 15% MSCI EAFE (net), 7.5% Russell Global Small Cap Oct 2016: 5% FTSE Canada 91 Day TBill Index, 30% FTSE Canada Universe Bond, 5% FTSE World Government Bond Index (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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