Mawer Balanced Fund, Series A

Q3 2025 | Performance Commentary

Market Overview

Equity markets continued their upward trajectory in the third quarter, advancing despite a backdrop of geopolitical uncertainty. While markets reacted sharply to the initial round of U.S.-led tariffs back in April, the anticipated risks of a tariff-driven recession or a spike in inflation have not yet materialized as originally feared. U.S. equities set new records, buoyed by investor optimism from strong earnings, AI enthusiasm, and a friendlier policy backdrop.

Canadian equities joined the rally, outpacing many global peers as metal and mining companies surged and expectations for lower rates took hold. Gold producers benefitted from a powerful gold rally driven by geopolitical uncertainty, continued central bank buying, and the prospect of further interest rate cuts. International equities also had positive returns overall, primarily led by Asian markets where Chinese equities benefitted from renewed confidence in technology platform giants and optimism for their investments in AI.

Central banks responded to weaker labour markets and restrained inflation with cautious steps toward monetary easing. The Federal Reserve delivered its first rate cut of the year in September, with markets now betting on more to come. The Bank of Canada also trimmed its overnight rate to 2.5% and signaled a data-dependent approach going forward. Canadian bonds posted positive returns, supported by the Bank of Canada rate cut in September.

Performance Commentary

The portfolio lagged the benchmark in the quarter, largely from several of our equity strategies underperforming their corresponding benchmarks. The largest headwinds for the portfolio were from Canada, as the country's benchmarks (most notably the S&P/TSX Small Cap Index) are heavily weighted towards metals and mining companies which have benefited from the advance higher in gold prices—an area that we are underweight.

Additionally, for the Canadian mid large cap equity portfolio, the underweight to **Shopify**, and holding in **Constellation Software** and its related spinoff **Topicus.com,** detracted from returns. Constellation announced Mark Leonard is going to be stepping down from the CEO role due to health reasons and will remain as a director on the Board. While banks were strong in the quarter including holdings in **Toronto-Dominion Bank**, **Royal Bank of Canada**, **Bank of Nova Scotia**, and **Bank of Montreal**, non-bank financials such as exchange operator **TMX Group** and insurer **Intact Financial** saw negative returns. Our holding in gold royalty company **Franco-Nevada** posted strong results thanks to the sharp rises in spot gold prices.

Within our Canadian small cap equity portfolio, several of our information technology holdings experienced a challenging quarter including the previously mentioned **Topicus.com**. **Sangoma Technologies**, a software company focused on business communication systems, encountered a more challenging sales environment which is impacting growth. **Dye & Durham's** struggles continued this quarter following the announcement of a delay in the company's reported financials. Elsewhere, **TerraVest Industries** declined as short-term results were impacted by dealers who moved up orders ahead of tariffs. The Canadian small cap equity portfolio had several bright spots including strong performance from **Sprott**, an asset management company focused on precious metals and critical materials. **Kraken Robotics** also continued to deliver strong performance; we believe the company is positioned to benefit from the increased appetite for defense spending by governments. The company provides sensors, robotic systems, and best-in-class battery technology for autonomous underwater vehicles.

The international equity portfolio struggled to keep pace with its benchmark during a strong quarter for broader markets. Companies with software-related business models, including **RELX**, **Wolters Kluwer**, **Deutsche Boerse**, and **LSE Group**, pulled back on sentiment shifts tied to AI-related concerns. Their competitive advantages are rooted in specialized, often proprietary data and analytics, but the market is concerned that generative AI could lower barriers to entry or disrupt pricing power. It's important to keep in mind that since the launch of ChatGPT in 2022, sentiment toward these companies has fluctuated, but their core businesses have remained resilient and provided counter-cyclical benefits to the portfolio, notably in April. In contrast, **TSMC** and semiconductor equipment companies such as **ASML Holding** performed well given the AI backdrop. Shares of **Tencent Holdings** rose strongly on both optimism and results, with management attributing improved return-on-investment for advertisers to AI. This is not surprising, as Tencent arguably has the most formidable data moat in the world. **Tencent Music Entertainment Group**, a listed subsidiary, also reported excellent earnings.

In the U.S., our equity portfolio underperformed its benchmark as the risk-on market sentiment favored market-leading tech companies where the portfolio has less exposure, while some traditionally stable holdings also declined. Financial sector holdings such as **Marsh & McLennan** and **Arthur J. Gallagher** were pressured by a softer insurance market and concerns about normalizing growth, with **Verisk Analytics** also trading lower due to its exposure to the insurance sector as a data provider. Elsewhere, **AptarGroup** experienced a temporary decline in demand from European pharmaceutical customers due to inventory reductions in flu medicine, though the rest of its pharmaceutical division continues to grow. Shares of financial exchange operators **Intercontinental Exchange** and **CME Group** were weaker as we may be heading into a more predictable trajectory of lower interest rates, which could reduce volatility and demand for rate products. Top performers such as **Microsoft** and **Alphabet** continued their strong run this quarter, driven by robust business performance and increased AI investment, which has also benefited **Amphenol** and **Martin Marietta Materials** through higher demand for data centers. **BWX Technologies** had a strong return and announced a new contract with the U.S. Navy to supply critical nuclear components and fuel for national security missions.

Within Canadian bonds, positive absolute returns over the quarter were driven primarily by declines in short and intermediate term government bond yields. Our recent addition to the portfolio, the global credit opportunities strategy saw a positive return, benefitting from slightly lower short-dated government bond yields, and slightly tighter credit spreads.

From an asset mix perspective, we introduced the Mawer Global Credit Opportunities Strategy in the portfolio over the quarter. We believe this enhances the risk-adjusted return potential of the portfolio and at the end of the quarter it was approximately 4.5% of the overall portfolio. As equities moved higher during the quarter, we modestly trimmed from equity to maintain a more neutral positioning overall, reflecting the uncertain outlook and potential for varied near-term scenarios. As we continue to see risks from weakness in the labor market and the potential for a re-acceleration of inflation, we felt it is prudent to balance exposures. Much of our reduction in equity was within U.S. equities, which is a continuation from trades earlier in the year, as we believe this improves the valuation characteristics of the broader portfolio. Though we modestly trimmed our overall allocation to equity, we did increase our weight to emerging markets equities as we believe the strategy offers a larger exposure to AI and semiconductor businesses. Our cash equivalents position was reduced during the quarter, partly to fund the aforementioned global credit opportunities addition to the strategy, as well as a modest increase in our allocation to Canadian bonds.

Looking ahead

Markets are booming; what pockets of weakness exist are seemingly judged to be immaterial or benign. The juxtaposition of the generational rise in a commodity like gold, which is typically associated with periods of apprehension, while credit spreads grind ever tighter and equity markets set new record highs is admittedly curious. But even a significant shift lower in the U.S. dollar this year doesn't seem to have bothered the exuberant sentiment globally. The potential for significant disruption persists, and there is still a risk that unexpected policy shifts could amplify economic strain. While markets have shown little sign of slowing, we are closely monitoring changes in spending, borrowing, and risk appetite, as these factors could rapidly reshape the market landscape.

After a decade of concern about under-investment, we are now in an era of massive capital expenditures. Estimates for corporate spending on data center infrastructure and semiconductors seem to rise every week. The question is: how will these investments be funded, and when will the return on investment take place? On the one hand, many of the technology giants making these capital expenditures are tremendously cash generative, governments are getting more involved given strategic imperatives, and the long-term potential of AI is indeed transformative. On the other, history reminds us that periods of rapid investment can invite excess. Elevated spending, even when well-intentioned, can lead to overcapacity or misallocation, especially if expectations for future demand prove too optimistic. While the current wave of enthusiasm for AI infrastructure is grounded in real technological progress, the path from investment to realized returns is rarely smooth or predictable.

Against this backdrop, we remain focused on the fundamentals. We prefer companies with meaningful competitive advantages, prudent balance sheets, and the ability to generate sustainable cash flows across a full cycle—not just on the upswing. While we are attentive to new opportunities, we are equally mindful of the risks that can emerge when optimism runs high. The approach is balanced, steady, disciplined, and rooted in the belief that despite inevitable periods of underperformance, boring can be sensible … especially when markets are anything but.

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

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception[2]
FUND	9.2	3.1	9.9	12.0	5.9	6.8	8.1
BENCHMARK	13.4	7.6	15.6	15.2	9.2	7.9	8.0

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

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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)

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