Mawer Emerging Markets Equity Fund, Series A

Q3 2025 | Performance Commentary

Market Overview

Strong corporate earnings, steady economic growth, and declining interest rates helped drive both stock and bond markets higher this quarter. 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 and equity markets have been ebullient since.

The Federal Reserve cut interest rates in September, its first cut in 2025. Even so, interest rates remain restrictive versus the Fed's long-term target and markets expect further reductions later this year and into 2026, further elating equity investors. Meanwhile, gold, which is typically regarded as a hedge against inflation, set an all-time high in the quarter.

Technology stocks, and specifically those tied to AI and semiconductors, continued to lead the market while the basket of stocks perceived as vulnerable to AI disruption such as software and data providers saw weakness. Defensive sectors like consumer staples, health care, and utilities also underperformed—albeit virtually all sectors delivered positive returns during the quarter. Regionally, emerging markets were quite strong and led by Chinese equities, thanks to renewed confidence in technology platform giants and optimism for their investments in AI.

Performance Summary

The portfolio was unable to keep pace with its benchmark during a very strong quarter for emerging markets equities, largely because we were less exposed to the very hottest parts of the market: namely metals, discretionary stocks, and Chinese equities.

On an individual company basis, underweight positions in advanced chip manufacturer **TSMC** and Chinese internet giant **Alibaba** detracted from relative performance given the combination of their strength and gargantuan benchmark weights. TSMC, for example, has been among our highest conviction holdings throughout the strategy's history, but we have been disciplined in our benchmark-agnostic approach to trim our position for risk management purposes when its weight drifts above our self-imposed maximum of 6%, which is well below its current weight in the benchmark.

Nevertheless, we were quite pleased with the portfolio's performance. TSMC and other semiconductor-exposed companies like high-end rail kit manufacturer **King Slide**, clean room engineering firm **Acter**, and semiconductor testing company **King Yuan** performed spectacularly, both in terms of fundamentals and share price given the AI backdrop and demand for their products from hyperscalers. China's **Tencent** rose strongly on both optimism and results, with management crediting AI in driving better return-on-investment for advertisers on its platforms, which doesn't surprise us since Tencent arguably has the single most formidable data moat in the world. Listed subsidiary **Tencent Music** also released terrific earnings.

Beyond what we were underexposed to, holdings that detracted from performance during the quarter included Lithuania's **Baltic Classifieds** and Polish grocer **Dino Polska**. Both companies offered a more muted outlook during the quarter. Though worth noting, we haven't judged the change in guidance to be terribly substantial, and they remain on solid growth footing, nonetheless.

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.

After a decade of concern about under-investment (recall some market commentators bemoaning the plethora of stock buybacks and lack of investment over the past 15 years?), we are now in an era of massive capital expenditures.

Estimates for corporate spending on data center infrastructure and semiconductors are projected to be several trillion dollars over the next three years, and those projections seem to rise every week. To borrow from a recent note from a JPMorgan strategist, since the introduction of ChatGPT in November 2022, AI related stocks are associated with 90% of capital spending growth, 80% of the earnings growth, and 75% of the returns for the S&P 500, a phenomenon that portfolios underexposed to this theme know all-too-well.

The (several) trillion-dollar question is: how will these investments be funded, and when will the return on investment take place? On the one hand, many of the tech 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	24.6	10.9	26.8	24.9	7.5	-	7.7
BENCHMARK	23.4	12.8	20.8	18.7	7.9	-	8.0

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	24.3	17.1	-29.0	0.8	20.4	9.7	-6.2	-	-	-
BENCHMARK	17.3	6.9	-14.3	-3.4	16.2	12.4	-6.9	-	-	-

[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 Emerging Markets Equity Fund Series A Inception: January 31, 2017

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Benchmarks:

FUND	BENCHMARK
Mawer Emerging Markets Equity Fund	MSCI Emerging Markets Index (net)

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