

Mawer International 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 international equities.

Top-weighted **TSMC** and semiconductor equipment companies like **ASML** performed well given the AI backdrop. Shares of 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. In retrospect, the decision to add both companies to the portfolio twelve months ago has paid off.

By contrast, a number of companies with software-related business models pulled back on a sentiment shift due to AI-related concerns: **RELX**, **Wolters Kluwer**, **Deutsche Boerse**, and **LSE Group**. A portion of their competitive advantages stem from specialized, often proprietary data and analytics, and the market seems concerned that generative AI may lower the barriers to entry for new service providers and/or disrupt pricing power within their respective niches. As an example, a start-up called OpenEvidence has developed an AI-based product (currently offered to medical professionals for free) that provides some similar services to Wolters Kluwer's gold-standard UpToDate medical offering. Customers don't seem to be discontinuing UpToDate, given Wolters Kluwer's value proposition in ensuring accuracy and assurance, especially since the downside to mistakes in medical treatments is significant. But this illustrates the need for all four management teams to ensure their products evolve to better integrate AI tools into their offerings and may have growth and margin implications for Wolters Kluwer looking forward.

Since the launch of ChatGPT in 2022, all four companies have see-sawed in terms of sentiment, sometimes being viewed as AI beneficiaries and at other times as AI losers. Throughout, their base businesses have been broadly resilient, and they have offered counter-cyclical attributes to the overall portfolio ... most notably in bolstering downside protection in April. While we continue to think these are high-quality businesses, we agree directionally with the change in the balance of risks, having trimmed RELX and electing not to push back against recent market movement for the others.

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 Summary¹ (%)

As of September 30, 2025

	YTD	3 Mo.	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Since Inception ²
FUND	20.6	3.3	19.1	20.4	7.9	8.3	8.1
BENCHMARK	21.9	9.0	19.9	21.2	11.2	8.4	6.0

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	14.6	12.7	-16.7	7.3	12.4	14.4	-4.0	22.6	-3.3	20.3
BENCHMARK	15.1	12.5	-9.9	6.9	8.7	15.4	-6.5	18.8	-3.0	19.0

¹Performance figures are net of management fees and operating expenses. Periods greater than one year are annualized. Performance figures are in Canadian dollar terms.

²Mawer International Equity Fund Series A Inception: November 6, 1987

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Benchmarks:

FUND	BENCHMARK
Mawer International Equity Fund	Jan 1988: MSCI EAFE (net) Oct 2016: MSCI ACWI ex-USA (net)

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