Mawer Quarterly

Third Quarter 2025

Market Overview

The third quarter of 2025 was marked by strong corporate earnings, resilient economic growth, and falling interest rates—fuel for stock markets across many regions. In the U.S., the S&P 500 Index notched 23 record closes and wrapped up its best September in 15 years 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 sparkled, riding a powerful bullion rally driven by geopolitical uncertainty, continued central bank buying, and the prospect of further Federal Reserve 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 globally 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 followed suit, trimming its overnight rate to 2.5% and signaling a data-dependent approach, while the European Central Bank kept rates steady through subsequent policy meetings, wary of persistent inflation and trade headwinds.

Despite ongoing headlines about global trade disruptions, the feared inflationary fallout has been less severe than expected. Companies have blunted the impact by pre-buying inventory and diversifying supply chains, helping to keep costs in check.

One theme that refuses to fade: market concentration. Since the launch of ChatGPT in November 2022, AI-related stocks have accounted for a lion's share of the S&P 500's returns, earnings growth, and capital spending. This concentration around a single theme has raised concerns about a potential bubble. Amplifying that view, estimates for corporate spending on data center infrastructure and semiconductors are projected to be several trillion dollars over the next three years. AI companies are increasingly making enormous investment deals with each other, rather than outside partners. These arrangements involve both the funding and consumption of advanced AI hardware, software, and infrastructure, staying largely within the established AI ecosystem. As with previous episodes of rapid technological optimism, aggressive expansion and the use of leverage could amplify market volatility if expectations are not met.

The Canadian dollar moved modestly lower over the quarter, pressured by the continued interest rate gap with the U.S. and softer oil prices, underscoring the currency's close ties to the health of Canada's energy sector.

On the fixed income front, Canadian bonds posted positive returns, supported by another Bank of Canada rate cut in September and still resilient corporate credit spreads, which tightened after a brief period of volatility earlier in the year. Long bond yields moderated over the quarter but remain elevated compared to pre-pandemic levels, potentially reflecting investor demand for greater compensation for lending to governments that are overseeing rising deficits and poor economic growth.

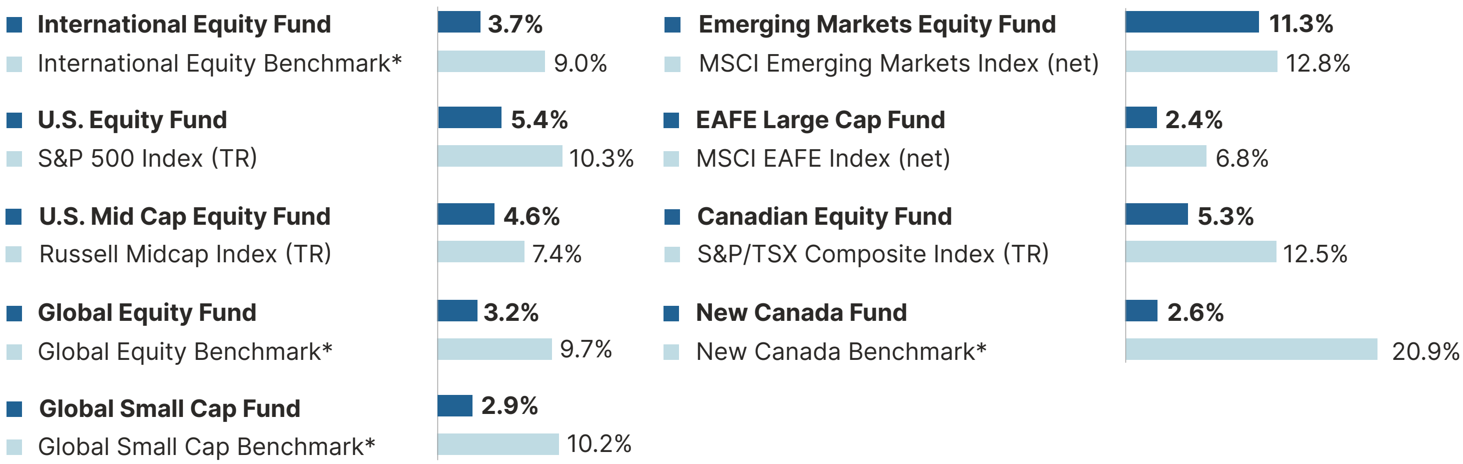
How Did We Do?

Performance has been presented for the O-Series Mawer Mutual Funds in Canadian dollars and calculated gross of management fees and net of operating expenses for the 3-month period ending September 30, 2025.

Our portfolios were, for the most part, unable to keep pace with their benchmarks during a very strong quarter for equities globally. Narrow leadership and highly thematic driven markets are not a backdrop that tend to favour an investment approach that focuses on sustainable cashflow generation, diversification, and downside risk management.

Equities

Chart A: Q3 2025, Series O, Gross of fees



Within International Equities, **TSMC** and semiconductor equipment companies such as **ASML** performed well given the AI backdrop. Shares of **Tencent** 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**, a listed subsidiary, also reported excellent earnings. The decision to add both companies to the portfolio twelve months ago has proven beneficial in retrospect.

In contrast, 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 the U.S., the risk-on 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** also trading lower due to its exposure to the insurance sector as a data provider.

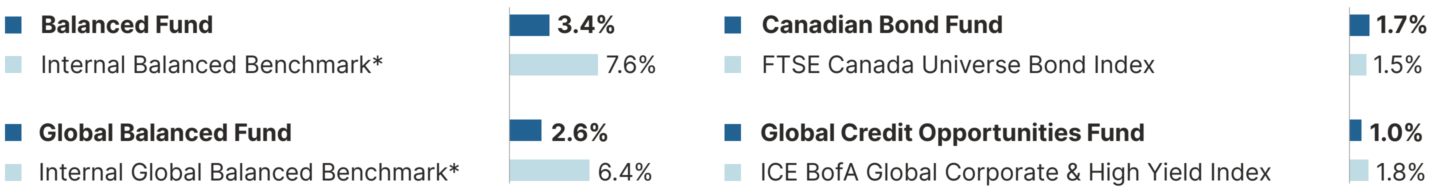
Elsewhere, **Aptar** experienced a temporary decline in demand from European pharmaceutical customers due to inventory reductions in flu medicine, though the rest of its pharmaceutical division continues to grow. **Waters** agreed to acquire the biosciences and diagnostics business of **Becton Dickinson**, presenting a value creation opportunity that may be underestimated by the market.

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** announced a new contract with the U.S. Navy to supply critical nuclear components and fuel for national security missions.

In Canada, areas of strength included **Shopify**, which reported 30% annual growth in underlying gross merchandise value, demonstrating continued e-commerce adoption and market share gains as clients use its expanded software features. All four of our bank holdings, **TD Bank**, **Royal Bank of Canada**, **Bank of Nova Scotia**, and **Bank of Montreal** posted strong stock performance, with earnings ahead of expectations, expanding net interest margins, lower provisions for credit losses, and robust wealth and capital markets results. In a limited loan growth environment, banks have been returning excess capital to shareholders through buybacks, though we continue to monitor trade uncertainty and valuations after strong stock performance. **Franco-Nevada**, a recently added gold royalty company, delivered strong results due to rising spot gold prices, however the portfolio's overall underexposure to gold-related stocks, especially gold producers, was the main driver of underperformance.

Balanced and Fixed Income

Chart B: Q3 2025, Series O, Gross of fees



Within Canadian bonds, positive absolute returns over the quarter were driven primarily by declines in short and intermediate term government bond yields. However, longer dated bond yields were flat to slightly higher as investors remained cautious about increased government debt issuance. Like last quarter, those invested in our global credit opportunities strategy saw a positive return, benefitting from slightly lower short dated government bond yields, and slightly tighter credit spreads.

The Balanced strategy has adopted a more neutral positioning over the quarter, reflecting the uncertain outlook and potential for varied near-term scenarios. We continue to see risks of both slower growth and persistent inflation, but with inflation data remaining stable, expectations for runaway price gains have eased. At this stage, we feel it is prudent to balance exposures. Recent portfolio adjustments, such as modestly replenishing fixed income and gradually raising emerging markets weights, are intended to keep our overall posture flexible and responsive to evolving conditions. Fixed income remains appealing as global central banks shift toward easing, yields stay elevated relative to history, and weakening labour data raises the likelihood that interest rates will continue to trend lower, factors that could support bond returns. Emerging markets offer selective upside exposure, benefiting from attractive valuations and tailwinds in areas such as AI and semiconductors, while also improving diversification should global growth conditions stabilize or rebound.

Looking Ahead

Equity markets continue to be strong, with most pockets of weakness seen as immaterial or benign. The generational rise in gold, a commodity typically linked to apprehension, is occurring alongside tightening credit spreads and record-high equity markets, and even a significant decline in the U.S. dollar has not dampened global exuberance. We remain mindful that AI-related sectors, driven by unprecedented capital spending in data centers and semiconductors, have dominated earnings growth and market returns since late 2022. While this powerful investment theme may continue longer than many would anticipate, it also carries the risk of a bubble forming or misallocation of capital if enthusiasm outpaces fundamentals.

At the same time, the U.S. business cycle appears distorted by ongoing government spending and persistent fiscal intervention. Instead of resetting through recession or recovery, the cycle seems to have been muted by stimulus checks, tax extensions, and broad spending, which have arguably kept asset prices elevated. Traditional macroeconomic signals such as housing and manufacturing indicate ongoing weakness and an unusually mild, drawn-out downturn, yet employment remains steady, for now. As Federal debt and government interest costs rise, the Federal Reserve has stepped in with rate cuts, further fueling risk appetite. This environment constrains market discipline and leaves investors questioning what could truly disrupt this pattern or force a return to a more classic cycle.

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.

Total Gross Returns (Series O)

For periods ending September 30, 2025

Equity Funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	**21.8**	**3.7**	**20.7**	**22.1**	**9.3**	**9.7**	**9.9**
International Equity Benchmark*	21.9	9.0	19.9	21.2	11.2	8.4	6.9
Mawer U.S. Equity Fund	**7.2**	**5.4**	**12.5**	**18.4**	**12.5**	**14.1**	**11.1**
S&P 500 Index (TR)	11.1	10.3	21.1	25.5	17.4	15.7	11.6
Mawer U.S. Mid Cap Equity Fund	**3.7**	**4.6**	**5.9**	**15.4**	**0.0**	**0.0**	**6.6**
Russell Midcap Index (TR)	6.8	7.4	14.4	18.2	0.0	0.0	8.8
Mawer Global Equity Fund	**-1.2**	**3.2**	**0.6**	**12.6**	**8.5**	**10.8**	**12.4**
Global Equity Benchmark*	14.6	9.7	20.8	23.6	14.5	12.3	12.2
Mawer Global Small Cap Fund	**12.2**	**2.9**	**7.1**	**12.3**	**4.3**	**8.4**	**11.6**
Global Small Cap Benchmark*	12.8	10.2	16.2	17.9	12.3	10.0	8.0
Mawer Emerging Markets Equity Fund	**26.0**	**11.3**	**28.7**	**26.8**	**9.1**	**0.0**	**9.3**
MSCI Emerging Markets Index (net)	23.4	12.8	20.8	18.7	7.9	0.0	8.0
Mawer EAFE Large Cap Fund	**15.3**	**2.4**	**11.9**	**18.7**	**8.9**	**0.0**	**10.3**
MSCI EAFE Index (net)	21.1	6.8	18.4	22.2	12.1	0.0	12.2
Mawer Canadian Equity Fund	**14.8**	**5.3**	**17.6**	**16.9**	**14.2**	**10.5**	**10.7**
S&P/TSX Composite Index	23.9	12.5	28.6	21.3	16.7	11.8	9.0
Mawer New Canada Fund	**11.7**	**2.6**	**14.2**	**16.0**	**10.1**	**10.5**	**13.4**
New Canada Benchmark*	36.3	20.9	37.2	22.5	18.0	10.7	7.6
Balanced Funds							
Mawer Global Balanced Fund	**0.4**	**2.6**	**1.5**	**9.8**	**5.7**	**7.6**	**8.7**
Internal Global Balanced Benchmark*	10.0	6.4	13.6	15.9	8.4	8.1	9.0
Mawer Balanced Fund	**9.9**	**3.4**	**10.8**	**13.0**	**6.8**	**7.7**	**8.2**
Internal Balanced Benchmark*	13.4	7.6	15.6	15.2	9.2	7.9	6.9
Mawer Tax Effective Balanced Fund	**10.0**	**3.4**	**10.9**	**13.1**	**6.8**	**7.7**	**8.2**
Internal Tax Effective Balanced Benchmark*	13.4	7.6	15.6	15.2	9.2	7.9	6.9
Income funds							
Mawer Global Credit Opportunities Fund	**3.3**	**1.0**	**4.1**	**0.0**	**0.0**	**0.0**	**5.4**
ICE BofA Global Corporate & High Yield Index	4.9	1.8	3.2	0.0	0.0	0.0	5.1
Mawer Canadian Bond Fund	**3.2**	**1.7**	**3.2**	**5.0**	**0.1**	**2.2**	**3.8**
FTSE Canada Universe Bond Index	3.0	1.5	2.9	4.7	-0.2	2.0	3.7
Mawer Canadian Money Market Fund	**2.1**	**0.7**	**3.1**	**4.0**	**2.6**	**1.7**	**1.6**
FTSE Canada 91 Day TBill Index	2.2	0.7	3.3	4.3	2.8	1.9	1.8

*Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

Mawer Mutual Funds are managed by Mawer Investment Management Ltd. O-Series returns for the Mawer Mutual Funds are reported in Canadian dollars and calculated before management fees and after operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

Total Net Returns (Series A)

For periods ending September 30, 2025

Equity Funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	**20.6**	**3.3**	**19.1**	**20.4**	**7.9**	**8.3**	**8.1**
International Equity Benchmark*	21.9	9.0	19.9	21.2	11.2	8.4	6.0
Mawer U.S. Equity Fund	**6.3**	**5.1**	**11.3**	**17.0**	**11.2**	**12.8**	**8.9**
S&P 500 Index (TR)	11.1	10.3	21.1	25.5	17.4	15.7	11.1
Mawer U.S. Mid Cap Equity Fund	**2.7**	**4.2**	**4.4**	**13.9**	**0.0**	**0.0**	**5.1**
Russell Midcap Index (TR)	6.8	7.4	14.4	18.2	0.0	0.0	8.8
Mawer Global Equity Fund	**-2.2**	**2.9**	**-0.7**	**11.1**	**7.1**	**9.4**	**10.9**
Global Equity Benchmark*	14.6	9.7	20.8	23.6	14.5	12.3	12.2
Mawer Global Small Cap Fund	**10.7**	**2.5**	**5.2**	**10.3**	**2.5**	**6.6**	**9.7**
Global Small Cap Benchmark*	12.8	10.2	16.2	17.9	12.3	10.0	8.0
Mawer Emerging Markets Equity Fund	**24.6**	**10.9**	**26.8**	**24.9**	**7.5**	**0.0**	**7.7**
MSCI Emerging Markets Index (net)	23.4	12.8	20.8	18.7	7.9	0.0	8.0
Mawer EAFE Large Cap Fund	**14.2**	**2.1**	**10.5**	**17.1**	**7.5**	**0.0**	**8.9**
MSCI EAFE Index (net)	21.1	6.8	18.4	22.2	12.1	0.0	12.2
Mawer Canadian Equity Fund	**13.8**	**5.0**	**16.2**	**15.6**	**12.9**	**9.2**	**9.4**
S&P/TSX Composite Index	23.9	12.5	28.6	21.3	16.7	11.8	9.2
Mawer New Canada Fund	**10.5**	**2.2**	**12.7**	**14.5**	**8.7**	**9.0**	**12.8**
New Canada Benchmark*	36.3	20.9	37.2	22.5	18.0	10.7	8.2
Balanced Funds							
Mawer Global Balanced Fund	**-0.4**	**2.3**	**0.5**	**8.6**	**4.6**	**6.4**	**7.6**
Internal Global Balanced Benchmark*	10.0	6.4	13.6	15.9	8.4	8.1	9.0
Mawer Balanced Fund	**9.2**	**3.1**	**9.9**	**12.0**	**5.9**	**6.8**	**8.1**
Internal Balanced Benchmark*	13.4	7.6	15.6	15.2	9.2	7.9	8.0
Mawer Tax Effective Balanced Fund	**9.3**	**3.2**	**10.0**	**12.1**	**5.9**	**6.8**	**7.7**
Internal Tax Effective Balanced Benchmark*	13.4	7.6	15.6	15.2	9.2	7.9	8.0
Income funds							
Mawer Global Credit Opportunities Fund	**2.7**	**0.8**	**3.2**	**-**	**-**	**-**	**4.5**
ICE BofA Global Corporate & High Yield Index	4.9	1.8	3.2	-	-	-	5.1
Mawer Canadian Bond Fund	**2.7**	**1.5**	**2.5**	**4.3**	**-0.5**	**1.5**	**4.9**
FTSE Canada Universe Bond Index	3.0	1.5	2.9	4.7	-0.2	2.0	5.9
Mawer Canadian Money Market Fund	**1.7**	**0.5**	**2.6**	**3.5**	**2.2**	**1.3**	**3.0**
FTSE Canada 91 Day TBill Index	2.2	0.7	3.3	4.3	2.8	1.9	3.8

*Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

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Index returns are supplied by third parties—we believe the data to be accurate, however, cannot guarantee its accuracy.

Performance returns for the Mawer Mutual Funds and benchmarks are calculated by Mawer Investment Management Ltd. These returns are historical simple returns for the 3 month, YTD, and 1 year periods, and annualized compounded total returns for periods after 1 year.

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