

Mawer U.S. 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 and health care also underperformed—albeit virtually all sectors delivered positive returns during the quarter.

Performance Summary

The portfolio underperformed its benchmark this quarter. The continued risk-on sentiment fueled areas of the market where the portfolio has less exposure to, notably the market leading tech-focused companies, while some of the more traditionally stable businesses in the portfolio also sold off.

The financials sector is home to a number of these holdings that have come under pressure lately. Share prices of brokers **Marsh & McLennan** and **Arthur J. Gallagher** continued to be impacted by a softer insurance market where concerns are rising that growth is normalizing following years of increasing premiums. And while not technically in the financials sector, **Verisk** sold off on similar concerns given that a large part of its business is selling data to insurance providers. Finally, 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. Despite being exposed to cycles in their respective niches, these are some of the most competitively advantaged businesses we own in the portfolio and have historically shown defensive attributes in more challenging market environments.

Elsewhere, leader in dispensing solutions **Aptar** has seen a slight decline in demand from its European pharmaceutical customers due to inventory reductions in flu medicine. We believe this headwind to be temporary in nature, and the rest of its pharmaceutical division continues to grow at a healthy rate. **Waters**, manufacturer of laboratory instruments, has agreed to acquire the biosciences and diagnostics business of Becton Dickinson, another portfolio holding. We believe this deal offers a compelling value creation opportunity, which the market might be underestimating.

Many of the top performers last quarter continued their stellar run in Q3. These include software provider **Microsoft** and hyperscaler **Alphabet**. The underlying performance of each of these businesses remains strong, enabling them to invest ever greater sums into AI. And part of this investment in AI has been leading to higher demand for data centers powering the technology, which has been beneficial for two other holdings, namely connector manufacturer **Amphenol** and supplier of aggregates **Martin Marietta**

Materials. Finally, supplier of nuclear components and fuel **BWX Technologies** has announced a new contract with the U.S. Navy to provide essential hardware that allows to carry out its critical national security mission.

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 is 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	6.3	5.1	11.3	17.0	11.2	12.8	8.9
BENCHMARK	11.1	10.3	21.1	25.5	17.4	15.7	11.1

Calendar Year, as of December 31:

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
FUND	21.7	14.4	-12.1	23.6	14.7	25.7	9.6	12.8	5.5	19.3
BENCHMARK	36.4	22.9	-12.2	27.6	16.3	24.8	4.2	13.8	8.1	21.6

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 U.S. Equity Fund Series A Inception: December 11, 1992

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Benchmarks:

FUND	BENCHMARK
Mawer U.S. Equity Fund	S&P 500 Index

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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