

## **Annual Management Report of Fund Performance**

*For the Year Ended December 31, 2017*

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at no cost, by calling 1-888-549-6248, by writing us at Suite 600, 517 – 10th Avenue SW, Calgary, Alberta T2R 0A8, or by visiting our website at [www.mawer.com](http://www.mawer.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of the above noted methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## **Management Discussion of Fund Performance**

### **Investment Objective and Strategies**

The Mawer Tax Effective Balanced Fund (the "Fund") aims to achieve a long-term, value-added total fund return on both a pre-tax and after-tax basis through capital appreciation and the receipt of dividend and interest income. The Fund invests in treasury bills and commercial paper, corporate and government bonds, Canadian, US and international large and small capitalization equities, and other Mawer Funds. The Manager maximizes pre-tax returns through application of a "growth at the right price" strategy and minimizes taxes through the application of tax-effective trading strategies and portfolio construction techniques.

Bonds are used primarily to control risk. Bonds are chosen with a view to the appropriate term, credit quality, and issuer depending upon the expected direction of interest rates, the interest rate spreads between different sectors of bonds, and the expected state of financial conditions for the issuer. Bonds trading near par or at a discount are preferred, all else being equal, given their better tax efficiency versus premium bonds.

In equities we search for wealth-creating companies whose equities can be purchased at a discount to their intrinsic value. We then apply a tax overlay strategy, with the objective to minimize taxable capital gain distributions. The philosophy of the Fund is that the security will not be sold to harvest a capital loss unless it can be replaced with a highly-correlated substitute (such as other names in the same industry and sector exchange-traded funds). If a capital loss is harvested, these trades are normally reversed after 30 days (to avoid wash sale rules).

We typically make asset mix adjustments in a gradual fashion, believing that abrupt moves run the risk of market timing, an area in which we believe value cannot be added. Our starting point is 60% equities and 40% fixed income. Within a narrow band, variations from long-term strategic allocations are permitted. These are executed on a cyclical basis when irrationality is observed in a given asset class, or when a long-term structural advantage is noted on a secular basis. The criteria we use to analyze capital markets on an ongoing basis for possible cyclical

adjustments are the factors that we believe most affect security prices. These are: interest rates, earnings, valuation and psychology. Wherever possible, asset mix changes are implemented using cash flows in order to minimize the tax implications from trading.

### **Risk**

This Fund is suitable for investors seeking long-term growth and who have a moderate tolerance for risk. General risks of investing in this Fund are outlined in the Prospectus and include the possibility of reduction in value of any given investment, liquidity risk, interest rate risk, and currency risk amongst others.

The Manager reduces the risk by imposing a number of constraints. The Fund requires a minimum of 30% in fixed income, which reduces the exposure to equity risk. The Fund has an upper limit on foreign equities of 70%, which reduces the currency risk. The Manager has an internal constraint of no more than 20% of its net assets in a particular industry (i.e., sub-sector) as classified by the GICS to reduce concentration risk. The Manager limits the magnitude of any one asset mix shift to 5% a quarter to reduce timing risk.

Given the difficulty in consistently predicting interest rate moves, we limit exposure to this risk factor. In setting policy, the Canadian bond portfolio's duration is set within 0.5 years on either side of the index, while the duration for the global bond portfolio has a maximum limit of 8 years. As of December 31, 2017, the duration of the Canadian fixed income allocation was 7.49 years compared to the FTSE TMX Canada Universe Bond Index duration of 7.59 years. The duration of the Mawer Global Bond Fund was 3.77 years as of December 31, 2017. From an exposure perspective, the weight of the Canadian fixed income portfolio within the Mawer Tax Effective Balanced Fund, decreased modestly from 30.3% at the start of the year, to 29.4% as of December 31, 2017. The weight of the global fixed income allocation within the Mawer Tax Effective Balanced Fund decreased to 1.7% from 2.5% over the period.

The Fund's exposure to foreign equities (outside of Canada) increased slightly to 43.6% from 43.2%. The Fund's equity holdings are in all 11 GICS sectors and are most heavily weighted to Financials (23.6% of the equity weight), Industrials (17.8%) and Information Technology (17.3%). The combined exposure of 58.8% to the top three sectors as of December 31st is up from 52.8% at the end of 2016.

In addition the pre-tax performance of the Fund may be affected by tax-effective trading. While this risk is minimized through our correlation analysis that attempts to harvest capital losses by switching into a highly-correlated substitute, the correlation between securities can shift through time due to security-specific risk.

### **Results of Operations**

The Fund's net assets increased 18.3% to \$1,026.1 million from \$867.4 million at the end of 2016. Of this change, \$90.2 million is

## **Mawer Tax Effective Balanced Fund**

attributable to positive investment performance and \$68.5 million was due to net contributions to the Fund.

The Fund's Series A units gained 9.9% (CAD, after management fees) in 2017 versus 8.4% for a blended benchmark that consisted of 5% FTSE TMX 91-day Treasury Bill Index; 30% FTSE TMX Canada Universe Bond Index, 5% Citi WGBI, 15% S&P/TSX Composite Index, 7.5% S&P/TSX Small Cap Index, 15% S&P 500 Index (CAD), 15% MSCI ACWI ex. US Index (net, CAD), and 7.5% MSCI AWCI Small Cap Total Return Index (CAD).

All asset classes within the Fund, with the exception of global fixed income, posted positive performance over the period. Equities drove the Fund's absolute performance with international equities, US equities, and global small cap equities being the top contributing asset classes. The Fund's Canadian content, both equity and fixed income, also contributed positively to performance, but to a lesser extent.

Security selection drove the Fund's relative performance over the period. Each equity asset class outperformed its respective benchmark in 2017, with the strongest contribution coming from outperformance of the Fund's international equities relative to the MSCI ACWI ex. US (Net) Index. In addition, outperformance of the Fund's global small cap equities relative to the MSCI ACWI Small Cap (Net) Index was also a strong contributor to the Fund's positive security selection. Asset allocation was positive over the period as the Fund benefitted from its overweight exposures to international equities and US equities, which were amongst the strongest performing asset classes in the Fund. The Fund also benefitted from its underweight exposures to Canadian small cap equities and global fixed income, as these were amongst the weakest performing asset classes in the Fund.

### **Recent Developments**

From an asset mix perspective, the Fund has maintained a fairly neutral weight across cash, bonds and equities. Currently, the largest deviations from a neutral asset mix are an underweight exposure to fixed income in favor of equities. Within equities the Fund has continued to maintain an underweight exposure to Canadian equities in favor of foreign equities, due to the investment opportunities available outside Canada and diversification benefits for Canadian investors from investing abroad. That said, over the past year the Fund trimmed a portion of its US equity exposure and deployed the capital into international and Canadian equities where we are seeing better opportunities.

Over the period the Fund initiated positions in a number of new equity holdings, with the most significant initiations being HFDC Bank Ltd., Paychex Inc., ALD SA, Samsung Electronics Co Ltd and Interglobe Aviation Ltd. Meanwhile, the most significant eliminations include Mednax Inc., Nestle SA, Loomis AB, Swisscom AG and Cetip SA. From a fixed income perspective, the Fund introduced a number of new issuers including CPPIB Capital, Glacier Credit Card Trust, BMW Canada Inc., Manulife Bank, Apple Inc., FortisBC Energy Inc., Union Gas Ltd., Rogers Communications

and TMX Group Ltd. The Fund also re-initiated a position in Inter Pipeline Ltd. In contrast, the Fund eliminated the Province of Manitoba as an issuer.

### **Related Party Transactions – Management Fees**

As Portfolio Advisor to the Fund, Mawer Investment Management Ltd. ("Mawer") receives management fees which are calculated for Series A Units as 0.78% per annum of the net asset value of the Fund calculated on a daily basis. Management fees for Series O Units are payable directly to the Manager by Series O investors and not by the Fund.

The terms of the Management Agreement were amended January 4, 1994, to grant the Manager of the Fund the ability, at their discretion, to reduce the management fees for large investors. This reduction is effected by means of a management fee distribution and will be automatically reinvested in additional units of the Fund at the net asset value of the Fund on the date of distribution. Mawer also receives fees for performing administrative services. As at December 31, 2017 the Fund owes Mawer \$12,815 related to these administrative services.

### **Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements which are prepared in accordance with IFRS.

#### **The Fund's Net Asset Value (NAV) per Unit**

<b>SERIES A</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net Assets, beginning of year	32.19	31.51	29.26	26.64	22.49
<b>Increase (decrease) from operations:</b>					
Total revenue	0.72	0.70	0.70	0.68	0.61
Total expenses	(0.33)	(0.32)	(0.32)	(0.31)	(0.27)
Realized gains (losses) for the year	0.80	0.67	0.86	0.92	0.53
Unrealized gains (losses) for the year	1.94	0.02	1.56	1.95	3.68
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>3.13</b>	<b>1.07</b>	<b>2.80</b>	<b>3.24</b>	<b>4.55</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.28)	(0.26)	(0.26)	(0.36)	(0.34)
From dividends	(0.11)	(0.10)	(0.07)	-	-
From capital gains	-	-	(0.39)	(0.27)	-
Return of capital	-	-	-	-	-
<b>Total Distributions<sup>2</sup></b>	<b>(0.39)</b>	<b>(0.36)</b>	<b>(0.72)</b>	<b>(0.63)</b>	<b>(0.34)</b>
<b>Net Assets, end of year</b>	<b>34.96</b>	<b>32.19</b>	<b>31.51</b>	<b>29.26</b>	<b>26.64</b>

## Mawer Tax Effective Balanced Fund

SERIES O	2017	2016	2015	2014	2013
Net Assets, beginning of year	31.78	31.11	29.14	26.54	22.39
<b>Increase (decrease) from operations:</b>					
Total revenue	0.71	0.69	0.70	0.67	0.60
Total expenses	(0.03)	(0.04)	(0.06)	(0.07)	(0.05)
Realized gains (losses) for the year	0.79	0.66	0.87	0.91	0.51
Unrealized gains (losses) for the year	1.90	0.06	1.55	1.95	3.66
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>3.37</b>	<b>1.37</b>	<b>3.06</b>	<b>3.46</b>	<b>4.72</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.47)	(0.46)	(0.44)	(0.60)	(0.55)
From dividends	(0.19)	(0.17)	(0.12)	-	-
From capital gains	-	-	(0.71)	(0.27)	-
Return of capital	-	-	-	-	-
<b>Total Distributions<sup>2</sup></b>	<b>(0.66)</b>	<b>(0.63)</b>	<b>(1.27)</b>	<b>(0.87)</b>	<b>(0.55)</b>
<b>Net Assets, end of year</b>	<b>34.53</b>	<b>31.78</b>	<b>31.11</b>	<b>29.14</b>	<b>26.54</b>

- (1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial year.
- (2) Distributions were reinvested in additional units of the Fund.

### Ratios and Supplemental Data

SERIES A	2017	2016	2015	2014	2013
Net Assets (000's) <sup>1</sup>	749,859	636,394	538,726	370,409	258,768
Number of units outstanding (000's) <sup>1</sup>	21,452	19,773	17,098	12,659	9,712
Management expense ratio <sup>2</sup>	0.90%	0.92%	0.93%	0.98%	0.98%
Management expense ratio before waivers or absorptions	0.90%	0.92%	0.93%	0.98%	0.98%
Portfolio turnover rate <sup>3</sup>	21.60%	23.37%	21.12%	25.10%	22.47%
Trading expense ratio <sup>4</sup>	0.03%	0.03%	0.04%	0.03%	0.03%
Closing market price or pricing NAV, (if applicable)	34.96	32.19	31.51	29.26	26.65

SERIES O	2017	2016	2015	2014	2013
Net Assets (000's) <sup>1</sup>	276,254	231,030	192,931	152,474	119,077
Number of units outstanding (000's) <sup>1</sup>	8,001	7,269	6,202	5,232	4,487
Management expense ratio <sup>2</sup>	0.03%	0.03%	0.06%	0.10%	0.10%
Management expense ratio before waivers or absorptions	0.03%	0.03%	0.06%	0.10%	0.10%
Portfolio turnover rate <sup>3</sup>	21.60%	23.37%	21.12%	25.10%	22.47%
Trading expense ratio <sup>4</sup>	0.03%	0.03%	0.04%	0.03%	0.03%

SERIES O	2017	2016	2015	2014	2013
Closing market price or pricing NAV, (if applicable)	34.53	31.78	31.11	29.14	26.54

- (1) This information is provided as at December 31 of the year shown, as applicable.
- (2) Management expense ratio is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the year.

### Past Performance

Sales commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read 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 investor that would have reduced returns. Mutual funds are not guaranteed. Their value changes frequently and past performance may not be repeated.

The Fund's performance numbers assume that all distributions are reinvested in additional units of the Fund. If you hold this Fund outside of a registered plan, income and capital gains distributions that are paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of the reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gains or increase your capital loss when you later redeem from the Fund, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation.

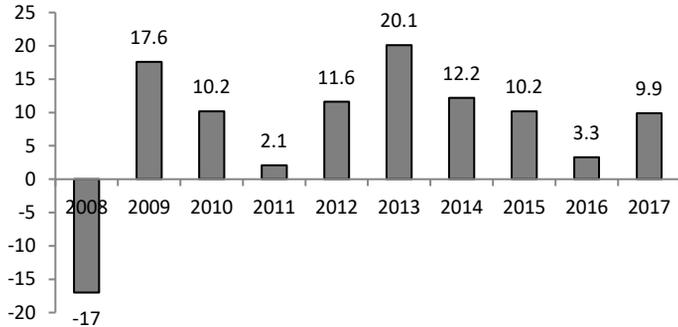
The past performance of the Fund is set out in the following charts.

## Mawer Tax Effective Balanced Fund

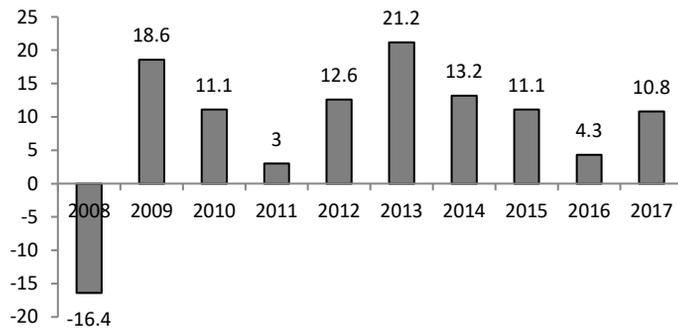
### Year-by-Year Returns

The bar charts below show the Fund's annual performance in each of the past 10 years to December 31, 2017. The charts show in percentage terms how an investment made on January 1 would have increased or decreased by December 31 of the fiscal year.

#### Series A



#### Series O



Series O start date was July 4, 2006.

### Annual Compound Returns

The following table shows the historical annual compound total return of the Fund for the periods shown ending on December 31, 2017. The annual compound total return is also compared to the Internal Diversified Benchmark (ID Benchmark) calculated on the same compound basis. All index returns are calculated in Canadian dollars on a total return basis, meaning that all distributions are reinvested.

	Series A units (%)	Series O units (%)	Internal Tax Effective Balanced Benchmark (%)
One Year	9.9	10.8	8.4
Three Years	7.7	8.7	7.3
Five Years	11.0	12.0	9.2
Ten Years	7.5	8.5	6.0

\* Series O start date was July 4, 2006.

The Internal Tax Effective Balanced Benchmark (TEB Benchmark), formulated by the Manager, reflects the unique nature of the Fund in that it has no foreign content restrictions. The formula

comprises the FTSE TMX 91-day T-Bill Index (5%); FTSE TMX Canada Universe Bond Index (30%), index designed to reflect the Canadian bond market; Citi World Government Bond Index (5%), index designed to reflect the global bond market; S&P/TSX Composite Index (15%), index designed to represent the Canadian mid-large cap equity market; S&P/TSX Small Cap Index (7.5%), index designed to represent the Canadian small cap equity market; S&P 500 Index (15%), index designed to represent the US equity market; Morgan Stanley Capital International All Country World (ex. US) (Net) (15%), index designed to reflect international stock markets; and Morgan Stanley Capital International Small Cap Index (7.5%), index designed to reflect the global small cap equity market.

### Summary of Investment Portfolio

A summary of the Fund as at December 31, 2017 is as follows:

	%
Cash	0.0
<b>Total cash</b>	<b>0.0</b>
Treasury bills	6.9
<b>Total short-term</b>	<b>6.9</b>
<b>Fixed Income</b>	
Mutual Funds	2.5
Federal	9.9
Provincial	7.0
Corporate	12.6
<b>Total fixed income</b>	<b>32.0</b>
<b>Equities</b>	
Canadian equities	16.9
U.S. equities	20.0
International equities	17.3
Global equities (small cap)	6.9
<b>Total equities</b>	<b>61.1</b>
<b>Total portfolio</b>	<b>100.0</b>

Totals may not add to 100% due to rounding.

## **Mawer Tax Effective Balanced Fund**

The following table lists the 25 largest holdings of the Fund as at December 31, 2017.

<b>Issuer</b>	<b>Percentage of Transactional Net Asset Value</b>
Mawer Global Small Cap Fund 'O'	6.9%
Mawer Global Bond Fund 'O'	2.5%
Government of Canada 2.00% Jun 01/28	1.5%
Canada Housing Trust No. 1 1.25% Jun 15/21	1.1%
Alphabet Inc.	1.1%
Government of Canada 4.00% Jun 01/41	1.0%
Province of Quebec 3.00% Sep 01/23	1.0%
Intertek Group PLC	0.9%
Province of Ontario 3.45% Jun 02/45	0.9%
Province of British Columbia 2.85% Jun 18/25	0.9%
Becton, Dickinson and Company	0.9%
Government of Canada 3.50% Dec 01/45	0.8%
Canada Housing Trust No. 1 2.25% Dec 15/25	0.8%
Aon PLC Cl. A	0.8%
Tencent Holdings Limited	0.8%
Canada Housing Trust No. 1 1.90% Sep 15/26	0.8%
Government of Canada 1.50% Jun 01/23	0.8%
Comcast Corporation Cl. A	0.8%
Marsh & McLennan Companies, Inc.	0.8%
Government of Canada 2.50% Jun 01/24	0.7%
Verisk Analytics, Inc. Cl. A	0.7%
Royal Bank of Canada	0.7%
MasterCard Incorporated Cl. A	0.7%
The Toronto-Dominion Bank	0.7%
Province of Quebec 3.50% Dec 01/45	0.7%

The investments and percentages may have changed by the time you purchase units of this fund. The top 25 holdings are made available quarterly, 60 days after quarter-end and may be obtained by contacting your registered representative or by contacting Mawer toll-free at 1-888-549-6248 or by e-mail at [info@mawer.com](mailto:info@mawer.com).