MAWER quarterly

First Quarter 2021

Market overview

The strong performance of global equities continued in the first quarter, fueled, as it was in the fourth quarter, by progress on COVID-19 vaccination programs and the relaxation of pandemic-led restrictions in parts of the world. Due to an improving public health situation and the flood of easy money from unprecedented monetary and fiscal stimulus, many countries appear ready for a rapid economic recovery. But recovery expectations have investors bracing for inflation, leading to a spike in developed-market bond yields that spurred market volatility, though it did not halt investors' enthusiasm for equities.

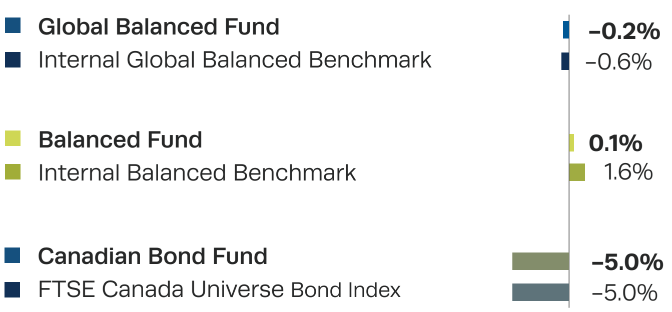
However, the bond selloff was accompanied by an equity rotation out of the "stay-at-home" companies that thrived during the downturn and into more economically sensitive sectors. Many cyclical and value-oriented businesses that we deem to be lower quality—which had previously been beaten down by the pandemic—fared well in the first quarter.

How did we do?

Performance has been presented for the A-Series Mawer Mutual Funds in Canadian dollars and calculated net of fees for the 3-month period of January 1 – March 31, 2021.

In terms of market performance, the big story of the quarter was rising inflation expectations and long-term bond yields. While most central banks are steadfast in their commitment to keeping short-term interest rates low, longer-term yields rose given the optimism around vaccine deployment, continued economic reopening, and fiscal stimulus. For balanced investors, the sharp rise in longer-term interest rates had the most direct impact on the portfolio's bond component. Predictably, the backdrop resulted in negative fixed income returns.

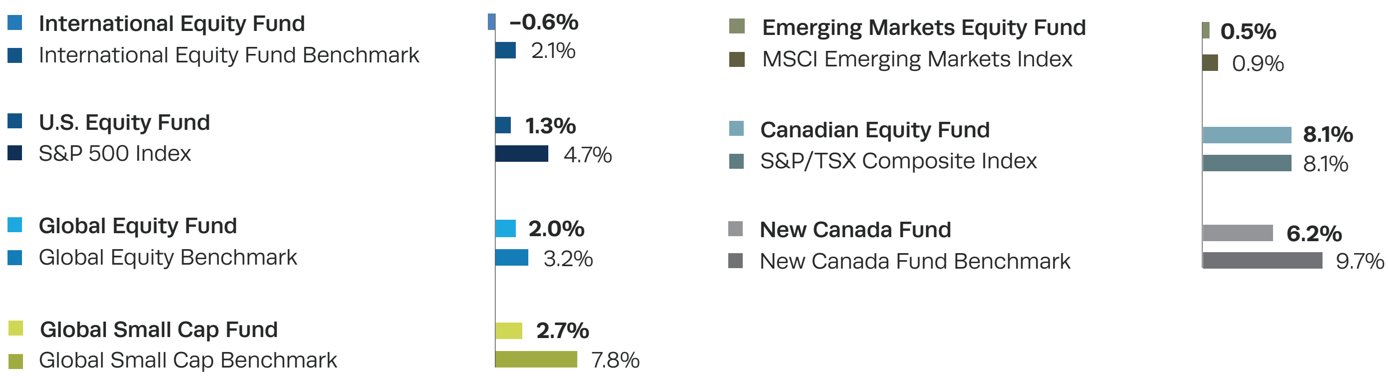
Chart A: Q1 2021, Series A, Net of fees



How did we do? (cont'd)

Our equity portfolios delivered mostly positive returns but generally lagged their benchmarks in a continuation of the themes that drove relative performance in Q4. However, in a market driven by optimism about economic expansion, the procyclical Canadian dollar was one of the top performers globally, which dampened foreign equity returns in Canadian dollar terms.

Chart B: Q1 2021, Series A, Net of fees



Areas of strength during the quarter included dedicated exposure to small-cap stocks, as well as those elements of our portfolios that are more exposed to the reopening theme:

- Bank stocks performed strongly as rising interest rates and greater economic activity bode well for their future profitability, with TD, JPMorgan, Sweden's Handelsbanken, and Singapore's DBS bolstering portfolio returns.
- Other companies in our portfolios also benefit from higher interest rates, such as CME Group, the largest derivatives exchange in the world, given its interest rate franchise and higher investment returns from collateral.
- While energy exposure in our portfolios is limited, Suncor and Canadian Natural Resources figured prominently among our Canadian equity strategy's top performers.
- Other companies that performed admirably during the quarter with more cyclical exposure included: door-lock manufacturer Assa Abloy, and Beijing Oriental Yuhong, the largest and most technologically advanced provider of building waterproofing materials in China.

By contrast, areas of relative weakness included:

- Given the procyclical backdrop, those "boring" businesses that we prize for their predictable, recurring revenue streams:
  - our Japanese drug store holdings (Tsuruha, Kusuri no Aoki, Create SD),
  - used heavy equipment auctioneer Ritchie Brothers, given the counter-cyclical nature of its business, and
  - consumer staples companies like Nestlé.
- As hinted at above, a lesser exposure to what we deem to be tougher, less competitively advantaged business models such as energy, banks, and mining companies.

- While the rise in discount rates had the most direct impact on fixed income assets, equities are also sensitive to these changes, particularly those companies whose valuations are most dependent on cash flow projections further into the future. Many higher-growth companies fit this mould, including Canada's Dye & Durham as well as Shopify and Amazon.

- These declines were further exacerbated when coupled with earnings releases or guidance that missed expectations. For example, SimCorp, a company that provides mission-critical software to investment management organizations (like Mawer), issued more conservative guidance with its most recent results which led to a selloff. Our investment thesis is indeed predicated on client and market share gains to justify its valuation, but we believe this is a short-term overreaction and have added to our position given a more reasonable valuation.

- And despite the overall optimism, negative developments impacted some of our holdings. Our investment thesis in Shanghai International Airport is based on long-term structural tailwinds around Chinese air travel, but also predicated on the idea that it is essentially a shopping mall with runways (or more cynically, a jail with retail stores!). The majority of revenue is derived from rental income and concession arrangements with duty free store tenants, and the airport's pricing power is an important component to the thesis. During the quarter, we learned that the company's latest contract negotiations with its retail partners will result in lower expected revenues over the next several years, highlighting that the degree of pricing power isn't as strong as we initially thought. We reduced our position accordingly.

Looking ahead

And now, after a full year of worrying about the destructive effects of COVID-19, investor psychology seems to be acutely focused on a return to "normal" in the months ahead. Indeed, the arrival of the COVID-19 vaccines was a meaningful turning point in the fight against the virus, and government and central bank intervention prevented a worst-case economic collapse. However, delays in global COVID-19 vaccination programs could lead to the spread of novel variants that force the economy to not operate at full capacity for a long time. And if governments and central banks don't effectively navigate the tight rope to economic recovery, they risk spurring inflation or sabotaging still fragile economies. In our view, stock prices continue to reflect a degree of optimism that leaves them vulnerable to setbacks if investors' expectations are not met.

We continue to be aware of the general top-down picture but evaluate every opportunity from a bottom-up perspective. As always, our focus remains on following our investment philosophy and looking at risk from an absolute sense—making sure that we do not impair clients' capital. From Mawer's perspective, combining a systematic and disciplined investment process with an unwavering focus on preserving clients' capital remains a prudent approach for investors looking to protect and compound capital over long periods of time.

Total net returns (Series A)

For periods ending March 31, 2021

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Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	**-0.6**	**-0.6**	**24.0**	**6.3**	**8.5**	**9.8**	**8.2**
International Equity Benchmark*	2.1	2.1	31.9	5.6	8.9	8.6	5.5
Mawer U.S. Equity Fund	**1.3**	**1.3**	**28.9**	**15.2**	**14.7**	**16.3**	**8.8**
S&P 500 Index	4.7	4.7	38.1	15.8	15.6	16.9	10.3
Mawer Global Equity Fund	**2.0**	**2.0**	**24.9**	**11.2**	**11.6**	**13.5**	**12.9**
Global Equity Benchmark*	3.2	3.2	36.5	11.1	12.5	12.6	12.1
Mawer Global Small Cap Fund	**2.7**	**2.7**	**40.5**	**12.0**	**12.8**	**16.4**	**13.1**
Global Small Cap Benchmark*	7.8	7.8	60.7	9.9	12.8	11.5	8.3
Mawer Emerging Markets Equity Fund	**0.5**	**0.5**	**40.9**	**6.4**	**–**	**–**	**9.8**
MSCI Emerging Markets Index	0.9	0.9	39.9	5.6	–	–	10.9
Mawer EAFE Large Cap Fund[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
MSCI EAFE Index (net)	–	–	–	–	–	–	–
Mawer Canadian Equity Fund	**8.1**	**8.1**	**35.4**	**7.9**	**7.9**	**8.8**	**9.3**
S&P/TSX Composite Index	8.1	8.1	44.2	10.2	10.1	6.0	8.5
Mawer New Canada Fund	**6.2**	**6.2**	**69.8**	**14.9**	**12.2**	**12.9**	**13.8**
New Canada Benchmark*	9.7	9.7	100.2	8.4	8.7	2.6	7.7
Balanced funds							
Mawer Global Balanced Fund	**-0.2**	**-0.2**	**15.1**	**8.1**	**7.8**	**–**	**9.2**
Internal Global Balanced Benchmark*	-0.6	-0.6	18.7	7.9	8.5	–	9.3
Mawer Balanced Fund	**0.1**	**0.1**	**19.8**	**8.0**	**7.8**	**9.1**	**8.5**
Internal Balanced Benchmark*	1.6	1.6	26.7	7.8	8.1	7.6	7.9
Mawer Tax Effective Balanced Fund	**0.0**	**0.0**	**19.8**	**7.9**	**7.8**	**9.0**	**8.1**
Internal Tax Effective Balanced Benchmark*	1.6	1.6	26.7	7.8	8.1	7.5	8.0
Income funds							
Mawer Global Bond Fund	**-5.6**	**-5.6**	**-10.5**	**-0.4**	**-0.2**	**–**	**0.9**
FTSE World Government Bond Index	-6.9	-6.9	-10.1	1.2	1.6	–	3.3
Mawer Canadian Bond Fund	**-5.0**	**-5.0**	**2.0**	**3.4**	**2.2**	**3.4**	**5.6**
FTSE Canada Universe Bond Index	-5.0	-5.0	1.6	3.8	2.8	4.0	6.7
Mawer Canadian Money Market Fund	**0.0**	**0.0**	**0.0**	**0.7**	**0.4**	**0.3**	**3.1**
FTSE Canada 91 Day TBill Index	0.0	0.0	0.2	1.2	1.0	0.9	3.9

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

[1] Fund performance is not available for funds with a history of less than one year. This fund launched May 29, 2020.

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

Index returns are supplied by a third party—we believe the data to be accurate, however, cannot guarantee its accuracy. Index returns are sourced from FTSE Russell, FactSet, and BMO Capital Markets.

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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