MAWER quarterly

Second Quarter 2020

Market overview

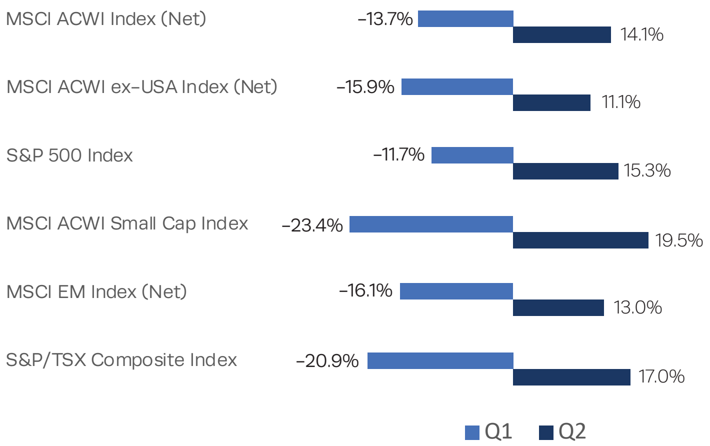
Following the market's quick plunge into bear territory and ultimate low on March 23, the second quarter of 2020 saw an exuberant rebound.

Many governments began to reduce COVID-19 restrictions and investors appear to be betting heavily that economies will recover quickly from the coronavirus crisis, fuelled by zero interest rates and abundant monetary and fiscal stimulus.

The economic backdrop remains admittedly murky, and the path toward a full reopening of the economy is still unclear. But in the tug-of-war between the virus, stimulus, and economic fundamentals, optimism ultimately prevailed.

Chart A

Global indices Q1 versus Q2 2020



How did we do?

Performance has been presented for the O-Series Mawer Mutual Funds in Canadian dollars and presented gross of management fees and net of operating expenses for the 3-month period of April 1 – June 30, 2020.

Our funds continue to behave in-line with our expectations and our investment philosophy. A focus on wealth-creating companies run by excellent management teams resulted in downside protection relative to our equity funds' benchmarks during the first quarter's drawdown, similar to other challenging periods in recent history such as 2011, 2015, and 2018. A healthy allocation to high-quality bonds also helped to cushion the drawdown for balanced investors. However, the trade-off to an approach that has tended to preserve capital historically is that it may not keep up during periods of rapidly rising markets.

Indeed, though the broad majority of securities we held delivered positive returns in Q2, our relative performance lagged our benchmarks across most of our equity funds.

The biggest underperformers were our Canadian Equity strategies whose near lack of direct precious metals exposure was the main contributing factor.

Generally speaking, capital light business models that combine recurring revenues with reasonable balance sheets and avenues for growth continued to be well-rewarded in our funds. Microsoft and supply chain solutions operator, Kinaxis, stand out in this regard, but many of our financials holdings fit this mould too: insurance brokers Marsh & McLennan and Aon, as well as financial data provider S&P Global. Holdings with e-commerce tailwinds also paid off, in the form of

How did we do? (cont'd)

fast-growing technology companies such as Amazon, Shopify, and payments processor Adyen. And high-quality business models with strong network effects as a competitive advantage continued to see strong performance including Visa, exchanges Deutsche Boerse, Japan Exchange, and TMX Group.

Yet, many of the steadier businesses that provided ballast to our funds in March had lackluster returns in Q2. Examples include Japanese staples Kusuri No Aoki and Seven & I; health care companies Roche, Baxter, and Johnson & Johnson; telco companies Verizon and Rogers; as well as consumer goods suppliers Hershey and Loblaws. While underwhelming, none of these were catastrophic.

But in an environment in which markets had such a strong rally, these decidedly more "boring" businesses didn't keep pace and weighed on the relative returns of our funds.

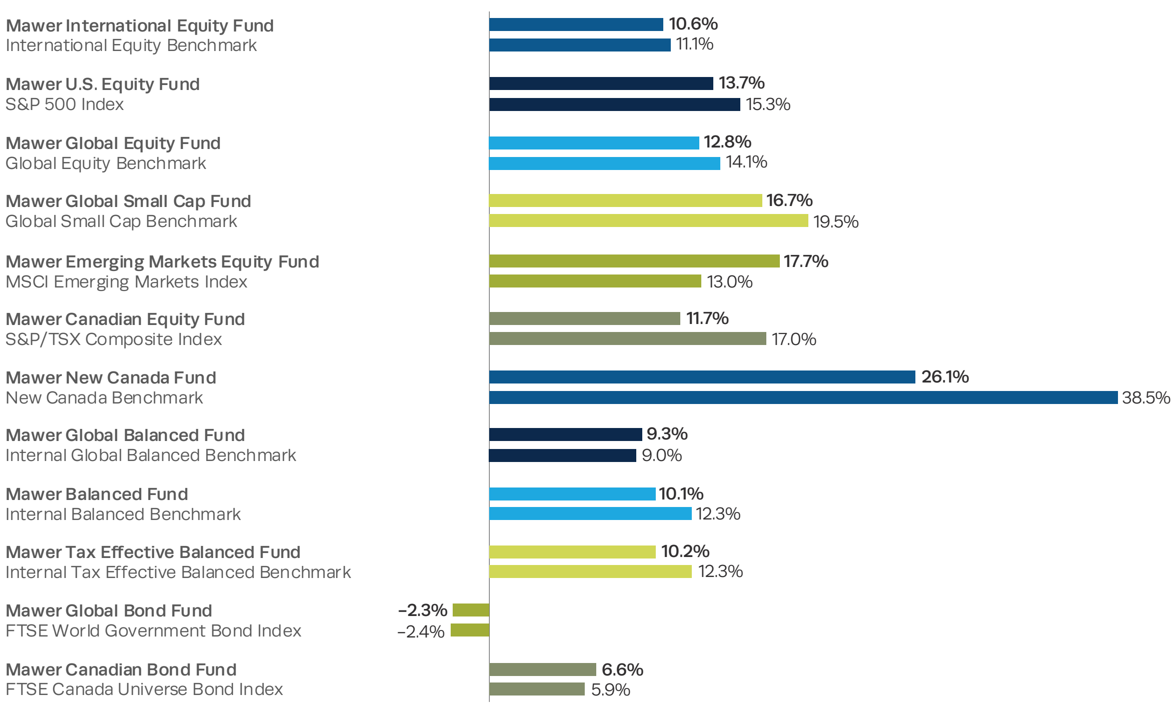
Activity

Before discussing our funds' positioning in the second quarter, it's worth a reminder as to what changes were made in the first three months of the year:

- Bank positions in funds were trimmed given a confluence of risk factors
- We decreased our positions in businesses where debt and access to liquidity were of greater concern
- Though our equity funds already had below average (and in some cases no) energy exposure due to the nature of our investment philosophy, we reduced our energy exposure further
- Conversely, we emphasized internet- or software-based businesses that should benefit from behavioural shifts accelerated by the economic slowdown and where growth may effectively be pulled forward
- We put a premium on businesses with more stable, defensive demand
- We reduced credit exposure within our Canadian Bond Fund to improve liquidity, while retaining positions in high-quality issuers
- We opted for patience from an asset mix perspective; as during the global financial crisis, we did not fight the downward drift in equities

Chart B

Q2 2020 – Series O, gross of fees*



* Gross of management fees and net of operating expenses

Activity (cont'd)

Overall, though we felt our funds were well-positioned coming into this unprecedented environment, our actions attempted to optimize for resilience in a variety of future scenarios, both positive and negative. Yet, while balanced, it would also be fair to say that they leaned toward preserving capital in a scenario of a prolonged economic slump.

Despite the market's strong rebound in Q2 and much more bullish sentiment relative to March, we've been comfortable with the adjustments we made earlier in the year. In other words, activity within the funds in Q2 has been modest and directionally consistent with the activity in Q1.

Notably:

- We finished exiting Indian agrochemical company UPL and U.S.-based whole car auction services company KAR due to concerns around their debt burdens
- We continue to strive for diversification. Contrast two new companies introduced to our Canadian Equity Fund: Ritchie Bros, the leading global auctioneer of used heavy industrial equipment, versus Kinaxis, a cloud-based provider of supply chain management software. While both companies meet our investment criteria, they offer very different end-market, growth, duration (discount rate sensitivity), and return potential profiles. Ritchie Bros offers counter-cyclical exposure, as the need for liquidations typically increases with downturns in the economic cycle. While Kinaxis's flagship solution, which helps its customers deal with supply chain disruptions, is deductively benefitting from the crisis, the investment thesis relies on Kinaxis executing on its long runway for growth
- We continued to emphasize companies that reflect stable, defensive demand including initiations in companies like Granite REIT, which focuses on distribution, warehouse, and logistics assets, computer software supplier Adobe, and network infrastructure provider Verisign
- We reduced our exposure to banks in our Canadian Bond Fund
- We continue to opt for patience from an overall asset mix perspective

Looking ahead

We are experiencing the greatest pandemic in 100 years and the worst economic contraction since the Great Depression and yet the stock market has seen an astonishing recovery and nearly recaptured all-time highs. How can this be the case?

On the one hand, this is certainly a concern: sentiment has played a role in driving markets over the past few months, and it's possible this could reverse. The road to recovery is likely not a straight line. On the other hand, with notable exceptions, many jurisdictions have made headway in flattening the curve, in beginning to reopen, and much effort is being applied to developing treatments and vaccines.

Yet while we don't believe there is a single definitive answer to this question, one explanation can be found in pure mathematics and the impact of lower interest rates. There is a strong case to be made that lower interest rates are here to stay for a considerable time. The lower those rates, the lower the discount rate used by investors, and, as a result, the higher the present value of future cash flows (i.e., higher asset values). In such an environment, it isn't implausible that reduced earnings over the next few quarters—even years—may be more than offset by the impact that low discount rates have on boosting the present value of cash flows further out in the future. The caveat, of course, is that companies can survive the interim period, it doesn't last more than year or two, and long-term growth rates aren't materially affected.

As we have often stated many times before, the world is uncertain. It appears in the near future that markets are going to be held somewhat captive to the ebbs and flows surrounding COVID-19 updates—one day focused on the positive impact of stimulus or a potential vaccine, the next on news of viral resurgence and renewed regional lockdowns.

As long-term investors focused on company fundamentals, we believe our best course of action is to play the plan. Be prepared: stay diversified so that funds are well-positioned for multiple outcomes; adhere to our investment philosophy;
keep our ideas flowing and culture intact. In these ways we create resilience.

Total gross returns (Series O)

For periods ending June 30, 2020

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Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	**0.0**	**10.6**	**4.7**	**6.7**	**8.3**	**12.2**	**9.7**
International Equity Benchmark*	–6.5	11.1	–0.8	2.8	4.0	8.5	5.6
Mawer U.S. Equity Fund	**2.8**	**13.7**	**12.3**	**15.3**	**14.3**	**17.7**	**10.2**
S&P 500 Index	1.8	15.3	12.1	12.5	12.7	16.9	9.4
Mawer Global Equity Fund	**1.4**	**12.8**	**9.2**	**12.1**	**11.8**	**16.0**	**14.2**
Global Equity Benchmark*	–1.5	14.1	6.4	7.8	8.4	12.5	11.1
Mawer Global Small Cap Fund	**–1.7**	**16.7**	**6.9**	**10.4**	**11.2**	**19.0**	**14.2**
Global Small Cap Benchmark*	–8.5	19.5	–1.5	3.0	5.4	10.5	6.3
Mawer Emerging Markets Equity Fund	**1.5**	**17.7**	**2.8**	**4.8**	**–**	**–**	**7.8**
MSCI Emerging Markets Index	–5.2	13.0	0.7	3.5	–	–	6.5
Mawer EAFE Large Cap Fund[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
MSCI EAFE Index (net)	–	–	–	–	–	–	–
Mawer Canadian Equity Fund	**–8.2**	**11.7**	**–2.7**	**2.9**	**5.2**	**10.6**	**9.3**
S&P/TSX Composite Index	–7.5	17.0	–2.2	3.9	4.5	6.3	6.4
Mawer New Canada Fund	**–5.6**	**26.1**	**5.2**	**5.7**	**6.7**	**14.3**	**13.7**
New Canada Benchmark*	–14.3	38.5	–10.1	–4.5	–0.7	2.4	4.4
Balanced funds							
Mawer Global Balanced Fund	**4.0**	**9.3**	**9.2**	**9.4**	**8.8**	**–**	**10.7**
Internal Global Balanced Benchmark*	2.7	9.0	7.7	7.2	6.9	–	9.0
Mawer Balanced Fund	**2.0**	**10.1**	**6.7**	**7.5**	**7.6**	**10.7**	**8.5**
Internal Balanced Benchmark*	–0.3	12.3	4.1	5.1	5.3	7.6	5.9
Mawer Tax Effective Balanced Fund	**2.0**	**10.2**	**6.6**	**7.4**	**7.5**	**10.6**	**8.4**
Internal Tax Effective Balanced Benchmark*	–0.3	12.3	4.1	5.1	5.3	7.5	5.8
Income funds							
Mawer Global Bond Fund	**8.2**	**–2.3**	**7.4**	**3.9**	**3.5**	**–**	**3.5**
FTSE World Government Bond Index	9.3	–2.4	9.0	5.6	5.5	–	5.5
Mawer Canadian Bond Fund	**7.9**	**6.6**	**8.4**	**5.4**	**4.3**	**4.8**	**5.0**
FTSE Canada Universe Bond Index	7.5	5.9	7.9	5.3	4.2	4.6	4.9
Mawer Canadian Money Market Fund	**0.5**	**0.1**	**1.3**	**1.2**	**0.9**	**0.9**	**1.2**
FTSE Canada 91 Day TBill Index	0.8	0.1	1.6	1.4	1.0	1.0	1.4

* 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.

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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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