MAWER quarterly

Third Quarter 2020

Market overview

The market's Q2 enthusiasm continued in the third quarter, but more investors recognized that valuations have come a long way after the remarkable recovery in equities from the lows of March, leading to shallower gains in Q3. Perhaps this is just a pause, since the massive amount of fiscal and monetary stimulus governments around the world have enacted continues to provide a positive foundation for markets.

However, heightened uncertainty remains as spiking coronavirus infections and ensuing fresh restrictions in some countries, as well as the magnitude of damage already done to the economy, continue to weigh on company fundamentals. While the world has entered a deep recession, its impacts haven't fully impacted corporate profits due to the governments' and central banks' use of substantial fiscal and monetary stimulus. Now, investors are weighing the potential that the downturn could be more punishing and long-lasting than initially feared as additional stimulus remains uncertain and the lack of a COVID-19 vaccine may force governments to intensify restrictions on business to halt the spread of the pandemic.

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 July 1 – September 30, 2020.

The third quarter of 2020, despite being a very strong quarter overall, saw investors more discriminating toward equity prices than they were in the prior quarter. Individual businesses that reported better-than-expected earnings, or that demonstrated fundamental strength, performed strongly, and the reverse was true for those companies negatively impacted by the continued suppression of economic demand.

Most of our portfolios delivered results that were better than their benchmarks, with some asset classes performing more in line or slightly below benchmark. Despite these overall strong absolute results, our portfolios were not immune to virus-related themes. We own UK-based travel agent **On The Beach**, which has unsurprisingly suffered from the resurgence in COVID cases despite having a substantially net cash balance. Another UK-based example is **4imprint**, one of the largest providers of custom printed promotional products in the U.S. 4imprint reported weak results as many of the company's products are tied to marketing and trade show activities that have seen some curtailment due to measures to contain the virus. In addition, **Glanbia**, a leader in sports nutrition such as whey protein products, reported weak results due to the closure of gyms and specialty nutrition stores.

Furthermore, many of the defensively-oriented companies we hold—those that contributed prominently to the portfolio's downside protection earlier in the year—haven't been as well rewarded in the rebound. Examples include health care companies **Baxter**, **Gilead Sciences**, **Roche**, and **Novartis**, as well as professional publisher **RELX**. By contrast, we don't own many of the frothier stocks such as Tesla, NVIDIA, or the now ubiquitous Zoom Video Communications.

Helping to offset these relative performance headwinds was our overall underweight exposure (and in some cases complete lack of exposure) to the still-struggling Energy sector. It is worth noting that we also own some companies that benefited from COVID-related tailwinds, such as **De'Longhi**,

How did we do? (cont'd)

a designer, manufacturer, and distributor of premium positioned small food and home appliances (e.g., brands such as Kenwood, Braun, and the makers of Nespresso coffee machines). The stock had been punished back in February/March due to being headquartered in northern Italy with significant production in China. At the time, we took advantage of the share price's weakness to add to our position. And it appears to have worked out—the company's revenue has proven resilient, partially driven by increased in-home consumption of coffee. De'Longhi also saw reduced competition in its food machine segment and we speculate that one of the potential silver linings to the pandemic is that we may see a reduction in rivalry as competitors more focused on the short-term turn their focus to maintaining profitability rather than trying to gain market share from each other. Other companies that benefited from virus-related themes are Chinese multinational technology company **Alibaba** and Canadian-based auctioneer **Ritchie Bros**, whose previous investment in technology has paid off as industrial equipment and truck auctions go online. Certification and testing company, **Intertek**, also reported resilient results and may be a long-term winner from the theme of companies potentially looking to diversify their supply chains, which could result in more complexity and a need for more auditing.

Our investment theses are also playing out in the near-term for many of our holdings with regards to recent results, and more importantly, we see evidence that our long-term theses have strengthened:

- **TSMC**, the world's largest and most sophisticated semiconductor foundry, benefited as competitor Intel announced significant delays to the initial production of its next generation chips. This reinforces our thesis on TSMC's widening dominance in producing the fastest and most power efficient chips, which bodes well for greater pricing power, higher returns on invested capital, and an even greater R&D advantage going forward.

- **Bunzl**, a distributor of recurring consumables focused on large, complex customers, reported strong performance in their grocery, safety, and hygiene segments—which more than offset weakness among retail and foodservice customers. The business has demonstrated remarkable resilience during the pandemic, which we continue to feel is not reflected in its valuation given management's ability to execute effectively.

- Finally, we added to publisher **Wolters Kluwer**, a provider of critical reference information and tools to various professionals: software for tax preparation, software to provide doctors with recommendations and point-of-care, and reference material such as legal, tax, and medical journals. Over the past two decades, the company has transformed itself from a print to a digital subscription business model, and it continues to invest in innovation to drive growth. CEO Nancy McKinstry and her team continue to do a wonderful job at executing on a strategic vision that improves value for customers, increases competitive differentiation, and enhances the recurring nature and profitability of the business.

We also benefited from some exposure to stocks that fall within the theme of investor appetite for deals. We didn't participate indiscriminately, rather we engaged in instances where the investments met our investment criteria for well-run, sustainably wealth-creating business models:

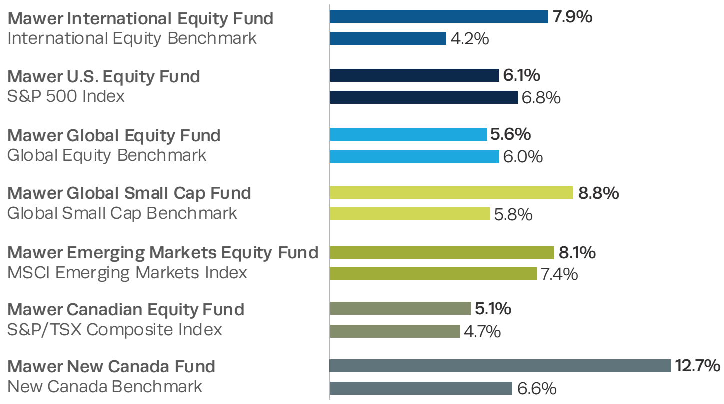
- We participated in the **Dye & Durham** IPO—Canada's leading data and software provider for law clerks to automate data processing and transactions between law firms and provincial registries. Our team built a relationship with the company for over two years and our consistent support of the management team allowed for us to get a full fill on an IPO that was 8x oversubscribed.

- UK-based **Diploma PLC**, a long-standing holding in the portfolio, announced an equity raise (which we participated in) to fund the acquisition of Windy City, a U.S. distributor of wire and cable. We view the quality of the target business as high and estimate that the price paid for the acquisition amounts to an attractive ~10% internal rate of return. Core to our investment thesis in Diploma is a management team that can allocate capital effectively, and we view this as further evidence that they are playing the plan. The market did too, with the stock up 25% on the news.

How did we do? (cont'd)

Chart A

Equity Funds (Q3 2020, Series A, net of fees)

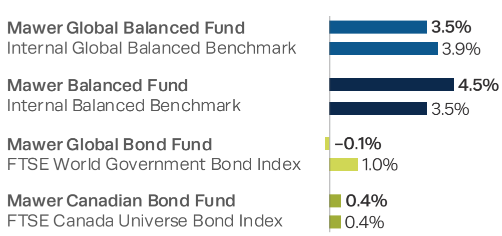


Our Canadian Bond Fund delivered modestly positive returns after a considerable rally in Q2 as spreads have tightened back to (or close to) pre-COVID-19 levels. This spread tightening has made the credit risk/reward less appealing and is one of the main reasons why we have reduced our corporate bond exposure.

When we look back at our performance over all of 2020, the pattern of returns across all of our investment offerings has been consistent with our philosophy and expectations. We provided significant downside protection in Q1, and, while we delivered generally strong positive returns in Q2, we lagged our benchmarks as markets indiscriminately rose. In Q3, we saw better participation—and outright outperformance in many cases—as markets continued to rise but began to consolidate and investors looked to companies with evidence of strong fundamentals. All told, this has resulted in outperformance YTD for investors in our balanced funds.

Chart B

Balanced and Fixed Income Funds (Q3 2020, Series A, net of fees)



Looking ahead

As we look towards the end of the year and beyond, the base case is likely a period of positive, but slower economic growth, thanks to an accommodative monetary and fiscal environment. Enough stimulus is provided to avert deflation, but the economy doesn't overheat given how much slack is in the system, therefore inflation doesn't become problematic. The alternative scenarios we are being particularly mindful of are inflation and deflation.

A few developments help make a case for the inflation scenario. COVID-19 has proven to be an accelerant for deglobalization forces that were already at play, a prime example being the intensifying of U.S.-China trade tensions. This deglobalization combined with massive fiscal spending could result in inflationary pressures. The biggest threat to a low inflation world however is likely the central banks—the Fed (among other central banks) communicated that they are willing to have inflation trend higher. Historically it has been unwise to ignore these messages from central banks.

While inflation is something we are watching closely, we see this as a potential medium-term risk. Just because the Fed says they are willing to tolerate inflation running over 2%, there is no guarantee they can orchestrate its occurrence. Although growth has rebounded, the majority of this growth was fueled by fiscal support and we are still at record unemployment levels—there are more people unemployed today in absolute terms than at the peak of the Great Financial Crisis. This suggests the rebound is very fragile, and not sustainable without government support.

We see deflation as the more near-term risk. We don't know which direction the Fed or the Bank of Canada will take if we get the deflationary scenario, however from an asset mix perspective, we remain confident that the negative correlation between bonds and equities will hold and bonds will continue to act as a hedge to risk assets despite lower overall yields.

The markets don't seem to be rewarding risk management of late—the upward mobility of stocks could certainly continue. On the other hand, the possibility of deflation could also mean lower returns. We continue to pay close attention to the pace of declining fiscal support, second wave of the virus and ensuing shutdowns, and volatility around the U.S. election. No matter the outcomes, we will continue to stay focused on resiliency and managing risk rather than just seeking returns, after all, we are buying companies; not markets.

Total net returns (Series A)

For periods ending September 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	**7.1**	**7.9**	**13.6**	**7.5**	**8.7**	**10.0**	**8.2**
International Equity Benchmark*	–2.6	4.2	3.9	3.4	5.6	7.6	5.2
Mawer U.S. Equity Fund	**8.4**	**6.1**	**12.7**	**16.7**	**14.4**	**16.4**	**8.7**
S&P 500 Index	8.7	6.8	16.2	14.8	14.1	16.8	10.0
Mawer Global Equity Fund	**6.4**	**5.6**	**12.4**	**12.8**	**11.7**	**14.0**	**13.0**
Global Equity Benchmark*	4.4	6.0	11.4	9.5	10.1	12.2	11.4
Mawer Global Small Cap Fund	**6.0**	**8.8**	**15.7**	**11.7**	**10.8**	**16.5**	**12.7**
Global Small Cap Benchmark*	–3.1	5.8	4.1	4.2	7.7	10.0	6.6
Mawer Emerging Markets Equity Fund	**8.9**	**8.1**	**13.5**	**6.8**	**–**	**–**	**8.0**
MSCI Emerging Markets Index	1.8	7.4	11.5	4.7	–	–	8.2
Mawer EAFE Large Cap Fund[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
MSCI EAFE Index (net)	–	–	–	–	–	–	–
Mawer Canadian Equity Fund	**–4.1**	**5.1**	**–1.4**	**2.6**	**5.6**	**8.8**	**9.0**
S&P/TSX Composite Index	–3.1	4.7	0.0	4.3	7.2	5.8	8.0
Mawer New Canada Fund	**5.8**	**12.7**	**12.8**	**9.2**	**9.4**	**13.1**	**13.4**
New Canada Benchmark*	–8.6	6.6	–2.9	–3.2	3.9	1.7	6.8

Balanced funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer Global Balanced Fund	**7.2**	**3.5**	**10.6**	**9.8**	**8.3**	**–**	**9.7**
Internal Global Balanced Benchmark*	6.7	3.9	10.2	8.5	7.9	–	9.3
Mawer Balanced Fund	**6.1**	**4.5**	**9.1**	**8.2**	**7.6**	**9.4**	**8.4**
Internal Balanced Benchmark*	3.2	3.5	6.5	6.0	6.7	7.2	7.8
Mawer Tax Effective Balanced Fund	**6.1**	**4.5**	**9.1**	**8.2**	**7.6**	**9.3**	**8.0**
Internal Tax Effective Balanced Benchmark*	3.2	3.5	6.5	6.0	6.7	7.2	7.8

Income funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer Global Bond Fund	**7.7**	**–0.1**	**6.2**	**4.0**	**1.5**	**–**	**2.6**
FTSE World Government Bond Index	10.4	1.0	7.7	6.7	3.9	–	5.4
Mawer Canadian Bond Fund	**8.0**	**0.4**	**6.9**	**5.6**	**3.6**	**3.7**	**5.9**
FTSE Canada Universe Bond Index	8.0	0.4	7.1	6.1	4.3	4.4	7.0
Mawer Canadian Money Market Fund	**0.3**	**0.0**	**0.6**	**0.7**	**0.4**	**0.4**	**3.1**
FTSE Canada 91 Day TBill Index	0.8	0.1	1.3	1.4	1.0	1.0	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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