MAWER quarterly

Third Quarter 2021

Market overview

Equity market returns were mixed in the third quarter with some regions posting gains and others modest losses, after a difficult September gave back some of the strength from earlier in the period. Weakness in emerging markets was notable, as increased regulatory risk in China triggered headwinds for the market. Canadian bond returns were also modestly negative as yields rose late in September.

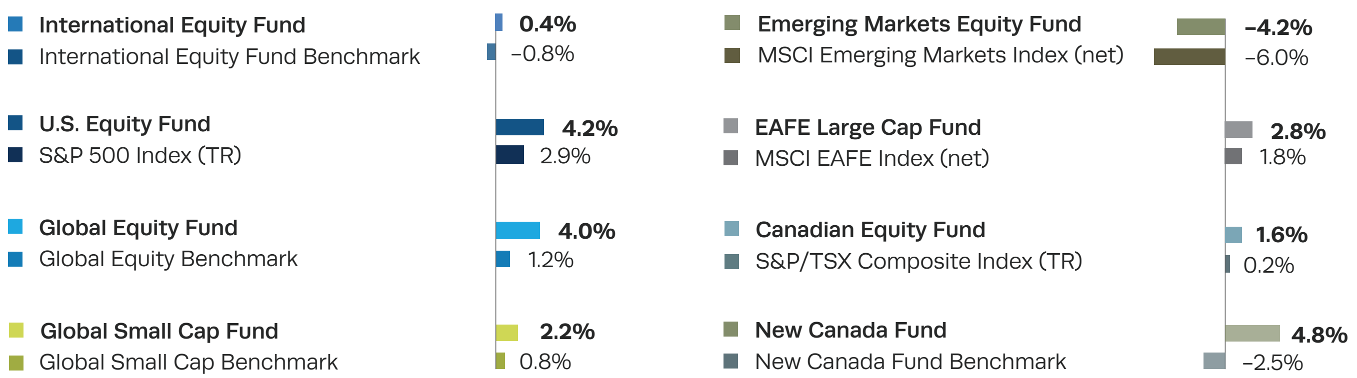
In the third quarter, global growth was appearing to slow as COVID-19 variants surged and supply chain disruptions persisted. In Canada and many regions globally, inflation remained elevated as pressures from the pandemic continued. After a period of enthusiasm in equity markets since the initial pandemic shock, concerns about slowing growth, supply chain bottlenecks, rising inflation, and the potential for a more accelerated timeline for central bank tapering weighed on equity markets globally.

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, 2021.

Equities

Chart A: Q3 2021, Series A, Net of fees



Our equity funds had a robust quarter of relative performance as our equity asset classes globally outperformed their benchmarks. A divergence in individual stock performance was apparent as many higher-quality companies with recurring revenue and sustainable competitive advantages tended to perform relatively better.

- **Wolters Kluwer**, a provider of reference information to various professionals such as tax accountants and lawyers, reported strong results throughout the pandemic and we believe the market is gaining further appreciation for the quality of this resilient stalwart.

How did we do? (cont'd)

- **Novo Nordisk**, a company with less discretionary demand, continued to win market share in the global diabetes treatment market on the back of innovative new products.
- Insurance brokers, including **Aon** and **Marsh & McLennan Companies**, were strong performers over the quarter. We believe the insurance broker business model is high quality in that it is scalable, has low balance sheet risk, and benefits from tailwinds as businesses look to reduce risk to increasingly complex elements such as cyber security and climate related risk.
- Similarly, **Verisk Analytics**, a leading proprietary data and analytics provider to insurers for underwriting, also performed well in the quarter.

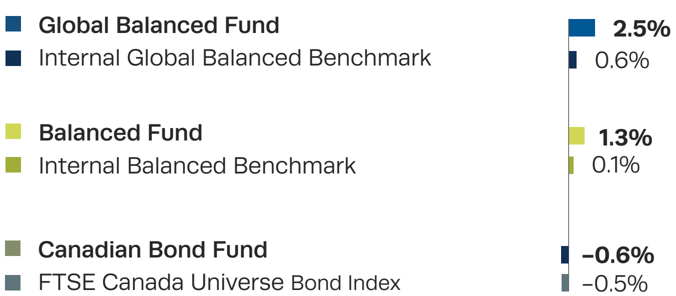
Despite a quarter of strong relative performance, our funds were not immune to pockets of weakness. China was noteworthy as fears regarding imbalances in the property market (Evergrande) and an intensification in regulatory interventions caused many Chinese stocks to exhibit negative returns over the period.

- We saw the business model of after school tutoring company **New Oriental Education** effectively eviscerated (along with most of its market cap), with new regulations announced in July banning for-profit activities in the industry. We exited the company given the transformative impact regulations have had on its business model.
- Our Chinese holdings with exposure to internet platform/e-commerce businesses (**Alibaba**, **Autohome, Vipshop, China Youzan**), gaming (**Tencent, NetEase, FriendTimes**), and liquor manufacturers (**Wuliangye Yibin, Kweichow Moutai**) also suffered negative returns over the period.

While China was certainly a focal point during the quarter, overall exposure to China was quite modest for our balanced investors. In recognizing that we cannot predict when certain segments of the market will fall in or out of favour, we have remained steadfast to the key tenets of our investment philosophy and focused on the fundamentals of the businesses we own.

Balanced and Canadian Bonds

Chart B: Q3 2021, Series A, Net of fees



Equities continued to be in favour over Canadian bonds this quarter as rising yields impacted bond returns. Over the quarter we made a modest adjustment to our asset mix, lowering our allocation to equity as the weight drifted to the higher end of our tolerance range. We feel the long-term risk/return outlook still favours equity over cash and bonds, particularly in an environment where real yields remain negative. But we're aware that our overweight equity positioning does leave us more vulnerable to drawdown risk. Long-term investors should be prepared to absorb greater short-term volatility, and as always, ensure that their asset mix, investment goals, time horizon, and liquidity needs are well understood.

Looking ahead

While the economic recovery since the start of the pandemic has been remarkable, the sharp rebound has exposed several risks.

- In China, a slowdown in growth is emerging as the economy is confronted with slowing retail sales growth, credit market disruptions, and recently, power shortages. All are noteworthy observations given China's position as the second largest economy and the spillover effects a slowdown in growth can have globally.
- Supply chain disruptions, including long queues of ships at cargo terminals and shortages of truck drivers, are an evolving risk to meeting consumer demand as well as persisting inflation above target ranges for longer than anticipated.
- Input cost inflation continues to be a common theme noted amongst management teams. Most of our companies that have seen input costs rise have been able to offset these via pricing and efficiency gains, as our investment philosophy tends to emphasize companies with the competitive advantages that afford them pricing power.
- A shift toward more localized supply chains in an effort to make them more robust (i.e., de-globalization) implies long-term cost increases for businesses.

The risk of persistently lower growth and higher inflation could prove problematic for policymakers and investors, although stagflation to the degree it manifested in the 1970s still seems like a low probability outcome. In other words, growth may be slowing, but a slowdown is very different than a recession and the extent to which transitory inflation pressures will remain is uncertain. While the pandemic remains ongoing, we are mindful that widespread vaccine rollouts may help to alleviate some inflationary pressures as COVID-19 restrictions have played a role in supply shortages.

The major central banks still appear committed to supporting asset prices. They are tapering their asset purchases, which means the size of their balance sheets is still growing, just at a decreasing rate. While yields moved higher toward the end of the third quarter, they are still very low by historical standards and especially in real terms—a powerful foundation for equity markets to potentially continue rising. We're being cautious with the assumptions we're using in evaluating higher-growth, longer-duration securities whose valuations might be most sensitive to changes in discount rates.

The robust quarter of performance for many higher-quality companies with recurring revenues and sustainable competitive advantages reminds us of the importance of playing the plan and sticking to our philosophy. The reality is that we can't predict the future, but we can consistently stick to a systematic, disciplined, bottom-up investment approach no matter the market outlook. As optimism that characterized the early part of the year has now given way to more caution, we believe staying invested for the long term continues to be a prudent approach for our clients.

Total net returns (Series A)

For periods ending September 30, 2021

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Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	**3.2**	**0.4**	**8.2**	**7.9**	**8.1**	**11.7**	**8.2**
International Equity Benchmark*	5.3	-0.8	17.5	7.3	8.1	10.3	5.6
Mawer U.S. Equity Fund	**11.6**	**4.2**	**18.0**	**15.4**	**15.4**	**18.2**	**9.0**
S&P 500 Index (TR)	15.3	2.9	23.3	15.2	16.0	18.9	10.4
Mawer U.S. Mid Cap Equity Fund[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Russell Midcap Index (TR)	–	–	–	–	–	–	–
Mawer Global Equity Fund	**13.0**	**4.0**	**16.5**	**12.7**	**12.6**	**15.4**	**13.3**
Global Equity Benchmark*	10.5	1.2	20.9	11.8	12.4	14.6	12.2
Mawer Global Small Cap Fund	**7.7**	**2.2**	**16.5**	**12.0**	**11.9**	**17.5**	**12.9**
Global Small Cap Benchmark*	13.0	0.8	33.4	10.4	11.4	13.9	8.4
Mawer Emerging Markets Equity Fund	**0.7**	**-4.2**	**11.3**	**9.8**	**–**	**–**	**8.7**
MSCI Emerging Markets Index (net)	-1.8	-6.0	12.1	7.9	–	–	9.0
Mawer EAFE Large Cap Fund	**9.1**	**2.8**	**13.6**	**–**	**–**	**–**	**18.0**
MSCI EAFE Index (net)	7.7	1.8	19.2	–	–	–	18.1
Mawer Canadian Equity Fund	**16.3**	**1.6**	**24.4**	**8.4**	**8.2**	**11.0**	**9.4**
S&P/TSX Composite Index (TR)	17.5	0.2	28.0	11.1	9.6	8.8	8.6
Mawer New Canada Fund	**17.7**	**4.8**	**32.8**	**16.0**	**12.1**	**15.8**	**13.9**
New Canada Benchmark*	16.7	-2.5	44.1	9.3	5.8	5.7	7.8
Balanced funds							
Mawer Global Balanced Fund	**7.3**	**2.5**	**9.5**	**9.5**	**8.5**	**–**	**9.7**
Internal Global Balanced Benchmark*	3.6	0.6	9.1	8.7	8.0	–	9.2
Mawer Balanced Fund	**5.1**	**1.3**	**9.6**	**8.7**	**7.7**	**10.1**	**8.5**
Internal Balanced Benchmark*	6.1	0.1	13.8	8.4	7.4	8.5	7.9
Mawer Tax Effective Balanced Fund	**5.0**	**1.3**	**9.4**	**8.7**	**7.7**	**10.1**	**8.1**
Internal Tax Effective Balanced Benchmark*	6.1	0.1	13.8	8.4	7.4	8.5	8.0
Income funds							
Mawer Canadian Bond Fund	**-4.3**	**-0.6**	**-3.7**	**4.0**	**1.7**	**2.7**	**5.6**
FTSE Canada Universe Bond Index	-4.0	-0.5	-3.3	4.3	2.3	3.3	6.6
Mawer Canadian Money Market Fund	**0.0**	**0.0**	**0.0**	**0.5**	**0.4**	**0.3**	**3.1**
FTSE Canada 91 Day TBill Index	0.1	0.1	0.2	1.0	0.9	0.9	3.8

* 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. The Fund launched on September 27, 2021.

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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