MAWER quarterly

Fourth Quarter 2020

President's message

Happy New Year! Well, I thought the technology bubble bursting in 2000 and the financial crisis of 2008 would be the most interesting of my 23-year career at Mawer, but little did I know what 2020 would have in store for us. The abrupt transition to a remote work environment back in March demonstrated the incredible resilience and adaptability of our team—their preparation and commitment ensured we did not miss a beat for our clients.

Despite the challenges of 2020, we had a tremendously active year:

- we welcomed over 40 new people to the firm (most of whom I have only met virtually!) including our first U.S. employees under our new U.S. subsidiary;
- we launched the Mawer EAFE Large Cap Fund;
- we closed our International Equity Fund to new institutional clients;
- we had eight team members become new owners of the firm;
- we hosted the Mawer Insight event 100% virtually and also saw a significant uptake in our Art of Boring subscribers;
- and we made significant contributions back to our communities—providing over $2 million dollars of support across more than 150 different charitable organizations.

Overall, our investment performance continued to be strong and we were pleased to be recognized again at the Canadian Refinitiv Lipper Fund Awards, receiving the Group Award for both the Equity and Mixed Assets categories, as well as receiving several individual fund awards.

On behalf of everyone at Mawer, I would like to thank you, our clients, again for your unwavering support despite the incredible turmoil in the markets and the world economy during 2020. We appreciate your continued confidence and wish you a safe and healthy 2021.

Sincerely,

Craig Senyk, President, Vice Chair

Market overview

Looking back on a year beset by the coronavirus pandemic, the market's performance stands out for its incredible comeback from the virus-induced crash in March. The pandemic has left economies reeling as lockdowns have dealt some businesses a severe blow with uncertain prospects for recovery, and millions of people are still relying on government support to make it through a precarious employment period. Yet despite targeted restrictions that could be in place for months to come and many countries grappling with surging COVID-19 infections, investors propelled global stock markets to record highs in the fourth quarter.

At first glance, the case for the market's exuberance is compelling. Positive vaccine developments have the potential to restore a resemblance of normality to daily life and allow for economic reopening. Central banks have vowed to maintain ultralow interest rates for the foreseeable future. And households, sitting on billions in excess cash due to reduced spending and government support programs, have the potential to unleash pent-up demand as restrictions are gradually lifted. This reopening rally caused global markets to rise materially in the quarter as investors flocked to economically sensitive stocks on hopes of a recovery.

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 October 1 – December 31, 2020.

Equities

As forewarned earlier this year, our portfolios tend to underperform on a relative basis during periods of market exuberance. Our investment philosophy demands that we invest in companies that are wealth-creating, i.e., that earn a return on capital above their cost of capital over an economic cycle. To do so, companies we own need to have durable competitive advantages and able management teams. The result are portfolios that prioritize resilience and that are less exposed to deep value (stocks that one would buy purely because they appear cheap on relative valuation metrics compared to the broader market) in favour of higher quality stocks.

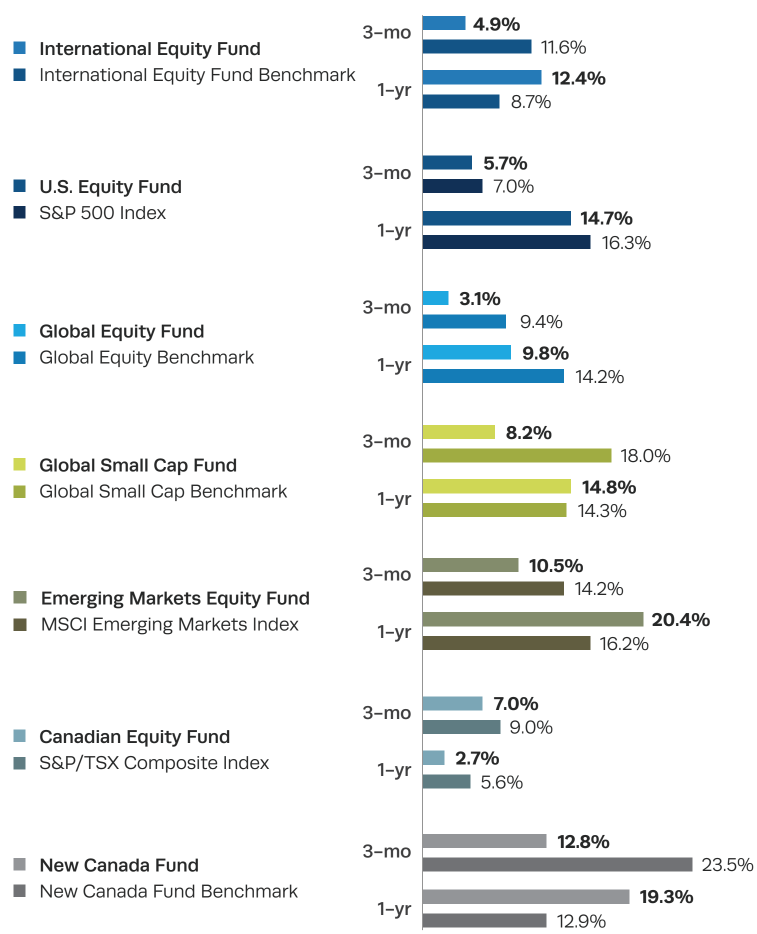
Indeed, our performance for 2020 has been largely consistent with our investment philosophy: we provided meaningful downside protection through to the bottom on March 23rd, but lagged during the strong rebound, particularly an exuberant Q4.

The COVID-19 vaccine releases contributed to a rotation toward many cyclical, lower-quality, and value-oriented industries, many of which had been beaten down by the pandemic. Aerospace companies like Boeing, European banks like Banco Santander, and mining companies like Vale had standout performance during Q4 ... none of which meet our investment criteria. By contrast, many of our top holdings or companies we added to in 2020 delivered much more unspectacular returns during the quarter. Portfolio stalwarts such as Microsoft, Thomson Reuters, industrial distributor Diploma, pressure-treated wood products company Stella-Jones, and door-lock manufacturer Assa Abloy were fundamentally sound, but delivered more "boring" +/- low single-digit returns.

We were not caught unaware of this reopening trade. We have always known the pandemic will end one day and though we were pleasantly surprised by the strength of some of our pandemic winners, we thought some of their strength might be temporary. But at Mawer, our focus isn't on positioning the portfolio to "bet on" different market environments. Rather, we have stuck to our long-term philosophy, emphasizing companies with strong competitive advantages and excellent management teams, and we try to stay balanced and diversified, both with respect to the portfolio and our decision-making. While it is fair to say that we have been striving to stay in "two places at once," there are limits to what these two places are. We believe it's a natural consequence of a philosophy that has tended to preserve capital when markets get tough.

Although at first glance we might consider this a disappointing quarter due to our underperformance across numerous asset classes, we take some comfort in the value we've been able to add throughout 2020 in most asset classes, as illustrated in the chart below.

Chart A: Q4 2020, Series A, Net of fees

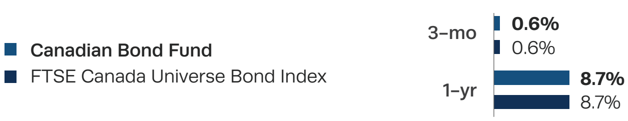


Canadian Bonds

Over the fourth quarter we saw yields slowly grind higher, particularly in the long end. This was offset by a continued compression in spreads resulting in a small positive return in bond funds. Our added value was driven by an overweight in corporate and provincial bonds as well as a curve steepener (overweight in short duration bonds vs. underweight in longer duration bonds). Within the corporate space we have been taking profits on companies that have benefited the most from the pandemic and lockdowns (Telus, Loblaws) and slowly started shifting our portfolio towards sectors and companies that will benefit the most as the economy begins to reopen (Suncor, TC Energy).

Going forward, we continue to be cautiously optimistic as the vaccine gets rolled out and policy remains supportive. Although we could see weaker data in the first half (particularly Q1) due to current lockdowns as the economy reopens and vaccines get distributed, we believe growth will continue to improve. Given this, we continue to be overweight higher quality corporate and provincial bonds. With respect to curve positioning, we are overweight shorter duration bonds as we believe policy makers committed to keeping front end policy rates low. However, as growth improves throughout 2021 and with inflation a continued risk, we expect longer end rates to grind higher and therefore maintain an underweight in longer duration securities.

Chart B: Q4 2020, Series A, Net of fees



Asset Mix

We have introduced the Emerging Markets Fund to our Balanced strategy as well as modestly increased our allocation to Canadian bonds and Canadian large cap equity.

We feel that the emergence of promising Covid-19 vaccines has shifted the probabilities, with a higher likelihood of a reflationary scenario and less likelihood of deflation. We have already observed a steepening of the yield curve as longer-term inflation expectations rise while administered rates remain anchored near 0%. While underlying asset classes have already executed modest adjustments to their portfolios, and will likely continue to do so, we felt that this was an opportunity to add to both emerging markets and Canadian large cap to better position for a reflationary scenario. We also feel this improves the diversification and valuation characteristics of the overall strategy. We would also note that this reflation outcome is by no means a certainty, so the addition to Canadian bonds may help counter the resulting higher equity weight should the economic recovery falter.

Chart C: Q4 2020, Series A, Net of fees

Looking ahead

The script for 2021 isn't written but it might depend on inoculation. The COVID-19 vaccines should help economies recover after a destructive year for workers and businesses, but the brightening economic outlook might also underestimate the case for caution. Increasingly lofty valuations (across all asset classes), driven not only by continued low interest rates but also by investor optimism, are cause for concern as good news may be already embedded in market prices. But as we have said many times before, low discount rates can justify valuations that otherwise would appear stretched.

How do we balance these conflicting signals? By investing based on our discounted cash flow work—not by relying on market multiples. By investing with a bottom-up perspective (while being mindful of top-down risks). By investing in companies that provide clear value propositions, possess strong competitive advantages, have bottom-up execution opportunities, and are led by honest and proactive managers who are also prudent capital allocators.

As such, though we acknowledge that valuations can appear less attractive, we continue to believe that investing in portfolios of sustainably wealth-creating businesses remains a rational approach for investors looking to protect and compound capital over long periods of time.

Total net returns (Series A)

For periods ending December 31, 2020

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Equity funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer International Equity Fund	**12.4**	**4.9**	**12.4**	**7.3**	**7.9**	**10.0**	**8.3**
International Equity Benchmark*	8.7	11.6	8.7	5.5	6.2	8.5	5.5
Mawer U.S. Equity Fund	**14.7**	**5.7**	**14.7**	**16.5**	**13.5**	**16.2**	**8.8**
S&P 500 Index	16.3	7.0	16.3	14.8	13.2	16.8	10.2
Mawer Global Equity Fund	**9.8**	**3.1**	**9.8**	**11.4**	**10.1**	**13.8**	**13.0**
Global Equity Benchmark*	14.2	9.4	14.2	10.7	10.1	12.6	12.1
Mawer Global Small Cap Fund	**14.8**	**8.2**	**14.8**	**11.6**	**10.8**	**16.5**	**13.1**
Global Small Cap Benchmark*	14.3	18.0	14.3	8.1	9.6	10.8	7.8
Mawer Emerging Markets Equity Fund	**20.4**	**10.5**	**20.4**	**7.4**	**–**	**–**	**10.3**
MSCI Emerging Markets Index	16.2	14.2	16.2	6.8	–	–	11.3
Mawer EAFE Large Cap Fund[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
MSCI EAFE Index (net)	–	–	–	–	–	–	–
Mawer Canadian Equity Fund	**2.7**	**7.0**	**2.7**	**3.8**	**7.1**	**8.9**	**9.1**
S&P/TSX Composite Index	5.6	9.0	5.6	5.7	9.3	5.8	8.3
Mawer New Canada Fund	**19.3**	**12.8**	**19.3**	**11.3**	**11.3**	**13.1**	**13.7**
New Canada Benchmark*	12.9	23.5	12.9	2.3	8.3	2.0	7.5
Balanced funds							
Mawer Global Balanced Fund	**9.4**	**2.1**	**9.4**	**8.9**	**7.3**	**–**	**9.7**
Internal Global Balanced Benchmark*	12.4	5.4	12.4	8.9	7.7	–	9.7
Mawer Balanced Fund	**10.6**	**4.3**	**10.6**	**8.2**	**7.6**	**9.4**	**8.5**
Internal Balanced Benchmark*	10.7	7.3	10.7	7.2	7.5	7.6	7.9
Mawer Tax Effective Balanced Fund	**10.7**	**4.3**	**10.7**	**8.3**	**7.6**	**9.3**	**8.1**
Internal Tax Effective Balanced Benchmark*	10.7	7.3	10.7	7.2	7.5	7.6	8.0
Income funds							
Mawer Global Bond Fund	**4.8**	**–2.7**	**4.8**	**3.0**	**0.6**	**–**	**2.0**
FTSE World Government Bond Index	8.2	–2.0	8.2	5.5	3.0	–	4.8
Mawer Canadian Bond Fund	**8.7**	**0.6**	**8.7**	**5.2**	**3.6**	**3.9**	**5.9**
FTSE Canada Universe Bond Index	8.7	0.6	8.7	5.6	4.2	4.5	6.9
Mawer Canadian Money Market Fund	**0.3**	**0.0**	**0.3**	**0.7**	**0.4**	**0.4**	**3.1**
FTSE Canada 91 Day TBill Index	0.9	0.0	0.9	1.3	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 on 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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