MAWER quarterly

Fourth Quarter 2021

President's message

Happy New Year! As I think back on 2021, I must admit I'm experiencing a bit of déjà vu. I, like all of you, had hoped that 2021 would have brought us closer to the end of the pandemic, however, the year continued to reflect many of the same themes as 2020: remote work, virtual events, COVID-19 variants, and market volatility. Despite these challenges, I'm very proud of our Mawer team—we have consistently shown resilience, adaptability, and an ongoing commitment to consistently do the right things for our clients.

During 2021, we had an extremely active year:

- We welcomed 40 employees to the firm
- We launched the Mawer U.S. Mid Cap Equity Fund
- We had seven team members become new owners of the firm
- Our virtual Mawer Insight event in November hosted well over 1,000 attendees and our Art of Boring podcast will be posting its 100th episode in January!
- We hosted our first virtual Client Appreciation Event in celebration of resilience: hosted by Dave Kelly and featuring guests Angela Duckworth, Andy Kim, and Waneek Horn-Miller
- We ramped up initiatives within our Counsel for Diversity and Inclusion and continued our membership in the North American chapter of the Diversity Project
- We made significant investments in technology and automation that helped lead to a redesigned client portal, thereby lowering our operating risks
- We created a leadership development program and employee career cycle including a learning stipend for each employee to further support employee growth and firm succession planning
- We started construction on a new Toronto office location which will be completed in 2022
- And we made significant contributions back to our communities—providing over $2.8 million dollars of support across 211 different charitable organizations

Our investment performance continued to be strong over 2021 and to underscore our commitment to long-term performance, the Mawer Balanced Fund was recognized for 10-year performance (Global Neutral Balanced) by the Refinitiv Lipper Fund Awards out of a total of 93 competing funds.

Finally, I would like to thank those who took the time to complete our annual client survey. We appreciate seeing the continued strong client satisfaction results particularly as it relates to client service and overall fund performance. We also recognize there is an increasing desire to return to in-person meetings (and client events), and to continue focusing on educational topics.

On behalf of everyone at Mawer, I thank you for your continued support, and wish you all a safe and prosperous 2022.

Sincerely,

Craig Senyk, President, Vice Chair

Market overview

Global equity markets performed strongly in the fourth quarter of 2021, as generally strong company earnings releases outweighed any market nervousness over the potential accelerated tightening of monetary policy. An exception was emerging markets, which continued to face headwinds in China related to regulatory changes and imbalances in the property market (heavily indebted property developers). Canadian bonds also finished the quarter with positive returns.

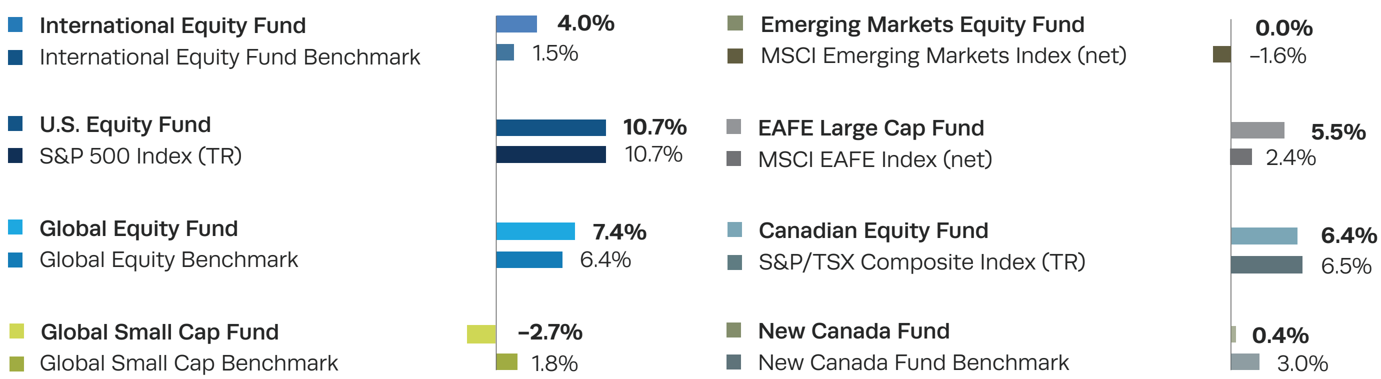
There was no shortage of volatility in the quarter as market participants navigated risks from inflation pressures, supply chain disruptions, high energy prices, and central bank tapering. The emergence of the COVID-19 Omicron variant initially led to some caution, as investors sought to understand the severity and potential government response, though by the end of 2021, the impact on global markets was ultimately subdued. Overall, it was an excellent year for developed market equities as the recovery of the economy drove investor enthusiasm.

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, 2021.

Equities

Chart A: Q4 2021, Series A, Net of fees



Performance diverged across regions as U.S. equities continued their remarkable advance. Some of the larger U.S. technology-focused stocks powered to near all-time highs, although this wasn't evident across all high-growth companies as the potential headwinds from higher interest rates remained, particularly in the more speculative areas of the market. Holdings that finished the quarter near all-time highs include **Microsoft** and information technology consultant **Accenture**. Accenture reported better-than-expected results, announced several acquisitions during the quarter, and provided an upbeat forecast.

Emerging markets were on the opposite side of the performance spectrum to the U.S. and continued to face weakness in China. Despite the headwinds, the Mawer Emerging Markets Equity Fund held up well relative to its benchmark. A contributing factor to the outperformance was the portfolio's relatively more modest exposure to China. Although, we were not immune from the challenges posed by a potential slowdown in China. This included weak stock returns from Chinese online merchant platform provider **China Youzan** and online discount retailer **Vipshop**.

Across our portfolios, there were some strong performers that have been rewarded for their ability to manage the challenges from supply chain disruptions and inflationary pressures.

- **LVMH Moët Hennessy Louis Vuitton** had a robust quarter as supply chain challenges were less of an issue given a portion of its sourcing model is in-house and local. LVMH also benefited from its luxury products' high-margin structure and pricing power in light of rising input costs.

How did we do? (cont'd)

- **Loblaw Companies**, a Canadian food and drug retailer, has demonstrated strong execution and is well-positioned to pass on food inflation to its customers. The company also has a discount segment that may be a more popular option for consumers if inflationary pressures persist.
- **Electrocomponents**, a global distributor of electrical and industrial components, is seeing very strong demand and revenue growth compared to pre-pandemic levels. The company focuses on stocking large amounts of low-turnover inventory categories so that they can rapidly meet urgent product requests from their customers. This makes their customers less price sensitive and positions the company well to pass on cost increases from higher freight and labour costs.

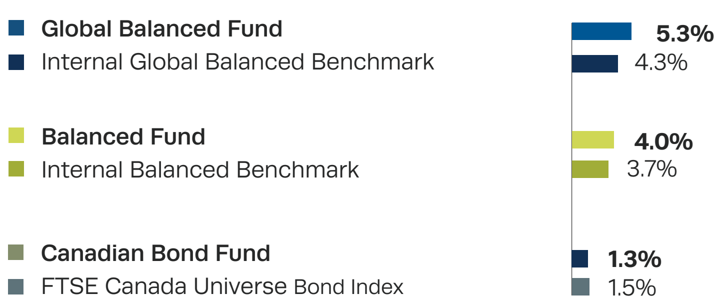
By contrast, many companies tied to the payment ecosystem displayed weakness this quarter.

- **PayPal** showed weakness as the market worried about business reopenings leading to slowing e-commerce spending, the financial impact of the transition away from the eBay relationship, and increased M&A risk.
- Brazilian merchant acquirer and payments processor, **StoneCo**, saw its stock price decline as intensifying competition has led to increased expenses impacting margins, while rising rates have impacted funding costs.
- **Adyen,** a high-growth merchant acquirer and payments processor based in the Netherlands, felt the impact of an increased likelihood of higher discount rates.
- **Visa** to a lesser extent also experienced stock price weakness as the whole payment ecosystem seems increasingly susceptible to disruption by alternative payment methods and infrastructure.

Overall, equity markets had a remarkable quarter and when put in context with the last twelve months, it made for a bumper year for developed market stocks.

Balanced and Canadian bonds

Chart B: Q4 2021, Series A, Net of fees



Mawer Balanced Fund investors benefited this quarter from positive returns in most equity asset classes as well as in Canadian bonds. Canadian bonds gained this quarter following communication from the Bank of Canada that the neutral rate was likely to be lower this cycle. From an asset mix perspective, our overweight position in equities aided relative performance.

We modestly trimmed our equity weight this quarter with the offsetting increase to cash and bonds. We remain overweight equities but are mindful of many of the scenarios that may unfold.

Looking ahead

In entering the new year, we acknowledge both the potential areas of risk and promise for global markets. Threats to a continued economic recovery have become more prominent in the minds of investors, most notably with the persistent threat of inflation and the risk of central bank policy error. As we walk through some of the evolving themes, we believe it is worth reminding our clients that we don't try to predict the future, but rather, aim to build diversified portfolios that we deem resilient in many of the scenarios that could unfold.

The underlying drivers of inflation appear to be lingering. Management teams have continued noting supply chain disruptions and labour shortages are becoming a larger issue for employers. While companies have generally reported strong earnings, many have acknowledged input cost increases.

On the encouraging side, supply chain disruptions should resolve over time (there have been some signs this is starting to occur) and businesses that have pricing power, which is an attribute we look for in wealth-creating companies, are often well-positioned to pass rising input costs onto customers. GDP growth rates are still positive in most regions and the economic recovery since the 2020 COVID-19 recession has been strong. Global Purchasing Managers' Index (PMI) readings, an index of the prevailing direction of economic trends in the manufacturing and service sectors, remain healthy. Employment levels have also continued to improve and in some regions are nearing pre-pandemic levels.

With the combination of a strong economic recovery, tight labour market, and inflationary pressures persisting, developed market central banks are maintaining or moving up timelines for tightening monetary policy. The U.S. Federal Reserve and Bank of Canada are indicating we will see interest rates move higher in 2022, while the Bank of England already had an interest rate hike in December. The prospect of higher interest rates has the potential to impact risk assets as discount rates move higher. We have been reviewing and adjusting at the margins our equity portfolios' exposure to higher duration equities, those that are most exposed to higher discount rates. We are not making a prediction on how the world will unfold, rather ensuring we are not overly exposed to any one outcome.

As we mentioned in a recent Art of Boring blog, "Be aware, but don't despair!" we believe when prudently selected, equities continue to offer attractive long-term value for patient investors. By diligently following our investment process, we seek to build resilient portfolios that can deliver attractive risk-adjusted returns for our clients irrespective of how the future unfolds.

Total net returns (Series A)

For periods ending December 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	**7.3**	**4.0**	**7.3**	**11.3**	**10.2**	**11.7**	**8.2**
International Equity Benchmark*	6.9	1.5	6.9	10.3	8.3	10.4	5.6
Mawer U.S. Equity Fund	**23.6**	**10.7**	**23.6**	**21.2**	**17.1**	**18.2**	**9.3**
S&P 500 Index (TR)	27.6	10.7	27.6	22.8	17.1	19.1	10.7
Mawer U.S. Mid Cap Equity Fund[1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Russell Midcap Index (TR)	–	–	–	–	–	–	–
Mawer Global Equity Fund	**21.3**	**7.4**	**21.3**	**17.2**	**14.5**	**15.7**	**13.7**
Global Equity Benchmark*	17.5	6.4	17.5	17.3	13.0	14.8	12.5
Mawer Global Small Cap Fund	**4.8**	**-2.7**	**4.8**	**14.3**	**12.0**	**17.0**	**12.5**
Global Small Cap Benchmark*	15.1	1.8	15.1	15.9	10.9	13.8	8.3
Mawer Emerging Markets Equity Fund	**0.8**	**0.0**	**0.8**	**10.0**	**–**	**–**	**8.3**
MSCI Emerging Markets Index (net)	-3.4	-1.6	-3.4	8.1	–	–	8.2
Mawer EAFE Large Cap Fund	**15.0**	**5.5**	**15.0**	**–**	**–**	**–**	**18.9**
MSCI EAFE Index (net)	10.3	2.4	10.3	–	–	–	16.8
Mawer Canadian Equity Fund	**23.7**	**6.4**	**23.7**	**15.3**	**8.5**	**11.0**	**9.6**
S&P/TSX Composite Index (TR)	25.1	6.5	25.1	17.5	10.0	9.1	8.8
Mawer New Canada Fund	**18.1**	**0.4**	**18.1**	**22.0**	**11.1**	**14.9**	**13.8**
New Canada Benchmark*	20.3	3.0	20.3	16.3	5.7	5.5	7.8

Balanced funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer Global Balanced Fund	**12.9**	**5.3**	**12.9**	**12.1**	**10.1**	**–**	**10.1**
Internal Global Balanced Benchmark*	8.1	4.3	8.1	11.3	9.0	–	9.5
Mawer Balanced Fund	**9.3**	**4.0**	**9.3**	**11.6**	**8.8**	**10.1**	**8.5**
Internal Balanced Benchmark*	10.0	3.7	10.0	11.6	8.0	8.5	8.0
Mawer Tax Effective Balanced Fund	**9.2**	**4.0**	**9.2**	**11.6**	**8.8**	**10.1**	**8.1**
Internal Tax Effective Balanced Benchmark*	10.0	3.7	10.0	11.6	8.0	8.5	8.1

Income funds	YTD	3-Mo	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception*
Mawer Canadian Bond Fund	**-3.0**	**1.3**	**-3.0**	**3.9**	**2.7**	**2.7**	**5.6**
FTSE Canada Universe Bond Index	-2.5	1.5	-2.5	4.2	3.3	3.3	6.6
Mawer Canadian Money Market Fund	**0.0**	**0.0**	**0.0**	**0.5**	**0.4**	**0.3**	**3.0**
FTSE Canada 91 Day TBill Index	0.2	0.1	0.2	0.9	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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