MAWER
newsletter

First Quarter 2015

Market Overview

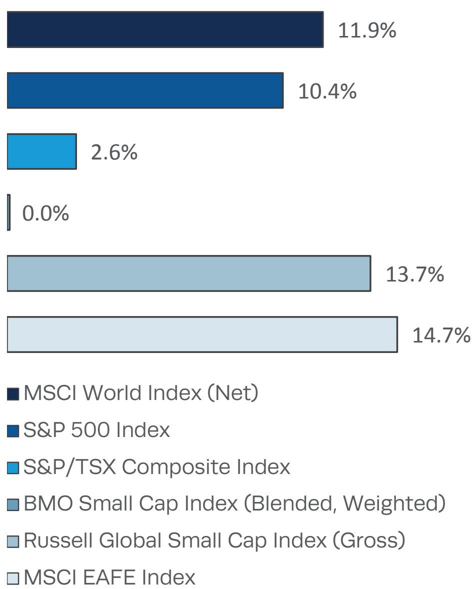
The threat of slowing growth and deflation were the predominant themes during the first three months of 2015. Based on mounting evidence, central bankers around the world intervened by lowering interest rates and enacting other quantitative easing measures or stimulus plans. Notable participants included Canada, the ECB, China, Japan, India and Australia. The impact of lower energy prices was cited by several central banks as having the potential to reduce inflation and act as a deflationary force. Absent from this list is the U.S. Federal Reserve. Given the relative strength of the U.S. economy, they reiterated their desire to gradually normalize monetary policy, subject to incoming economic data.

This low interest rate environment combined with expansionary monetary conditions helped asset prices move higher, including both equities and bonds. Given the divergence between U.S. monetary policy and that of much of the world, currencies also exhibited a significant amount of volatility during the quarter; the U.S. dollar strengthened versus most major currencies, including a significant appreciation versus the Euro. Weakness in the Canadian dollar was quite evident, and as we will discuss further, this was a determining factor in the relative outperformance of global equities compared to Canadian equities.

Chart A depicts the rally in equity markets to start 2015. Performance is expressed in Canadian dollars and summarizes some of the notable equity indices from around the world.

Although oil prices settled into a narrow trading range this quarter, the Canadian economy is experiencing consequences from the significant price declines of 2014. Numerous companies within the Canadian Energy sector announced capital spending cuts, project deferrals, and outright job losses. Governments at various levels in Canada are also bracing for lower projected revenues. The secondary, or ripple effects, remain to be fully seen, and will certainly depend on if, and when, commodity prices climb from current levels. Nonetheless, the concern for an economic slowdown led the Bank of Canada to unexpectedly cut their target for the overnight lending rate. Lower interest rates, and the uncertain economic environment, weighed on the Canadian dollar. It shed value versus most major currencies, including over 9% relative to the U.S. dollar. While these losses increase the cost of imports (and cross-border shopping), it may boost the competitiveness of Canadian exports. From an investment perspective, the weakness in the Canadian dollar enhanced the value of investments denominated in most foreign currencies. This largely explains the performance gap between Canadian equity markets and their global counterparts as depicted in Chart A.

Chart A
Q1 2015 Equity Index Performance (C$)



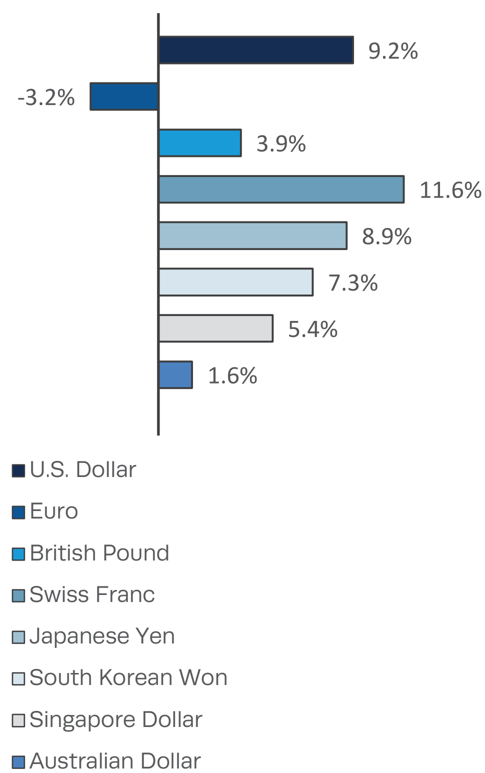
Source: For Index information see disclaimer†

Chart B quantifies this translation effect from a Canadian perspective. Aside from a modest loss in Euro denominated assets, investments in virtually every other major currency were boosted by this effect.

A combination of factors fueled the solid returns in the Canadian bond market including the Bank of Canada cutting the target for the overnight lending rate, a reduction in global government supply, strong demand for high quality bonds, and the relative attractiveness on a global basis of Canadian bond yields. After an 8.8% gain during 2014, the FTSE TMX Canada Universe Bond Index advanced another 4.2% during the first three months of 2015. As Chart C (next page) depicts, long-term bonds significantly outperformed short and mid-term bonds during this rally. Similarly, Provincial bonds outperformed Federal and Corporate sectors.

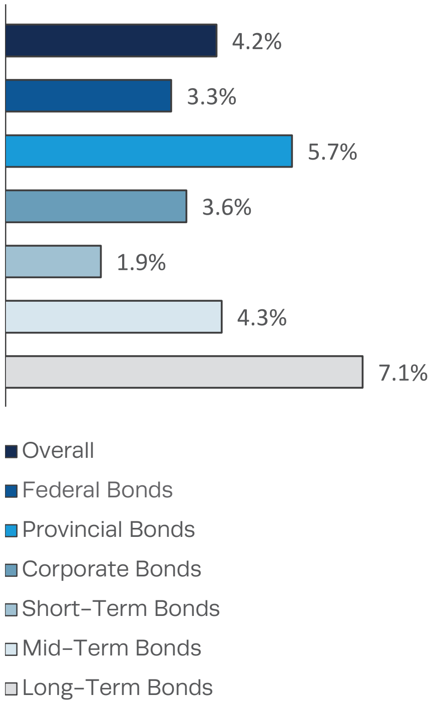
The rally in bonds and corresponding decline in bond yields has prompted some investors to re-evaluate whether bonds remain a viable investment at these levels. Why lock in a paltry 1.37% yield on a 10-year Government of Canada bond? With this question in mind, it's worth noting that Mawer's bond portfolio does not resemble this single security but is a diversified portfolio of Federal, Provincial, and Corporate securities, across a variety of maturities. It's also not a static portfolio but is actively managed to allow for security selection and certain trading opportunities to add value. Investors should also be mindful that returns are best evaluated on a real, or after-inflation basis, as opposed to a nominal basis. In this context, we note that Canadian inflation, as measured by the Consumer Price Index, has been approximately 1% in the last 12 months, with several readings over the shorter-term appearing negative. With inflation seeming to be relatively benign, the lower absolute yields in Canada still appear to offer a positive real return. This may also explain why some bond yields in Europe and Japan are actually negative, a phenomenon that on the surface seems irrational, but when occurring

Chart B
Q1 2015 Canadian Dollar Gains/Losses



Source: Bloomberg Spot Rates

Chart C
Q1 2015 Quarterly Canadian Bond Returns



Source: FTSE TMX Global Debt Capital Markets

in a deflationary environment, a negative nominal yield may offer a positive real return. In addition, while we acknowledge that the multi-year rally in bonds has lowered future return expectations, we also note their downside potential in most scenarios is noticeably less than in equities.

How Did We Do?

Mawer's Balanced Fund (net of fees) gained 7.4% this quarter, with positive contributions from equities, bonds, and money market segments. Positioning over 40% of the Fund in our U.S., International, and Global Small Cap asset classes was especially beneficial as each segment enjoyed double-digit returns on the quarter, partially attributed to the strength of many underlying currencies relative to the Canadian dollar.

In relative terms, three of our six equity funds outperformed their respective indices this quarter, while three lagged. In all cases, these deviations were quite modest. Our Bond Fund tracked its benchmark rather closely during the bond rally.

Chart D highlights the quarterly performance (net of fees) of various Mawer funds relative to their benchmarks.

The 13.9% gain in the International Equity Fund fell just shy of the 14.7% rise in the MSCI EAFE Index (C$). Japanese equities led the MSCI EAFE Index with gains of over 20% during the quarter (expressed in Canadian dollars). Our minimal allocation to Japan detracted from performance, although this was partially offset by the excellent performance from the Japanese companies we do own. On average, our selections increased by over 30% on the quarter, led by a 45% gain in Tsuruha, a Japanese drug store chain that we introduced in 2014. Security selection modestly detracted from relative performance with slightly underwhelming selections in the Financial, Health Care, and Information Technology sectors.

The U.S. Equity Fund outperformed the S&P 500 Index (C$) for the second consecutive quarter gaining 11.7% compared to a 10.4% rise in the index. This outperformance was entirely driven by positive security selection, with the most prominent gains within the Financial and Energy sectors. World Fuel Services, which we noted as a standout performer last quarter, gained another 34% this quarter. Cinemark Holdings, one of the largest movie chain operators in the U.S., advanced over 39%.

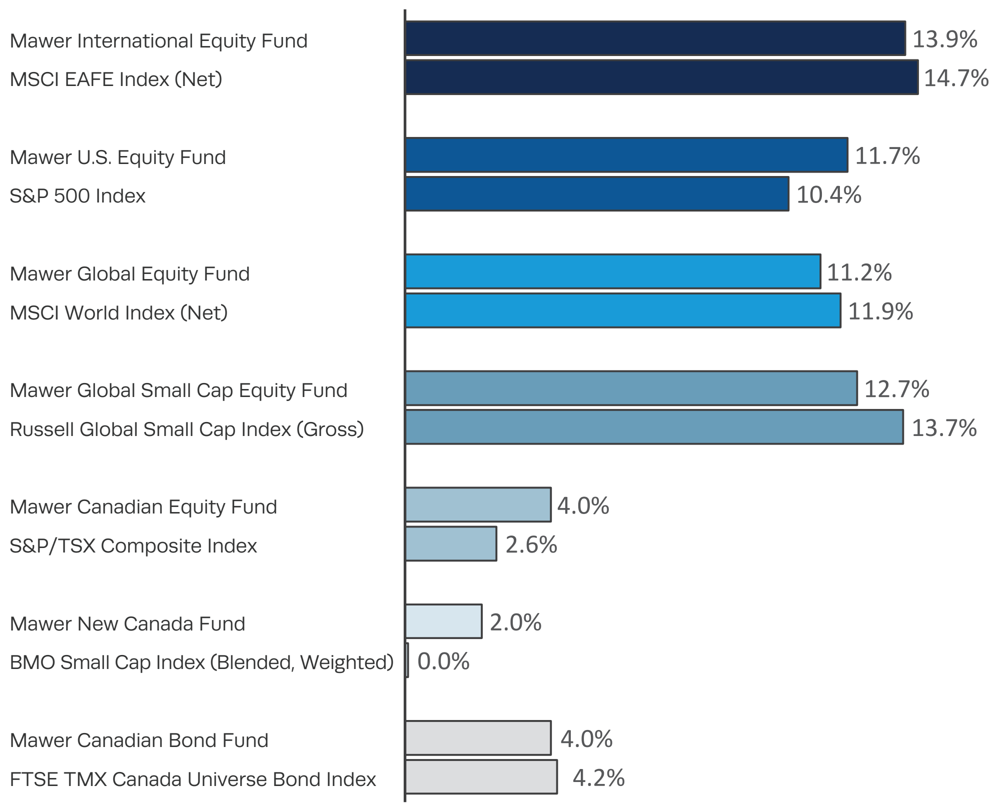
The Global Equity Fund gained 11.2%, modestly lagging the 11.9% return in the MSCI World Index (C$). Our minimal Energy allocation proved to be advantageous although this was offset by a larger Cash weighting that didn't benefit from the rally in asset prices. Positive security selection offset the detraction caused by being underweight Japan and overweight the lagging Canadian and U.K. markets.

The Global Small Cap Fund also modestly trailed its benchmark as it gained 12.7% relative to the 13.7% rise in the Russell Global Small Cap Index (C$). A larger Cash weight acted as a drag on performance, as did being underweight Japan and the U.S. and being overweight in the U.K. Much of this detrimental regional positioning was offset by strong security selection across a number of countries and sectors.

The 4.0% gain in our Canadian Equity Fund outpaced the 2.6% rise in the S&P/TSX Composite Index. While the Energy story is well-documented, it is noteworthy that the Financial sector posted negative returns during the quarter, with each of Canada's major banks experiencing losses. Our security selection within this sector was positive as we are underweight the banking industry and instead have emphasized property and asset management companies such as Brookfield Asset Management (+16.7% return this quarter), C.I. Financial (+10.7%), Onex Corporation (+9.1%), and First Capital Realty (+6.9%).

The New Canada Fund delivered a 2.0% return this quarter while the BMO Small Cap Index was flat, remaining unchanged at 0.0%. Limiting our losses in the Energy sector to 1.9% while the broader sector lost 7.5% helped our relative performance. Security selection was even stronger in the Materials and Information Technology sectors. Unfortunately, this was

Chart D
Q1 2015 Fund Performance relative to Index (C$)



Source: For Index information see disclaimer† partially offset by poor security selection in the Financial sector, where firms like Canadian Western Bank, Home Capital, and Equitable Group suffered double-digit declines. While these businesses are vulnerable to the energy-induced downturn, we believe the share price weakness provided an opportunity to add to our positions at more attractive valuations. A long-term perspective and continued focus on our company valuation analysis allows us to look beyond a company's near-term struggles and instead focus on their ability to generate positive cash flows over the long-run. There are countless examples across each of our portfolios in which we have been actively reducing our exposure to businesses that appear to have elevated valuations, and redeploying capital to more attractively priced businesses, sometimes caused by near-term concerns that are less worrisome to long-term investors.

Our Canadian Bond Fund gained 4.0% this quarter, modestly trailing the 4.2% return of the FTSE TMX Canada Universe Bond Index. The modified duration of the Fund, on average, was slightly shorter than the index. This modest defensive positioning acted as a headwind given the widespread decline in yields that helped fuel the bond rally. Overall, the positioning in the Federal sector added value, while selections in the Provincial sector detracted from relative performance. The impact from the Corporate sector was largely positive during the last three months, but it was not sufficient enough to offset the overall headwinds from duration and provincial positioning.

Looking Ahead

The amount of monetary stimulus and market intervention now being sanctioned by central banks is unprecedented. Whether it proves successful at spurring economic growth and staving off deflation remains to be seen. We do know that it has the potential to distort capital markets and shatter long-standing assumptions. For example, the prevalence of negative yields throughout much of Europe and Japan is a condition that should not be taken lightly. Is that the result of vast central bank intervention that is distorting prices, or a sign that deflation in these regions is unavoidable? The recent decision by Switzerland's central bank to abandon their currency peg to the Euro serves as a reminder that some of the most widely-held assumptions can be broken in shocking fashion. How long will China stand on the sidelines watching other nations reap the benefits of a devalued currency? Might they shock the world with a currency adjustment of their own? What will become of Greece, and more importantly, the financial system in Europe?

In our opinion, the probability of a systematic shock has risen and has created a more unstable investment landscape. Yet on the other hand, we're cognizant that as long as we're in an ultra-low interest rate environment with aggressive central bank intervention, asset prices could continue to rally in a meaningful way.

Not surprisingly, we believe that this environment warrants a neutral or balanced approach, as opposed to aggressively positioning a portfolio for a particular outcome. Late in 2014, in an effort to provide greater protection from any number of systematic risks that might unfold, we reduced our exposure to equities to a neutral level and increased our allocation to cash equivalents. We continue to have portfolios positioned this way today. We also believe that company selection remains another important tool in building resilience; not only from selecting businesses that we believe have long-standing competitive advantages and skilled management teams, but also in being proactive at re-allocating capital from companies that appear higher in value towards those that appear more attractive, thereby building a larger margin of safety should markets falter. Yet at the same time, if accommodative monetary policy continues to fuel higher asset prices, we believe we have sufficient exposure within our portfolios to benefit, just as we did in this latest quarter.

Mawer Investment Management

Mawer Notes

New Look, New Feel, Same "Boring" Approach.

We are pleased to announce we will be launching a new and improved version of our website (mawer.com) in the next quarter. The new site will be more agile, interactive and easier to navigate across all devices including mobile. Ultimately, our goal is to enable you to find the information you want quickly and easily. Please note that the client portal will be refreshed in terms of look and feel, although the navigation and content will remain the same.

Total Net Returns (Series A)

For periods ending March 31, 2015*

	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Equity Funds						
Mawer International Equity Fund	**13.9**	**13.9**	**18.5**	**18.4**	**13.2**	**8.3**
MSCI EAFE Index (Net)	14.7	14.7	13.7	18.0	11.0	5.4
Mawer U.S. Equity Fund	**11.7**	**11.7**	**29.8**	**25.4**	**18.7**	**8.0**
S&P 500 Index	10.4	10.4	29.4	25.7	19.7	8.5
Mawer Global Equity Fund	**11.2**	**11.2**	**20.4**	**22.2**	**17.2**	**–**
MSCI World Index (Net)	11.9	11.9	21.7	21.4	15.0	6.9
Mawer Global Small Cap Fund	**12.7**	**12.7**	**17.4**	**29.3**	**23.0**	**–**
Russell Global Small Cap Index (Gross)	13.7	13.7	16.6	19.8	14.6	8.2
Mawer Canadian Equity Fund	**4.0**	**4.0**	**14.1**	**17.5**	**13.9**	**10.3**
S&P/TSX Composite Index	2.6	2.6	6.9	9.6	7.4	7.4
Mawer New Canada Fund	**2.0**	**2.0**	**5.7**	**22.7**	**18.8**	**13.2**
BMO Small Cap Index (Blended, Weighted)	0.0	0.0	–8.2	0.9	4.1	5.4
Balanced Funds						
Mawer Global Balanced Fund	**8.4**	**8.4**	**16.0**	**–**	**–**	**–**
Internal Global Balanced Benchmark**	8.6	8.6	16.5	14.5	11.2	6.4
Mawer Balanced Fund	**7.4**	**7.4**	**15.4**	**15.4**	**12.5**	**8.5**
Internal Balanced Benchmark***	6.6	6.6	11.6	11.3	9.5	6.9
Mawer Tax Effective Balanced Fund	**7.3**	**7.3**	**15.3**	**15.3**	**12.5**	**8.4**
Internal Tax Effective Balanced Benchmark***	6.6	6.6	11.6	11.3	9.4	6.8
Income Funds						
Mawer Canadian Bond Fund	**4.0**	**4.0**	**9.1**	**4.3**	**5.4**	**4.8**
FTSE TMX Canada Universe Bond Index	4.2	4.2	10.3	5.1	6.0	5.6
Mawer Canadian Money Market Fund	**0.0**	**0.0**	**0.3**	**0.3**	**0.3**	**1.2**
FTSE TMX 91 Day T-Bill Index	0.3	0.3	0.9	1.0	0.9	1.9

* Mawer Fund returns are calculated after management fees and operating expenses have been deducted. In comparison, Index returns do not incur management fees or operating expenses.

** 5% FTSE TMX 91 Day T-Bills Index, 35% FTSE TMX Canada Universe Bond Index, 60% MSCI World Index (Net)

*** 5% FTSE TMX 91 Day T-Bills Index, 35% FTSE TMX Canada Universe Bond Index, 15% S&P/TSX Composite Index, 15% S&P 500 Index, 15% MSCI EAFE Index (Net), 7.5% BMO Small Cap Index (Blended, Weighted) and 7.5% Russell Global Small Cap Index (Gross)

† Index returns are supplied by a third party – we believe the data to be accurate, however, cannot guarantee its accuracy. MSCI EAFE Index (net) – MSCI; S&P 500 Index – Factset; S&P/TSX Composite – TD Securities; BMO Small Cap Index (weighted, blended) – BMO Global Asset Management; Russell Global Small Cap Index (gross) – Russell Investments; Bond Indices – PC Bond.

Performance returns for the Mawer Mutual Funds 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. They include changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns.

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