MAWER newsletter

Second Quarter 2015

Market Overview

Central bank action was a dominant theme this quarter. While the ECB and Bank of Japan maintained their massive stimulus programs, the Federal Reserve, bolstered by mostly positive economic data, continued to signal for an interest rate hike sometime this year. If, when and by how much rates may rise, continued to be key questions on investors' minds.

In June, a substantial global sell-off in government bonds saw yields rise materially in many economies around the world (in some cases over 0.5%) before eventually falling again by the end of the quarter—although yields broadly remain at higher levels than the extreme lows they hit earlier this year. These moves highlight the potential for the volatility of yields to remain elevated. They also suggest that investors are incrementally less concerned about the risk of deflation.

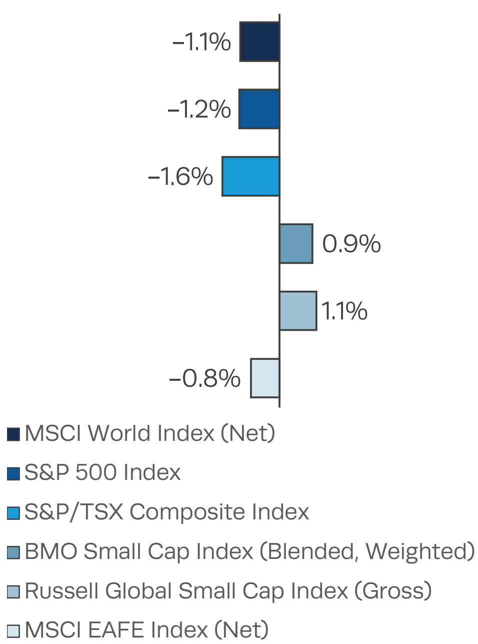
This quarter also saw the return of Greek drama to center stage. As this newsletter was written, the Greeks had narrowly avoided bankruptcy after offering to meet most creditors' demands in exchange for a new bailout. The terms in this 11th-hour plan contain many elements that were previously rejected in Greece's national referendum which was held merely one week earlier. It is the latest in a long string of battles between Athens and international creditors since the sovereign debt crisis erupted in 2010 that have roiled markets in recent weeks. Investors may now get a temporary reprieve from Greek drama.

Moving to the other side of the world, the Chinese market is definitely keeping us up at night. Our team has found it genuinely difficult to find any piece of positive economic news from China in recent months. Not only have most economic indicators such as purchasing manager indices, factory capacity, and GDP growth displayed negative trends, the country remains bitterly weighed down by debt and staggering amounts of overcapacity in key national industries such as steel. On top of this, China's stock markets spent most of the first half of this year on a tear, bolstered both by a technology bubble and excessive amounts of leveraged borrowing by retail investors. These gains came crashing down this quarter, with heavy investor selling leading to steep losses in Chinese stock markets.

China's response to its stock market losses was astonishing. Just after quarter end, China's securities regulator banned major shareholders, corporate executives and directors from selling stakes in listed companies for six months; a move that was made after nearly half of all Chinese listed companies suspended their shares to insulate themselves from the meltdown. This desperate decision by the Chinese government amounts to heavy interference in financial markets and puts China back years in terms of reforms. The economic hurdles facing China are clearly significant.

Chart A depicts equity performance over the second quarter of 2015. Performance is expressed in Canadian dollars and summarizes some of the notable equity indices around the world.

Chart A
Q2 2015 Equity Index Performance (C$)



Source: For Index information see disclaimer†

Global equities were negative this quarter, reflecting concerns around Greece, China and weak commodity prices. The S&P/TSX Composite Index underperformed relative to the S&P 500 and the MSCI World Index, as weak global oil prices continued to weigh on the Canadian economy.

How did we do?

After a strong start to the year with a 7.4% return (net of fees) in Q1, Mawer's Balanced Fund returned –1.2% in the second quarter. A weak global environment for equities and bonds contributed to this performance, with overall equity returns suffering from the perception of heightened risks to the global economy, and bond returns weakening due to rising yields.

Chart B (page 2) highlights the quarterly performance (net of fees) of various Mawer funds relative to their benchmarks. In relative terms, four of our six equity funds outperformed their respective indices this quarter, while two lagged. Meanwhile, our Bond Fund trailed its benchmark over the period.

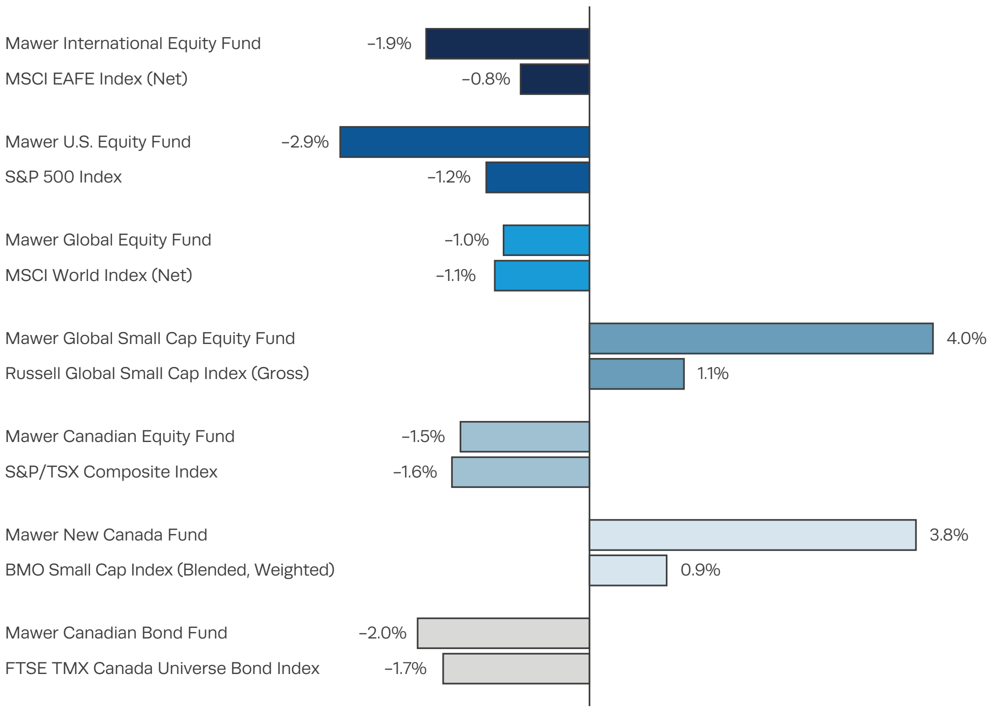
Globally, our exposure to certain geographies in Asia weighed negatively on performance. The –1.9% loss in the International Equity Fund and –1.0% loss in the Global Equity Fund were in part due to exposure to emerging markets such as South Korea and Thailand, which were weak over the quarter. Given significant weakness in the Chinese economy, this was not altogether unexpected; when China gets the flu, the rest of Asia (ex Japan) catches a cold. And in the case of South Korea, the economy was also negatively impacted by an outbreak of the deadly MERS virus.

Overall, the International Equity Fund lagged the MSCI EAFE Index (Net, CAD) which returned –0.8%, while the Global Equity Fund modestly outperformed the MSCI World Index (Net, CAD), which lost 1.1% over the period.

After a strong Q1, the US Equity Fund was down 2.9% compared to a –1.2% return of the S&P 500 Index (CAD). Underperformance was driven by certain holdings in the Energy, Consumer Discretionary and Health Care sectors. For example, World Fuel Services, a global leader in fuel logistics, was the primary detractor in the energy sector: having advanced 34.1% in Q1, World Fuel Services gave back 17.7%.

One bright spot was security selection, which was a positive contributor across most of the funds. One of our best performing holdings was the Irish capital goods company DCC Group, which is held across several of our funds and returned 31.2% this quarter. DCC Group's stock rallied on their acquisition of Royal Dutch Shell's Liquefied Petroleum Gas

Chart B
Q2 2015 Fund Performance relative to Index (C$)



Source: For Index information see disclaimer†

business in France. Not only did the acquisition give the company assets that built on the company's competitive strengths, our clients were able to participate directly in the deal: DCC's management team called Mawer when they wanted to fund the acquisition and we were able to purchase a large block of quality stock at an attractive price.

Another bright spot was small cap performance. Both of our small cap funds generated positive returns and outperformed their benchmarks in the period. The Global Small Cap Fund gained 4.0% outpacing the Russell Global Small Cap Index (CAD), which advanced 1.1%, while the New Canada Fund advanced 3.8%, beating the BMO Small Cap Index return of 0.9%. Good stock selection drove positive performance in both cases. While the Global Small Cap Fund benefited from DCC Group, the New Canada Fund benefited from double-digit performance in companies such as the engineering firm, Stantec (+20.8%) and software supplier, Constellation Software (+13.5%).

Canadian equity markets were weak again this quarter, which was reflected in the 1.5% loss of the Canadian Equity Fund. Low global commodity prices continue to weigh on the Canadian economy, reverberating beyond oil companies and into the broad economy in areas like banks. The Canadian Equity Fund slightly outperformed the S&P/TSX Composite Index, which recorded a –1.6% loss.

Finally, rising yields constrained bond performance. The Mawer Canadian Bond Fund was down 2.0%, while the FTSE TMX Canada Universe Bond Index was down 1.7%.

Looking Ahead

The last few years have yielded exceptional returns for both equity and bond investors. These returns have been fueled by genuine improvements in the global economy, very low interest rates, and massive quantitative stimulus from central banks worldwide. Investors should be cautious about expecting these returns to continue and now may be an appropriate time to re-calibrate expectations.

It is difficult to be excited about the valuations that we see in most markets today. From a global perspective, equity valuations seem full to over-valued in most scenarios. While we find pockets of opportunity, the search for quality businesses at reasonable prices has increasingly become more challenging. This creates risk in the investment landscape as many stocks now trade at prices that leave very little margin for error. At the same time, future bond returns seem constrained by the low level of yields.

The investment landscape also appears less stable. It's analogous to walking in a forest with a lot of dry kindling: risks such as China's financial system, Greece, weak commodity prices, full valuations and what could happen if and when the U.S. raises interest rates, provide plenty of opportunities for a fire to catch.

The good news is that there is a significant amount of liquidity nearby via central banks—which appear ready at the nozzle—should any one of these risks start to burn out of control. In addition, there remain positives to consider. The newest Greek deal reduces uncertainty over the Eurozone's fate and has helped to settle investor concern around Europe. Moreover, the U.S. and U.K. economies continue to strengthen.

Therefore, we believe that this environment warrants a neutral or balanced approach, focusing on being resilient no matter what scenario unfolds. In our opinion, investors must now balance the need to re-calibrate their expectations while fighting the urge to try to time the market now that the risk level seems elevated.

We are building resiliency into our clients' portfolios in a number of ways. Since late 2014, we have reduced our exposure to equities to a neutral level and increased our allocation to cash and cash equivalents. Further, we have reduced our exposure to small cap stocks, as these companies exhibit lower liquidity levels and tend to correct deeper in sharp market downturns. We have also sought to lower equity duration in our portfolios as much as possible by emphasizing companies that receive more cash up front rather than in the future. Reducing equity duration helps to lessen our portfolios' sensitivities to interest rates should they rise. Finally, the current environment is one of the main reasons why we recently launched the Global Bond Fund, which should add stability through additional diversification in periods of negative investor sentiment.

Mawer Investment Management

Mawer Notes

We are pleased to introduce a refreshed version of www.mawer.com! The website has been redesigned to be more intuitive, easy to navigate, and to provide an optimal viewing experience across a wide range of desktop, tablet and mobile devices. It also includes updated tools (e.g., retirement calculator) and functionality.

Your account login and web reporting conveniently remains the same on the new website. And while we may have a new look, our focus remains the same–an unwavering commitment to deliver excellent long-term investment performance and to always put our clients' interests first.

Total Net Returns (Series A)

For periods ending June 30, 2015*

	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr
Equity Funds						
Mawer International Equity Fund	**–1.9**	**11.7**	**13.9**	**19.0**	**14.7**	**7.8**
MSCI EAFE Index (Net)	–0.8	13.7	12.3	19.8	13.1	5.3
Mawer U.S. Equity Fund	**–2.9**	**8.5**	**26.1**	**25.5**	**19.8**	**7.5**
S&P 500 Index	–1.2	9.1	25.9	25.5	21.2	8.1
Mawer Global Equity Fund	**–1.0**	**10.1**	**19.1**	**22.6**	**18.8**	**–**
MSCI World Index (Net)	–1.1	10.6	18.9	22.3	16.8	6.6
Mawer Global Small Cap Fund	**4.0**	**17.2**	**20.8**	**30.3**	**25.2**	**–**
Russell Global Small Cap Index (Gross)	1.1	14.9	18.1	22.1	15.9	8.0
Mawer Canadian Equity Fund	**–1.5**	**2.5**	**6.8**	**17.7**	**14.9**	**9.7**
S&P/TSX Composite Index	–1.6	0.9	–1.2	11.1	8.3	6.9
Mawer New Canada Fund	**3.8**	**5.9**	**2.8**	**26.2**	**20.9**	**13.7**
BMO Small Cap Index (Blended, Weighted)	0.9	0.9	–14.6	5.8	5.5	5.6
Balanced Funds						
Mawer Global Balanced Fund	**–1.2**	**7.1**	**14.0**	**–**	**–**	**–**
Internal Global Balanced Benchmark **	–1.3	7.2	13.4	14.4	11.9	6.0
Mawer Balanced Fund	**–1.2**	**6.1**	**11.7**	**15.2**	**13.0**	**8.1**
Internal Balanced Benchmark ***	–0.9	5.6	7.7	11.8	9.9	6.4
Mawer Tax Effective Balanced Fund	**–1.2**	**6.0**	**11.6**	**15.3**	**12.9**	**7.9**
Internal Tax Effective Balanced Benchmark ***	–0.9	5.6	7.7	11.8	9.8	6.3
Income Funds						
Mawer Global Bond Fund ******	**–**	**–**	**–**	**–**	**–**	**–**
Citi World Government Bond Index	–3.0	3.5	6.6	4.4	4.4	3.3
Mawer Canadian Bond Fund	**–2.0**	**1.9**	**5.1**	**3.0**	**4.4**	**4.2**
FTSE TMX Canada Universe Bond Index	–1.7	2.4	6.3	3.4	5.1	5.0
Mawer Canadian Money Market Fund	**0.0**	**0.0**	**0.2**	**0.3**	**0.3**	**1.1**
FTSE TMX 91 Day T–Bill Index	0.2	0.4	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)

**** Due to regulatory restrictions, we are unable to report performance of the Fund for 1 year. The Mawer Global Bond Fund was launched on May 28, 2015.

† 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; Fixed Income Indices – PC Bond.

Mutual funds are not guaranteed, their values change frequently, and past performance is not indicative of future performance. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. (Mutual fund securities are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per share at a constant amount or that the full amount of your investment in the fund will be returned to you.) Please read the prospectus before investing.

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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