MAWER
newsletter

Third Quarter 2014

Market Overview

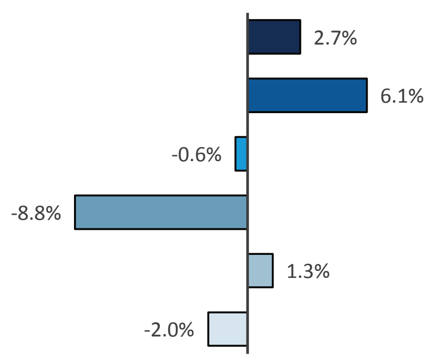
The U.S. economy continued to show signs of progress this quarter. The labour market improved, inflation was subdued, and manufacturing and capital expenditures indicated that an expansion is likely underway. In response, the U.S. Federal Reserve continued to taper its asset purchase program and communicated its plans to cease this program as of October. Fear that a withdrawal of economic stimulus will cause higher bond yields has not materialized thus far, as yields have actually decreased during this period. The next phase in the Fed's efforts to normalize monetary policy will be to raise interest rates; a process that most investors anticipate will begin sometime in 2015.

Unfortunately, economic conditions outside of the U.S. were not as rosy. In Europe, the latest economic data indicates that growth stagnated while unemployment and industrial overcapacity remained stubbornly high. Geo-political tension between Russia and Ukraine, as well as the Scottish referendum on independence, created additional uncertainty that weighed on European sentiment. To encourage growth and combat a deflationary scenario, the European Central Bank (ECB) announced their version of an asset purchase program, or quantitative easing. By acquiring non-performing loans from European bank balance sheets, the ECB hopes that the banks will renew credit to corporations, thereby promoting growth. However, while European banks certainly need to clean up their books, it is unknown whether the demand for the additional credit truly exists. This "pushing on a string" argument is top of mind among many investors.

In Japan, GDP contracted sharply this quarter as both consumer spending and capital expenditure declined. In part, this was in response to the sales tax increase from 5% to 8%. This suggests that there is much uncertainty whether Prime Minister Abe's economic reforms will reinvigorate growth in Japan and pull the nation out of its long-standing deflationary quagmire. Meanwhile, in China, the banking system remains under pressure given the abundance of bad loans linked to an overheated real estate market. It is unclear how authorities will tackle this program, but the result of their actions could have a far-reaching global economic impact.

Overall, the global economic picture is mixed, with evidence suggesting that the growth outlook is deteriorating. But this is balanced by an absence of inflationary pressure in the developed world and monetary policies that remain extremely accommodative. Consequently, global equity markets relatively flat in local currency terms. Chart A outlines the quarterly performance, expressed in Canadian dollars, of some of the notable equity indices around the world.

Chart A
Q3 2014 Equity Index Performance (C$)



- MSCI World Index (Net)
- S&P 500 Index
- S&P/TSX Composite Index
- BMO Small Cap Index (Blended, Weighted)
- MSCI Emerging Markets Index (Net)
- Russell Global Small Cap Index (Gross)

Unquestionably, the rise in the MSCI World Index (C$) and the S&P 500 Index (C$) were primarily driven by strong U.S. dollar returns, which masked an otherwise lackluster quarter for most of the world's equity markets. Though Japan and some other Asian markets joined the U.S. on the positive side of the ledger, equity markets throughout much of Europe were decidedly negative. German and French markets now rest in negative territory on a year-to-date basis, with several other European countries flirting with a similar fate.

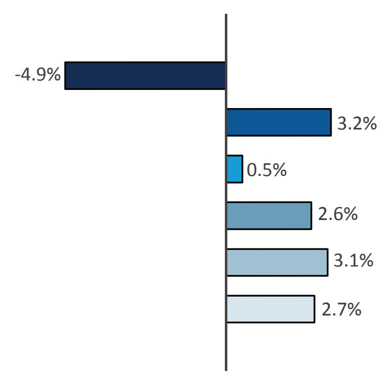
A sharp correction in oil, natural gas, and several other commodity prices proved to be a difficult headwind for Canadian equity markets to overcome. With the Energy and Materials sectors accounting for approximately 38% of the S&P/TSX Composite Index, and over 49% of the BMO Small Cap Index, the losses endured by companies operating in these sectors dragged down the overall market.

We should not overlook how regional divergences in equity returns were significantly influenced by currency movements this quarter. Due to the relative strength of the U.S. economy, the Federal Reserve is further along the path of interest rate normalization than many of its developed peers. Thus, the expectation for higher rates in the U.S., and potentially more easing in other regions of the world, propelled the U.S. dollar higher this quarter. Its status as a safe haven currency in times of crisis — and there have been no shortages of geo-political tensions of late — lent further support to its ascent. Its appreciation versus the Canadian dollar was approximately 4.9% this quarter, whereas gains versus the Euro, British Pound, Swiss Franc, Japanese Yen, and Australian dollar were even more pronounced.

The implications for Canadian investors were twofold. First, investments held in U.S. dollars were bolstered by nearly 5% when converted to Canadian dollars. This turned a mere 1.1% gain in the S&P 500 in U.S. dollar terms into a much more impressive 6.1% gain in Canadian dollars. Second, investments denominated in the other aforementioned currencies lost value due to the translation effect.

Chart B notes the magnitude of this effect from a Canadian perspective.

Chart B
Q3 2014 Canadian Dollar Gains/Losses

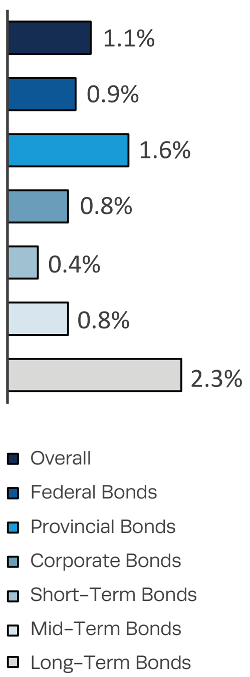


- U.S Dollar
- Euro
- British Pound
- Swiss Franc
- Japanese Yen
- Australian Dollar

Source: Bloomberg Spot Rates

Meanwhile, with a mediocre and unbalanced growth outlook, central banks continued to provide accommodative monetary policy. In general, developed market bond yields moved modestly lower this quarter. While this was most apparent in Europe, yields in Canada also retreated, with the 10-year Government of Canada bond yield declining from 2.24% to 2.15%. This was one of the factors leading the FTSE TMX Canada Universe Bond Index to a 1.1% gain. Performance was positive across the Federal, Provincial, and Corporate sectors, with Provincials leading the way, like they did last quarter. As expected in a declining yield environment, with other factors held constant, longer-term bonds outperformed short and mid-term securities. Chart C summarizes the performance of the various components of the Canadian bond market.

Chart C
Q3 2014 Quarterly Canadian Bond Returns



How Did We Do?

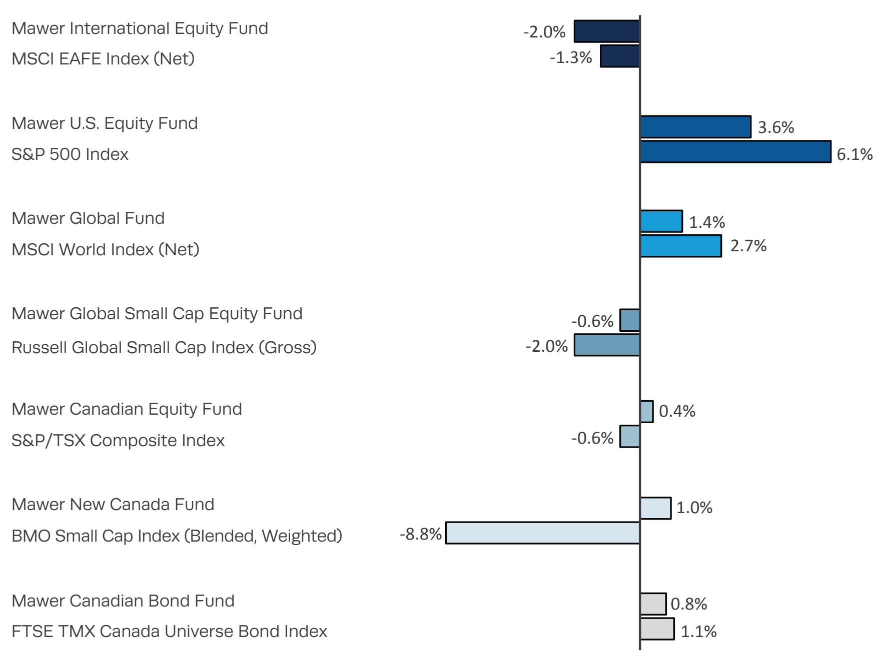
In absolute terms, Mawer's performance was rather uneventful this quarter. The Balanced Fund (net of fees) gained 0.8% with most of the underlying asset classes performing within a narrow range of this figure. Results were mixed on a relative basis with most asset classes closely tracking their underlying benchmark. The exceptions were the U.S. Equity Fund that lagged the S&P 500 Index (C$) by 2.5% and the New Canada Fund that outpaced its benchmark by nearly 10%. Chart D highlights the quarterly performance (net of fees) of various Mawer funds relative to their benchmarks.

The 2.0% decline in the International Equity Fund slightly trailed the 1.3% loss in the MSCI EAFE Index (C$). Our security selection in Europe resulted in a decline of 4.8% among our European companies compared to a 2.4% decline among European companies in the MSCI EAFE Index. Our German selections were especially disappointing as they shed over 12% this quarter, led by a 17% loss in BASF, a diversified chemicals company, and an 11% decline in BMW. Fortunately this was offset by strong security selection within Asia ex-Japan, where we have allocated over 17% of the portfolio, and enjoyed average returns that exceeded 10%. China Mobile, one of our recent additions to the portfolio, gained over 26% this quarter as it continued to benefit from a dominant position in China's telecom market.

Our addition of China Mobile to the portfolio in April is a good example of Mawer's bottom-up process at work. In the months leading up to our initial purchase of the company, its share price had been in a steady decline as investors seemed to be overly worried with short-term issues. Our discounted cash flow approach, however, focuses on the *long-term* cash flow generating ability of the business rather than placing heavy emphasis on the near-term. This analysis identified China Mobile as trading at a significant discount to what we believe is its true value, thereby offering the potential for above average future returns. As we've expressed in previous quarters, we've been actively re-allocating capital from businesses that appear to be fully valued towards businesses that we believe are more reasonably priced. Not every new addition instantly yields a 26% return as China Mobile did this quarter, but it's a good example of the potential benefit of following a disciplined approach.

Although the 3.6% gain in the U.S. Equity Fund represented the highest absolute return this quarter, it also underperformed its benchmark by the widest margin as it trailed the S&P 500 Index (C$) by 2.5%. This can be attributed to poor security selection, where we modestly underperformed across several sectors. Generally, our underperformance wasn't from selecting companies that underperformed, but from omitting companies in the S&P 500 Index that performed exceptionally well over the last three months. For example, the eight companies we own in the Information Technology sector represent approximately 20% of our portfolio, and collectively they rose by approximately 6.1% this quarter. But the overall sector increased by 9.9%. Looking closer, we see this sector was driven higher by companies we don't own, such as Facebook (+23%), Yahoo (+22%), and Apple (+14%). These are businesses that we have considered for our portfolios but concluded that they did not meet our criteria of having sustainable competitive advantages that can create wealth in the long-run, while also being attractively valued. Lagging the benchmark in the short-term is disappointing, but we believe that we can outperform over the long-term by following our disciplined, bottom-up approach. We believe that straying from our approach in order to invest in companies like Facebook, which

Chart D
Q3 2014 Fund Performance relative to Index (C$)



currently trades at about 80 times earnings, is not prudent for long-term investors.

The Global Equity Fund lagged its benchmark by approximately 1.3% this quarter. Our underweight position in U.S. equities relative to the benchmark proved detrimental. Security selection in the Information technology sector was also weak, led by a decline of almost 15% in Samsung.

The Global Small Cap Equity Fund lost 0.6% this quarter, but outperformed the Russell Global Small Cap Index (C$) that shed 2.0%. An overweight position in Europe did not prove favourable, but our minimal exposure to the weak Energy sector, and strong security selection across numerous sectors, more than compensated for this decision.

Our Canadian Equity Fund gained 0.4% while the S&P/TSX Composite Index lost 0.6%. The Energy and Materials sectors account for approximately 38% of the S&P/TSX Composite Index, but less than 18% of our portfolio. Given that these were the two weakest sectors this quarter, our outperformance was primarily attributed to this positioning. This was partially offset by weaker security selection, particularly in the Financials and Industrials sectors.

In absolute terms, the 1.0% gain in our New Canada Fund was modest, but this was significantly greater than the 8.8% loss in the BMO Small Cap Index. Emphasizing the Financials sector and being underweight the Materials sector proved to be favourable, but most of our outperformance was attributed to excellent security selection throughout the portfolio. For example, Materials companies within the BMO Small Cap Index lost 14% this quarter, whereas our selections gained over 10%, led by Intertape Polymer, a Quebec-based packaging company that rose approximately 38%. The Industrials sector shed over 7%, but our selections gained over 5%, led by an 18% gain in Logistec, another Quebec-based business that provides cargo handling and other services to North American ports.

Finally, our Canadian Bond Fund gained 0.8% this quarter, modestly trailing the 1.1% return of the FTSE TMX Canada Universe Bond Index. Security selection was strong among our Federal securities, but weaker in the Provincial and Corporate sectors. Tim Hortons bonds reacted negatively to the proposed merger with Burger King as this is expected to increase the degree of leverage in the business. Although we had been cautious regarding this investment and held just 1.5% of the portfolio in Tim Hortons securities at the time of the announcement, the losses that arose from the proposed merger were significant enough to detract from the overall performance of the Fund.

Portfolio Positioning

Although the U.S. economy appears to be on solid footing, growth in Europe has stagnated, and China, like many other developing economies, is experiencing a slowdown in economic growth. It's plausible that this deterioration can be remedied with additional monetary stimulus and structural reforms, and global growth can re-accelerate. But it's also possible that this is a harbinger of things to come; that is, we may be entering a phase of slower global growth, which may be a pre-cursor for deflation. How and when central banks transition from accommodative monetary policy to more normalized conditions will be a delicate task, and likely a predominant theme in the years to come.

Given this murky outlook, we continue to believe that diversification is the primary tool in building resilient portfolios. We have a modest bias towards equities given our belief that cash and bonds offer limited upside in the current environment. But we are cognizant that should slower growth occur, and a deflationary scenario follow, cash and bonds will likely provide more downside protection than equities. Rather than speculate on how the world will unfold and aggressively position our portfolios for one particular outcome, we feel investors are better served striving for resilience to multiple outcomes, even if that means foregoing higher returns in the near-term.

Within equities, we continue to emphasize global equities relative to Canadian companies and currently have a bias to U.S. equities relative to European or Asian companies. This reflects not only our positive outlook on the U.S. economy, but also our belief that American companies benefit from longer-term structural advantages relative to their global peers. For example, a reliable source of low cost energy offers a cost advantage to American companies that few peers can replicate. And, as we are reminded with the recent escalation in geo-political tensions around the world, the U.S. dollar tends to be viewed as a safe haven currency. For Canadian investors, this introduces the possibility for a positive translation effect, as we experienced this quarter, lending additional resilience should geo-political tensions escalate.

Although we continue to believe equities remain the most attractive asset class, discipline is needed to manage the risk of excessive valuations. This risk is mitigated by our continual effort to re-allocate capital from businesses that appear fully valued towards those that are more reasonably priced.

Finally, the positioning of our bond portfolio continues to emphasize highly rated Corporate and Provincial securities. Within the Federal sector, we have enhanced yields by including Federal-agency bonds. To provide additional resilience, we have positioned the portfolio to be less sensitive to changes in interest rates. This includes having a lower duration than that of our benchmark, as well as allocating approximately 10% of the portfolio to Floating Rate Note securities which offer capital protection in a rising yield environment.

Mawer Investment Management

Mawer Notes

Focus Elite
Mawer is pleased to be recognized as one of Focus Consulting Group's "Focus Elite" for top cultures in asset management. Mawer was identified as one of nine firms having a high performing culture based on surveys and interviews conducted with hundreds of asset management firms worldwide. "We are pleased to be recognized for the strength of our culture," says Mawer's President, Michael Mezei. "We firmly believe that an effective culture is one of the key foundations for successful investing."

Mawer Insight Event:
Navigating Global Uncertainty

Calgary: November 6th

Edmonton: November 13th

Please join us for Mawer's annual Insight Event. Key speakers from Mawer's Research team will be providing investment commentary that focuses on the complexity of navigating the current global investment environment.
For more information, please visit our website: **www.mawer.com.**

MAWER

Total Net Returns

For periods ending September 30, 2014†

	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr
Equity Funds						
Mawer International Equity Fund	**–2.0**	**4.9**	**14.0**	**16.9**	**9.4**	**7.6**
MSCI EAFE Index (Net)	–1.3	3.7	13.4	16.3	7.4	5.0
Mawer U.S. Equity Fund	**3.6**	**7.8**	**22.6**	**23.9**	**14.1**	**6.0**
S&P 500 Index	6.1	14.0	30.2	25.9	16.6	6.8
Mawer Global Equity Fund	**1.4**	**7.3**	**20.5**	**20.9**	**–**	**–**
MSCI World Index (Net)	2.7	9.3	22.0	20.7	11.8	5.8
Mawer Global Small Cap Fund	**–0.6**	**8.0**	**23.9**	**27.9**	**19.5**	**–**
Russell Global Small Cap Index (Gross)	–2.0	4.1	13.9	18.3	11.4	7.4
Mawer Canadian Equity Fund	**0.4**	**11.7**	**22.3**	**18.9**	**13.8**	**10.7**
S&P/TSX Composite Index	–0.6	12.2	20.4	12.1	8.7	8.5
Mawer New Canada Fund	**1.0**	**16.8**	**36.5**	**30.1**	**23.0**	**15.2**
BMO Small Cap Index (Blended, Weighted)	–8.8	7.7	15.3	7.8	9.9	7.5
Balanced Funds						
Mawer Global Balanced Fund	**1.2**	**6.3**	**14.6**	**–**	**–**	**–**
Internal Global Balanced Benchmark*	2.0	7.7	15.3	13.5	8.9	5.6
Mawer Balanced Fund	**0.8**	**7.3**	**15.5**	**14.5**	**10.6**	**8.1**
Internal Balanced Benchmark**	0.2	7.5	13.9	11.2	8.3	6.7
Mawer Tax Effective Balanced Fund	**0.8**	**7.4**	**15.6**	**14.6**	**10.6**	**7.9**
Internal Tax Effective Balanced Benchmark**	0.2	7.5	13.9	11.3	8.2	6.6
Income Funds						
Mawer Canadian Bond Fund	**0.8**	**5.4**	**5.6**	**2.8**	**4.2**	**4.5**
FTSE TMX Canada Universe Bond Index	1.1	5.9	6.3	3.5	4.9	5.4
Mawer Canadian Money Market Fund	**0.1**	**0.3**	**0.4**	**0.3**	**0.3**	**1.2**
FTSE TMX 91 Day T–Bill Index	0.2	0.7	0.9	1.0	0.9	2.0

† 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)

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. (Money market fund: 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.

MAWER
Calgary • Toronto

t 403 262 4673
800 889 6248
e info@mawer.com
w mawer.com