MAWER
newsletter

Fourth Quarter 2014

President's Message – A Year in Review

2014 was a special year for the firm, marking 40 years since our founder, Chuck Mawer, decided to open one of the first investment counselling firms in Western Canada.

Susan Hall, Mawer's second employee who is still active with the firm today, often talks about Chuck's legacy of "doing the right thing." Today, we strive to follow this mantra in both the way we treat our clients and how we invest.

40 Years of Doing the Right Thing – A Look Back

When Chuck first opened the doors in 1974, the firm primarily invested in Canadian equities and bonds for mostly Calgary-based private clients and foundations. When Gerald Cooper-Key joined the firm in 1981 and began managing international equities, he encountered a lot of skepticism: *Invest internationally from Calgary? Can that be done?* Apparently the answer was, and continues to be, "yes." The second decade also saw the launch of Mawer Mutual Funds that made our Canadian, U.S. and international equity, balanced and bond portfolios accessible to a broader range of clients.

By 2000, Mawer had grown to 30 people and was applying a consistent investment process that was followed across all asset classes. In March of 2002, Mawer reached $1 billion in assets under management. It was around this time that institutional investors began to take more notice of Mawer's investment approach and performance, leading to recommendations from Canadian pension consultants and alliances with financial institutions. This in turn allowed us to continue building depth across our investing, client and operating teams.

Over the last five years, global investing has been a major focus at Mawer. The launch of Global Small Cap (2007), Global Equity (2009) and Global Balanced (2012) mandates offered clients a global approach to supplement existing international, U.S. and Canadian portfolios. We also opened a Toronto office in 2011, primarily to support institutional clients in central and eastern Canada, and a Singapore research office in 2013. We are now registered in the U.S., and have clients on both sides of the border.

Highlights from 2014

In 2014, Mawer remained 100% independent, owned by 37 of the 115 individuals who work at the firm. Our assets under management have increased to over $26 billion, with investments in over 50 countries. Highlights for the year include being recognized by Focus Consulting Group as a Focus Elite company (based on culture surveys of over 100 investment firms) and being named Analysts' Choice Fund Company of the Year for the second year in a row at the Morningstar Awards. In addition to a number of individual fund awards, Mawer fund managers Martin Ferguson and Jeff Mo were recognized as Domestic Equity Fund Manager of the Year.

The Next 40 Years

So what can you expect from Mawer going forward? The short answer is: much of the same. We believe that focusing on a few important things is the key to long-term, sustainable and consistent success as investors: our core values (put clients' interests first, act with integrity, pursue excellence, work as a team, and think long-term), a strong and cohesive culture, a disciplined investment process, and independence.

That being said, we live in a complex and rapidly changing world, and recognize that if we don't evolve, adapt, and get better, both as individuals and as a team, we will fall behind. Investing is hard, and investing consistently over time is even harder, but that is what our clients expect, and should expect, from us. As much as we value our strong history and solid foundation, our culture encourages new ideas and trying new things in a way that builds on our legacy. Going forward, we plan on putting a greater emphasis on technology, both internally (trading, data analysis etc.) and externally (offering clients more choices in how they interact with us and access information).

Ultimately, we know that as proud as we are of our first 40 years, it is the future that counts for our clients. Our commitment is to stay true to our values, build upon our foundation and get better all the time. We do all of this so that we can be the very best investors we can be and continue to earn your trust over the next 40 years. And last but never least, we will always follow Chuck's tried and true mantra: Do the right thing.

Michael Mezei

Market Overview

Last quarter we noted the growing dichotomy between the economic health in the U.S. relative to other major world economies. This divergence became even more apparent this quarter. From an American perspective, the latest GDP data reveals that growth accelerated at the fastest pace in 11 years and robust employment gains pushed unemployment rates to multi-year lows. As expected, with the economy seemingly firing on multiple cylinders, the U.S. Federal Reserve ceased its asset-purchase program and reiterated its intention to normalize interest rates, albeit in a patient way.

Elsewhere, the picture was less rosy. In Europe, the growth outlook continued to deteriorate this quarter, with several European countries citing a downward trend in inflation and lowered expectations for future growth. The possibility of deflation taking hold in Europe appears to be rising. In response, the European Central Bank embarked upon another round of quantitative easing as they endeavored to inject capital into the banking system to spur lending and foster growth. It remains to be seen whether these efforts will prove successful.

Compounding Europe's challenges is the precarious situation in Russia. The significant plunge in oil prices is unmistakably detrimental to their economy, particularly as they try to withstand sanctions imposed because of their political aggression in Ukraine. Whether Europe's already fragile banking system can absorb a significant downturn or outright financial crisis in Russia, remains unknown. The re-emergence of Greece in the headlines as they contemplate their membership in the European Union comes at a particularly vulnerable time.

Meanwhile, Japan experienced a tumultuous quarter. Despite immense stimulus efforts from the Bank of Japan, the country reported a second consecutive quarter of economic contraction, and has now technically entered a recession. In response, Prime Minister Abe called an immediate election. His party emerged victorious and soon authorized even greater stimulus measures and tax cuts to spur growth.

With Europe and Japan struggling to address anemic growth, and many of the world's oil-producing nations facing an abrupt, and potentially painful, adjustment to drastically lower oil prices, the apparent health in the U.S. economy seems like an anomaly. As a result of such divergent economic conditions, we're now embarking upon a path in which the U.S. Federal Reserve is taking steps to normalize their accommodative policy while authorities in many other regions are expanding the scope of their stimulus efforts. This divergent monetary policy will likely be an important theme during 2015.

Chart A
Q4 2014 Equity Index Performance (C$)

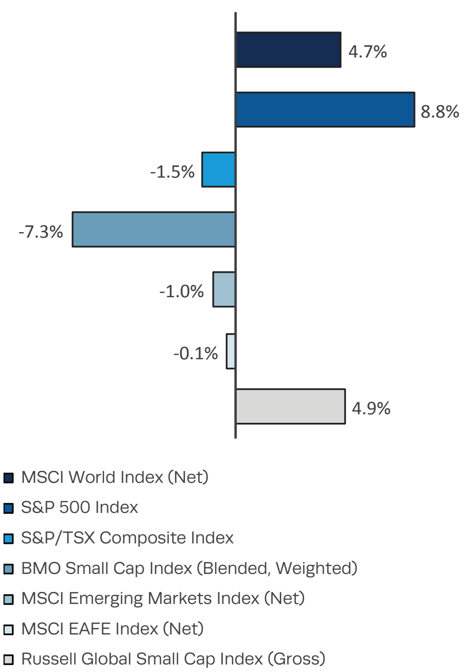


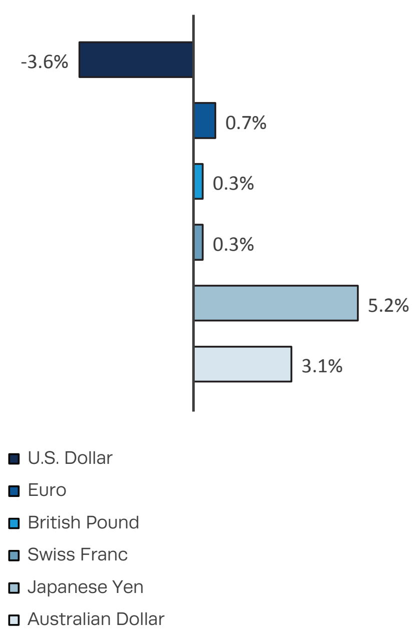
Chart A depicts how equity markets fared during these uncertain times. Performance is expressed in Canadian dollars and summarizes some of the notable equity indices from around the world:

The 4.7% gain in the MSCI World Index (C$) was once again the byproduct of exceptional U.S. equity market returns which offset lackluster results in most other parts of the world. The S&P 500 Index (C$) surged 8.8% whereas the MSCI EAFE Index (comprised of companies in Europe, Australasia, and the Far East) was essentially unchanged. Canadian equity markets were mired in negative territory given their relatively large exposure to the besieged Energy sector. The 4.9% gain in the Russell Global Small Cap Index (C$) is also somewhat deceiving, as it was heavily influenced by the strong performance of American companies, which offset weakness in most other regions.

Just like last quarter, the returns depicted in Chart A were heavily influenced by currency changes. Generally speaking, the U.S. dollar strengthened relative to the Canadian dollar and most other major currencies. This reflects not only the relative health of the U.S. economy, but also the perception that the Federal Reserve is further along the path of interest rate normalization than counterparts in Europe or Japan. The spectre of higher interest rates in the U.S., as well as its status as a source of refuge in times of global instability, has fueled demand for the greenback. Canadian dollars proved to be more resilient than Euros, British Pounds, or Japanese Yen. As such, for Canadian investors, investments denominated in U.S. dollars were boosted in value when converted back into Canadian dollars, whereas investments in many European and Asian currencies suffered modest losses due to this translation effect.

Chart B outlines the magnitude of this effect from a currency perspective.

Chart B
Q4 2014 Canadian Dollar Gains/Losses

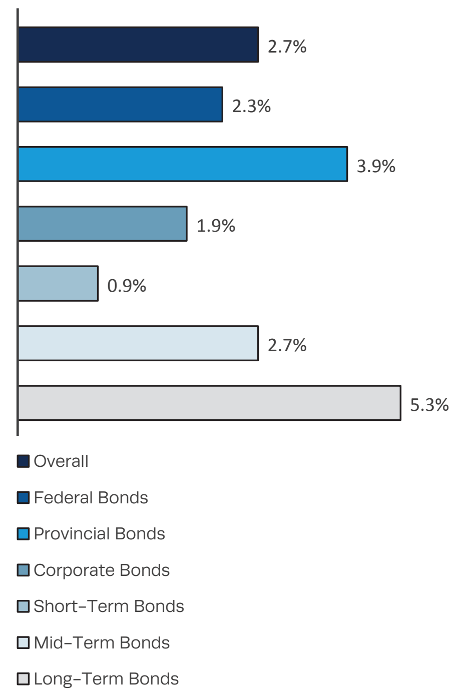


Source: Bloomberg Spot Rates

Meanwhile, expectations that bond yields would rise and hamper bond returns proved once again to be unfounded. Despite healthy economic expansion in the U.S., global uncertainty and geo-political instability prompted yields in most developed markets, including Canada, to move lower this quarter. For example, the yield on the 10-year Government of Canada bond declined from 2.15% at the start of the quarter to close the year at 1.79%. This declining yield environment helped propel the FTSE TMX Canada Universe Bond Index to a 2.7% gain. Longer-term bonds (maturing in 10 years or longer) performed especially well, posting a 5.3% gain during the quarter and an astounding 17.5% during 2014. Provincial bonds also outperformed Federal and Corporate sectors just as they had last quarter.

Chart C summarizes the quarterly performance of the various components of the Canadian bond market.

Chart C
Q4 2014 Quarterly Canadian Bond Returns

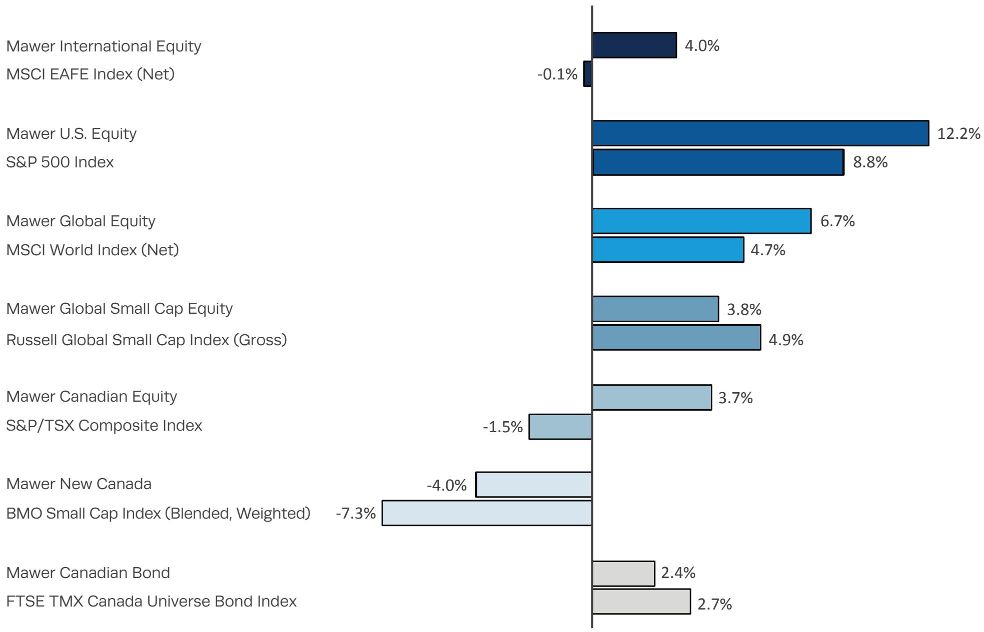


How Did We Do?

Mawer's Balanced Fund (net of fees) gained 4.5% this quarter, and finished 2014 with a gain of 12.1%. During the quarter, contributions were positive across equities, bonds, and money market segments. In fact, aside from our Canadian small cap asset class, every other asset class contributed to positive performance, led by a 12.2% return in our U.S. Equity Fund.

On a relative basis, Mawer's performance was also noteworthy. Five of our six equity funds

Chart D
Q4 2014 Fund Performance relative to Index (C$)



outperformed their respective indices this quarter, while our Bond Fund, despite being positioned somewhat defensively, nearly kept pace during this latest bond rally.

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

The 4.0% gain in the International Equity Fund was considerably greater than the 0.1% decline in the MSCI EAFE Index (C$). A minimal allocation to the Energy sector helped avert some of the most significant detractors to the Index, but most of our outperformance was attributed to strong security selection, where we outperformed in eight out of the nine sectors in the Fund. The widest margin of outperformance occurred in the Information Technology sector, where the companies we own gained over 15% relative to an approximate gain of 3% within the sector. From a geographic perspective, U.K. listed companies account for the largest exposure in the Fund and were another source of strong security selection. Our U.K. companies gained over 4% this quarter whereas they lost approximately 1% within the index.

Although the U.S. Equity Fund generated positive returns during the first three quarters of the year, it still trailed the S&P 500 Index (C$) during this time. So we were encouraged by this latest quarter in which the Fund earned 12.2%, outpacing the 8.8% gain in the Index. Positive security selection across numerous sectors was the predominant cause for our outperformance. One of the more interesting stories came from the Energy sector, where our companies gained over 8% while the Energy sector in the Index declined by over 7%. This achievement was largely driven by a gain of approximately 22% in World Fuel Services, a Miami-based fuel logistics company that helps customers in the aviation and transportation industries source fuel supplies in markets throughout the world. As a logistics company, World Fuel Services is somewhat indifferent to the underlying fuel price as they simply add a mark-up for their services. In fact, when fuel prices are volatile, we believe it creates a greater incentive for customers to use their services. Therefore, while most companies in the Energy sector struggled to adapt to lower energy prices, World Fuel Services was one of the few benefactors.

The Global Equity Fund gained 6.7% this quarter relative to the 4.7% return in the MSCI World Index (C$). Although being underweight U.S. equities relative to the Index was detrimental, positive security selection across numerous segments more than compensated for this positioning. Security selection in the Financials sector was particularly strong, as the Fund benefitted from emphasizing U.S. banks as opposed to their European counterparts. Companies operating in industries such as insurance, investment management, and real estate management also performed well during the quarter. The Materials sector was another source of added value, as our selections earned approximately 9% while the sector declined 1%.

The Global Small Cap Fund was our only equity fund that failed to outpace its benchmark this quarter. It gained 3.8% in the last three months while the Russell Global Small Cap Index (C$) rose 4.9%. A minimal exposure to the Energy sector was favourable, as was strong security selection among U.K. and Canadian equities, but our underweight exposure to surging U.S. equities was the biggest detriment to relative performance. Despite this quarter's underperformance, the Global Small Cap Fund outperformed its benchmark by almost 3% in 2014.

Our Canadian Equity Fund gained 3.7% this quarter while the S&P/TSX Composite Index lost 1.5%. Positioning the portfolio to be underweight the two poorest-performing sectors (Energy and Materials) and overweight some of the best-performing sectors (Consumer Staples, Information Technology, and Consumer Discretionary) all worked to our advantage. Positive security selection across numerous sectors also contributed to our outperformance. This was most evident in the Materials sector where our investment in CCL Industries, a packaging and label company gained over 12%, and Potash Corp, a global fertilizer company, climbed over 7%. The Materials companies within the Index lost over 7%.

The Energy companies within our New Canada Fund declined by an average of almost 28% this quarter. This dragged the overall Fund to a 4.0% loss. But losses within the BMO Small Cap Index were even more severe, with its Energy companies plunging nearly 33% to lead the overall Index to a 7.3% loss. The Information Technology sector was one of the bright spots in the Canadian small cap universe, and our overweight position in this sector worked to our advantage. Strong security selection within the Materials sector was another significant source of added value. Unfortunately, this wasn't enough to fully overcome the absolute losses within the Energy sector.

Finally, our Canadian Bond Fund gained 2.4% this quarter, modestly trailing the 2.7% 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, our positioning in the Federal sector added value, while our selections in the Provincial and Municipal sectors detracted from relative performance. The impact from our Corporate sector was largely neutral during the last three months.

Portfolio Positioning

Equity markets have risen dramatically since they bottomed in early 2009. Throughout this period, we have positioned portfolios to be modestly overweight equity and underweight fixed income. Investors who adopted this positioning have been well rewarded as equity returns have significantly outpaced results from bonds and cash equivalents.

As equities marched higher during this extended bull market, we have shared our concern, on more than one occasion, that equity valuations were becoming less attractive. What was once exceedingly cheap in 2009 had now become fair, or in some cases, fully valued. This is not just due to rising stock prices but also because the outlook for earnings — on which valuations are based — is uncertain in many regions. If we are truly entering a low-growth, low-inflation environment, then the growth expectations underpinning equity valuations will need to adjust, likely to the detriment of equity investors.

Over the last year we have tried to mitigate this valuation risk by re-allocating capital from companies that appeared expensive to those that were more attractively valued. Past newsletters have referenced numerous examples of this company-by-company re-positioning in action. We continue to follow this disciplined approach and believe this diligent re-positioning has contributed to our strong relative performance over this period.

But this quarter we have also embarked upon an additional tactic to manage this valuation risk; we are reducing our exposure to equities altogether. Specifically, we are unwinding the modest overweight equity position that we have held in client portfolios and returning towards a neutral equity weight.

It would be too simplistic to attribute this decision solely to our concern with equity valuations. The recent plunge in oil prices and corresponding reduction in bond yields are two additional signals that highlight another risk that we have mentioned in past quarters — the rising likelihood of global deflation. While the growth outlook in the U.S. appears healthy, deflationary pressures are most worrisome in Europe.

In addition, we are witnessing increasing threats to stability in financial markets. The events that have transpired in Russia in the last year have unfolded like a classic Tolstoy drama; Russia now appears only a couple of moves away from a full-blown financial crisis. And when there is financial crisis, there is often contagion across other regions. Moreover, the consequences of the precipitous decline in oil prices remains to be seen. It's possible that low oil prices prove destabilizing over the next year.

Thus, the decision to increase the defensiveness of our portfolios came from a trifecta of observations: loftier equity valuations, an increased concern with deflation, and greater financial and political instability.

In addition to the neutral weight in equities, we also believe our emphasis on U.S. companies and our overweight position to large cap companies may provide additional resilience should an unfavourable economic scenario unfold. While we are cognizant that our larger allocation to cash equivalent or money market securities offers limited upside potential, we're somewhat certain that we won't hold current cash levels indefinitely. As opportunities in bond or equity markets materialize, we'll have liquidity within portfolios to take immediate action.

Mawer Investment Management

Total Net Returns (Series A)

For periods ending December 31, 2014†

	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr
Equity Funds						
Mawer International Equity Fund	**4.0**	**9.2**	**9.2**	**17.0**	**9.9**	**7.1**
MSCI EAFE Index (Net)	–0.1	3.7	3.7	15.9	7.5	4.1
Mawer U.S. Equity Fund	**12.2**	**20.9**	**20.9**	**24.3**	**16.2**	**6.6**
S&P 500 Index	8.8	23.9	23.9	25.7	17.8	7.3
Mawer Global Equity Fund	**6.7**	**14.5**	**14.5**	**21.5**	**14.5**	**–**
MSCI World Index (Net)	4.7	14.4	14.4	20.5	12.4	5.7
Mawer Global Small Cap Fund	**3.8**	**12.1**	**12.1**	**28.7**	**20.0**	**–**
Russell Global Small Cap Index (Gross)	4.9	9.1	9.1	19.0	12.2	6.9
Mawer Canadian Equity Fund	**3.7**	**15.8**	**15.8**	**17.9**	**13.7**	**10.2**
S&P/TSX Composite Index	–1.5	10.6	10.6	10.2	7.5	7.6
Mawer New Canada Fund	**–4.0**	**12.1**	**12.1**	**24.9**	**19.6**	**13.7**
BMO Small Cap Index (Blended, Weighted)	–7.3	–0.1	–0.1	3.3	5.6	5.7
Balanced Funds						
Mawer Global Balanced Fund	**5.2**	**11.8**	**11.8**	**–**	**–**	**–**
Internal Global Balanced Benchmark*	3.8	11.7	11.7	13.4	9.5	5.5
Mawer Balanced Fund	**4.5**	**12.1**	**12.1**	**14.5**	**11.2**	**7.9**
Internal Balanced Benchmark**	1.8	9.5	9.5	10.7	8.4	6.3
Mawer Tax Effective Balanced Fund	**4.5**	**12.2**	**12.2**	**14.6**	**11.1**	**7.8**
Internal Tax Effective Balanced Benchmark**	1.8	9.5	9.5	10.7	8.3	6.3
Income Funds						
Mawer Canadian Bond Fund	**2.4**	**7.8**	**7.8**	**3.0**	**4.8**	**4.5**
FTSE TMX Canada Universe Bond Index	2.7	8.8	8.8	3.7	5.5	5.3
Mawer Canadian Money Market Fund	**0.1**	**0.4**	**0.4**	**0.4**	**0.3**	**1.2**
FTSE TMX 91 Day T-Bill Index	0.2	0.9	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)

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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