MAWER
newsletter

Fourth Quarter 2015

President's Message

2015 was another busy year at the firm as we continued to add depth to our investment, client and operating teams, while changing some of our core service providers to those with more global reach. We have grown to 122 employees across our Calgary, Toronto and Singapore offices, increased the number of owners from 37 to 44, and are now managing over $30 billion for a wide range of institutional and individual clients.

We are also expanding our Singapore presence. The newly formed, wholly-owned subsidiary of Mawer—Mawer Investment Management Singapore Pte. Ltd.—allows us to further expand our research and trading activities on a global basis. Three individuals from our Calgary office will be transferring to Singapore in early 2016 (pending final regulatory approvals):

- Paul Moroz, Deputy Chief Investment Officer
- Ong (Apichet) Kiatworakun, Equity Analyst
- Peter Dmytruk, Equity Trader

Their relocation will provide enhanced research and trading opportunities due to their closer proximity to Asian companies and, of course, a compatible time zone.

Last year also saw the well-earned retirements of Martin Ferguson, co-manager of Mawer Canadian Small Cap mandates, and Institutional Portfolio Managers Bill MacLachlan and Michele Horne. We thank them for the significant contributions they made to our clients and to the firm over many years.

As many of you know, our culture is very important to us at Mawer. We were pleased to be recognized once again as one of Focus Consulting Group's "Focus Elite" for top cultures in asset management. Mawer was identified as one of eight firms having a strong culture based on surveys and interviews conducted with over 100 asset management firms worldwide. We were also recognized by Lipper as Equity Manager of the Year and by Morningstar for investment performance across a number of asset classes. In addition, Jim Hall and Vijay Viswanathan received Morningstar's 2015 Domestic Equity Fund Manager of the Year award.

But while external recognition is appreciated, navigating our clients through challenging markets to help meet their investment goals is what gives us the most satisfaction. Thank you for giving us the opportunity to earn your ongoing trust.

Market Overview

The end of the year ushered in greater stability to global asset markets. After an anxious summer, the fourth quarter was a period of lower volatility. Fears around China and emerging markets, which had taken center stage in August when China surprised markets and devalued the yuan, began to recede in October. The VIX, a measure of stock market volatility, fell from an annual high of 41 in the third quarter to a more tempered range. Only during one short period of time (before the Fed raised interest rates) did investors seem to grow anxious again. Otherwise, sentiment broadly improved as investors placed less emphasis on the potential risks in China and instead embraced the overall accommodative monetary policies that are in effect in many economies around the globe (although it would appear these concerns are resurfacing as this newsletter goes to print).

Notably, the Fed finally raised interest rates in December. Having refrained from hiking rates in September, the FOMC was presented with a growing body of data that supported the notion of a healthy U.S. economy. Markets began to anticipate a December interest rate hike, especially after a stronger-than-expected payroll data release in November. These expectations were encouraged by the Fed chair, Janet Yellen, who helped to telegraph the upcoming move to the market. Indeed, by the time the Fed finally raised the target range, from 0.00-0.25% to 0.25-0.50%, investors had already anticipated the move and there was limited market reaction.

While the Fed raised rates, however, the rest of the world showed no signs of following suit. Outside of the U.S., the macroeconomic backdrop was not particularly positive for most major economies: China recorded its lowest GDP rate since the first half of 2009; Brazil and Russia continued to experience economic headwinds; inflation remained uncomfortably low in Europe; and, headwinds persisted for commodity-producing countries like Canada, Saudi Arabia and Norway due to weak global commodity prices.

This macroeconomic weakness has meant that monetary policy outside of the U.S. has remained broadly accommodative, with a number of advanced and emerging market economies increasing stimulative measures. India, China and the Eurozone were among those markets for which the central banks eased monetary policy in the last three months. The net result has been a dichotomous global monetary environment.

Additionally, weak commodity prices remained a major theme over the quarter. We have now come full-circle around a decade-long commodity cycle. Over the last few months, the Bloomberg World Mining Index touched 125, returning to where it was in 2004; NYMEX natural gas fell to US$1.86, where it was in 2002; and the price of West Texas Intermediate Oil fell to $35, where it was in 2004. The impact of this price weakness has been broad. Not only have the companies, communities and currencies of commodity-producing countries felt the impact, but the lower prices have contributed globally to deflationary forces already at work in many countries.

How did we do?

(All performance is expressed in Canadian dollars and net of fees.)

The Mawer Balanced Fund ended the quarter up 4.7%, outperforming the benchmark return of 3.7%. While all Mawer asset classes generated positive returns, the biggest contributors to performance in the Balanced Fund were U.S. and international equities. Strong returns in these markets helped to offset the very modest performance of Canadian equities, which continue to struggle in an environment of weak global commodity prices. The currency translation effect also helped companies with foreign exposure enhance returns in the Fund while highlighting the importance for Canadian investors to diversify outside their home market.

Both Canadian equity funds generated positive performance this quarter and beat their respective benchmarks, despite a challenging environment. The Mawer Canadian Equity Fund climbed 0.1%, ahead of the -1.4% of the S&P/TSX Composite Index, while the Mawer New Canada Fund returned 3.5%, ahead of the 0.2% of the BMO Small Cap Index. In the Mawer Canadian Equity Fund, the largest contributors were CCL Industries, Saputo and Onex Corporation. In the New Canada Fund, New Flyer Industries, Stella-Jones and Enghouse Systems were the top contributors.

Outside of Canada, our funds benefited from improving investor sentiment and healthy returns in equity markets.

The Mawer International Equity Fund generated an 8.6% return, outperforming the 8.5% of the MSCI EAFE Index (Net). The majority of our outperformance came from stock selection. Our two top contributing holdings were LG Household (+44.2%), a major South Korean consumer goods company that sells cosmetics, household goods and beverages and Anheuser Busch (+22.82%), the world's most dominant beer company.

The Mawer U.S. Equity Fund delivered strong double-digit performance of 10.1%, however this slightly underperformed the 10.9% generated by the S&P 500. Our team noticed a subtle trend of flight to quality/safety with high quality companies and sectors such as healthcare performing well, while more cyclical companies experienced weakness. Our top contributing stocks included medical technology company, Becton Dickinson (+20.9%); Alphabet, the company formerly known as Google (+27.0%); and financial giant, Blackrock (+19.3%), which reversed its negative performance from last quarter. Conversely, PRA Group, a world leader in acquiring nonperforming loans which is facing a large short interest on the stock and struggling to reinvest, was the top detractor in the Fund.

Both global equity funds generated healthy returns and outperformed their respective benchmarks this quarter. The Mawer Global Equity Fund produced a 10.6% return, beating the 9.3% of the MSCI World Index (Net). Top performing companies in the fund included BlackRock (+19.3%), Becton Dickinson (+20.9%) and Nihon Kohden (+53.3%). Meanwhile, the Mawer Global Small Cap Fund returned 8.3% this quarter, in line with the Russell Global Small Cap Benchmark (8.3%). Security selection was also the main contributor to performance, with Loomis (+24.4%), DCC (+15.0%) and Origin Enterprises (+26.30%) delivering the most outsized gains.

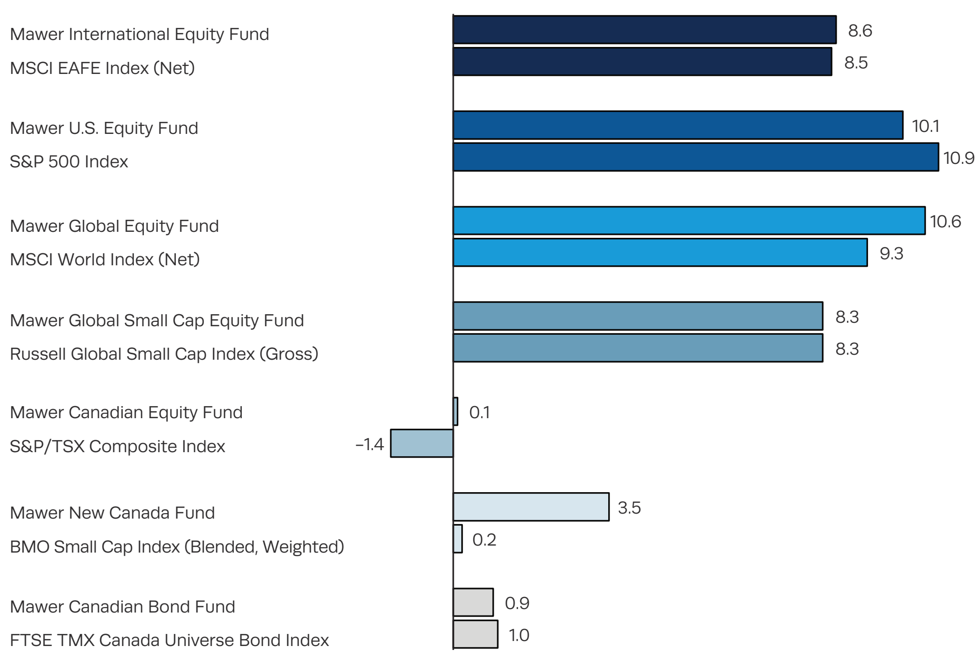
The Mawer Canadian Bond Fund (0.9%) and Global Bond Fund benefited this quarter from the shift in global government bond yields. The Mawer Canadian Bond Fund underperformed its benchmark on a net basis mainly due to sector allocation.

Looking Ahead

The world now seems to be following two distinct monetary tracks: slow and uncertain normalization in the U.S. and accommodation virtually everywhere else. The impact of this dichotomy has so far been manageable, but the wider it

Chart A

Q4 2015 Fund Performance relative to Index (C$)



Source: For Index information see disclaimer† becomes, the more likely the divergence could create instability in asset markets. Things are unlikely to go smoothly if the world's largest economy grows while much of the rest of the world stagnates. As one example, we observe a number of countries in the Middle East challenged by low global oil prices, which increases the risk they could struggle in the future to maintain their USD currency pegs.

Similar to previous quarters, we find equity valuations within this environment to be a conundrum. While many historical metrics would suggest that equity valuations appear full, exactly how expensive or inexpensive stocks are at this point depends strongly on the discount rate assumptions we make for the future—and this is an unknown. If the world soon returns to a more normalized interest rate environment, then equity valuations appear quite fully valued. If, on the other hand, interest rates remain lower for longer, then valuations would not be so unreasonable.

At the same time, future bond returns remain constrained by the low level of global government yields. Credit spreads have widened over the last year due to rising risk premiums and lower liquidity, but not enough to materially offset the headwind from low all-in yields. Despite the constrained return outlook for bonds, they continue to play an important role in building resilient portfolios given the perpetually uncertain outlook.

Our team is increasingly cautious in this environment. While the low interest rate environment should persist in the near future, we observe signs that we may be in a later stage of the capital markets cycle. This caution is why we have taken the weight of equities modestly below neutral in our balanced mandates, while emphasizing asset classes that should add greater resilience in times of volatility (e.g., global bonds) and de-emphasizing asset classes that are historically more volatile (e.g., global small cap equities).

Otherwise, our team manages the uncertainty by doing what we have always done: we follow a disciplined process and stick to our investment philosophy, which can put the odds in our clients' favour over time. This boils down to picking quality companies, run by excellent people and not over paying for them. Additionally, in this current environment, we emphasize companies that have structural growth opportunities, not much debt, low sensitivity to interest rates, and some margin of safety within valuation.

Central banks seem intent on providing liquidity to markets at the sign of any economic hiccup. For now, this appears to be keeping investors relatively calm. How long investors will rely on this soothing is unknown. This quarter's reaction to the Fed does make us wonder if we're reaching the end of the effectiveness of monetary policy.

Ultimately, our strategy and process have not changed. While we guard against the risks noted above at both the portfolio and asset mix level, our team is focused on buying "boring" companies—businesses that can endure. And to echo Buffett, our strategy would not change whether the Federal Reserve raises interest rates next month or in three because, unlike a sensible long-term strategy, this kind of prediction is not what we believe puts the odds of investment success in clients' favour over time.

From an asset mix perspective, we maintain a neutral weight in equity, keeping cash and bonds on hand to provide cushion should any difficult environment unfold, while remaining exposed to the upside. This hasn't really changed over the quarter. What is noteworthy is our addition of the Mawer Global Bond Fund into our strategic asset mix. The Mawer Global Bond Fund—the "shock absorber"—has the goal of preserving global purchasing power for clients and serving as a cushion during times of negative investor sentiment.

Mawer Investment Management

Total Net Returns (Series A)

For periods ending December 31, 2015*

	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr
Equity Funds						
Mawer International Equity Fund	**8.6**	**20.3**	**20.3**	**17.2**	**12.2**	**7.7**
MSCI EAFE Index (Net)	8.5	19.0	19.0	17.3	10.8	4.8
Mawer U.S. Equity Fund	**10.1**	**19.3**	**19.3**	**27.0**	**19.1**	**8.9**
S&P 500 Index	10.9	21.6	21.6	28.6	20.4	9.2
Mawer Global Equity Fund	**10.6**	**21.5**	**21.5**	**23.1**	**17.6**	–
MSCI World Index (Net)	9.3	18.9	18.9	22.5	15.1	6.8
Mawer Global Small Cap Fund	**8.3**	**29.1**	**29.1**	**28.6**	**22.5**	–
Russell Global Small Cap Index (Gross)	8.3	18.3	18.3	19.9	12.0	7.4
Mawer Canadian Equity Fund	**0.1**	**–0.3**	**–0.3**	**13.2**	**10.7**	**8.2**
S&P/TSX Composite Index	–1.4	–8.3	–8.3	4.6	2.3	4.4
Mawer New Canada Fund	**3.5**	**1.9**	**1.9**	**19.5**	**15.0**	**12.1**
BMO Small Cap Index (Blended, Weighted)	0.2	–13.8	–13.8	–2.4	–4.0	2.3
Balanced Funds						
Mawer Global Balanced Fund	**6.8**	**14.6**	**14.6**	–	–	–
Internal Global Balanced Benchmark **	6.3	12.9	12.9	14.7	10.8	6.1
Mawer Balanced Fund	**4.7**	**10.5**	**10.5**	**14.2**	**11.3**	**7.9**
Internal Balanced Benchmark ***	3.7	6.2	6.2	10.0	7.8	5.9
Mawer Tax Effective Balanced Fund	**4.5**	**10.2**	**10.2**	**14.1**	**11.1**	**7.8**
Internal Tax Effective Balanced Benchmark ***	3.7	6.2	6.2	10.0	7.7	5.8
Income Funds						
Mawer Global Bond Fund ****	–	–	–	–	–	–
Citi World Government Bond Index	2.3	15.6	15.6	8.7	6.8	5.3
Mawer Canadian Bond Fund	**0.9**	**3.1**	**3.1**	**2.8**	**4.2**	**4.3**
FTSE TMX Canada Universe Bond Index	1.0	3.5	3.5	3.6	4.8	5.0
Mawer Canadian Money Market Fund	**0.0**	**0.0**	**0.0**	**0.3**	**0.3**	**1.0**
FTSE TMX 91 Day T-Bill Index	0.9	0.6	0.6	0.9	0.9	1.7

* 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.

** 20% FTSE TMX Canada Universe Bond Index, 20% Citi World Government Bond Index, 60% MSCI World Index (Net).

*** 5% FTSE TMX 91 Day T-Bill Index, 5% Citi World Government Bond Index, 30% FTSE TMX Canada Universe Bond Index, 15% S&P/TSX Composite Index, 15% S&P 500 Index (CAD), 15% MSCI EAFE Index (Net, CAD), 7.5% BMO Small Cap Index (Blended, Weighted) and 7.5% Russell Global Small Cap Index (Gross, CAD)

**** 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; FTSE TMX Canada Universe Bond Index, FTSE TMX 91 Day T-Bill Index – PC Bond; Citi World Government Bond Index – Citigroup.

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.

MAWER
Calgary • Toronto

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