

Market Overview

The themes that emerged in the fourth quarter of 2016 carried through to the first quarter of 2017. Confidence in the outlook for global economic growth continued to take hold, moving equity markets broadly higher. European and Emerging Markets were the leaders while the U.S. market achieved new all-time highs. The themes that emerged in the fourth quarter of 2016 carried through to the first quarter of 2017. European and Emerging Markets were the leaders while the U.S. market achieved new all-time highs. Bond yields fluctuated over the last three months, with 10yr Treasuries and 10-yr Government of Canada yields ending the quarter with lower yields than where they started despite a Fed rate hike.

Global monetary conditions also continued on a tightening path. So far this year, 16 central banks have moved rates up compared to 11 moving rates down. Most of the major developed economies (save Japan) are either taking their foot off the gas or actively putting on the monetary brakes. The Federal Reserve used key economic data points (e.g., jobs, inflation, economic growth) as an opportunity to move its target policy rate up 0.25% to a range of 0.75%–1.00%. The Bank of China tightened conditions in some of its short-term markets while the Bank of Canada, Bank of England, and European Central Bank remained on hold.

Overall, client portfolios benefitted from broad market strength and all of our asset classes were positive performers. Mawer Balanced Fund performance was strong, up 3.6% (A Series, Net) in the quarter. International equities were the strongest component, up nearly 8% (A Series, Net) as a result of stock performance combined with beneficial currency impacts (particularly European). U.S. equities pushed higher as the “Trump Bump” accelerated early in the quarter but tempered as Washington’s inability to pass healthcare reform was perceived as potentially negative for any future policy changes.

How did we do?

(All performance is for Series A Funds, net of fees and expressed in Canadian dollars for the period January 1 – March 31, 2017)

All of our funds registered positive returns to kick off the year.

Mawer International Equity Fund: 7.9%

One of the major themes through the back half of 2016 was that higher-quality stocks and sectors underperformed in an environment of rising investor sentiment, optimism regarding greater economic growth led by fiscal spending, and rising inflation expectations. In early 2017, this shift began to temper and several stocks within our portfolio that suffered late in 2016 bounced back: Intertek, Croda, DCC, and Halma. We profiled Croda in our last newsletter as an example of a company we like that hadn’t kept pace with the broader market. Our view is that companies like Croda, which has delivered a return-on-equity consistently in excess of 30% over the past 7 years—well above its cost of capital—should reward long-term investors who are disciplined and can hold on

through periods of shorter-term underperformance.

Elsewhere, the Fund benefitted from its exposure to emerging markets, which from both a currency and a local returns perspective had a very strong three months. However, our relative underweight to emerging markets partially held back returns vs. the Fund’s benchmark. Our Fund’s performance was also bolstered by a lack of exposure to the energy sector, the benchmark’s only sector to post a negative return during the period.

Mawer Canadian Equity Fund: 2.1%

Mawer New Canada Fund: 2.6%

Speaking of energy, in a reversal of what we witnessed in 2016, crude oil prices have plateaued and fallen slightly since the beginning of the year due to supply-related concerns. Energy was one of the worst-performing sectors during the quarter and our underweight meant that we didn’t participate as keenly in the negative returns experienced by the benchmark. Furthermore, within our Canadian Small Cap strategy, our avoidance of companies that are highly leveraged to the price of oil also added value.

However, other commodity prices continued to move higher. After an incredibly strong 2016, Metals and Mining companies continued to advance in the first quarter and were bolstered by a recovery in the price of gold. A key component in our investment philosophy is that we look for wealth-creating companies, in other words those that sustainably earn a return-on-capital greater than their cost-of-capital by virtue of key competitive advantages. As price-takers and given a track record of poor capital allocation, mining companies have by and large not met this criterion. Though we revisit them frequently, we continue to have minimum exposure to base metals companies across all of our funds, but the effect on our relative performance was more pronounced in Canada given the industry's prevalence in the Canadian market.

Financials continues to be the sector in which we find the greatest number of attractive investment ideas in Canada. We believe the companies we own have strong competitive advantages, many of which are borne from their dominant market positions and the relationships they've built with their customers. During the quarter, TD Bank lagged its peers among the big banks, while mortgage-lender Home Capital faced several hurdles that have hurt its stock price. Both companies remain important positions in our portfolios, though we are more cautious on Home Capital. And we also own some of their competitors within our portfolios which helped to cushion their underperformance: RBC was the best-performing big bank during the quarter, and Equitable Group was another standout.

Mawer U.S. Equity Fund: 4.7%

Within our U.S. portfolio, notable winners during the quarter included those business models that facilitate automation and convenience. Alphabet, or Google, is one example;

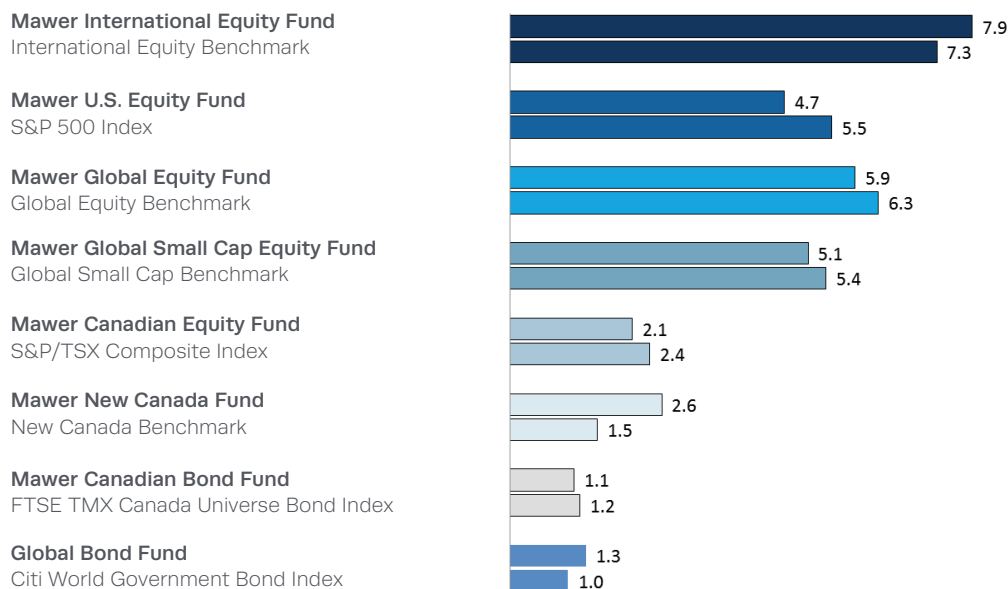
Visa is another. A final example is Ansys, a company that provides engineering analysis software with applications to physics, fluids management, and electronics. For Ansys' customers (e.g., auto manufacturers), the ability to simulate new or improved products instead of building and testing prototypes increases speed to market and lowers costs. Of course, not holding Facebook and Apple means that our Fund missed out on their stellar returns during the quarter.

One of the companies in our U.S. portfolio, Autozone, fell over the period given the potential risk of competition from another company that exemplifies the automation and convenience trend: Amazon. Autozone is the largest retailer of after-market automotive parts and accessories. While the parts themselves are largely commoditized, Autozone's competitive advantage is that they are able to deliver the parts their customers need in a timely, convenient, and cost-effective way—no easy task given that they're operating in an industry with over 2 million distinct products in inventory! While we're skeptical that Amazon will be able to replicate Autozone's established network, the presence of an online retailer may introduce greater price transparency into the market for auto parts, which could hurt Autozone's margins. But if we're wrong, and if Amazon truly does impair Autozone's business model, the portfolio has an offset ... we own Amazon too!

Mawer Global Equity Fund: 5.9%
Mawer Global Small Cap Fund: 5.1%

Our Global Equity Funds both modestly lagged their benchmarks during the period. Many of the themes outlined above also apply to these portfolios. But as stock pickers, more often than not our portfolios' performance are driven by individual company-specific factors. Let's take some time to dig into two stocks that both had meaningful

Q1 2017 Fund Performance Relative to Index
 Series A, Net of Fees, CAD



impacts on how we did, explain how our investment thesis evolved, and underline what we've done in response.

IHS Markit

Within the Mawer Global Equity Fund, one of the strongest-performing stocks was IHS Markit, a leading information and analytics company that provides data to a wide range of industries. For example, they are the dominant provider of vehicle history reports for used cars in Canada. The information IHS Markit provides is often critical to its customers' operations, bringing stability to the company's revenues, and the costs of replicating these data sets are very high, giving it pricing power. The company was created as a result of a merger between IHS and Markit in July 2016. Prior to the merger, the portfolio held Markit.

Though the stock has performed very well since the merger, we have become incrementally more concerned about management. The new compensation scheme seems to incent the acquisition of new businesses more aggressively, and the new management team has expressed some comfort with the notion of increasing the degree of financial leverage on the balance sheet. Additionally, we believe that the combined entity's business mix—though still very good quality—isn't as high-quality as Markit's was alone given greater cyclicity among IHS's customers' exposures.

While we continue to think IHS Markit is a good business run by a good team whose strategic vision we think is sound, our view is that both the quality and the return potential of the stock have declined at the margin since the merger. IHS Markit remains a sizeable position in our global equity portfolio but we have trimmed our position considerably due to share price strength.

NCC

Within the Mawer Global Small Cap Fund, we eliminated NCC after a very difficult five months. NCC is a UK-based software escrow and cyber-security company. Last quarter, as we wrote in this newsletter, the company announced a number of contract losses and deferrals which spooked the market. After speaking extensively with management, we decided to stay put: we believed our thesis was largely intact, but recognizing that the cyber-security industry may be more competitive than we initially thought, we judged that the lower position size within the portfolio was warranted.

Our conversations with key decision-makers at the company continued into the first quarter. Unfortunately, the company eventually issued a profit warning, cancelled its capital markets day, and announced a review of strategic alternatives for the cyber-security business;

in other words, a good part of the underlying business wasn't that healthy after all. We exited our position as we believe that our thesis had well and truly broken.

So what do we make of all this? In one sense, we're relieved that we didn't double-down on our position after the initial announcement of contract losses. But it's certainly a humble reminder that there are many unknowns in the world of investing: competitive advantages may appear stronger than they turn out to be, risks greater, and the margin of error narrower than originally thought. Our experience with NCC reinforces one of the key components of our investment process: a willingness to reverse course or change our minds when information is uncovered that shifts the odds or falsifies our previous hypothesis.

Mawer Global Bond Fund: 1.3% **Mawer Canadian Bond Fund: 1.1%**

Globally, the yield on most medium and long-term government bonds remained relatively unchanged with 10-year yields in the U.S. and Japan ending the quarter within 0.05% of where they began. Yields increased moderately in Europe due to rising inflation and expectations that the European Central Bank may begin reducing the size of their balance sheet. The Global Bond Fund's relative underweight to issuers denominated in euro was a source of added value. Despite the fact that the U.S. dollar underperformed against all major currencies, the Fund's positioning along the U.S. Treasury curve helped as U.S. government bonds with the longest maturities saw their yields tick modestly lower.

The Canadian bond market didn't deviate much from the global script during the quarter: yields on Government of Canada bonds generally held steady across the curve, with the exception of modestly lower yields in the 7–10yr maturity segment. Corporates benefitted as credit spreads, or the premium that investors demand over government bonds in order to bear credit risk, narrowed. The Fund benefitted from an overweight exposure to this part of the curve and from a measured overweight to corporate bonds.

Mawer Global Balanced Fund: 4.0% **Mawer Balanced Fund: 3.6%**

Our Balanced Funds benefitted primarily from our asset mix positioning. A preference for equities over bonds, an underweight to small cap stocks, and a preference for foreign over domestic equities all contributed to our Funds' performance. In light of the Canadian dollar's depreciation over the past 5 years, perhaps most demonstrably relative to the U.S. dollar, our clients often ask whether we hedge returns. There are many factors that underpin our view that investors are generally better served over the long-

term by electing not to hedge equity exposure, and the first quarter serves as an illustration that hedging can hamper returns when Canadian markets lag globally. A decline in the price of oil typically drags both the Canadian dollar and the Canadian stock market lower, and it's in times like these that owning a portfolio with currency diversification can help provide some offset to

help smooth overall portfolio volatility. We've seen many instances of this over the years—2015 represents a not-too-distant reminder—but the past three months may also serve to underline this point: from a Canadian investor's perspective, hedging your equity portfolio's currency exposure may indeed increase its volatility over time.

Looking Ahead

The current environment could be characterized as one where political risk is prominent. A number of questions and issues come to mind:

Issue—Trump pulled his attempted repeal of Obamacare once he saw he was unlikely to get the required votes to do so. What will this mean for his other election promises? Will they be implemented, and if so, in what form?

So What?—Our belief is that market reaction could be volatile as policy gets vetted and potentially revised relative to what was promised. Valuations appear to be stretched on the belief that the positives will be seen through as policies. Q3 2017 may be key as this is the stated target date of implementation for revised tax policy by the Trump camp. We remain comfortable with our overweight in U.S. equities due to stronger relative growth prospects and a growing inventory of high quality businesses.

Issue—Reflation. Along with anticipated change in the U.S. has come a renewed expectation of reflation—faster growth, higher inflation.

So What?—The reflation theme, if it lives up to expectations, should be supportive for equities and mildly negative for bonds (we say mildly because bonds have definitely priced some of that in, as demonstrated by the positive returns experienced this quarter). So far, this has been true, not only in the U.S. but also in other major economies. Should this reflation theme stall, equity valuations could be at risk while bonds would offer more upside (hence our addition to bonds from an asset mix perspective at the end of last year).

Issue—Early signs are not positive that oil output can be controlled. Will the OPEC nations actually be able to deliver on their production cut promises to sustain a floor to oil prices?

So What?—There appears to be a battle between OPEC, Russia, and the U.S. for global market share. How this entanglement nets out will impact oil companies, as well as the broader reflation trade. The increase in commodity prices, led by oil, has been a significant contributor to greater inflation numbers realized across many countries. Should the oil price fall again, there could be less support for the reflation trade overall. This would remove some of the impetus for central banks to tighten monetary policy and may even temper the pressure on bonds that we've recently witnessed.

Issue—Britain has invoked Article 50, sounding the starting gun on the 2-year negotiation process to exit the EU. How will this process unfold and how will it impact the intentions of other EU nations?

So What?—This will be a long negotiation process and will impact markets along the way. While it could have widespread implications for real estate prices in London, given its status as a global financial centre, it could also provide Britain with added economic flexibility in the form of a weaker relative currency which supports competitiveness. As we've said before, the time to fix the boat is before leaving port. As such, we made some adjustments to our portfolios ahead of and immediately after the Brexit vote (marginally trimming the U.K. exposure in our International Equity portfolio and trimming some indirect exposure to U.K. real estate in our Canadian portfolio). Going forward, we do not plan on making many predictions of how this process will unfold. We will continue to focus on finding high quality companies with strong businesses purchased at prices that provide adequate compensation for the risk we foresee.

Issue—What will be the outcome of the French election? Should the French election mimic what recently occurred in the U.S., and voters rally behind far-right candidate Marine Le Pen, it will likely be felt outside the borders of France.

So What?—One possible consequence of a Le Pen win could be a Frexit—a national referendum on whether France should leave the European Union—which would have broad implications for the European region. The greatest takeaway from this situation is that the political system in Europe is fragile. This fragility opens up the possibility of panic and perceived crisis should investors begin to suspect more break-ups in the union (which would have an impact on the banking system and trade, at a minimum). It reinforces the importance of being diversified within Europe and globally, as well as avoiding investments less likely to compensate for exposure to this risk.

All of the above is happening in an environment of reflation and in which central bank stimulus looks to be waning. This creates conditions that are positive on one hand (rising global growth, mild inflation, greater investor and business confidence) and negative on the other (heightened nationalism and protectionism, self-interest, at a time of elevated equity valuations). Given that the mood has generally turned more positive, investors need to be all the more diligent in retaining a margin of safety in their portfolios.

Asset Mix Considerations

Bonds and equities may be returning to a more negatively correlated relationship which would be historically more normal. While few central bankers in other economies appear ready to go as far as the Fed (at least in so far as hiking interest rates) they appear poised to let go of the easing measures with which they had previously experimented. It appears the era of unconventional monetary policy to stave off deflation is ending.

A more traditional relationship between bonds and equities may mean that asset allocation decisions will increase in importance. Bonds play an important part in balanced portfolios by providing a regular, predictable flow of income in addition to acting as a shock absorber during significant equity pullbacks. This kind of cushion becomes even more important the more stretched equity valuations become. This is why we maintain a healthy fixed income exposure of approximately 33.6% in our balanced portfolios. However we note that a normalization in interest rates could put downward pressure on equity valuations.

Conclusion

In order to put the odds in our clients' favour, we strive to strike a balance between prediction and resilience. Our approach is to emphasize resilience and use a sprinkling of the predictive. Where we think we have an edge, we may act accordingly; otherwise, we build resilience by diversifying. These are the elements we believe have shown success over the years in delivering solid long-term returns for our clients.

Total Net Returns (Series A)*

For periods ending March 31, 2017

	3-Mo	YTD	1 yr	3 yr	5 yr	10 yr
Equity Funds						
Mawer International Equity Fund	7.9	7.9	8.0	9.3	12.8	5.3
International Equity Benchmark**	7.3	7.3	15.2	7.0	12.1	2.5
Mawer U.S. Equity Fund	4.7	4.7	15.3	15.3	18.4	8.8
S&P 500 Index	5.5	5.5	20.8	17.6	20.0	9.1
Mawer Global Equity Fund	5.9	5.9	10.5	11.5	16.0	-
Global Equity Benchmark**	6.3	6.3	18.1	12.3	15.8	-
Mawer Global Small Cap Fund	5.1	5.1	11.4	12.0	20.9	-
Global Small Cap Benchmark**	5.4	5.4	22.7	11.5	15.3	-
Mawer Emerging Markets Equity Fund***	-	-	-	-	-	-
MSCI Emerging Markets Index	-	-	-	-	-	-
Mawer Canadian Equity Fund	2.1	2.1	13.9	8.9	12.9	8.1
S&P/TSX Composite Index	2.4	2.4	18.6	5.8	7.8	4.7
Mawer New Canada Fund	2.6	2.6	20.0	8.9	17.7	12.1
New Canada Benchmark**	1.5	1.5	27.7	2.9	4.0	3.4
Balanced Funds						
Mawer Global Balanced Fund	4.0	4.0	6.0	8.2	-	-
Global Balanced Benchmark **	4.2	4.2	10.8	8.8	-	-
Mawer Balanced Fund	3.6	3.6	7.8	8.3	11.0	7.2
Balanced Benchmark **	3.2	3.2	12.2	7.2	8.8	5.6
Mawer Tax Effective Balanced Fund	3.6	3.6	7.9	8.2	11.0	7.0
Internal Tax Effective Balanced Benchmark **	3.2	3.2	12.2	7.2	8.8	5.5
Income Funds						
Mawer Global Bond Fund	1.3	1.3	-1.5	-	-	-
Citi World Government Bond Index	1.0	1.0	-0.7	-	-	-
Mawer Canadian Bond Fund	1.1	1.1	0.6	3.4	2.8	4.1
FTSE TMX Canada Universe Bond Index	1.2	1.2	1.5	4.1	3.5	4.8
Mawer Canadian Money Market Fund	0.0	0.0	0.0	0.1	0.2	0.6
FTSE TMX 91 Day T-Bill Index	0.0	0.0	0.5	0.6	0.8	1.3

* 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.

** Refer to <http://www.mawer.com/our-funds/performance/> for Benchmark History.

*** This information is not available because the Fund has not yet completed a Financial year.

Index returns are supplied by a third party – we believe the data to be accurate, however, cannot guarantee its accuracy. Index returns sourced from Citigroup, FTSE russell, TD Securities, FactSet and BMO Capital Markets.

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Performance returns for the Mawer Mutual Funds and benchmarks 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.