MAWER quarterly

First Quarter 2019

Market Overview

What a difference a quarter can make! Not a typical statement from us at Mawer given we are long-term investors, but after the steep decline in global equities at the end of 4Q18, stock markets, led by the U.S. and Canada, snapped back in the first three months of 2019. Global equities, as measured by the MSCI All-Country World Index, gained a substantial 9.7% CAD and Canadian bonds (as measured by the FTSE Canada Universe Bond Index) rose 3.9% while global sovereign bonds (as measured by the FTSE World Government Bond Index) were basically flat, falling -0.5% CAD.

While equity market returns were significantly different quarter to quarter, the issues remained quite similar—central bank actions, China-U.S. trade relations, decelerating economic growth, and Brexit banter were all in the mix during the past six months. Reaction to these issues, however, have been quite different, primarily because of perceived or realized shifts. Foremost among them is the U.S. Federal Reserve hitting the pause button on raising interest rates and shrinking its balance sheet. Its latest policy statement shows a removal of any planned interest rate increases for 2019 and only one more in 2020. The Bank of Canada and other major central banks around the world followed suit, shifting to more accommodative policies which could ultimately lead to an environment of lower rates for longer.

China-U.S. trade relations appeared to be a major risk during the fourth quarter with each country upping the ante in potential tariffs. But a movement toward more dialogue between the world's two largest economies somewhat alleviated investor concerns by providing hope of a constructive outcome. This may prove a hot button for markets going forward as no resolution or agreement has been reached and political positioning in the next U.S. presidential election cycle begins to accelerate. So, while there is potential for China-U.S. trade relations to take a turn for the better, there is likely to be just as much potential for it to head down the tariff path again.

With Brexit, the ultimate policy shift could see the voting populace head back for another referendum and vote to remain in the EU. As political wrangling kicks the proverbial can down the road, the outcome is very uncertain. The most disruptive outcome would likely see the U.K. leave the EU without any deal, ushering in an era of uncertainty sure to confuse and frustrate management teams of companies in the region.

While global economic activity is showing some signs of slowing, we don't view conditions as indicative of recession—slowing yes, but not negative growth. The companies we own and the management teams that run them are continuing to seek areas of growth and ways to strengthen their businesses in the current economic environment.

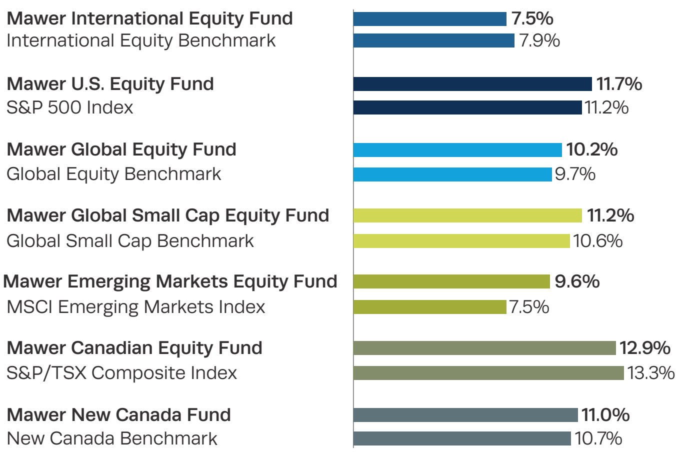
Equity markets have reacted positively to lower rates for quite some time and our concern is that investors become complacent, or even reliant, on central banks to step in whenever financial asset values decline substantially. This is not an underlying assumption of our investment philosophy and process—albeit it does present a challenge for determining what fair value is to pay for those investments that meet our criteria.

How did we do?

Performance has been presented for the O-series Mawer Mutual Funds in Canadian dollars and calculated gross of fees for the period of January 1 – March 31, 2019. For full performance history and disclosures, please see page 4.

Equity Funds performance relative to Index (C$)

(Q1 2019 – Series O, Gross of Fees)



The first quarter of 2019 delivered strong performance from equity markets, as they enjoyed a reversal of fortune from the difficult end of 2018. The threat of steadily rising discount rates that led stocks to trend lower at the end of the year, reacted positively to central banks pressing pause on their tightening measures—as a result, much of what went down in Q4 has now come back up in 2019.

Our funds certainly benefitted from the drivers behind the market rebound. Many companies across our equity funds that are more sensitive to discount rate changes benefitted in Q1. For example, in our U.S. Equity portfolio, Verisk, Alphabet, Visa, and Mastercard are all higher-growth, higher-multiple, and (in our view) higher-quality companies that had sold off in the latter half of 2018 as bond yields rose. With the Federal Reserve indicating that interest rates won't go higher for the remainder of 2019, all four names in the portfolio rebounded helping to contribute to the Fund's double-digit return.

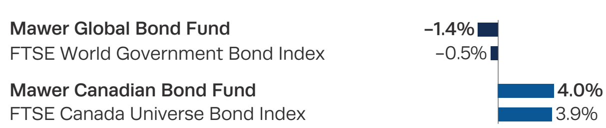
And in a world in which economic growth may be slowing, companies that delivered on earnings growth expectations were largely rewarded. In the Mawer International Equity Fund, top weighted companies Aon and Wolters Kluwer—which did a good job at providing downside protection in 2018—continued to do well in Q1 because they keep delivering on organic growth. Both companies are capitalizing on their competitive advantages rooted in the provision of critical services to their clients: Aon helps their clients determine and place their (often very complex) insurance coverage needs, whereas Wolters Kluwer provides essential reference information to professionals such as lawyers, doctors, and accountants. Other examples of companies that have been rewarded for delivering on earnings growth include IT infrastructure provider Softcat in our Global Small Cap Fund, and collision repair operator Boyd Group in our Canadian small cap strategy.

On the flip side, those companies that are feeling the effects of a slowing economy were penalized. Likely feeling the impact of weaker auto demand, Mawer International Equity Fund holdings BMW and industrial lubricant manufacturer Fuchs Petrolub, missed on earnings expectations and the market reacted in kind, contributing to the underperformance of our international equity strategy. And our investment philosophy, with a focus on higher quality, often more defensively oriented-businesses that are less cyclically exposed, means that many of our companies just don't tend to react as strongly in either up or down markets. Rogers, Loblaw, Hershey, Verizon, and Bunzl were some of the steadiest performers in Q4 thereby contributing to downside protection, but while they all delivered positive returns in Q1, they lagged the broader market.

In the end, the majority of our equity funds performed roughly in-line with their benchmarks. The exception was our Emerging Markets Equity Fund, which benefitted from strong stock selection in Asia-Pacific.

Income Funds performance relative to Index (C$)

(Q1 2019 – Series O, Gross of Fees)

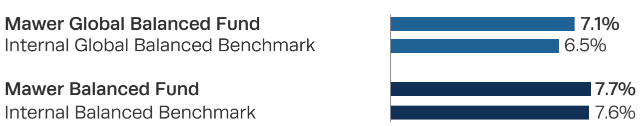


Turning to fixed income, the Mawer Canadian Bond Fund's positive absolute return was primarily driven by the shift lower in the Government of Canada yield curve and tightening of credit spreads. The government sector had the largest contribution to absolute performance led by Provincial bonds. The corporate sector also contributed strongly to absolute performance with the Energy and Infrastructure sectors posting the highest returns. As a backdrop to global bonds, major global sovereign yield curves continued to rally on the back of central banks becoming more cautious, elevated uncertainty, and slowing global economic growth. The Canadian dollar strengthened against most major currencies during the quarter. The Mawer Global Bond Fund's negative absolute return was mainly driven by the depreciation of the euro and the Japanese Yen against the Canadian dollar.

From an asset mix perspective, our balanced funds came into the quarter more defensively positioned—overweight cash, underweight equities—which proved a detractor in Q1. Within equities, the preference for U.S. and international stocks at the expense of Canadian equities within the Mawer Balanced Fund also detracted from returns as the Canadian equity market and the Canadian dollar were outperformers during a risk-on quarter. Relatedly, the Mawer Global Balanced Fund, which is geared towards those investors seeking greater global diversification, delivered lower returns than more domestically oriented portfolios. Both balanced funds benefitted from an underweight position in global bonds, one of the worst performing asset classes over the quarter.

Balanced Funds performance relative to Index (C$)

(Q1 2019 - Series O, Gross of Fees)



Looking Ahead

Inverted Yield Curves = Recession?

One prominent situation that could signal recessionary conditions is that part of the yield curve in Canada and the U.S. inverted during Q1 (short-term rates are higher than long-term rates). In the past, this has (at times) signalled a recession within the next 12-24 months. Although we monitor yield curves closely, an inverted yield curve does not necessarily mean that a recession is imminent. The signal this time around is likely more convoluted due to central bank intervention and an unprecedented era of globalization.

Confidence in Central Banks

The yield curve inversion can essentially be seen as the bond markets asking central banks to reduce short-term rates because of the fear of an economic downturn. Given the degree of central bank involvement over the past decade, a key question to ask is: how confident are investors in the efficacy of central banks? If the answer is "not at all," then get ready for a potential downturn. If the answer is "completely," then maybe the performance of Q1 can be repeated. Our view is that we are likely somewhere in between and there are many unknows (and noise) in trying to predict it. Our answer is the same as it has always been—put the odds in our clients' favour by focusing on the bottom up, finding honest and able management teams, and investing at a discounted valuation.

The Double-Edged Sword

Looking ahead, it appears we have a double-edged sword in terms of investing conditions. On one hand, lower-for-longer interest rates should help equities climb higher as discount rates remain stable and modest. On the other hand, the policy shift of holding off on interest rate increases could be reflective of a slowing global economy, putting future growth and profitability at risk.

So What?

Risk markers have not disappeared. Global industrial activity is slowing, uncertainty over trade actions between the U.S. and China remains, Brexit uncertainty is real, political volatility is present, and we remain in an extended cycle. The positives are that interest rates remain low and opportunities for growth can be found. Central banks are still fostering a supportive environment and company fundamentals remain relatively strong, but perhaps just not as strong as a year ago.

What we have been doing is evaluating our exposures from a business model perspective. How reliant is growth on acquisitions? How much debt seems reasonable if conditions change? What is this management team's ability to handle a slow down? Our level of inquiry informs each portfolio we build and we remain diligent in our approach so that we understand these businesses (and the risks they are taking) to the greatest extent possible.

The current environment is a good reminder about how it is normal for portfolio values to fluctuate over short time periods, sometimes in a forceful way, and often with little warning. But a long-term perspective can help us see through some of the noise and instead focus on building diversified and resilient portfolios.

Total Gross Returns (Series O)

For periods ending March 31, 2019

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Equity Funds	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr	Since Inception[1]
Mawer International Equity Fund	**7.5**	**7.5**	**2.1**	**9.5**	**10.3**	**13.7**	**10.0**
International Equity Benchmark[1]	7.9	7.9	–0.7	8.8	6.5	9.7	6.1
Mawer U.S. Equity Fund	**11.7**	**11.7**	**18.0**	**16.2**	**16.3**	**16.4**	**10.0**
S&P 500 Index	11.2	11.2	13.5	14.7	15.2	16.6	9.2
Mawer Global Equity Fund	**10.2**	**10.2**	**13.2**	**13.5**	**13.5**	**–**	**14.8**
Global Equity Benchmark[1]	9.7	9.7	6.3	11.7	10.8	–	11.8
Mawer Global Small Cap Fund	**11.2**	**11.2**	**7.9**	**13.3**	**13.6**	**22.1**	**14.7**
Global Small Cap Benchmark[1]	10.6	10.6	0.8	11.6	9.4	14.0	7.2
Mawer Emerging Markets Equity Fund	**9.6**	**9.6**	**0.7**	**–**	**–**	**–**	**11.0**
MSCI Emerging Markets Index	7.5	7.5	–4.1	–	–	–	10.9
Mawer Canadian Equity Fund	**12.9**	**12.9**	**6.8**	**8.4**	**8.2**	**13.9**	**10.2**
S&P/TSX Composite Index	13.3	13.3	8.1	9.3	5.4	9.5	6.9
Mawer New Canada Fund	**11.0**	**11.0**	**4.0**	**7.9**	**6.8**	**18.7**	**14.1**
New Canada Benchmark[1]	10.7	10.7	–1.8	5.4	0.0	9.4	5.5
Balanced Funds							
Mawer Global Balanced Fund	**7.1**	**7.1**	**9.5**	**8.9**	**9.6**	**–**	**11.0**
Internal Global Balanced Benchmark[1]	6.5	6.5	5.4	8.0	7.9	–	9.3
Mawer Balanced Fund	**7.7**	**7.7**	**7.1**	**8.0**	**8.6**	**11.5**	**8.5**
Internal Balanced Benchmark[1]	7.6	7.6	5.0	7.3	6.3	8.6	6.0
Income Funds							
Mawer Global Bond Fund	**–1.4**	**–1.4**	**1.6**	**1.1**	**–**	**–**	**2.7**
FTSE World Government Bond Index	–0.5	–0.5	2.0	2.0	–	–	4.6
Mawer Canadian Bond Fund	**4.0**	**4.0**	**5.4**	**2.5**	**3.7**	**4.4**	**4.7**
FTSE Canada Universe Bond Index	3.9	3.9	5.3	2.7	3.8	4.4	4.6
Mawer Canadian Money Market Fund	**0.4**	**0.4**	**1.4**	**0.8**	**0.7**	**0.7**	**1.2**
FTSE Canada 91 Day TBill Index	0.4	0.4	1.5	0.9	0.8	0.8	1.4

* Refer to www.mawer.com/funds/performance/ for Fund Inception Dates and Benchmark History.

Mawer Mutual Funds are managed by Mawer Investment Management Ltd. Mawer Fund returns are calculated after operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses. Management fees are paid to Mawer based on fee agreements with unitholders.

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

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.

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