MAWER quarterly

Fourth Quarter 2018

President's Message

"Remember, that is my name on the wall."

Our founder, Chuck Mawer, said that to me soon after I joined the firm over 21 years ago. It was a reminder that my actions would not only reflect upon me, but would directly impact the reputation of the firm and the Mawer name. That's why our founder's mantra was to always "do the right thing."

This year marks the 45th anniversary of the firm and, as I transition into the role of president, I'm committed to honouring the legacy of Chuck Mawer by leading the firm in a manner that would make him proud—by focusing as much on how we deliver investment excellence to our clients, as on the results themselves.

As we look towards the future, I believe that Mawer Investment Management is stronger than ever. We are fully aligned around our path of independence and well-positioned to deliver excellent long-term investment results for our clients. Our focus remains on building our culture, adding value to clients, improving our client experience, and giving back to the community.

In short, we will continue to "do the right thing" for clients and always remember that we have an important responsibility to the person whose name is on the wall.

Market Overview

After years of generally rising equity markets, 2018 saw broad equity declines with pronounced volatility in the final quarter where markets swung up and down by multiple percentage points on many days. Global equities as measured by the MSCI All-Country World Index dropped 7.8% during the quarter. The main catalysts of the weakness appear to be worries about rising interest rates, trade actions, slowing global economic growth, and the flattening of the U.S. treasury yield curve.

In Canada, oil market worries came to the forefront in the form of a record differential between the world (WTI) and the Canadian price for crude. While government policy has been announced in an effort to help, investors were less patient. Energy names sold off and the Bank of Canada acknowledged that the economy may not be as strong as anticipated fuelling worries about consumer debt levels. The S&P/TSX Composite dropped 10.1% and the Canadian dollar was one of the worst-performing major currencies in the world in Q4, helping to buoy the returns of foreign asset classes in CAD terms.

The selloff of major equity market indices in Q4 also dragged some lower quality segments of the bond market into negative territory. Fortunately, higher quality segments of the bond market in more stable countries such as Canada delivered positive performance which provided an offset. This past quarter reinforces the value of holding a core exposure to high quality bonds from a diversification perspective.

Over the past year, our asset mix team has lowered our equity weights for balanced portfolios on two occasions: at the beginning of February and at the end of August. Asset mix decisions remain a combination of assessing general market risk levels (e.g., the potential valuation impact of rising interest rates) and the fundamental signals we focus on in our company level research. Recent input received from our equity asset class managers suggests that while valuations have improved after Q4's selloff, they are not yet compelling relative to the risks. As a result, we finished the year underweight equities, underweight bonds, and overweight cash. Within equities, we continue to emphasize larger companies located outside of Canada. And within our underlying equity portfolios, we have sought to favour more defensive business models while trimming holdings that have performed very well over the long-term but have moved to the upper ranges of our fair value estimates.

Looking forward, equity markets continue to display some late cycle characteristics. With many equity markets now down over 20% from their peaks, perhaps some of these late cycle impacts are being priced in. To be sure, there are many factors at play, the most watched being rising interest rates and central bank tapering, the trade war between the U.S. and China, Brexit dynamics, and the prospects of moderating economic growth. We continue to take a more defensive stance and follow our investment philosophy and process. While not a formula for avoiding negative returns, certainly an approach that has helped to preserve capital in the past.

How Did We Do?

Performance has been presented for the A-series mutual funds and has been calculated net of fees. Performance has been expressed in Canadian dollars and is for the period of October 1 – December 31, 2018.

Mawer Balanced Funds

	3-Mo[1]	1-Yr[1]
Mawer Global Balanced Fund	**-1.9**	**3.5**
Internal Global Balanced Benchmark*	-2.9	1.3
Mawer Balanced Fund	**-3.8**	**-0.3**
Internal Balanced Benchmark*	-4.9	-2.7
Mawer Tax Effective Balanced Fund	**-3.7**	**-0.3**
Internal Tax Effective Balanced Benchmark*	-4.9	-2.7

Given the market backdrop for equities, our balanced funds suffered negative returns. In fact, the Mawer Balanced Fund had its worst quarter since Q3 2011, the height of the European sovereign debt crisis. As we've outlined above, there are legitimate challenges facing the global economic and market outlooks. But when considering the unwelcome returns of the past quarter, it's worth acknowledging a few silver linings.

First, the interim period has been extremely kind. From October 2011 through September 2018, the Mawer Balanced Fund more than doubled, delivering a cumulative return of 104%.

Second, a well-diversified balanced portfolio has cushioned the negative-headlined equity market returns. The positive returns delivered by bonds and cash have partially offset the pain experienced on the equity side of the portfolio. Further, Canadian investors that have taken a more globally diversified approach to investing have benefitted as almost all of the world's major currencies have appreciated in value relative to the Canadian dollar over the last quarter.

And third, with only one exception, all of the underlying equity funds in our balanced portfolios have meaningfully outperformed their respective benchmarks, especially when looking back over the full year. Why is this so important? Because bigger losses are exponentially more difficult to overcome. As long-term investors looking to compound wealth over many years, the lesson is clear: it isn't just about what you're able to make on the upside, but more importantly about what you're able to protect and compound into the future. Shelby Davis said it best: "You make most of your money in a bear market, you just don't realize it at the time."

Mawer U.S. Equity Fund

	3-Mo[1]	1-Yr[1]
Mawer U.S. Equity Fund	**-4.4**	**9.6**
S&P 500 Index	-8.6	4.2

We begin our tour of asset classes in North America. While stock markets in emerging markets began their retreat earlier in the year, the S&P 500 Index peaked in September with the lion's share of its drawdown occurring in the fourth quarter. The market had long been favouring companies with high growth potential, but many of these market darlings were hardest hit as investors began to doubt the sustainability of their future growth and the premium they're willing to pay for them. Examples of such companies that led our portfolio lower include engineering software provider Ansys, Mastercard, Amazon, and Alphabet (Google).

But when volatility returns to markets, not all companies suffer and not all stocks are impacted the same. CME Group owns and operates derivatives and futures exchanges—essentially the infrastructure for many different types of market transactions. Increased levels of volatility have led to higher activity on CME's various platforms. It was a standout performer in Q4. Another example is chocolate manufacturer Hershey. We had introduced Hershey to the portfolio earlier this year as we like its dominant market position in a stable demand and defensive industry. Sure enough, Hershey has provided a measure of stability to the portfolio.

In the end, our selection of well-managed, resilient businesses helped the Fund considerably outperform the broader market, both over the quarter and the full year.

Mawer Canadian Equity Fund

	3-Mo[1]	1-Yr[1]
Mawer Canadian Equity Fund	**-11.5**	**-9.8**
S&P/TSX Composite Index	-10.1	-8.9

Our Canadian equity portfolio is the one strategy that hasn't behaved the way we hoped it would during a

[1]For full performance history and disclosures, please see page 6.

down market, having moderately underperformed the S&P/TSX Composite. It's worth unpacking why this is.

First, our Canadian equity portfolio hasn't held a gold mining company since 2004. As investors have sought safe-havens in the current environment and the price of gold has rallied, the portfolio hasn't benefitted from the ballast offered by gold miners. For reasons we've covered in past Quarterly updates, we remain on the sidelines given the lack of pricing power and dubious track record of capital allocation decisions in the industry; over the past 15 years, a lot of shareholder wealth tied to precious metals companies has evaporated.

Second, our holdings in a few economically sensitive companies in the industrial sector have hurt the portfolio. As the global economy has shown signs of slowing, factory automation designer ATS was down 40% during the quarter, while heavy equipment dealers Toromont and Finning fell 18% and 24% respectively. We made small trims to ATS and Toromont during the quarter while adding to less economically sensitive businesses such as Telus, BCE, and First Capital. But in hindsight, we could have done more.

Finally, as is often the case during more difficult market environments, smaller-cap companies have fared worse than their larger-cap peers and this is a portfolio that has exposure to companies across the capitalization spectrum. This has been most evident in the energy sector, where portfolio holdings ARC Resources, PrairieSky, and Peyto are all reeling from the difficult price environment for oil and especially for gas. We believe these companies have strong management teams and the potential for high returns going forward. However, all three represent small position sizes in the portfolio and we haven't continued to buy into their weakness in recognition of the risks that a protracted period in a challenging environment could exacerbate. It hasn't helped that our larger positions in the energy sector—Suncor and Canadian Natural Resources—have also underperformed.

While we're dissatisfied with the portfolio's performance in both absolute and relative terms, we continue to allocate capital with a long-term perspective according to our long-standing philosophy: a portfolio of good companies run by able and honest managers while paying attention to the price we're willing to pay for them.

Mawer New Canada Fund

	3-Mo[1]	1-Yr[1]
Mawer New Canada Fund	**-13.7**	**-10.2**
New Canada Benchmark*	-14.4	-18.2

As mentioned, small cap stocks were hardest hit in Q4, and this was especially true in Canada. The energy sector was down 34% for small caps during the quarter alone as record high Canadian differentials and a sharp decline in world crude prices took their toll. In addition, many of our long-term, top-performing holdings saw adjustments to their valuations as market participants re-evaluated their growth prospects. Examples include bus manufacturer NFI Group, commercial real estate advisory services provider Altus Group, and software services company Enghouse.

Nonetheless, the portfolio managed to stay slightly ahead of its benchmark for the quarter, and substantially outperformed over the full calendar year. We were able to better protect capital thanks to our relative underweight in the energy sector where our security selection helped us to avoid the worst-performing stocks. And other high-conviction positions managed to swim against the tide, such as equity administration plan software provider Solium Capital whose recent deals with Morgan Stanley and UBS have bolstered the company's brand and visibility in the marketplace.

Mawer Global Small Cap Fund

	3-Mo[1]	1-Yr[1]
Mawer Global Small Cap Fund	**-8.5**	**-2.6**
Global Small Cap Benchmark*	-12.0	-6.7

Many of these same themes apply to our global small cap portfolio as it wasn't just Canadian small cap stocks that underperformed their larger cap peers. And, similar to our previous discussion about Canadian small caps, many companies that have done very well for the portfolio over the past few years were those that had the largest negative contributions in the fourth quarter. Examples include IT-resellers Softcat and Bechtle, Japanese drug store chain operator Tsuruha, and UK-based power convertor manufacturer XP Power.

However, relative to its benchmark, the Fund outperformed by 3.5%. Much of this is tied to our philosophy—we believe that defensible business models are those that are most likely to generate wealth for shareholders irrespective of the economic environment which is why their share prices tend to hold up better in down markets. Two South

[1]For full performance history and disclosures, please see page 6.

Korean companies stood out in that regard in the fourth quarter. S-1 Corporation is the largest alarm security service provider in South Korea. Being the dominant player allows S-1 to benefit from economies of scale in marketing, equipment procurement, and the deployment of their patrol fleet given that their regulator requires no more than a 30 minute response time. We believe the recurring nature of S-1's subscription revenues adds defensive qualities to the portfolio, and were pleased with the stock's performance in the fourth quarter.

The other example is NICE Information Services, the largest and oldest individual and corporate credit bureau in South Korea. This is also a business that generates sticky, recurring revenues and should therefore be less economically sensitive. NICE benefits from its market-leading position (our research indicates it's the only provider that services both the individual and corporate segments) in an industry where the information they provide is critical and integrated into their customer's processes, and where there are technological benefits to scale.

Mawer Emerging Markets Equity Fund

	3-Mo[1]	1-Yr[1]
Mawer Emerging Markets Equity Fund	**-0.6**	**-6.2**
MSCI Emerging Markets Index	-2.2	-6.9

It's perhaps not surprising that the two examples mentioned above come from South Korea—an emerging market—as emerging markets equities were a relatively good place to hide in the fourth quarter. To be fair, a less myopic perspective is needed—emerging markets stocks and currencies were pummelled earlier in the year. Pressures caused by rising interest rates have been a prime culprit, but more recently it has been concerns around China's slowing economy and uncertainty related to trade.

In the fourth quarter, such concerns weighed most heavily on companies with Chinese exposure. This included one of the largest positions in our portfolio, South Korea-based LG Household & Health, which has a significant portion of its business tied to cosmetics sales that are popular with Chinese customers. Investors are concerned that geopolitical tensions could reduce the number Chinese tourists visiting South Korea, where duty free shopping has been an important driver of the company's growth.

Overall, though, the portfolio has much less exposure to China than its benchmark, which helped the Fund to outperform in the fourth quarter. Strong stock selection was even more influential. Like our global small cap fund, this portfolio held S-1 Corporation and NICE Information Service, as well as Sporton, a Taiwan-based provider of certification and testing services to ensure product quality and adherence to regulatory standards. Sporton specializes in testing wireless devices such as cellphones, where its reputation and technical expertise provide competitive advantages. And as a relatively asset-light company, Sporton has little debt and pays an attractive dividend, two characteristics that have helped it to do well given the market backdrop.

Mawer International Equity Fund

	3-Mo[1]	1-Yr[1]
Mawer International Equity Fund	**-5.3**	**-4.0**
International Equity Benchmark*	-6.5	-6.5

As mentioned in the market overview, indicators of global economic growth have tempered, contributing to the downward pressure on stock prices globally. Here are two examples of how this has played out for companies in our international equity portfolio.

In contrast to Sporton, global brewer AB InBev, held in our international equity portfolio, has high debt levels tied to its blockbuster acquisition and ongoing integration of SAB Miller. With ongoing challenges in some of its end markets—most notably the steep decline in emerging markets currencies over the past year—AB InBev's debt rating was cut by Moody's and the company halved its dividend during the quarter which predictably had a negative impact on the stock price. While we continue to believe that management will successfully navigate through these challenges and that the return potential is attractive, we're certainly watching what rising borrowing costs and tough end-markets could do to AB InBev's profitability.

Another example of a stock that was hurt by economic challenges is German-based Fuchs Petrolub, a manufacturer of lubricants and a long-standing position in the portfolio. While the company has released good results, management recently highlighted that it is feeling the impact of the uncertainty caused by trade disagreements. Some of Fuchs' most prominent clients are German automotive manufacturers who are hurt by the steep drop in demand for cars in China. Shares of Fuchs have underperformed recently, but we've added to our position as we feel the market has overreacted given the strength of Fuchs' business model and the mission-critical nature of their products.

Yet, the majority of our portfolio companies continue to do just fine fundamentally as their

[1]For full performance history and disclosures, please see page 6.

management teams continue to execute. Branded whey protein marketer Glanbia acquired SlimFast, a nice complement to its existing mass-market and lifestyle channels. Société BIC (shavers and pens) reported good organic revenue growth across their operating units. And Japan's Seven & I continued to report strong convenience store sales. While the Fund couldn't escape negative equity market returns, it beat its benchmark during the quarter and handily so over the full calendar year.

Mawer Global Equity Fund

	3-Mo[1]	1-Yr[1]
Mawer Global Equity Fund	**-4.4**	**4.3**
Global Equity Benchmark*	-7.8	-1.3

Regular readers of the Quarterly will know that we love companies with recurring revenues in stable-demand industries, so long as they're well-managed, they benefit from sustainable competitive advantages, and they're appropriately priced. Many of the shifts in portfolio composition over the past few years have helped our Global Equity Fund to outperform, both over the past quarter and over the past year.

We introduced Wolters Kluwer mid-2017 and RELX in April, two publishers that provide critical reference information to various professionals. In early 2016, we exited GE based on concerns around capital allocation and its shift to more cyclical end-markets. We eliminated Tencent in February 2018 due to concerns around the sensitivity of the company's valuation to rising discount rates and growth assumptions. We increased our position in Seven & I. This past quarter, we introduced Bunzl, a distributor of recurring consumables (e.g., gauze for hospitals, cutlery in grocery stores) whose competitive advantages stem from their operational excellence in inventory management, trustworthy delivery, and customization.

In other words: we've emphasized "Be Boring." We were unfortunately not able to deliver on the second-half of our tagline in the fourth quarter given the market backdrop. But despite the decline in Q4, the Fund has delivered a respectably positive return in a negative year for its benchmark. Not much changes going into 2019. We'll continue to adhere to our systematic process aimed at constructing a well-diversified portfolio of wealth-creating businesses run by excellent management teams and trading at a discount to their intrinsic values.

Mawer Global Bond Fund

	3-Mo[1]	1-Yr[1]
Mawer Global Bond Fund	**6.5**	**7.1**
FTSE World Government Bond Index	7.5	8.1

The Canadian dollar weakened against most major currencies and high-quality sovereign bond yields rallied strongly as the sell off in major equity markets accelerated during the quarter. The Fund's strong positive absolute return was primarily driven by the sharp depreciation of the Canadian dollar relative to the U.S. dollar, the Japanese yen, and the euro. The Fund's relative underperformance was mainly attributable to having no exposure to Japanese and Italian government bonds and a lower duration in Canada. Partially offsetting the underperformance was having a relatively longer duration to U.S. dollar-denominated bonds which was extended earlier in the quarter and benefited as volatility increased.

Mawer Canadian Bond Fund

	3-Mo[1]	1-Yr[1]
Mawer Canadian Bond Fund	**1.7**	**0.8**
FTSE Canada Universe Bond Index	1.8	1.4

The Mawer Canadian Bond Fund's absolute return was positive, while slightly underperforming its benchmark. Volatility in the Canadian bond market increased in the quarter amidst the increase in global financial market unrest. Yields on Government of Canada bonds declined significantly with yields on mid-term securities decreasing by the largest amount. Canadian corporate credit spreads widened and lower quality issuers generally underperformed higher quality issuers. As a result, the largest contributor to performance was the Fund's Government of Canada exposure, which benefited from a large weight and long duration. The Fund's returns in the provincial and corporate sectors, while still positive, lagged as widening credit spreads partially offset declining Government of Canada yields.

During the quarter, the Fund continued to increase its average coupon and diversify its term structure in an effort to enhance resiliency to a variety of scenarios. This was implemented by reallocating weight from mid-term securities to short-term and long-term securities predominantly within the federal and provincial sectors. Finally, the quarter provided an illustration of how exposure to higher quality bonds can provide diversification benefits to balanced portfolios especially during elevated market volatility.

[1]For full performance history and disclosures, please see page 6.

Total Net Returns (Series A)

For periods ending December 31, 2018

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Equity Funds	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr	Since Inception*
Mawer International Equity Fund	**–5.3**	**–4.0**	**–4.0**	**4.4**	**8.4**	**10.6**	**7.9**
International Equity Benchmark*	–6.5	–6.5	–6.5	2.5	5.9	7.5	5.1
Mawer U.S. Equity Fund	**–4.4**	**9.6**	**9.6**	**9.3**	**13.5**	**13.0**	**8.0**
S&P 500 Index	–8.6	4.2	4.2	8.6	14.1	14.3	9.4
Mawer Global Equity Fund	**–4.4**	**4.3**	**4.3**	**6.9**	**11.2**	**–**	**12.6**
Global Equity Benchmark*	–7.8	–1.3	–1.3	5.7	9.9	–	11.0
Mawer Global Small Cap Fund	**–8.5**	**–2.6**	**–2.6**	**5.3**	**11.1**	**18.0**	**12.0**
Global Small Cap Benchmark*	–12.0	–6.7	–6.7	5.3	8.6	12.0	6.4
Mawer Emerging Markets Equity Fund	**–0.6**	**–6.2**	**–6.2**	**–**	**–**	**–**	**5.6**
MSCI Emerging Markets Index	–2.2	–6.9	–6.9	–	–	–	8.3
Mawer Canadian Equity Fund	**–11.5**	**–9.8**	**–9.8**	**4.3**	**5.6**	**10.8**	**9.0**
S&P/TSX Composite Index	–10.1	–8.9	–8.9	6.4	4.1	7.9	7.9
Mawer New Canada Fund	**–13.7**	**–10.2**	**–10.2**	**3.6**	**4.9**	**15.4**	**13.1**
New Canada Benchmark*	–14.4	–18.2	–18.2	4.4	–0.4	8.5	7.0

Balanced Funds	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr	Since Inception*
Mawer Global Balanced Fund	**–1.9**	**3.5**	**3.5**	**4.5**	**7.9**	**–**	**9.0**
Internal Global Balanced Benchmark*	–2.9	1.3	1.3	4.3	7.4	–	8.5
Mawer Balanced Fund	**–3.8**	**–0.3**	**–0.3**	**4.2**	**7.0**	**9.5**	**8.2**
Internal Balanced Benchmark*	–4.9	–2.7	–2.7	4.3	5.7	7.4	7.6
Mawer Tax Effective Balanced Fund	**–3.7**	**–0.3**	**–0.3**	**4.2**	**7.0**	**9.5**	**7.8**
Internal Tax Effective Balanced Benchmark*	–4.9	–2.7	–2.7	4.3	5.7	7.4	7.7

Income Funds	3–Mo	YTD	1–Yr	3–Yr	5–Yr	10–Yr	Since Inception*
Mawer Global Bond Fund	**6.5**	**7.1**	**7.1**	**0.3**	**–**	**–**	**2.6**
FTSE World Government Bond Index	7.5	8.1	8.1	2.1	–	–	5.1
Mawer Canadian Bond Fund	**1.7**	**0.8**	**0.8**	**1.0**	**2.8**	**3.4**	**5.8**
FTSE Canada Universe Bond Index	1.8	1.4	1.4	1.9	3.5	4.2	6.9
Mawer Canadian Money Market Fund	**0.3**	**0.7**	**0.7**	**0.3**	**0.2**	**0.2**	**3.3**
FTSE Canada 91 Day TBill Index	0.5	1.4	1.4	0.8	0.8	0.8	4.1

* 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 Mutual Fund returns are reported in Canadian dollars and calculated after management fees and operating expenses have been deducted. In comparison, index returns do not incur management fees or operating expenses.

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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