

Market Overview

Although 2018 began with a continuation of the strong equity performance investors saw in 2017, by late January the threat of rising interest rates and inflation expectations led to a deterioration in investor psychology. Equity markets around the world declined markedly, and while this appeared short-lived at first, the emergence of protectionist rhetoric and volatility in the technology sector late in the quarter led equity markets lower again in March.

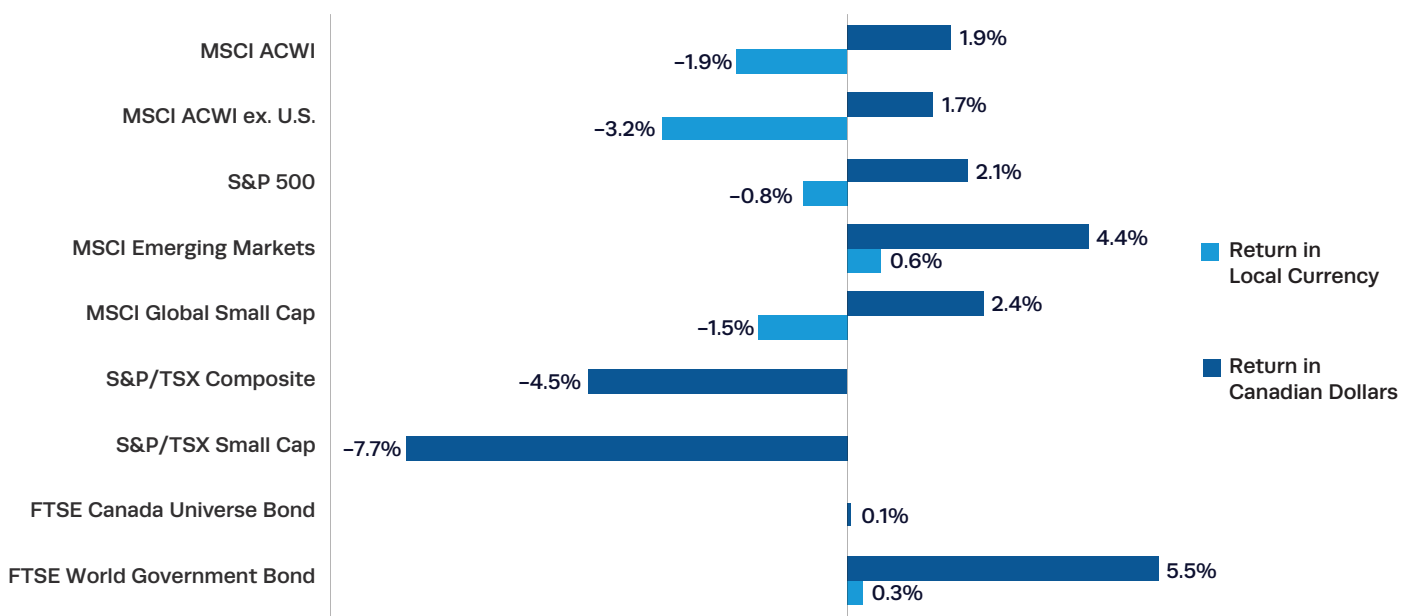
Overall, most equity markets posted negative returns in Q1 in local currency terms. Canadian equities posted the largest losses fueled by NAFTA uncertainty, weaker economic data, and a challenging resource environment. Fortunately for investors with global investments, some of these losses were mitigated when translated into Canadian dollars (see chart below). Within fixed income, Canadian bonds were slightly positive for the quarter whereas Global bonds posted strong returns largely due to currency effects.

As we reflect on the first quarter of the year, several of the themes from our 4Q17 discussion points continue to apply.

We are in the later innings of the market cycle but growth indicators in the form of GDP results and corporate profits could prove supportive enough for the equity cycle to continue for some time.

One of the most positive themes of the past quarter was synchronized growth across the major economies. Although some statistics weakened—such as some Purchasing Manager Index (PMI) figures—the overall picture continued to be positive, particularly in geographies outside of Canada, where corporate earnings and economic growth indicators remained healthy.

Q1 2018 – Canadian dollar translation effect



Risks, primarily in the form of high equity valuations, remain.

When valuations are full (as tends to be the case later in a cycle), the margin of safety implied in stock prices relative to long-term growth prospects is reduced. Thus, any reaction to negative news may have a larger portfolio impact. And Q1 saw several bouts of elevated volatility as investors shifted from risk-seeking to risk-aversion.

In February, U.S. wage inflation data (spurred on by the broad rise in minimum wages) led to a scare that interest rates would rise faster than anticipated to keep pace with rising inflation. Two factors then came to the fore in the last month of the quarter. The first was President Trump's protectionist stance which took the form of tariffs (steel, aluminum, and Chinese imports) and continued NAFTA rhetoric, which impacted equities in both directions. The second was revelations that Facebook misused consumer data which led to a broad equity selloff on concerns over increased regulation for the entire technology sector.

Watch the credit market for signals this long credit cycle could end.

Credit has continued to grow in most markets. Loan growth to consumers has increased in Canada, the U.S., most of Europe, and China. Bond markets

have also supported a healthy credit environment for companies. Despite the tighter monetary conditions and some renewed volatility, credit spreads have remained at historically tight levels.

That said, we did see some potential cracks in the credit system in Q1, notably in short-term overnight lending rates. U.S. dollar LIBOR rates increased over the last few months, marking more expensive near-term funding costs and potential nervousness in the system. Further, there were modest signs of distress and liquidity shortages in China's financial system. As an example, during the quarter China took real action to control building financial risks by taking control of the beleaguered insurance and financial firm, Anbang.

In addition, the global supply of government bonds has now moved to a situation where there is potentially more supply relative to demand. This is because as central banks taper their bond market purchase programs, there are less large bond buyers in the market. If no new purchasers come to the fore, then there is another potential catalyst for rising bond yields as issuers will have to raise rates to compensate investors and entice buying.

But overall, when the cycle finally ends, we expect to see more breakdowns in credit markets than what is happening now. Currently, credit markets continue to seem supportive of global economic growth.

How did we do?

All performance is for Series O Funds, gross of fees and expressed in Canadian dollars for the period of January 1 – March 31, 2018.

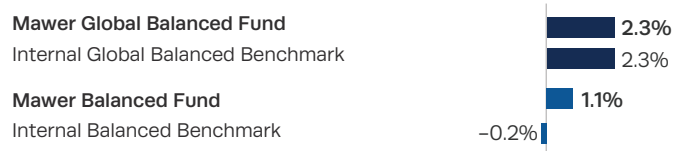
Mawer Global Balanced Fund: 2.3% Mawer Balanced Fund: 1.1%

Our balanced strategies are designed for long-term oriented investors seeking to prudently compound wealth while aiming to protect against the impairment of capital. We believe that diversification by company, sector, geography, currency, and asset class is a logical defense in the face of uncertainty. The legendary Peter Bernstein said it best: *"Diversification is the only rational deployment of our ignorance."*

During the first quarter, our balanced strategies delivered on their investment philosophy, offering Canadian investors low but positive single-digit returns during a reasonably unsettled time in the markets. Crucially, our significant holdings in foreign

Balanced Funds performance relative to Index (C\$)

(Q1 2018 – O Series, Gross of Fees)



asset classes—both equities and bonds—provided ballast to the portfolio in an environment of heightened volatility, falling Canadian equity returns, and a weak Canadian dollar.

Relative to their benchmarks, all of our balanced strategies benefitted from outperformance derived

from their equity components, as discussed in greater detail below. The Mawer Balanced Fund was additionally bolstered by its modest overweight to U.S. and international equities at the expense of Canadian stocks. And while the Global Balanced Fund's return benefitted from its holdings of global bonds, which were our best performing asset class over the period, the Fund held those foreign bonds in a lower proportion to that of its benchmark which weighed on the Fund's relative return.

Mawer Global Equity Fund: 2.9%

Our global equity strategy delivered a modestly positive return during a volatile period. Stock selection was the main source of the Fund's outperformance versus its benchmark, and while many of our holdings in the financials sector performed strongly, the consumer staples sector provides a more interesting case study as our outperformance was both a function of what we owned and what we didn't.

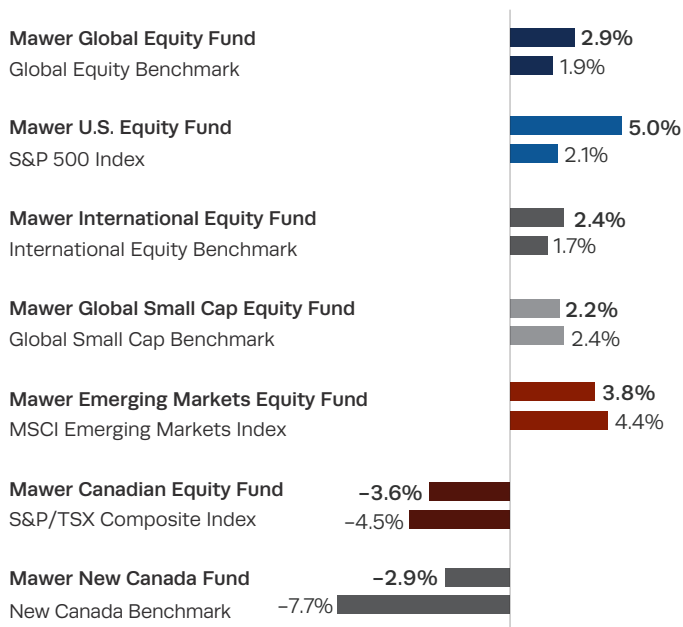
Two Japanese drug retailers—Tsuruha and recently introduced Kusuri No Aoki—delivered attractive returns during the quarter. Both companies employ an “area-dominance” strategy in which they concentrate on a particular geographic region of Japan. For example, Kusuri has an estimated 50% market share by sales in the Hokuriku region, which in our opinion gives them a scale advantage relative to its fragmented competitors in terms of purchasing, distribution, and brand recognition. We believe both companies will be able to grow by acquisition, thereby consolidating their respective markets, and recent results indicate that both management teams are successfully executing on this approach.

But our outperformance within the sector was also due to companies we didn't own. Last year, we eliminated two household names from the portfolio: Procter & Gamble and Nestlé. In both cases, we developed some doubts about the resilience of their future cash flows due to rising competition in the markets in which they operate, a tectonic lowering of barriers to distribution given the ability for smaller competitors to now get shelf-space (e.g., through Amazon), deteriorating brand values, and valuations that, in our view, were not pricing these risks appropriately. We felt there were better opportunities to allocate capital elsewhere, and since then, both stocks have suffered meaningful pullbacks.

Historically, many have considered the consumer staples sector as being defensive, in other words a relatively safer area to allocate capital during market volatility. But from a business model perspective,

Equity Funds performance relative to Index (C\$)

(Q1 2018 – Q Series, Gross of Fees)



if we define *defensiveness* as being related to the durability and predictability of a company's cash flows, and if the *defensiveness* of a stock additionally considers the margin of safety at which an investment can be purchased, P&G and Nestlé—and many other consumer staples companies, we would add!—can perhaps no longer be considered as defensive as they once were. In fact, the consumer staples sector was one of the worst performing sectors during the past quarter. The lesson, as investors, is that competitive dynamics can change; in the Amazon era, as in any area of change, old assumptions may no longer apply.

Mawer U.S. Equity Fund: 5.0%

Our U.S. equity strategy had a solid quarter relative to the S&P 500 Index, primarily due to strong stock selection. The industrials sector provided a few bright spots, including two companies whose business models possess characteristics we find very attractive and that lend themselves, in our view, toward wealth-creation for shareholders.

Verisk Analytics is a data and analytics company best known as a provider to the property and casualty insurance industry. Verisk collects, aggregates, and standardizes data sets that are critical to its customer base; as an example, it provides data that automobile insurers can use to predict and model collision losses at a very granular level, thereby enabling those insurers to better evaluate risk and price their premiums accordingly. Many of Verisk's services are industry

standards, which means that it operates as a near-monopoly in many segments. As a result, barriers to entry are very strong, customer retention rates are elevated, revenues are highly recurring, and Verisk has pricing power over its very fragmented customer base. The company reported better-than-expected results during the quarter, and the stock reacted favourably.

KAR Auction Services, as its name suggests, owns and operates auctions for salvaged and used vehicles. The beauty of the business model is that as opposed to car manufacturers, who must compete against one another for new car sales, KAR simply provides the infrastructure that facilitates transactions. In other words, it doesn't matter whether Ford or GM is selling more cars: a good portion of these vehicles will pass through one of KAR's auction sites down the road, either due to collisions or through used car sales. KAR operates in an effective duopoly where competition is rational. And as cars are getting more sophisticated (e.g., sensors in bumpers), insurance companies are writing off more and more vehicles that have been involved in only minor collisions due to the inflation in the cost of labour and parts, which drives volume for auctions. In our view, management are terrific operators who have successfully gained share in online auctions and in layering incremental, higher-margin services on the cars they process (e.g., paint retouching). During the quarter, KAR announced that it intends to spin-off its salvage unit from its used car business to allow investors to value the two entities separately, news the market seemed to embrace.

Mawer International Equity Fund: 2.4%

At Mawer, we construct portfolios based on our fundamental assessment of individual companies; we are very much bottom-up investors. However, as part of our risk management process, we are macro-aware, meaning we seek to make sure we understand how bigger-picture investment themes can impact the portfolio. During the quarter, two of the larger themes that we spoke about in our market overview had an influence on the performance of individual securities within our International Equity strategy, which outperformed its benchmark over the period.

First, while the return of volatility to equity markets often leads to stocks selling off, there are certain companies that stand to benefit. We hold three exchange operators in the portfolio—Germany's Deutsche Boerse, Japan Exchange, and Brazil's B3—that, analogous to what KAR does for automobiles in the U.S., provide the infrastructure for market transactions through stock exchanges, derivatives clearing houses, and the settlement and custody of

securities...all of which gain from higher volatility and increased levels of trading. As a result, all three had strong returns during the quarter. We like the dominant market positions these three companies possess and the fact that they aren't capital intensive businesses, which we believe should allow them to compound wealth over time.

Second, worries around protectionism and tariffs on global trade weighed on two certification and testing companies held in the portfolio, Intertek and Bureau Veritas. Both companies benefit from increased global trade as this bolsters the need for independent auditing, inspection, and endorsement of a particular product's adherence to safety standards across various jurisdictions (e.g., children's toys). A reversal in inter-regional trade has always been cited as one of the bigger risks in our evaluation of Intertek, but it remains one of our largest holdings given its sterling reputation globally in a consolidating industry and its competent management team.

Mawer Global Small Cap Fund: 2.2%

Our Global Small Cap strategy narrowly underperformed its benchmark over the period. Our position in VZ Holding, a Swiss financial services company, was one of the largest detractors. VZ caters to high net worth clients in Switzerland (of which there are many!), offering investment management, estate planning, tax planning, and other services. While VZ is quite dominant in its market, the business isn't immune to fee pressures. Moreover, competition is intensifying, and the prolonged low interest rate environment has been challenging. We believe the company—due to its market position, strong brand, and capable management—has the resilience to endure through this more difficult period and have maintained our position.

Another stock that performed poorly over the quarter was PC Jeweller, a gold and diamond jewelry retailer in India. The pullback comes after a remarkable 12-month period in which the stock had more than tripled in value. The stock's financial performance has been strong, but the catalyst for the recent reversal seems to have been news that an Indian company with a reputation for weak corporate governance and allegations of misbehaviour had built a small ownership stake in PC Jeweller. We had already been reducing our exposure largely on valuation concerns given its strong performance, and are keeping an eye on the company for any signs of deterioration in corporate governance.

Mawer Emerging Markets Equity Fund: 3.8%

In a continuation of last year's theme, emerging markets stocks outperformed their developed market counterparts in the first quarter, and especially those companies that continued to meet or exceed investor expectations. One example is Sunny Optical, a Chinese manufacturer of camera lenses for smartphones. The company is currently in a high growth phase driven by overall market growth, increasing market share, and opportunities to further expand into new customer segments as cameras increasingly become the eyes for robots in self-driving vehicles, drones, and in factory automation. We believe the current stock price is giving the company appropriate credit for its near-term growth drivers, but may underestimate the longer-term opportunities available.

However, several of the portfolio's Indian companies experienced negative—albeit single-digit—returns as the Indian government announced a new capital gains tax of 10% on foreign investors in an effort to reduce the fiscal deficit, which represents an additional tax to be borne by investors. Furthermore, the Indian banking regulator announced stricter regulations on souring bank loans, which may result in higher recognized loan losses in the short-term. Despite these incremental negatives, we still have a lot of enthusiasm for the investment opportunities available in India. We believe it is a relatively inefficient market, and even though the latest banking regulations may have a negative short-term impact, they should improve the long-term health of the Indian financial system. To hear more about our thoughts on the opportunities in India, check out "India Observations," an episode of our recently launched Art of Boring [podcast](#).

In the end, even though our stock selection added value relative to the strategy's benchmark, we ultimately underperformed as this was more than offset by our lack of holdings in two of the benchmark's strongest performing sectors—health care and energy—as well as the Fund's cash position during a period of positive returns.

Mawer Canadian Equity Fund: -3.6%

Canadian equities suffered negative returns during the quarter and, outside of the technology sector, this weakness was fairly broad-based.

Historically, equity portfolios at Mawer have provided downside protection, meaning that in periods of negative market returns, the portfolios' returns have typically fared relatively better. This past quarter was no exception for both of our domestic equity strategies. We believe this is the result of an

investment philosophy and process that focus on wealth-creating business models, strong management teams, and on ensuring we purchase these companies with a margin of safety. Companies that deliver real value to their customers, whose competitive advantages are defensible, and that are run by competent managers are those that should fare better through tougher environments.

One example of such a company in the portfolio is CCL Industries, a label printing company that performed well during the quarter. While CCL is undoubtedly benefitting from strong global economic growth, the company continues to deliver attractive organic growth and make good strategic acquisitions at fair prices. In our experience, good management teams have tended to navigate effectively through more challenging environments and have also been more likely to surprise on the upside. Though we're cautious on CCL's valuation, we continue to hold the stock in large part due to our favourable assessment of management as strong operators and allocators of capital.

Mawer New Canada Fund: -2.9%

Broadly speaking, small-cap Canadian stocks fared worse than their larger-cap peers. Though the Mawer New Canada Fund could not escape the market's downward trend, the portfolio posted much better returns than its benchmark. Within our industrials holdings, bus manufacturer New Flyer Industries, HR services provider Morneau Shepell, and collision repair shop operator Boyd Group all performed well; New Flyer and Boyd reported the highest margins they'd ever achieved in their respective histories, a sign of strong execution.

In the consumer discretionary sector, Cara Operations posted excellent results. Cara is one of Canada's largest restaurant franchising groups, owning brands such as Swiss Chalet, Harvey's, and St-Hubert. Part of our initial investment thesis was that management would be able to execute its third turnaround after successfully having transformed two other Canadian retail businesses in the past: Forzani's and The Brick. Results announced during the quarter show that management is making progress toward sustained operational improvement, while we believe their recently announced acquisition of The Keg—news the market viewed constructively—is strategically sound and was fairly priced. We added to our position based on a higher quality assessment of the business.

Mawer Canadian Bond Fund: 0.2%

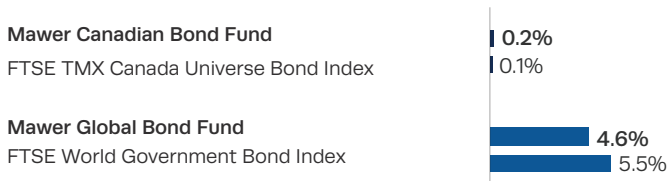
The Mawer Canadian Bond Fund return was approximately flat in the first quarter. The Federal and Corporate sectors were positive contributors, while the Provincial sector was negative. Short and medium-term maturities shifted higher in yield, while long-term maturities shifted slightly lower, resulting in a flattening of the yield curve. Despite elevated equity market volatility, Q1 was the third-busiest first quarter of new bond issuance on record in Canada. The Fund participated in a number of these opportunities. The combination of elevated new bond issuance in Canada and equity market volatility likely contributed to credit spreads widening moderately. However, they remain tighter than average as measured over the last five years. The Fund outperformed its benchmark by a slight margin mainly due to its relatively lower weight in the Provincial sector.

Mawer Global Bond Fund: 4.6%

The Mawer Global Bond Fund return was firmly in positive territory this quarter. The main driver of performance was a weaker Canadian dollar against every currency exposure in the Fund. This increased the value of these foreign currency bond positions when measured in Canadian Dollars. The strongest performing currency was the Japanese yen, which resulted in the largest contribution towards the Fund's positive return. Some theories as to why the Canadian dollar weakened so broadly include: slower economic growth, Bank of Canada neutrality, ongoing NAFTA negotiations, and elevated global volatility. The Fund underperformed its benchmark primarily due to its underweight in the euro, and lack of exposure to Spanish, Italian, and French Government bonds, which were the top performing countries in the Eurozone.

Income Funds performance relative to Index (C\$)

(Q1 2018 – O Series, Gross of Fees)



Asset Mix

Last quarter we wrote that timing market events was not something we recommend or focus on. We do, however, actively seek to build resilience towards a multitude of scenarios. Recently, we have been reducing exposure to highly valued companies with longer-term growth ramps (e.g., Tencent) while increasing exposure to businesses with higher exposure to recurring revenue streams (e.g., Visa) and therefore better cash flow visibility.

With the continued rise in equities and valuations stretching further, we felt it was prudent to trim our overweight equity position and move to a more conservative, neutral stance. Our Balanced asset mix stood at 60% equities and 40% fixed income following this action.

Looking ahead

Market cycles can end for numerous reasons. In many cases, macroeconomic events occur which intertwine with, or precipitate, a breakdown in credit markets or the financial system, and a wholesale shift in psychology occurs. Currently, risk conditions continue to accrue on several fronts but rising equity markets could extend if a symbiotic relationship between rising rates and corporate earnings can be maintained. While the low rate environment may continue to force investors to seek yield in equities, bond yields could rise to a tipping point making them more attractive relative to equities on a risk adjusted basis. Higher rates could also make access to credit markets too expensive, thereby slowing the credit cycle substantially.

But as we have said before, we can't predict the exact match that will light an ending of the cycle. What we can do is continue to monitor the matchbox—current valuations, rising rates, and protectionism are some of the factors that increase current systemic fragility.

In times like this, when volatility returns, fear is quick to manifest. It's useful in these moments to remember the difference between risk and volatility. At Mawer, the main investment risk we manage against is the permanent impairment of capital—meaning that capital decreases so much in value that the probability of recovering it over the long-term is very low. Volatility, on the other hand, can be defined as the daily fluctuation of asset prices: the wider the fluctuations, the more perceived risk there is in the market. We focus much less on the daily fluctuations of stocks, and more on our investments' long-term prospects.

We believe this approach best serves the investment objective of preserving and growing our clients' capital. This distinction is important to remember, as we are coming off a long period of very stable (and steadily increasing) asset prices. We have to remember that a more volatile environment (where the opinions of market participants can vary more from day to day) is normal and, to be fair, probably a good thing for bottom up investors that have a well-defined process to select attractive securities.

Markets appear to be in a classic tug-o'-war where positive business and economic fundamentals are pulling on one side, central banks are raising rates on the other side, and a multitude of conditions are pulling from all directions. The reality is that we can't eliminate the possibility that your portfolio will go down in value at times. However, we believe following our investment philosophy puts the odds in our clients' favour. Right now, the largest challenge to executing on our current philosophy is finding businesses at discounted valuations. Because of this, we are comfortable with a neutral asset mix that both positions for any continued upside but increases the likelihood we can protect against a permanent impairment of capital.

Total Gross Returns (Series O)

For periods ending March 31, 2018

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Equity Funds	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Mawer International Equity Fund	2.4	2.4	17.6	10.1	14.5	9.2
International Equity Benchmark*	1.7	1.7	12.6	6.7	12.0	5.3
Mawer U.S. Equity Fund	5.0	5.0	14.1	11.3	19.0	12.4
S&P 500 Index	2.1	2.1	10.2	11.4	18.8	12.0
Mawer Global Equity Fund	2.9	2.9	15.4	10.9	17.1	-
Global Equity Benchmark*	1.9	1.9	11.0	9.0	15.3	-
Mawer Global Small Cap Fund	2.2	2.2	18.8	13.7	21.5	16.6
Global Small Cap Benchmark*	2.4	2.4	12.3	10.1	14.8	9.3
Mawer Emerging Markets Equity Fund	3.8	3.8	18.3	-	-	-
MSCI Emerging Markets Index	4.4	4.4	20.8	-	-	-
Mawer Canadian Equity Fund	-3.6	-3.6	3.6	6.3	11.7	9.5
S&P/TSX Composite Index	-4.5	-4.5	1.7	4.1	6.9	4.5
Mawer New Canada Fund	-2.9	-2.9	-0.7	7.6	15.1	13.5
New Canada Benchmark*	-7.7	-7.7	-6.6	3.5	3.3	3.6
Balanced Funds						
Mawer Global Balanced Fund	2.3	2.3	10.1	7.1	-	-
Internal Global Balanced Benchmark*	2.3	2.3	7.9	6.0	-	-
Mawer Balanced Fund	1.1	1.1	8.1	6.6	11.1	8.9
Internal Balanced Benchmark*	-0.2	-0.2	4.8	5.0	8.1	6.2
Income Funds						
Mawer Global Bond Fund	4.6	4.6	2.6	-	-	-
FTSE World Government Bond Index	5.5	5.5	4.9	-	-	-
Mawer Canadian Bond Fund	0.2	0.2	0.8	1.1	2.7	4.4
FTSE TMX Canada Universe Bond Index	0.1	0.1	1.4	1.2	2.9	4.4
Mawer Canadian Money Market Fund	0.2	0.2	0.7	0.5	0.7	0.7
FTSE TMX 91 Day T-Bill Index	0.3	0.3	0.8	0.6	0.7	0.9

* Refer to www.mawer.com/funds/performance/ for 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.

Non-performance related material in this document reflects the opinions of the writer, and does not reflect fact or predictions of actual events or impacts, and cannot be relied upon for investing purposes or as investment advice or guarantees of any kind.

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.