

# Leith Wheeler Income Advantage Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE  
December 31, 2016



**Leith Wheeler**  
INVESTMENT COUNSEL LTD.

Quiet Money.

This annual management report of fund performance contains financial highlights, but does not contain complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-292-1122, by writing to us at 1500 – 400 Burrard Street, Vancouver, BC V6C 3A6 or by visiting our website at [www.leithwheeler.com](http://www.leithwheeler.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

To provide investors with a relatively stable source of tax efficient monthly income, with some potential for long term growth through capital appreciation and growth in dividends. The Fund derives its income from allocating its investments primarily among fixed income securities, preferred shares, and dividend paying equities.

Of the total Fund, the investment in fixed income securities will range between 30% to 70%, Canadian equities from 15% to 50%, foreign equities between 0% to 25%, preferred shares between 0% to 25%, mortgages from 0% to 10%, and cash and cash equivalents between 0% to 5%. The fixed income securities and preferred shares will provide lower risk income and the common shares will provide an opportunity for dividends and capital gains. Investors will participate in a professionally managed portfolio in which specific security selection and asset mix decisions will be made by experienced portfolio managers.

### Risk

The overall risks of investing in the Fund are as described in the Simplified Prospectus. There were no material changes to the Fund during the year that affected the overall level of risk.

### Results of Operations

The Fund's net assets increased by 15.0% in 2016, rising to \$70.6 million from \$61.4 million at the end of 2015. Of this change, \$8.5 million was attributable to investment gains and \$0.7 million to net inflows.

The Leith Wheeler Income Advantage Fund performed strongly in 2016, with Series A units advancing by 14.3%. Series B units returned 13.4% and Series F units advanced by 13.5%, both after fees and expenses. The Fund's asset mix at the end of December 2016 was 49.1% investment grade bonds, 6.6% high yield bonds, 35.2% Canadian equities, 8.7% preferred shares and 0.4% cash and equivalents.

Our Canadian investment grade fixed income generated moderately positive returns in the first nine months of the year. Fixed Income returns were negative in the fourth quarter as a result of a sharp increase in government bond yields, however this was partly offset by the Fund's emphasis on corporate bonds, which provided both additional yield and capital gains as corporate credit spreads tightened.

Within the investment grade bond component of the Income Advantage Fund, over the year we modestly added corporate credit exposure to oil and gas sector names (an example is Suncor Energy) as we saw further evidence of the sector recovering and oil prices stabilizing. We also increased our overall Utility exposure, rotating some proceeds out of Infrastructure (Lower Mattagami Energy, Greater Toronto Airports Authority) and into Pipelines (Pembina, Enbridge). Finally, we increased our overall exposure to telecommunication bonds (AT&T).

High yield bonds have performed strongly in the face of rising and volatile interest rates, and with spreads further tightening, the Fund prudently took some profits by trimming its high yield exposure at the beginning in June. The Fund remains tactically overweight in preferred shares as spreads relative to investment grade bonds were trading at some of the cheapest levels since 2008. This tactical allocation has been a positive in the second half of the year, as preferred shares have outperformed high yield. Our stock selection within preferred shares was also a contributor to outperformance, as our holdings within this sector strongly outperformed the TSX Composite Preferred Index.

The majority of the high yield bond holdings in the Fund produced positive returns during the year. First Quantum Minerals outperformed, as the recent rally in large mining companies spread to smaller-sized players. Seagate was among the top performing bonds in the second half of the year, as the data storage provider has been improving profit margins through cost initiatives and continued growing demand for its product mix. Community Health Systems was the only holding that depreciated due to concerns around the possible repeal of the Affordable Care Act under a Trump administration in the United States. Among the Fund's new holdings, Southwestern Energy was the best performer as the natural gas producer benefitted from a rebound in natural gas prices.

Our outlook for Canadian fixed income markets remains cautious. Our view is that Canadian government bond yields are likely to drift lower over the medium-term as the economic realities facing the Canadian economy temper some of the recent optimism. In addition, rising indebtedness in both investment-grade corporates and Canadian households, particularly in an environment of rising global interest rates, remains a negative for the credit outlook in Canada.

2016 was a remarkable year for the Canadian equity markets, where sentiment shifted quite significantly over the year. Going into 2016, Canada had finished 2015 as one of the worst performing developed markets amid concerns around global growth, weakness in commodities and a gloomy outlook for the Canadian economy. Despite numerous global concerns including "Brexit", Trump and European bank issues, market sentiment improved over the course of the year and the TSX climbed the "wall of worry" to end 2016 as the best performing developed market.

## Management Discussion of Fund Performance (cont.)

The Canadian equity portion of the Income Advantage Fund significantly outperformed the TSX Composite over the year. This outperformance was driven by strong performance from the companies held in the Fund, as well as avoiding companies that underperformed. Russel Metals (+70.9%), Sleep Country Canada (+70.9%), Canadian Natural Resources (+47.0%) and

Mullen Group (+46.9%) were all strong contributors to the Fund. Not owning Valeant Pharmaceuticals was also a positive, as issues plagued the company throughout the year and led to an 86.2% decline in the stock price. However, this was somewhat offset by having no exposure to gold stocks in the portfolio. Despite falling in the latter half of the year, the gold sub-sector was still up 47.8% in 2016. We did not own any gold companies in the Fund because they trade at expensive valuations, and have not proven to be good long-term businesses.

We added two new names to common stock component of the Income Advantage Fund in 2016: Boardwalk REIT and A&W Revenue Royalties Income Fund. We eliminated seven of the holdings in the Fund during the year: Baytex Energy, Enbridge, EnCana, Boardwalk REIT, TransCanada Pipelines, National Bank and Canadian Western Bank.

Arguably the main driver of capital markets in Canada, and globally, over the coming year will be the US policy agenda. So far, capital markets have given the Trump administration the “benefit of the doubt”. There is no doubt that Canada will benefit from a stronger US economy; however, we expect the path to implementation to be rocky with potential upside as well as downside risks. We will continue to closely monitor political and economic developments for signs of any impact on global financial conditions and growth.

In this environment, we continue to focus on allocating assets to the best risk-adjusted investments. We feel that our bottom-up approach flourishes in periods of uncertainty, where many stocks are unjustifiably discounted and can be acquired at attractive prices. Going forward, we will continue to apply our value investment principles to security selection and remain focused on identifying companies with attractive valuations, good business models, and solid management teams.

### Recent Developments

There has been no change in the Bank of Canada rate since the end of December 2016. Equity markets were up globally in the first two months of 2017.

On June 23, 2016, Michael Ryan retired from the Independent Review Committee (“IRC”). Also, on June 23, 2016, the members appointed Eric Watt as a member of the IRC. On the same day, Michael Scott was appointed Chair of the IRC.

### Related Party Transactions

Leith Wheeler Investment Counsel Ltd. (the “Manager”) is the manager and portfolio advisor of the Fund and is responsible for the Fund’s day-to-day operations. The Fund pays the Manager a management fee as compensation for managing the investment portfolio of the Fund.

As at December 31, 2016, the Leith Wheeler Income Advantage Fund owns 1,976,574 Series A units of the Leith Wheeler Canadian Dividend Fund, and 427,939 Series A (CAD Hedged) units of the Leith Wheeler High Yield Bond Fund, which are funds under common management.

### Management Fees

The Manager provides the Fund with investment management services, including fund accounting and unitholder record keeping. In return, the Manager receives a management fee based on the net assets of the Fund, calculated on a daily basis. The annualized management fee for the Series B units of the Fund is 1.00%. The fee will be reduced to 0.80% per annum as long as the annualized yield on the Fund at quarter end is less than 4.50%. The annualized management fee for the Series F units of the Fund is 0.70%. During the year, the Fund paid the Manager \$203,504 for Series B and \$6,304 for Series F (exclusive of GST/HST) of its net assets as management fees. The Fund does not reimburse the Manager for operating costs incurred in administering the Fund. The Manager paid all operating expenses except brokerage charges and taxes. In respect of Series A units, the unitholder pays the Manager a negotiated management fee outside the Fund.

We do not, directly or indirectly pay fees, sales commissions or trailing commissions, nor do we provide any non-monetary benefits to registered dealers for distributions of units of the Fund. If a broker charges you a commission or fee, that is a matter between you and the dealer.

## Financial Highlights

### The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. The financial information for periods beginning on or after January 1, 2013 is derived from the financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For all prior periods, the financial information is presented in accordance with Canadian generally accepted accounting principles "GAAP". The net assets attributable to holders of redeemable units and the net assets attributable to holders of redeemable units per unit may differ from the Net Assets and Net Assets per Unit due to the valuation methodology previously used in determining fair values. An explanation of these differences can be found in the notes to the financial statements.

<b>Series A</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$10.28	\$10.90	\$10.88	\$10.48	\$10.07
Increase (decrease) from operations:					
Total revenue	0.55	0.40	0.77	0.61	0.52
Total expenses	-	-	-	-	-
Realized gains (losses) for the year	0.05	0.09	0.04	0.03	0.04
Unrealized gains (losses) for the year	0.79	(0.62)	(0.12)	0.30	0.31
Total increase (decrease) from operations <sup>(1)</sup>	1.39	(0.13)	0.69	0.94	0.87
Distributions:					
From income (excluding dividends)	(0.21)	(0.16)	(0.19)	(0.20)	(0.19)
From dividends	(0.16)	(0.20)	(0.21)	(0.21)	(0.20)
From capital gains	(0.13)	(0.14)	(0.29)	(0.12)	(0.12)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.50)	(0.50)	(0.69)	(0.53)	(0.51)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$11.22	\$10.28	\$10.90	\$10.88	\$10.48

<b>Series B</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$10.41	\$11.00	\$10.98	\$10.53	\$10.15
Increase (decrease) from operations:					
Total revenue	0.59	0.36	0.76	0.60	0.55
Total expenses	(0.09)	(0.09)	(0.09)	(0.08)	(0.09)
Realized gains (losses) for the year	0.06	0.09	0.04	0.03	0.04
Unrealized gains (losses) for the year	0.86	(0.57)	(0.12)	0.30	0.33
Total increase (decrease) from operations <sup>(1)</sup>	1.42	(0.21)	0.59	0.85	0.83
Distributions:					
From income (excluding dividends)	(0.15)	(0.06)	(0.10)	(0.08)	(0.12)
From dividends	(0.13)	(0.18)	(0.21)	(0.19)	(0.22)
From capital gains	(0.13)	(0.14)	(0.29)	(0.12)	(0.12)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.42)	(0.38)	(0.60)	(0.39)	(0.46)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$11.37	\$10.41	\$11.00	\$10.98	\$10.53

## Financial Highlights (cont.)

### The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit (cont.)

<b>Series F (inception September 10, 2015)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1) (3)</sup>	\$9.83	\$10.57	n/a	n/a	n/a
Increase (decrease) from operations:					
Total revenue	0.87	0.44	n/a	n/a	n/a
Total expenses	(0.06)	(0.05)	n/a	n/a	n/a
Realized gains (losses) for the year	0.08	0.10	n/a	n/a	n/a
Unrealized gains (losses) for the year	1.25	(0.68)	n/a	n/a	n/a
Total increase (decrease) from operations <sup>(1)</sup>	2.15	(0.19)	n/a	n/a	n/a
Distributions:					
From income (excluding dividends)	(0.24)	(0.15)	n/a	n/a	n/a
From dividends	(0.19)	(0.38)	n/a	n/a	n/a
From capital gains	(0.12)	(0.13)	n/a	n/a	n/a
Return of capital	-	-	n/a	n/a	n/a
Total Annual Distributions <sup>(2)</sup>	(0.54)	(0.66)	n/a	n/a	n/a
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.59	\$9.83	n/a	n/a	n/a

- (1) Net assets attributable to holders of redeemable units and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) Distributions are reinvested in additional units of the Fund or paid in cash.
- (3) From September 10, 2015, inception date of Series F units of the Fund. Series F initial net asset value per unit offering commenced at the closing net asset value per unit of Series B on September 10, 2015 of \$10.57.

**Financial Highlights (cont.)**

Ratios and Supplemental Data

Series A	2016	2015	2014	2013	2012
Total net assets attributable to holders of redeemable units - (\$000s) <sup>(1)</sup>	41,469	35,954	39,385	33,084	18,852
Number of units outstanding (000s) <sup>(1)</sup>	3,695	3,498	3,615	3,042	1,798
Management expense ratio(%) <sup>(2)</sup>	-	-	-	-	-
Management expense ratio before waivers or absorptions (%)	0.03	0.04	0.03	0.05	0.08
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.04	0.02	0.03	0.04
Portfolio turnover rate (%) <sup>(4)</sup>	77.40	115.65	53.07	50.08	52.75
Net assets attributable to holders of redeemable units per unit (\$)	11.22	10.28	10.90	10.88	10.48

Series B	2016	2015	2014	2013	2012
Total net assets attributable to holders of redeemable units - (\$000s) <sup>(1)</sup>	27,532	24,747	28,182	22,848	19,019
Number of units outstanding (000s) <sup>(1)</sup>	2,421	2,376	2,562	2,081	1,806
Management expense ratio(%) <sup>(2)</sup>	0.85	0.85	0.85	0.85	0.89
Management expense ratio before waivers or absorptions (%)	0.89	0.89	0.89	0.90	0.97
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.04	0.02	0.03	0.04
Portfolio turnover rate (%) <sup>(4)</sup>	77.40	115.65	53.07	50.08	52.75
Net assets attributable to holders of redeemable units per unit (\$)	11.37	10.41	11.00	10.98	10.53

Series F (inception September 10, 2015)	2016	2015	2014	2013	2012
Total net assets attributable to holders of redeemable units - (\$000s) <sup>(1)</sup>	1,562	661	n/a	n/a	n/a
Number of units outstanding (000s) <sup>(1)</sup>	148	67	n/a	n/a	n/a
Management expense ratio(%) <sup>(2)</sup>	0.79	0.74	n/a	n/a	n/a
Management expense ratio before waivers or absorptions (%)	0.82	0.77	n/a	n/a	n/a
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.04	n/a	n/a	n/a
Portfolio turnover rate (%) <sup>(4)</sup>	77.40	115.65	n/a	n/a	n/a
Net assets attributable to holders of redeemable units per unit (\$)	10.59	9.83	n/a	n/a	n/a

- (1) This information is provided as at December 31 of the year shown; unless noted otherwise.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## Past Performance

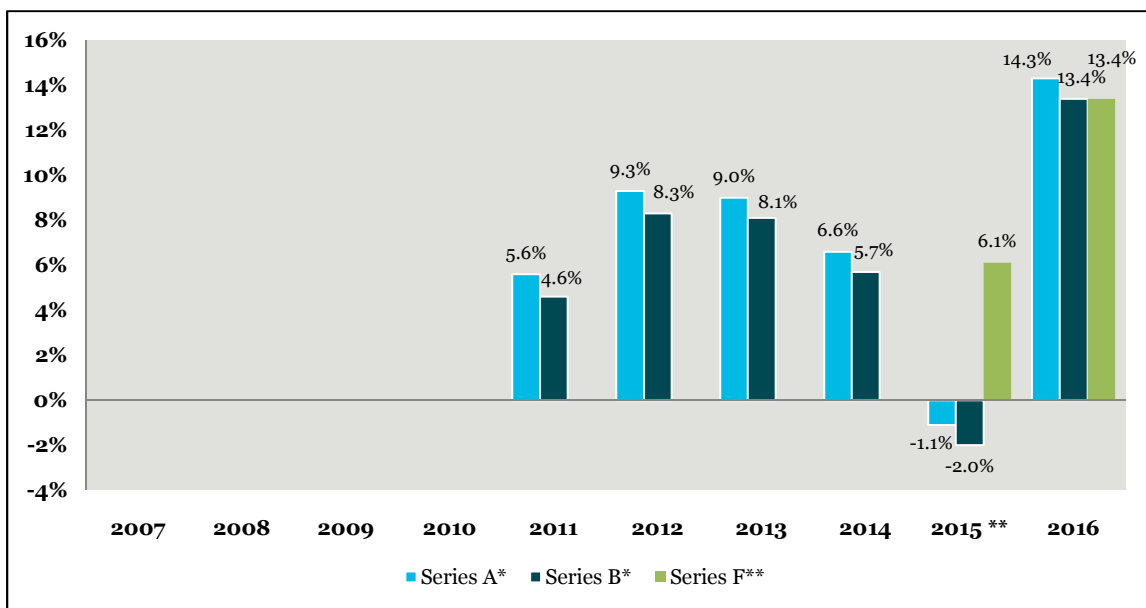
### General

The Fund's performance assumes all distributions made by the Fund in the years shown were reinvested in units of the Fund and is based on net asset value per unit. If you hold the Fund outside a Registered Plan, you will be taxed on these distributions.

The performance information does not take into account sales charges, other charges or taxes that, if applicable, would have reduced returns or performance; but includes management fees and other expenses borne directly by the Fund. Past performance does not necessarily indicate how the Fund may perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund's historical return, which changes each year and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each year.



\* Series A units were created December 21, 2010, Series B units were created on December 23, 2010.

\*\* Series F units were created on September 10, 2015. Return from September 10, 2015 to December 31, 2015, not annualized.

## Past Performance (cont.)

### Annual Compound Returns

The following table compares the historical annual compound return of the Fund (before fees for Series A and after fees for Series B and F) compared with the FTSE TMX Canada Universe Bond Index and the S&P/TSX Composite Index, in each case for the year ended December 31, 2016. The FTSE TMX Canada Universe Bond Index measures the total return attributable to bonds, and includes representative bond issues by issuer, quality, and term. The S&P/TSX Composite Index is the headline index and the principal broad market measure for the Canadian equity markets. A discussion of the performance of the Fund as compared to these broad-based indices is found in the Results of Operations section of this document.

For the Years ended December 31	1 Year	3 Years	5 Years	10 Years
Fund – Series A *	14.3%	6.4%	7.5%	n/a*
FTSE TMX Canada Universe Bond Index	1.7%	4.6%	3.2%	n/a*
S&P/TSX Composite Index	21.1%	7.1%	8.3%	n/a*
Fund – Series B *	13.4%	5.51%	6.57%	n/a*
FTSE TMX Canada Universe Bond Index	1.7%	4.6%	3.2%	n/a*
S&P/TSX Composite Index	21.1%	7.1%	8.3%	n/a*
Fund – Series F **	13.5%	n/a	n/a	n/a*
FTSE TMX Canada Universe Bond Index	1.7%	n/a	n/a	n/a*
S&P/TSX Composite Index	21.1%	n/a	n/a	n/a*

\* Series A units were created December 21, 2010, Series B units were created on December 23, 2010.



## Summary of Investment Portfolio

As at December 31, 2016

### Top 25 Positions

Issuer	% of Net Asset Value
Leith Wheeler Canadian Dividend Fund, Series A	35.2%
Leith Wheeler High Yield Bond Fund (CAD Hedged), Series A	5.9%
Royal Bank of Canada 1.968% March 2, 2022	1.4%
Toronto Dominion Bank 2.621% December 22, 2021	1.3%
Bank of Nova Scotia 2.873% June 4, 2021	1.1%
Bank of Montreal 2.12% March 16, 2022	1.1%
Canadian Mortgage Pools 97506898 1.475% April 01, 2021	1.0%
Royal Bank of Canada 3.31% January 20, 2026	1.0%
TELUS Corp. 3.75% January 17, 2025	0.9%
Manulife Financial Corp 5.505% June 26, 2018	0.9%
City of Montreal 3.5% September 1, 2023	0.9%
Enbridge Pipelines Inc. 3.45% September 29, 2025	0.9%
Enbridge Inc 3.19% December 05, 2022	0.8%
North West Redwater Port 3.2% July 22, 2024	0.7%
Union Gas Ltd 2.76% June 02, 2021	0.7%
Bell Canada 3.55% March 02, 2026	0.7%
The Goldman Sachs Group Inc. 3.375% February 1, 2018	0.7%
Seagate HDD Cayman 4.75% June 01, 2023	0.6%
Bank of Montreal 2.1% October 06, 2020	0.6%
Choice Properties REIT 3.196% March 07, 2023	0.6%
Sun Life Financial Inc. Class A Non-Cumulative Rate Reset Preferred - 12R	0.6%
HCN Canadian Holdings LP 3.35% November 25, 2020	0.6%
American Express Canada Credit Corp. 2.31% March 29, 2018	0.6%
Enbridge Inc. Cumulative Redeemable Preferred - N	0.6%
BCIMC Realty Corp 3.51% June 29, 2022	0.6%

### Portfolio Allocation

Portfolio Breakdown	% of Net Asset Value
Bonds	55.8%
Canadian Equities	35.0%
Preferred Shares	8.7%
Cash & Other Net Assets	0.5%

The Fund held no short positions as at December 31, 2016.

*The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available at [www.leithwheeler.com](http://www.leithwheeler.com)*