

Interim Financial Statements (unaudited)

## **LEITH WHEELER U.S. EQUITY FUND**

Six months ended June 30, 2016 and 2015



# LEITH WHEELER U.S. EQUITY FUND

Statements of Financial Position

(Expressed in thousands of dollars except for per unit amounts)

	Note	June 30, 2016	December 31, 2015
<b>Assets</b>			
Cash		\$ 845	\$ 177
Balance due from brokers		1,768	-
Interest and dividends receivable		558	342
Subscriptions receivable		54	97
Investments		302,882	354,611
		<u>306,107</u>	<u>355,227</u>
<b>Liabilities</b>			
Payable to brokers	1	2,736	2,471
Management fees payable		160	189
Redemptions payable		56	568
		<u>2,952</u>	<u>3,228</u>
<b>Net assets</b> attributable to holders of redeemable units			
		\$ 303,155	\$ 351,999
Represented by:			
Series A		\$ 253,304	\$ 293,471
Series B		49,841	58,528
Series F		10	-
		<u>\$ 303,155</u>	<u>\$ 351,999</u>
Net assets attributable to holders of redeemable units per unit:			
Series A		\$ 4.29	\$ 4.64
Series B		4.34	4.69
Series F		4.31	-

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors of  
Leith Wheeler Investment Counsel Ltd., in its  
capacity as Manager.

“James F. Gilliland” Director “Jonathon D. Palfrey” Director

# LEITH WHEELER U.S. EQUITY FUND

## Statements of Comprehensive Income

(Expressed in thousands of dollars except for per unit amounts)

Six months ended June 30, 2016 and 2015

	Note	2016	2015
<b>Revenue:</b>			
Interest for distribution purposes		\$ 60	\$ 51
Dividend income		4,083	3,557
Other		5	-
<b>Changes in fair value of investments:</b>			
Net realized gain (loss)		58,961	15,987
Net change in unrealized appreciation (depreciation)		(84,829)	4,398
<b>Total revenue</b>		<b>(21,720)</b>	<b>23,993</b>
<b>Expenses:</b>			
Management fees	1	320	370
Withholding taxes		486	463
GST/HST		20	23
Commissions and transaction costs		125	41
<b>Total operating expenses</b>		<b>951</b>	<b>897</b>
<b>Management fee distributions</b>	<b>1</b>	<b>(20)</b>	<b>(32)</b>
<b>Net operating expenses</b>		<b>931</b>	<b>865</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations excluding distributions</b>		<b>(22,651)</b>	<b>23,128</b>
<b>Distributions to holders of redeemable units:</b>			
From net investment income		(3,239)	(2,659)
Management fee distributions	1	(20)	(32)
		(3,259)	(2,691)
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>		<b>\$ (25,910)</b>	<b>\$ 20,437</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>			
Series A		\$ (21,570)	\$ 16,752
Series B		(4,340)	3,685
Series F		-	-
		\$ (25,910)	\$ 20,437
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (excluding distributions):</b>			
Series A		\$ (0.32)	\$ 0.33
Series B		(0.34)	0.30
Series F		(0.14)	-

The accompanying notes are an integral part of these financial statements.

# LEITH WHEELER U.S. EQUITY FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
(Expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

Series A	Note	2016	2015
Balance, beginning of period		\$ 293,471	\$ 258,185
Increase (decrease) in net assets attributable to holders of redeemable units		(21,570)	16,752
Redeemable unit transactions:			
Issue of redeemable units		30,056	14,914
Reinvestment of distributions		2,889	2,417
Redemption of redeemable units		(51,542)	(20,367)
Net increase (decrease) from redeemable unit transactions		(18,597)	(3,036)
Balance, end of period		\$ 253,304	\$ 271,901

Series B	Note	2016	2015
Balance, beginning of period		\$ 58,528	\$ 56,144
Increase (decrease) in net assets attributable to holders of redeemable units		(4,340)	3,685
Redeemable unit transactions:			
Issue of redeemable units		5,593	2,997
Reinvestment of distributions		246	151
Redemption of redeemable units		(10,186)	(3,827)
Net increase (decrease) from redeemable unit transactions		(4,347)	(679)
Balance, end of period		\$ 49,841	\$ 59,150

Series F	Note	2016	2015
Balance, beginning of period		\$ -	\$ -
Increase (decrease) in net assets attributable to holders of redeemable units		-	-
Redeemable unit transactions:			
Issue of redeemable units		10	-
Reinvestment of distributions		-	-
Redemption of redeemable units		-	-
Net increase (decrease) from redeemable unit transactions		10	-
Balance, end of period		\$ 10	\$ -

The accompanying notes are an integral part of these financial statements.

# LEITH WHEELER U.S. EQUITY FUND

## Statements of Cash Flows

(Expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

	Note	2016	2015
Cash provided by (used in):			
Operating activities:			
Increase (decrease) in net assets attributable to holders of redeemable units		\$ (25,910)	\$ 20,437
Adjustments for:			
Net realized loss (gain) from investments		(58,961)	(15,987)
Net change in unrealized depreciation (appreciation) from investments		84,829	(4,398)
Balances due from brokers		(1,768)	-
Interest for distribution purposes		(60)	(51)
Dividend income		(4,083)	(3,557)
Balances due to broker		265	-
Management fees payable		(29)	12
Redemptions payable		(512)	35
Subscriptions receivable		43	(104)
Proceeds from sale of investments		347,229	57,260
Purchases of investments		(321,369)	(53,541)
Interest received		60	50
Dividends received		3,868	3,497
		23,602	3,653
Financing activities:			
Proceeds from issue of redeemable units		35,659	17,911
Reinvestment of distributions		3,135	2,568
Payments on redemption of redeemable units		(61,728)	(24,194)
		(22,934)	(3,715)
Net increase (decrease) in cash		668	(62)
Cash, beginning of period		177	168
Cash, end of period		\$ 845	\$ 106

The accompanying notes are an integral part of these financial statements.

# LEITH WHEELER U.S. EQUITY FUND

Schedule of Investment Portfolio  
(Expressed in thousands of dollars)

June 30, 2016

Security	Number of Holdings	Cost	Fair Value	% of Net Assets
<b>U.S. EQUITY</b>				
<b>Consumer Discretionary:</b>				
Carnival Corp.	90,400	\$ 3,620	\$ 5,198	
Hanesbrands Inc	137,000	5,782	4,479	
Johnson Controls Inc	89,700	4,391	5,165	
Norwegian Cruise Line Holdings Ltd	76,800	5,094	3,980	
NVR Inc.	898	2,068	2,080	
Royal Caribbean Cruises Ltd	51,700	5,939	4,516	
SeaWorld Entertainment Inc	125,700	3,357	2,343	
		30,251	27,761	<b>9.2</b>
<b>Consumer Staple:</b>				
Altria Group Inc	61,600	5,141	5,526	
Philip Morris International Inc	33,900	4,204	4,486	
Reynolds American Inc	63,300	4,258	4,441	
		13,603	14,453	<b>4.8</b>
<b>Energy:</b>				
BP PLC.	115,200	4,974	5,322	
Chevron Corp	38,700	4,606	5,278	
ConocoPhillips	83,800	4,053	4,753	
Fairmount Santrol Holdings Inc	110,300	544	1,106	
Marathon Petroleum Corp	23,700	1,160	1,170	
Occidental Petroleum Corp	51,700	4,679	5,082	
Phillips 66	44,800	4,840	4,624	
		24,856	27,335	<b>9.0</b>
<b>Financials:</b>				
American Express Co.	55,482	4,756	4,386	
American International Group Inc	68,900	5,383	4,741	
Ameriprise Financial Inc	28,500	3,700	3,331	
Bank of America Corp	234,400	4,395	4,047	
Berkshire Hathaway Inc. Class B	24,400	4,490	4,596	
Capital One Financial Corp	52,300	4,581	4,321	
Citigroup Inc	114,300	6,545	6,303	
Discover Financial Services	55,700	3,786	3,883	
E*TRADE Financial Corp	103,900	3,444	3,175	
Fifth Third Bancorp	142,200	3,067	3,254	
FNF Group	79,686	3,406	3,887	
JPMorgan Chase & Co	74,242	5,968	6,002	
KeyCorp	79,300	1,227	1,140	
Navient Corp	201,800	2,691	3,137	
New York Community Bancorp Inc	243,400	5,116	4,746	
PNC Financial Services Group Inc	38,800	4,621	4,108	
SLM Corp	431,100	3,737	3,466	
State Street Corp	51,800	3,956	3,634	
Wells Fargo & Co.	95,667	3,725	5,890	
Willis Towers Watson Plc	19,500	3,019	3,153	
		81,613	81,200	<b>26.7</b>

# LEITH WHEELER U.S. EQUITY FUND

Schedule of Investment Portfolio (continued)

(Expressed in thousands of dollars)

June 30, 2016

Security	Number of Holdings	Cost	Fair Value	% of Net Assets
<b>U.S. EQUITY (continued)</b>				
<b>Health Care:</b>				
Anthem Inc	23,800	\$ 4,533	\$ 4,067	
Cardinal Health Inc	38,700	4,408	3,927	
Cigna Corp	24,600	4,697	4,096	
Express Scripts Holding Co	51,145	4,598	5,043	
Johnson & Johnson	34,400	2,970	5,428	
Medtronic Inc	45,455	4,495	5,131	
Merck & Co. Inc.	51,950	2,358	3,893	
Pfizer Inc.	103,177	2,829	4,726	
Sanofi	81,000	4,775	4,410	
Teva Pharmaceutical Industries Ltd.	53,600	4,781	3,503	
UnitedHealth Group Inc	29,300	4,682	5,382	
		45,126	49,606	<b>16.4</b>
<b>Industrials:</b>				
Deere & Co	43,600	4,639	4,597	
Eaton Corp Plc	39,000	2,781	3,030	
General Dynamics Corp.	19,300	2,496	3,496	
Honeywell International Inc	20,900	2,891	3,163	
KBR Inc	116,600	2,227	2,008	
Nielsen NV	68,600	4,423	4,638	
Owens Corning	85,400	5,409	5,724	
Raytheon Co	22,500	3,790	3,979	
Spirit AeroSystems Holdings Inc	74,500	4,560	4,167	
Stanley Black & Decker Inc	34,400	4,590	4,977	
Tyco International Plc	85,300	4,068	4,727	
United Technologies Corp.	38,563	4,247	5,145	
		46,121	49,651	<b>16.3</b>
<b>Information Technology:</b>				
Apple Inc	33,000	4,113	4,104	
Intel Corp.	35,950	950	1,534	
Microchip Technology Inc	53,900	3,337	3,559	
Microsoft Corp.	56,800	1,871	3,781	
Oracle Corp	84,200	4,195	4,483	
Qualcomm Inc	49,600	3,701	3,457	
Texas Instruments Inc	50,400	3,616	4,108	
		21,783	25,026	<b>8.3</b>
<b>Materials:</b>				
Air Products & Chemicals Inc	27,600	4,669	5,100	
CRH Plc	131,300	4,789	5,052	
FMC Corp	81,100	4,018	4,886	
LyondellBasell Industries NV	40,600	4,575	3,931	
		18,051	18,969	<b>6.3</b>
<b>Utilities:</b>				
Verizon Communications Inc	73,400	4,972	5,332	
Vodafone Group PLC	43,100	1,915	1,732	
		6,887	7,064	<b>2.3</b>
<b>TOTAL U.S. EQUITY</b>		<b>288,291</b>	<b>301,065</b>	<b>99.3</b>



# LEITH WHEELER U.S. EQUITY FUND

Schedule of Investment Portfolio (continued)

(Expressed in thousands of dollars)

June 30, 2016

<b>Security</b>	<b>Number of Holdings</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
<b>MONEY MARKET SECURITIES</b>		\$ 1,817	\$ 1,817	0.6
<b>TRANSACTION COSTS</b>		(118)		
<b>TOTAL INVESTMENT PORTFOLIO</b>		\$ 289,990	\$ 302,882	99.9
<b>OTHER ASSETS LESS LIABILITIES</b>			273	0.1
<b>NET ASSETS</b>			\$ 303,155	100.0

The accompanying notes are an integral part of these financial statements.

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - Fund Specific Information

(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

The Fund Specific Information for the Leith Wheeler U.S. Equity Fund (the "Fund") contained herein should be read in conjunction with the "Notes to Financial Statements - General Information Related to all Leith Wheeler Investment Funds" beginning after the "Notes to Financial Statements - Fund Specific Information".

## 1. Management fees and expenses:

Management fees in respect of Series B are calculated at a maximum of 1.25% per annum, before GST/HST, of the daily Net Asset Value of Series B. Management fees in respect of Series F are calculated at a maximum of 0.95% per annum, before GST/HST, of the daily Net Asset Value of Series F. Series A units do not carry management fees. Management fee distributions for the six months ended June 30, 2016 were approximately \$20,000 (2015 - \$32,000).

## 2. Withholding tax and other income taxes:

Certain dividends and interest income received by the Fund are subject to withholding tax imposed in the country of origin. During the period, the average withholding tax rate was 13% (2015 - 13%).

The Fund has capital losses of approximately \$7,002,000 (2015 - \$7,002,000) available for utilization against capital gains in future years. The Fund has non-capital losses of nil (2015 - nil) available for utilization against net realized capital gains or non-capital gains in future years.

## 3. Redeemable units:

The redeemable unit transactions for the Fund during the periods ended June 30, 2016 and 2015 are as follows:

	Outstanding units at beginning of period	Purchased during the period	Reinvested distributions	Redeemed during the period	Outstanding units at end of period
Series A:					
2016	63,230	6,971	676	(11,896)	58,981
2015	59,717	3,241	521	(4,404)	59,075
Series B:					
2016	12,474	1,286	57	(2,344)	11,473
2015	12,867	651	32	(817)	12,733
Series F:					
2016	-	2	-	-	2
2015	-	-	-	-	-

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - Fund Specific Information

(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

## 4. Financial risk management:

The investment objective of the Fund is to provide superior long-term investment returns by investing in equity securities trading on the major markets in the United States. The Fund may also invest in convertible securities of American issuers or equivalent equity securities. The Fund is not exposed to significant credit or interest rate risks.

For a comprehensive discussion of the risks applicable to the Fund refer to note 6 under the "General Information Related to all Leith Wheeler Investment Funds". Financial risks applicable to the Fund are discussed in more detail below.

(a) Liquidity risk:

The Fund's redeemable units are due on demand. The Fund's remaining liabilities are due within twelve months of the year-end of the Fund.

(b) Market risk:

(i) Currency risk:

At the reporting date, the carrying value of the Fund's net financial assets and financial liabilities held in individual foreign currencies expressed in Canadian dollars and as a percentage of its net assets were as follows:

	Currency exposure		Percentage of net assets	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
USD	\$ 301,547	\$ 347,880	99.5%	98.8%

As at June 30, 2016 and 2015, had the Canadian dollar strengthened or weakened by 1% in relation to all foreign currencies, with all other factors remaining constant, net assets attributable to redeemable units would have increased or decreased by approximately \$3,015,000 (December 31, 2015 - \$3,478,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

(ii) Other price risk:

For this Fund, the most significant exposure to other price risk arises from its investment in equity instruments. As at June 30, 2016 and December 31, 2015, had the relevant benchmark/broad-based indices increased or decreased by 5%, with all other variables held constant, the net assets attributable to holders of redeemable units would have increased or decreased by approximately \$15,053,000 (December 31, 2015 - \$17,411,000). In practice, actual results may differ from this sensitivity analysis and these differences could be material.

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - Fund Specific Information

(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

## 5. Fair value of financial instruments:

For a general discussion of the Fund's fair value measurements, refer to note 7 under the "General Information Related to all Leith Wheeler Investment Funds".

(a) Fair value hierarchy - financial instruments measured at fair value:

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

All fair value measurements below are recurring.

<b>June 30, 2016</b>	Level 1	Level 2	Level 3	Total
Short Term Notes	\$ -	\$ 1,817	\$ -	\$ 1,817
Equities - Long	301,065	-	-	301,065
	\$ 301,065	\$ 1,817	\$ -	\$ 302,882

<b>December 31, 2015</b>	Level 1	Level 2	Level 3	Total
Short Term Notes	\$ -	\$ 6,391	\$ -	\$ 6,391
Equities - Long	348,220	-	-	348,220
	\$ 348,220	\$ 6,391	\$ -	\$ 354,611

During the period, there were no transfers of financial instruments between the three levels (2015 - nil).

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

## 1. Reporting entity:

The Leith Wheeler Investment Funds (individually, a “Fund” and collectively, the “Funds”) consist of:

Fund	Inception
Leith Wheeler Balanced Fund	September 22, 1987
Leith Wheeler Canadian Dividend Fund	December 21, 2010
Leith Wheeler Canadian Equity Fund	April 27, 1994
Leith Wheeler Corporate Advantage Fund (formerly Leith Wheeler Corporate Fixed Income Fund)	May 29, 2015
Leith Wheeler Core Bond Fund (formerly Leith Wheeler Fixed Income Fund)	April 27, 1994
Leith Wheeler High Yield Bond Fund	May 27, 2016
Leith Wheeler Income Advantage Fund	December 21, 2010
Leith Wheeler International Equity Plus Fund	October 31, 2007
Leith Wheeler Money Market Fund	April 27, 1994
Leith Wheeler U.S. Equity Fund	April 27, 1994

The Funds were established under the laws of British Columbia pursuant to various trust indentures between Leith Wheeler Investment Counsel Ltd., as manager (the “Manager”), and Canada Trust Company, as trustee. The Funds’ trustee is CIBC Mellon Trust Company and the Funds’ custodian is the Canadian Imperial Bank of Commerce.

The trust indentures for all the above Funds allow for an unlimited number of series and an unlimited number of units of each series. Currently authorized series of units are as follows: Series A and Series A (CAD Hedged), Series B and Series B (CAD Hedged) and Series F and Series F (CAD Hedged).

Series A and Series A (CAD Hedged) units have no management fees. Unitholders of Series A and Series A (CAD Hedged) units pay a negotiated fee directly to the Manager and are available to investors that satisfy certain criteria related to the nature of the investors and certain other matters as established by the Manager. Series B and Series B (CAD Hedged) units carry management fees and are available to all investors. Series F and Series F (CAD Hedged) units carry reduced management fees and are available to investors who have accounts with dealers who have signed a fee-based agreement with the Manager.

The Leith Wheeler High Yield Bond Fund has Series A, Series A (CAD Hedged), Series B and Series B (CAD Hedged) and Series F and Series F (CAD Hedged) units outstanding. The Leith Wheeler Canadian Equity Fund, Leith Wheeler Core Bond Fund and Leith Wheeler Money Market Fund have Series A and Series B units outstanding. All other remaining Funds have Series A, Series B and Series F units outstanding.

The information provided in these financial statements and notes thereto is for the six-month periods ended June 30, 2016 and 2015, or as at June 30, 2016 and December 31, 2015. In the year a Fund or series is established, “period” represents the period from inception to December 31 or June 30 of that fiscal year.

The general information related to all Funds presented here should be read in conjunction with each respective Fund’s “Notes to Financial Statements - Fund Specific Information”.

The Funds are unit trusts domiciled in Canada. The address of the Funds’ registered office is at 1500 - 400 Burrard Street, Vancouver B.C., V6C 3A6.

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

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## 2. Basis of preparation:

(a) Statement of compliance:

The financial statements of the Funds have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Account Standards Board ("IASB"). These condensed interim financial statements of the Funds have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. The financial statements were authorized for issue by the Manager on August 29, 2016.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments and derivatives, which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which are the Funds' functional currency.

(d) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments:

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: held-for-trading, fair value through profit or loss ("FVTPL"), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trading or fair value through profit or loss in which case transaction costs are expensed as incurred.

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

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### 3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

Financial assets and financial liabilities held for trading or at fair value through profit or loss are recognized initially on the trade date, which is the date on which the Funds become a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Funds derecognize a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets only when the Funds have a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Funds have not classified any financial instruments as available-for-sale or assets held to maturity.

(ii) Held-for-trading and fair value through profit and loss:

Financial instruments classified as held-for-trading or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Funds' derivative financial assets and derivative financial liabilities are classified as held-for-trading. The Funds' investments in securities are designated as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Funds use the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Funds' policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including non-publicly traded derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

# LEITH WHEELER U.S. EQUITY FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Six months ended June 30, 2016 and 2015

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### 3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost, less any impairment losses. The Funds classify cash, subscriptions receivable, balances due from brokers, and interest and dividends receivable, as loans and receivables.

(iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost. The Fund's other financial liabilities are comprised of redemptions payable, balances due to brokers, management fees payable, due to manager, accounts payable and distributions payable.

(b) Redeemable units:

The Funds classify financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The redeemable units, which are classified as financial liabilities at FVTPL and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Funds' valuation policies at each redemption date. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

(c) Increase (decrease) in net assets attributable to holders of redeemable units per unit (excluding distributions):

The increase (decrease) in net assets attributable to holders of redeemable units per unit (excluding distributions) is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units, prior to the deduction of distributions recognized in comprehensive income, by the weighted average number of units outstanding during the period.

(d) Foreign exchange:

The financial statements of the Funds are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the statement of comprehensive income.



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### 3. Significant accounting policies (continued):

(e) Income recognition:

Interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Funds accounted for on an accrual basis. The Funds do not amortize premiums paid or discounts received on the purchase of fixed and variable income securities except for zero coupon bonds which are amortized on a straight-line basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Income and capital gains distributions from pooled fund investments are recorded at the distribution date and maintain the same classification. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments and unrealized appreciation/depreciation in investments are determined on the average cost basis of the respective investments. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

(f) Income taxes:

The Funds qualify as unit trusts under the Income Tax Act (Canada). All of the Funds' net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Funds. As a result, the Funds do not record income taxes.

Net capital losses are available to be carried forward indefinitely and applied against future net realized capital gains. Non-capital losses may be carried forward up to 20 years to reduce future taxable income.

(g) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for year ended December 31, 2016, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statement of the Funds, with the possible exception of IFRS 9, *Financial Instruments*.

IFRS 9 deals with recognition, derecognition, classification and measurement of financial statements and its requirements and represent a significant change from the existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The standard is effective for annual periods beginning on or after January 1, 2018. The Funds intend to adopt IFRS 9 in their financial statements for the annual period beginning on January 1, 2018. The Funds' Manager is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Funds' financial assets are currently measured at fair value or amortized cost.

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## 4. Related party transactions:

### (a) Management fees:

The Manager is paid a management fee by the Funds, calculated daily and paid quarterly, as compensation for its services. No management fees are paid by the Funds with respect to Series A and Series A (CAD Hedged) units. Series A and Series A (CAD Hedged) unitholders pay a negotiated fee directly to the Manager outside of the Fund for investment management services.

### (b) Operating expenses:

The Manager is also entitled to reimbursement of reasonable operating expenses incurred on behalf of the Fund in connection with charges made for registry and transfer agency services, dividend and distribution crediting services, services required in connection with the provision of information and reports to unitholders and holding unitholders' meetings, interest expense, accounting, audit, recordkeeping and legal fees, and custodian and safekeeping charges. The Funds pay brokerage commissions and taxes.

The Manager has at times absorbed certain expenses incurred on behalf of the Funds, in which case such amounts are shown as a deduction from expenses in the respective Fund's statement of comprehensive income. The Manager is under no legal obligation to continue these arrangements, and may terminate them at any time.

## 5. Capital management:

The redeemable units issued by the Funds represent the capital of the Funds. The Funds are not subject to any internally or externally imposed restrictions on its capital. The Funds' objectives in managing the redeemable units are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions.

## 6. Financial risk management:

The following is a general discussion of the financial risks to which the Funds are exposed. Refer to the discussion on financial risk management (note 4) in the Fund Specific Information following each Fund's financial statements for information specific to the respective Fund.

### Risk management framework:

The Funds use financial instruments in order to achieve their respective investment objectives. The Funds' investments are presented in each Fund's respective schedule of investment portfolio, which groups securities by asset type, geographic region and/or market segment.

The use of financial instruments subjects the Funds to a variety of financial instrument risks. The Funds' risk management practices include setting investment policies to limit exposures to financial instrument risks and employing experienced and professional investment advisors to invest the Funds' capital in securities within the constraints of investment policies. The Manager regularly monitors the Funds advisors' performance and compliance with the investment policies.

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## 6. Financial risk management (continued):

The significant financial instrument risks, to which the Funds are exposed, along with the specific risk management practices related to those risks, are discussed below.

### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from debt securities held, and from derivative financial assets, cash and cash equivalents, and other receivables due to the Fund. The carrying value of these financial instruments as recorded in the statements of financial position reflects the Fund's maximum exposure to credit risk.

The risk management strategy for the Funds is to invest primarily in debt obligations of high credit quality issuers and to limit the amount of credit exposure with respect to any one corporate issuer.

Credit risk is mitigated by investing primarily in rated instruments. The Funds receive daily rating updates, which are reviewed accordingly. Credit risk is monitored on a daily basis by the Manager in accordance with the Funds' investment policies. If the credit risk is not in accordance with the investment policy or guidelines of the Fund, then the Manager is obliged to rebalance the portfolio as soon as practicable.

The Funds' activities may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities, or other assets as contractually agreed. For the majority of transactions, the Funds mitigate this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

### (b) Liquidity risk:

Liquidity risk is the risk that the Funds will encounter difficulty in meeting the obligations associated with their financial liabilities that are settled by delivering cash or another financial asset.

The Funds' policy and the Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, including estimated redemptions of units, without incurring unacceptable losses or risking damage to the Funds' reputation.

The Funds' prospectus provides for the daily cash redemptions of redeemable units and the Funds are therefore exposed to the liquidity risk of meeting unitholder redemptions at any time.

Liquidity risk is managed by investing the majority of a Funds' assets in investments that are traded in an active market and can be readily disposed. In addition, the Funds retain sufficient cash and cash equivalent positions to maintain liquidity. The Funds are also subject to the requirements of NI 81-102, where each respective Fund shall not purchase an illiquid asset if, immediately after the purchase, more than 10 percent of the net assets of that particular Fund, taken at market value at the time of purchase, would consist of illiquid assets.

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## 6. Financial risk management (continued):

### (c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Funds' income or the fair value of their holdings of financial instruments.

The Funds' market risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place.

### (i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of interest-bearing financial instruments will fluctuate as a result of changes in market interest rates. In general, as interest rates rise, the fair value of interest bearing financial instruments will fall. Financial instruments with a longer term to maturity will generally have a higher interest rate risk.

Interest rate risk management practices include setting target durations based on the appropriate benchmark indices and monitoring the Funds' durations relative to the benchmarks. If interest rates are anticipated to rise, the Funds' durations can be shortened to limit potential losses. Conversely, if interest rates are anticipated to fall, the durations can be lengthened to increase potential gains.

### (ii) Currency risk:

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of a Fund, will fluctuate due to changes in foreign exchange rates. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to a Fund's functional currency in determining fair value.

### (iii) Other price risk:

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market.

Other price risk is moderated by the Manager through a careful selection of securities within specified limits and the Funds' price risk is managed through diversification of the respective Fund. The Manager monitors the Funds' overall market positions on a daily basis and positions are maintained within established ranges.

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## 7. Fair value of financial instruments:

### (a) Valuation models:

The Funds measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

*Level 1:* inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

*Level 2:* inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

*Level 3:* inputs that are unobservable.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Observable prices and model inputs are usually available in the market for listed debt and equity securities, and exchange-traded derivatives, such as futures. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. Where observable market prices and model inputs are not available, the Funds determine fair values using other valuation techniques. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Funds equity positions are classified as Level 1 when the security is actively traded and a reliable quoted market price is observable.

Investments in securities of another investment funds are classified as Level 1 when the investment fund is actively traded and a reliable price is observable.

Bonds and other debt securities are valued based on a matrix pricing process using multiple dealer quotations or alternative pricing sources supported by observable inputs and are classified within Level 2.

Forward foreign currency contracts are valued using present value techniques and market observable input data and accordingly are classified as Level 2.

Short-term investments and money market securities are classified as Level 2 as these instruments are valued at amortized cost, which approximates their fair value.

The Funds' net assets attributable to holders of redeemable units are classified as Level 2 since the carrying amount approximates fair value as the units are measured as the redemption amount.

Refer to the fair value of financial instruments (note 5) in the Fund Specific Information following each Fund's respective financial statements for further discussion of the respective Fund's fair value measurements.

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## 7. Fair value of financial instruments (continued):

### (b) Financial instruments not measured at fair value:

The carrying value of cash, subscriptions receivable, balances due from brokers, interest and dividends receivable, redemptions payable, balances due to brokers, management fees payable, due to Manager, accounts payable, and distributions payable, approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.