

# Leith Wheeler Core Bond Fund

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE  
June 30, 2017



This interim management report of fund performance contains financial highlights, but does not contain either interim or annual financial statements of the investment fund. You can get a copy of the interim or 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).

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

## Management Discussion of Fund Performance

### Investment Objective and Strategies

To provide a stable and attractive total return through investment in Canadian fixed income securities. The Fund will invest in Government and high-grade corporate bonds, with a varying mix between short term, medium term and longer term maturities depending on the assessment of interest rate trends and prospective returns.

Safety and liquidity are the focus of our approach to fixed income investing. Economic conditions are constantly monitored by Leith Wheeler to forecast interest rate changes. The added value for the Fixed Income Fund will come from Leith Wheeler identifying opportunities to shift investments between various maturities and between Federal, Provincial and Corporate bonds.

### 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 decreased by 6.2% in the first half of 2017, declining to \$198.0 million from \$211.0 million at the end of 2016. Of this change, \$5.2 million was attributable to investment gains and \$18.2 million of net outflows from redemptions.

The Core Bond Fund performed well in the first six months of 2017 with Series A units advancing by 2.5% and Series B units returning 2.1% after fees and expenses. The FTSE TMX Canada Universe Bond index was up 2.4% during the same time period.

Fixed income returns were positive during the first half of 2017 as further credit tightening, particularly in provincial credit spreads, more than offset the rise in short-term interest rates. The Fund outperformed the FTSE TMX Canada Universe Bond Index over this period. This was primarily due to active interest rate management, where the Fund benefited from its long duration position in April and May when interest rates were declining, and short duration in June when interest rates were rising. In addition, the Fund was helped by the overweight to corporate credit which generated a yield advantage, while corporate credit spreads remained broadly unchanged.

Looking ahead, our view is that low core inflation, household indebtedness, real estate valuations, and a desire to support Canadian exporters with a weak Canadian dollar, will collectively work to limit material upside in bond yields from current levels. We therefore remain close to neutral duration, with a bias towards long duration positions in the front-end of the Canadian interest rate curve.

Within the corporate bond holdings of the Fund, we remain overweight the Financials and Real Estate sectors which we believe continue to offer attractive risk adjusted returns. Weighting to Infrastructure issuers, including Altalink, was trimmed as we found attractive risk-adjusted returns in other areas of the portfolio. In Financials, we modestly diversified away from senior bank deposit notes during the second quarter, into asset-backed security debt and bonds issued by insurance companies.

In provincial government bonds, we reduced the Fund's underweight position further as these bonds remain expensive based on current valuations. Most of this shift was through a reduction in Ontario provincial bonds, while we continued to add to existing overweight exposures in Alberta and Manitoba.

We modestly added to the Fund's overweight of National Housing Act mortgage-backed securities (NHA MBS) where valuations continue to look particularly attractive. We also further reduced holdings in Canada Mortgage Bonds (CMB) where valuations are historically elevated, and used these proceeds to fund other corporate and provincial opportunities within the Fund.

The outlook for the Canadian economy has improved over the past quarter, with growth significantly above-trend and a material improvement in the labour market. This is supportive for the outlook for credit markets and, if sustained, will bolster the case for higher short-term interest rates.

However, our outlook for fixed income markets remains cautious due to relatively tight valuations in both corporate and provincial bonds. In addition, with inflation running materially below the Bank of Canada's target and with a household sector still highly indebted and sensitive to increases in interest rates, we see limited prospects for a more material rise in interest rates and bond yields.

## Management Discussion of Fund Performance (cont.)

### Recent Developments

The Bank of Canada raised their key interest rate to 0.75% in July 2017.

### 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.

### 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 0.75%. During the year, the Fund paid the Manager \$134,004 (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 six months and for the past five years or for the periods since inception. This information is derived from the Fund's unaudited interim financial statements and 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.

Series A	2017 YTD	2016	2015	2014	2013	2012
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$10.71	\$11.00	\$11.19	\$10.68	\$11.21	\$11.16
Increase (decrease) from operations:						
Total revenue	0.16	0.32	0.39	0.40	0.41	0.41
Total expenses	-	-	-	-	-	-
Realized gains (losses) for the year	(0.04)	0.18	0.27	0.19	0.03	0.17
Unrealized gains (losses) for the year	0.16	(0.29)	(0.22)	0.37	(0.53)	(0.09)
Total increase (decrease) from operations <sup>(1)</sup>	0.28	0.22	0.44	0.96	(0.09)	0.49
Distributions:						
From income (excluding dividends)	(0.16)	(0.35)	(0.38)	(0.41)	(0.41)	(0.41)
From dividends	-	-	(0.01)	-	-	-
From capital gains	-	(0.18)	(0.22)	(0.02)	(0.05)	(0.02)
Return of capital	-	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.16)	(0.53)	(0.61)	(0.43)	(0.46)	(0.43)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.81	\$10.71	\$11.00	\$11.19	\$10.68	\$11.21

Series B	2017 YTD	2016	2015	2014	2013	2012
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$10.80	\$11.05	\$11.21	\$10.72	\$11.28	\$11.24
Increase (decrease) from operations:						
Total revenue	0.16	0.43	0.37	0.39	0.36	0.40
Total expenses	(0.05)	(0.08)	(0.08)	(0.08)	(0.08)	(0.09)
Realized gains (losses) for the year	(0.04)	0.24	0.26	0.19	0.03	0.17
Unrealized gains (losses) for the year	0.15	(0.39)	(0.21)	0.37	(0.46)	(0.09)
Total increase (decrease) from operations <sup>(1)</sup>	0.22	0.20	0.34	0.87	(0.16)	0.39
Distributions:						
From income (excluding dividends)	(0.13)	(0.22)	(0.26)	(0.35)	(0.35)	(0.33)
From dividends	-	-	-	-	-	-
From capital gains	-	(0.18)	(0.23)	(0.02)	(0.05)	(0.01)
Return of capital	-	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.13)	(0.40)	(0.49)	(0.37)	(0.40)	(0.34)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.89	\$10.80	\$11.05	\$11.21	\$10.72	\$11.28

(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.

## Financial Highlights (cont.)

### Ratios and Supplemental Data

Series A	June 30, 2017	2016	2015	2014	2013	2012
Total net assets attributable to holders of redeemable units - (\$000s) <sup>(1)</sup>	162,063	174,933	155,559	164,835	212,174	275,002
Number of units outstanding (000s) <sup>(1)</sup>	14,997	16,339	14,145	14,726	19,870	24,527
Management expense ratio(%) <sup>(2)</sup>	-	-	-	-	-	-
Management expense ratio before waivers or absorptions (%)	-	-	-	-	-	-
Trading expense ratio (%) <sup>(3)</sup>	-	-	-	-	-	-
Portfolio turnover rate (%) <sup>(4)</sup>	150.02	143.16	101.26	80.38	69.09	78.99
Net assets attributable to holders of redeemable units per unit (\$)	10.81	10.71	11.00	11.19	10.68	11.21

Series B	June 30, 2017	2016	2015	2014	2013	2012
Total net assets attributable to holders of redeemable units - (\$000s) <sup>(1)</sup>	35,957	36,034	44,280	48,965	46,472	49,994
Number of units outstanding (000s) <sup>(1)</sup>	3,302	3,338	4,009	4,368	4,335	4,430
Management expense ratio(%) <sup>(2)</sup>	0.79	0.79	0.79	0.79	0.79	0.84
Management expense ratio before waivers or absorptions (%)	0.79	0.79	0.79	0.79	0.79	0.84
Trading expense ratio (%) <sup>(3)</sup>	-	-	-	-	-	-
Portfolio turnover rate (%) <sup>(4)</sup>	150.02	143.16	101.26	80.38	69.09	78.99
Net assets attributable to holders of redeemable units per unit (\$)	10.89	10.80	11.05	11.21	10.72	11.28

(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

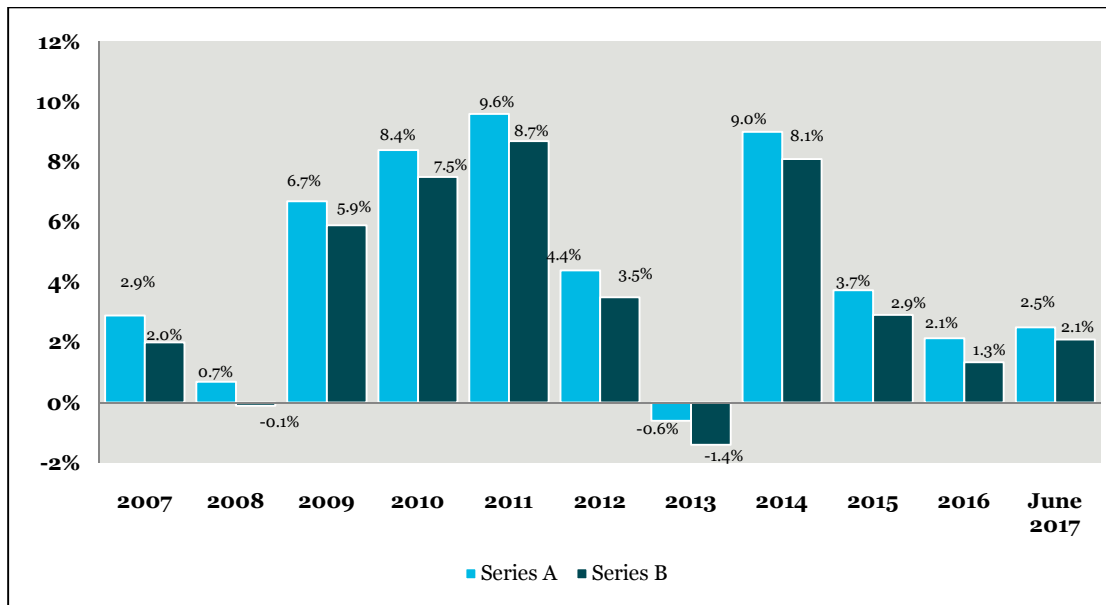
### General

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.



## Summary of Investment Portfolio

As at June 30, 2017

### Top 25 Positions

Issuer	% of Net Asset Value
Canadian Government Bond 3.50% December 1, 2045	3.5%
Province of Newfoundland 1.95% June 02, 2022	3.3%
Province of Ontario 5.60% June 2, 2035	2.8%
Province of Ontario 2.9% December 02, 2046	2.4%
Canadian Government Bond 1.0% June 1, 2027	2.2%
Province of Alberta 3.3% December 01, 2046	2.1%
Royal Bank of Canada 2.77% December 11, 2018	1.7%
Union Gas Ltd 2.76% June 02, 2021	1.7%
Province of Manitoba 6.30% March 5, 2031	1.7%
Canada Real Return 1.25% December 01, 2047	1.6%
Toronto-Dominion Bank 1.68% June 08, 2021	1.6%
Bank of Montreal 6.17% March 28, 2023	1.6%
Canadian Imperial Bank of Commerce 1.7% October 09, 2018	1.6%
Canada Housing Trust 1.75% June 15, 2022	1.5%
Canadian Mortgage Pools 99007726 5.44% Mar 1, 2028	1.5%
Canadian Government Bond 5.00% June 1, 2037	1.5%
Canadian Mortgage Pools 97500982 1.615% March 01, 2022	1.5%
Province of Alberta 2.2% June 01, 2026	1.4%
Province of Quebec 8.5% April 01, 2026	1.4%
Manulife Financial Corp 5.505% June 26, 2018	1.4%
Sun Life Financial Inc 5.7% July 02, 2019	1.4%
Canadian Government 2.75% December 01, 2048	1.3%
Toronto-Dominion Bank 5.83% July 9, 2023	1.2%
Province of Manitoba 2.55% June 02, 2026	1.1%
Enbridge Inc 3.19% December 05, 2022	1.0%

### Portfolio Allocation

Portfolio Breakdown	% of Net Asset Value
Corporate Bonds	50.1%
Provincial Bonds	24.0%
Federal Bonds	19.0%
Municipal Bonds	3.0%
Maple Bonds	2.0%
Real Return Bonds	1.6%
Cash & Other Net Assets	0.3%

The Fund held no short positions as at June 30, 2017.

*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).*