



# **Leith Wheeler Balanced Fund**

MANAGEMENT REPORT OF FUND PERFORMANCE  
For the Year Ended December 31, 2010

# LEITH WHEELER BALANCED FUND

Management Report of Fund Performance

For the Year Ended December 31, 2010



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This Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment Fund. You can obtain a free copy of the interim or annual financial statements at your request, 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.

## A NOTE ON FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements as a result of new information, future events or otherwise.

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### Investment Objective and Strategies

#### Fund Objective

To provide investors with a relatively stable, superior long-term rate of return, through a balanced portfolio of common shares and fixed income securities.

#### Investment Style

Although Leith Wheeler will change the investment mix between fixed income and equity securities as opportunities arise, a portion of the Fund will be maintained in each class. Generally, the Fund's investments in equity securities will range between 45% and 65% of its total investments. The fixed income securities provide lower risk income while the common shares provide an opportunity for capital gains. Investors 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 Prospectus. There were no material changes to the Fund during the year that affected the overall level of risk.

#### Results of Operations

In 2010, the Fund's net assets increased by 4.9% to \$62.1 million from \$59.2 million at the end of 2009. Of this change, \$5.9 million was attributable to investment gains and \$3 million in net outflows.

The asset mix of the Balanced Fund at December 31, 2010 was 0.5% cash and cash equivalents, 32.6% bonds, 34.3% Canadian equities, 16.4% U.S. Equities and 16.2% International Equities. The Balanced Fund advanced by 10.2% in 2010 after fees and expenses. The composite benchmark (made up of 5% T-bills, 35% DEX Universe Bond Index, 30% S&P/TSX Composite Index, 15% S&P500 Index and 15% MSCI EAFE Index) returned 9.6% during that same period.

Both equity and bond markets were strong overall in 2010, although there was a great deal of volatility throughout the year. January was a negative month in the Canadian equity market which had posted a large, positive return in 2009. It rebounded, however, and finished the first quarter in positive territory. The second quarter provided a negative return as investors were concerned about the sustainability of the economic recovery and the possibility of a 'double dip' recession. The final two quarters of 2010 were positive, however, as signs of stability returned to the markets.

The Canadian equity component of the Balanced Fund lagged its benchmark in 2010, which was dominated by Gold and Materials stocks. Despite not holding any materials stocks in the Canadian Equity component of the Fund, we fared relatively well due to strong performances from stocks such as Baytex Energy Trust (+66.3%), Finning International (+65.9%) and Saputo (+30.9%). We made a number of changes in the holdings in the latter half of the year as we found a number of high quality companies trading at attractive valuation levels. Some of these stocks include Great Canadian Gaming, Canadian Tire, Home Capital Group and Westjet Airlines. Many of these stocks are smaller capitalization

stocks, a departure from how the Canadian component of the Balanced Fund has been positioned in the recent past.

On the U.S. Equity side, concerns about the health of the U.S. economy continued throughout 2010, but some optimism returned towards the end of the year. The U.S. Equity component of the Balanced Fund lagged its benchmark in 2010. Although many of its more cyclically sensitive holdings (such as Lennar, Tiffany and Carnival) performed well, some of its steadier, less cyclical holdings (such as Microsoft, Sysco and Proctor & Gamble) detracted from performance. We used the weakness in these high quality names to add to our holdings. Over the past few years, we have added many very large, high quality stocks to the portfolio and are very comfortable with the stocks we own. We have also added some smaller companies to the portfolio as opportunities have arisen. Overall, we believe the U.S. component of the Balanced Fund provides an attractive combination of quality and good value that will perform well for the long-term investor.

The International equity component of the Balanced Fund (through holding units of the International Equity Plus Fund) performed very well in 2010, strongly outperforming its benchmark MSCI EAFE Index. The best performing sectors in the Fund were Materials, Financials and Energy. The best performing stocks in the International Equity Plus Fund in 2010 were Barrick Gold, Magna International Inc., and Newcrest Mining Inc. In addition, strong stock selection in many of the Japanese stocks held in the portfolio contributed to good performance. At the time of writing, we are finding value in Energy stocks and in Japanese stocks.

The fixed income component of the Balanced Fund performed better than its benchmark the DEX Universe bond index in 2010 primarily due to its overweight position in corporate bonds. Throughout the year, the differential between corporate and government bond yields (also known as the spread) declined, resulting in higher returns for corporate bonds. In particular, our holdings in Canadian Commercial Mortgage Backed Securities (CMBS) and Asset Backed Securities (ABS) performed very well. By the end of the year, corporate bonds in many sectors had reverted back to historical 'normal' levels. We have reduced our overall weight in corporate bonds that have performed well and also improved the credit quality of our holdings in various sectors. We still are finding value in the insurance sector and in provincial bonds.

For the first time in a year, the Bank of Canada increased short term interest rates in the second quarter and again in the third quarter. Long term rates declined over the year, but increased in the fourth quarter. Despite the late year increase, long term rates ended 2010 0.5% lower than the end of 2009. The fixed income component of the Balanced Fund had been positioned defensively early on in the year in anticipation of a rise in interest rates. This provided a drag on performance early on, but the Fund benefitted from it in the fourth quarter.

From an asset mix perspective, we continue to favour equities over bonds. Although equities have performed strongly, we are still finding value in certain sectors, in particular in some Canadian

# LEITH WHEELER BALANCED FUND

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smaller capitalization stocks. We continue to maintain a disciplined, bottom-up approach to managing our clients' portfolios.

### 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.

Leith Wheeler Balanced Fund owns 1,102,550 units of the Leith Wheeler International Equity Plus Fund, a fund under common management. This holding represents approximately 84.0% of the underlying Fund.

### Recent Developments

Equity markets continue to be volatile in the early part of 2011. In the fixed income markets, the difference between corporate bond yields and government bonds continued to decline moderately and government bond yields have increased over most maturities.

### Financial Highlights

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. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "Net Asset Value" is derived from the valuation method disclosed in the Annual Information Form and is used for transactional purposes (see ratios and Supplemental Data). All other calculations for the purpose of this MRFP are made using Net Asset Value.

#### The Fund's Net Assets per Unit

	2010	2009	2008	2007	2006
<b>Net assets, beginning of year<sup>(1)</sup></b>	\$18.35	\$16.54	\$19.81	\$21.83	\$20.29
<b>Increase (decrease) from operations:</b>					
Total revenue	0.59	0.60	0.68	0.69	0.66
Total expenses	(0.22)	(0.19)	(0.23)	(0.27)	(0.25)
Realized gains (losses) for the period	0.42	(0.76)	(0.22)	1.19	1.01
Unrealized gains (losses) for the period	1.06	2.46	(3.04)	(2.12)	1.15
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	1.85	2.11	(2.81)	(0.51)	2.57
<b>Distributions:</b>					
From income (excluding dividends)	(0.10)	(0.12)	(0.14)	(0.24)	(0.23)
From dividends	(0.27)	(0.29)	(0.33)	(0.18)	(0.17)
From capital gains	-	-	-	(1.09)	(0.56)
Return of capital	-	-	-	-	-
<b>Total Annual Distributions<sup>(3)</sup></b>	(0.37)	(0.41)	(0.47)	(1.51)	(0.97)
<b>Net assets, end of year<sup>(1)</sup></b>	\$19.83	\$18.35	\$16.54	\$19.81	\$21.83

(1) Net assets 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. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

(2) Distributions were paid in cash/ reinvested in additional units of the Fund, or both.

### Ratios and Supplemental Data

	2010	2009	2008	2007	2006
Total net asset value (\$)(000's) <sup>(1)</sup>	62,085	59,171	62,403	80,662	75,736
Number of units outstanding (000's) <sup>(1)</sup>	3,129	3,221	3,767	4,029	3,470
Management expense ratio(%) <sup>(2)</sup>	1.19	1.16	1.16	1.17	1.18
Management expense ratio before					
Waivers or absorptions (%)	1.19	1.16	1.16	1.17	1.18
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.06	0.05	0.06	0.06
Portfolio turnover rate (%) <sup>(4)</sup>	35.78	53.55	53.18	92.10	59.63

(1) This information is provided as at December 31 of the year shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets 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 assets 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.

### Management Fees

Leith Wheeler Investment Counsel Ltd. (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 units of the Fund is 1.10%. Year to date, the Fund paid the Manager \$661,338 (exclusive of taxes) of its net assets as management fees. Effective July 1, 2010, certain Provinces have harmonized their Provincial Sales Tax (PST) with the Federal Goods and Services Tax (GST). This resulted in an increase in the management expense ratio of the Fund. 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.

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.

### Past Performance

#### General

The Fund's performance assumes all distributions made by the Fund in the periods 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.

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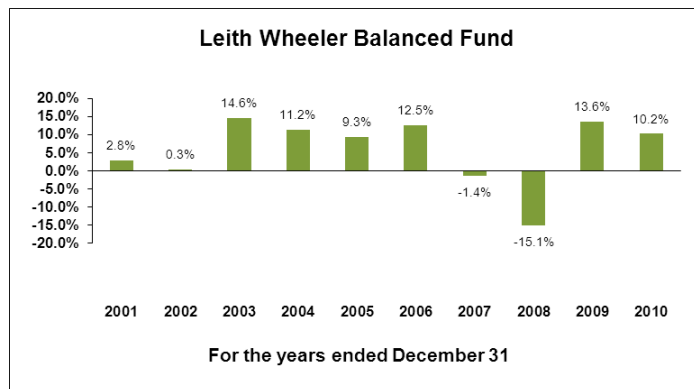
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For the Year Ended December 31, 2010



### Year-by-Year Returns

The following chart shows the Fund's annual historical return, which changes each year. Annual return is the percentage change in the value of an investment from January 1 to December 31. The 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 financial year.



### Annual Compound Returns

The following table compares the historical annual compound post-fee return of the Fund with a blended return of the benchmark. At the end of December 2010, the benchmark was comprised of 35% DEX Universe Bond Index, 30% S&P/TSX Composite Index, 15% S&P 500 Total Return Index, 15% MSCI EAFE Index and 5% DEX 91 day T-Bill Index. Each of these indices is used as a proxy to measure returns for the associated asset classes. The DEX 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 a market capitalization weighted index for Toronto Stock Exchange listed companies. S&P 500 Total Return Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The MSCI EAFE Index is comprised of 21 MSCI country indices, representing the developed markets outside of North America (Europe, Australasia and the Far East). It aims to include 85% of the free float-adjusted market capitalization in each industry group, within each country.

A discussion of the performance of the Fund as compared to the benchmark is found in the Results of Operations section of this document.

### Compound Annual Returns

	1 Year	3 Years	5 Years	10 Years
<b>Fund</b>	10.2%	2.0%	3.3%	5.4%
<b>Benchmark</b>	9.6%	1.9%	4.0%	4.5%

### Summary of Investment Portfolio\*

As at December 31, 2010

#### Top 25 Holdings

Issuer	% of Net Asset Value
LW International Equity Plus Series A	16.5%
Canada Housing Trust 1.79% Mar 15, 2014	3.2%
Toromont Industries Ltd.	2.3%
Saputo Inc.	2.1%
Toronto Dominion Bank	2.0%
Bank of Nova Scotia	1.9%
Talisman Energy Inc.	1.8%
Canadian Natural Resources Ltd.	1.7%
Province of Ontario 4.20% Jun 2, 2020	1.5%
Royal Bank of Canada	1.3%
Canada 4.00% Jun 1, 2041	1.3%
EnCana Corporation	1.3%
Canadian National Railway Company	1.2%
CAE Inc.	1.2%
Finning International Inc.	1.1%
Rogers Communications Class B	1.0%
Canadian Imperial Bank of Commerce	1.0%
Shaw Communication B	1.0%
Markel Corp.	1.0%
Province of Quebec 4.50% Dec 1, 2019	1.0%
Province of Quebec 6.25% Jun 1, 2032	0.8%
Canadian Western Bank	0.8%
3M Co.	0.8%
Alimentation Couche-Tard Sub Voting	0.8%
Great-West Lifeco Inc.	0.8%

\*The summary of investment portfolio may change due to ongoing portfolio transactions of the investment Fund. A quarterly update is available upon request.

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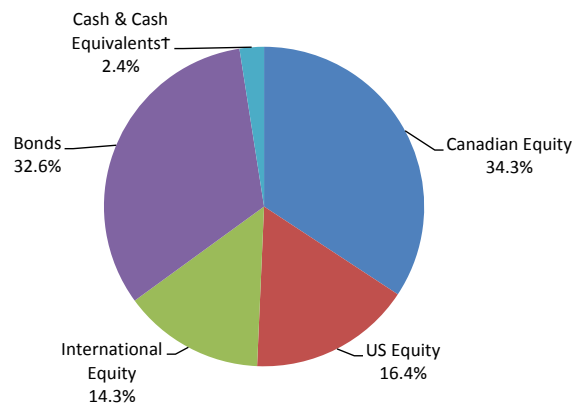
For the Year Ended December 31, 2010



### Asset Mix

Sector Mix	% of Net Asset Value
<b>Cash &amp; Equivalents<sup>(1)</sup></b>	<b>2.4%</b>
<b>Fixed Income</b>	<b>32.6%</b>
Corporate	17.6%
Provincial	8.2%
Federal	6.2%
Municipal	0.6%
<b>Canadian Equity<sup>(1)</sup></b>	<b>34.3%</b>
Financials	10.5%
Energy	8.6%
Industrials	6.4%
Consumer Staples	2.8%
Consumer Discretionary	3.5%
Telecom Services	1.0%
Information Technology	0.6%
Materials	0.9%
<b>US Equity<sup>(1)</sup></b>	<b>16.4%</b>
Consumer Discretionary	2.1%
Financials	2.9%
Industrials	1.8%
Energy	1.9%
Consumer Staples	2.7%
Healthcare	2.7%
Information Technology	1.2%
Materials	0.6%
Utilities	0.5%
<b>International Equity<sup>(1)</sup></b>	<b>14.3%</b>
Telecom Services	2.0%
Information Technology	1.3%
Consumer Staples	1.6%
Industrials	2.1%
Materials	1.7%
Energy	0.9%
Consumer Discretionary	1.6%
Healthcare	1.1%
Financials	1.2%
Utilities	0.8%

### Portfolio Composition



<sup>†</sup> Cash and cash equivalents includes other assets and liabilities.

(1) The percentage of Net Asset Value/Portfolio Composition includes the Fund's relative allocation of the Leith Wheeler International Equity Plus Fund's (the underlying Fund) asset mix/portfolio composition. This allocation is based on the product of the Fund's holding of the underlying Fund, as a percentage, multiplied by the underlying Fund's asset mix/portfolio composition.