Leith Wheeler Investment Funds
Quarterly Review – September 30, 2011

	MER* %	3 Mo. %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
LW Canadian Equity Fund	1.52	-15.8	-3.6	-0.1	0.9	8.2
LW Canadian Dividend Fund**	1.57	n/a	n/a	n/a	n/a	n/a
LW U.S. Equity Fund (C$)	1.35	-9.5	-4.3	-1.3	-5.3	-1.0
LW International Equity Plus Fund (C$)	1.63	-7.2	-8.5	0.7	n/a	n/a
LW Income Advantage Fund**	0.90	n/a0	n/a	n/a	n/a	n/a
LW Balanced Fund	1.19	-6.4	-0.7	3.0	1.1	5.4
LW Unrestricted Diversified Fund***	1.19	-6.8	-0.6	3.0	1.0	n/a
LW Fixed Income Fund	0.81	4.3	6.1	6.7	4.5	5.4
LW Money Market Fund	0.37	0.1	0.5	0.4	1.7	2.0
Peer Comparison****	**Median MER %**	**3 Mo. %**	**1 Yr %**	**3 Yrs %**	**5 Yrs %**	**10 Yrs %**
Median Canadian Equity Fund	2.53	-13.3	-6.3	0.1	0.0	5.3
Median US Equity Fund (C$)	2.62	-10.7	-2.0	-2.2	-4.7	-2.4
Median International Equity Fund (C$)	2.80	-15.1	-11.4	-3.5	-6.6	-0.7
Median Global Equity Balanced Fund	2.82	-9.1	-3.9	1.3	-1.3	2.3
Median Fixed Income Fund	1.98	3.8	4.3	6.5	4.2	4.6
Median Money Market Fund	1.09	0.1	0.3	0.3	1.3	1.6

Note: Returns reflect changes in unit value and distributions reinvested. Fund performance numbers are after Management Expense Ratios (MERs). They do not take into account, however, charges or commissions that an external broker may charge for purchasing/redeeming the mutual funds which would have reduced returns. Past returns do not necessarily indicate future performance.
** 2010 Audited MER for Leith Wheeler funds*
*** Performance information not available until fund has been available under a prospectus for one year.*
**** The Unrestricted Diversified Fund is available to discretionary clients only in non-registered accounts. MER is unaudited as it is a non-prospectused fund*
***** Source: Globefund.com*

Significant declines occurred in equity markets globally in the third quarter amid concerns about slowing global economic growth. These declines were driven by fears of financial contagion in Europe, potential slowing in emerging markets and political mismanagement in the United States.

The epicenter of financial market strains has been in Europe. Over the quarter, the market further discounted the likelihood that Greece will need to default. In addition, the market has concluded that Spanish and especially Italian sovereign debt should carry a substantial risk premium. As high levels of sovereign debt are held by banks in many European countries and this debt has not been valued at market prices, the market is concerned that this will cause strains throughout the entire financial system. Unfortunately, the policy making process in Europe has done little to calm these concerns. Despite the creation of a stabilization fund, the fund's mandate has been restricted to attract support from member states and the size of the fund has been limited to make the mandate more palatable to opponents. In the meantime, the elevated costs of borrowing for banks and some governments are beginning to have an impact on economic growth. Even the industrial heartland within Germany, that to-date has been immune to periphery problems, has begun to show signs of an erosion in sentiment.

Over the last several years, emerging economies have gained strength and prominence and helped the world recover from the last recession. Unfortunately, the high pace of growth and easy credit conditions have led to inflation in many of these economies. To combat these pressures, we have seen a tightening in monetary policy over the past year and the early signs of economic slowing. China has begun to slow loan growth and is showing preliminary signs of manufacturing slowing. In Brazil, concerns around weaker global growth caused the central bank to reverse previous hikes and move to cut interest rates. The net effect has been a softening in commodity prices as emerging markets continue to be the main source of incremental demand.

Finally, despite weak domestic economic growth and in the midst of these global concerns, U.S. policy makers dealt a significant self-inflicted wound to confidence by mishandling the increase of the debt ceiling. The Federal Reserve did take two unconventional steps though at their policy setting meetings this quarter to help support the economy. In August, they announced an intention to keep the federal funds target at the 0% to 0.25% range until at least the middle of 2013. Then at the September meeting, they took a further step to lower long term rates by announcing a plan to sell $400 billion in short term bonds to buy longer term debt. Both of these measures were intended to have the effect of lowering longer term interest rates to provide a more favourable environment for refinancing mortgages and long term corporate debt.

Canada has not been immune to the effects of this global volatility. Over the quarter, Canadian stocks declined just over 12%. The Canadian Equity Fund fared worse, mainly due to our lack of exposure to the gold sector which performed well, acting as a safe haven for panicked investors. This was a reversal of what worked strongly in the Fund's favour in the second quarter, when gold stocks were unloved. The U.S. dollar also benefited from the turmoil, rising close to 9% for the quarter, providing a buffer for U.S. equity returns when converted back into Canadian dollars.

Canadian interest rates have declined in sympathy with U.S. rates and have provided very strong capital gains in the bond market. We did not expect the extent of the interest rate decline, and our defensive stance, together with our overweight in corporate and provincial bonds, resulted in lower returns than the bond benchmark. This was a reversal of the factors that worked positively earlier in the year.

Unfortunately, it's difficult to see how the challenges in Europe can be resolved quickly. Even with approvals around the emergency stabilization fund, another restructuring for Greece debt is likely. In addition, there are two key structural problems that need to be resolved within Europe. First, there are structural deficits in many countries that need fundamental reform. Second, it's not clear that currency unions can be effective without mechanisms for transfer payments to smooth out regional disparities in economic performance. These fundamental problems are not new, however the investors are no longer willing to provide financing at interest rates that ignore these issues. With higher interest rates and tighter credit, the potential for a significant slowdown or recession in the Euro zone has increased.

For emerging markets, it is most likely that we begin to see a reversal of the tightening of policy that has dominated this past year. Though inflation has not been tamed, recent commodity declines will remove some of the near term pressure. In addition, emerging markets have much more flexibility than developed economies to provide monetary and fiscal stimulus as well as improved credit conditions.

For the U.S., we are most likely in an environment of 0% to 2% real GDP growth in the near term. We believe there is a 20% to 30% chance of a U.S. recession, but it should be avoided. The

Federal Reserve has been much more aggressive in providing liquidity than its counterparts in Europe, and excess inventories and capacity have not built to levels that have generally preceded recessions in the past. However, we remain concerned around the potential impact from further budget negotiations and a slowing Euro zone economy. Were the U.S. economy to stall worse than expected, Canada would struggle as well.

We are most likely in an environment of continued low Canadian interest rates over the next 12 months. We anticipate that the Bank of Canada will need to take further steps to normalize monetary policy, but these steps will probably be delayed given global uncertainty. Over a longer time horizon, we expect short rates to normalize in the 2% to 3% range with long bond yields in the 3% to 4% range.

With the above comments, it is not surprising that some investors are ready to lose faith in equities. We would strongly caution against this sentiment. Precisely at the time when investors jump ship, a catalyst emerges which provides relief and a market rebound. This time, it looks like a European debt restructuring is what is needed to turn around the current pessimism and panic. For our stocks, we believe large market declines provide an opportunity to add to our companies where expected returns over the next 3 to 5 years have improved further, and where we have high levels of confidence that the business models can weather periods of uncertainty. Even in a fairly slow economic environment, we believe our stocks can provide returns of 8% per annum, rising from there should the economic conditions improve as we expect. This is attractive, when bond yields have fallen well below 3%. The dividend yield alone on stocks is competitive relative to bonds, not factoring in potential dividend growth and modest price rises. Stocks have disappointed investors lately, but are poised for a period of outperformance relative to bonds, from these levels.

Canadian Equity Fund

After a volatile first half of 2011, the opening weeks of the third quarter appeared to be relatively stable. Unfortunately, this was short-lived as growing fears of an inevitable Greek default, coupled with a rollover in emerging market leading indicators and renewed concerns of a recession, overtook any sort of optimism. Equity markets sold off across the globe as a result.

In this environment, it was not surprising to see the TSX Composite falling 12.0%, with its exposure to cyclical and resource-related industries. The Canadian Equity Fund declined by 15.8% after fees and expenses, underperforming the market over this short period. Some of our companies, particularly those in the Energy and Industrials sectors, as well as the life insurance companies, were weak performers. Yet the dominant influence was being absent the gold sector, which acted as a safe haven for panicked investors. Year to date, our relative performance has been more successful, since the Canadian market is down 11.9% while the Fund has fallen 11.3% after fees and expenses. While still a disappointing result in the short term, there has really been nowhere to hide for us, a price conscious value investor, who has been skeptical of the values in the gold sector.

Despite the gloom, we are positive regarding the longer term outlook for our companies. Commodity prices have fallen significantly over the quarter, which despite being a negative for our commodity related equity holdings, will help ease inflationary burdens on the consumer. We are significantly overweight consumer stocks in the Fund. Lower oil prices and lower inflation, which are occurring in the midst of the slowing economy, provide relief and a boost to consumers' wallets, enabling them to increase discretionary spending. This bodes well for the consumer stocks that we own.

During the third quarter, we saw some equity valuations discount quite a high probability of a "recession" type scenario, perhaps as deep as that which we saw in 2008. While there are risks of that occurring, we believe the stocks we own are fairly priced given these risks. Although it may take several quarters for global equity markets to stabilize, we believe our companies are entering this period with strong balance sheets and are well positioned to weather the potential storm.

U.S. Equity Fund

U.S. stocks endured the worst quarter for performance since the aftermath of Lehman's collapse in the final quarter of 2008. At least three key issues contributed to the heightened sense of investor anxiety including the ongoing crisis in Europe, slowing global economies and fiscal unrest in the U.S. The U.S. dollar has strengthened significantly in this environment as investors viewed the U.S. as a 'safe haven'. Measured in U.S. dollars the S&P 500 declined 13.9% in the quarter; however, in Canadian dollars the index was down 7.2%, as currency added 6.7% over the three month period. The U.S. Equity Fund return trailed the benchmark for the quarter, declining 9.5% after fees and expenses.

The Fund's 2011 performance has been disappointing as we would expect to display defensiveness in a period of market stress. We have written repeatedly about the attractive values we see within top-tier companies as many of the best companies in the U.S. also appear to be the best valued. Never before, for example, have we been afforded the opportunity to invest in Coca-Cola or Procter & Gamble as they were always too expensive. Today these stocks are two of the Fund's top 10 holdings. It is a highly unusual time for many blue chip stocks in that they are being valued as if they were below average companies. Relating this to our underperformance in 2011, many of our strong and seemingly defensive type companies, including 3M, Berkshire Hathaway, Microsoft and Walgreen, have detracted from the Fund's performance to date. In each case, these companies are producing record or near record earnings, outperforming peers, investing for long term growth and raising the dividend. Additionally, each stock began the year with a valuation near the bottom of its historical range; however in 2011, the seemingly attractive combination of high quality, strong long term fundamentals and low valuation have not seemed to matter. We feel that these very well managed companies represent very good value at this time and will reward investors when they return to appropriate valuation levels.

International Equity Plus Fund

Global equities markets took a decidedly negative turn starting in late July, declining by over 15% partly on the possibility of the U.S. AAA long-term credit rating being downgraded amid rancorous political wrangling over the debt ceiling. Possibility turned into reality on the 5th of August when S&P cut its rating of the U.S. to AA+. Lacking a clear model to contextualize the historically unprecedented move, markets settled into a wide channel of volatility for the rest of August through September. Equities dynamically rose and fell during this time on alternating positive and negative economic data, news flow regarding continuing European economic troubles and renewed global stimulus efforts. By the end of the quarter, equities had tumbled to a degree not seen since the depths of the 2008 global financial crisis. Given the context of such tumultuous markets, we believe there is a growing availability of appealing investment opportunities due to the common reaction of avoiding risk rather than attempting to manage it.

The International Equity Plus Fund declined by 7.2% after fees and expenses during the quarter, but outperformed the benchmark MSCI EAFE which declined by 12.8% during that same period. While we're not pleased with negative investment performance on an absolute basis, we're quite glad to take advantage of current pricing weakness in companies with what we view as strong prospects. We believe specific undervalued equities offer investors one of the few avenues for protecting and increasing capital over the long-term. Many of the companies we currently find overly discounted are found in the energy sector. The MSCI All Country World Energy Sector is down over 15% for the third quarter, with many well positioned companies down by an even greater amount for the same period. Several companies look particularly attractive to us.

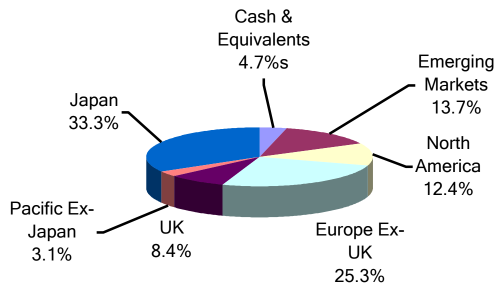
European sovereign debt concerns are another source of elevated volatility, and accordingly are creating another environment from which to source inexpensively priced companies with fundamental business advantages. We are carefully managing our exposure to European companies, attempting to avoid low-priced businesses which will likely only stagnate or continue to decline in our view, but are maintaining or building positions in firms where we find long-term value. We believe the economic difficulties in Europe are very material investment concerns, and that many low-priced European equities are appropriately priced at such levels. With the debt crisis driving Eurozone quarterly growth down from 0.8% to only 0.2% as of the latest Eurostat report, even companies with respectable earnings power may suffer as the International Monetary Fund, the European Commission and the European Central Bank try to navigate a very challenging situation. Nonetheless, we do believe some exposure is warranted by intriguing company-specific factors, and we are sizing our holdings in accordance with our level of conviction as we find strong individual stock stories which aren't fully priced.

Telecom and utilities companies, traditionally a defensive harbor in troubled equity markets, declined throughout the quarter more than their historical performance would have led many investors to expect. Many of these firms are now highly undervalued according to our analysis, especially businesses with entrenched barriers to entry, high cash levels and underserved markets. The fact that many of our telecom and utilities holdings return a fraction of their sustainable earnings in the form of dividends at yields besting many bonds is a nice benefit, but we are more motivated by what we see as impressively underappreciated assets and overwhelming demand. We are buying on weakness in these names.

Companies in the business of producing energy commodities were the primary detractors from absolute return for the quarter. They declined along with other commodity producers when rattled investors removed support for many commodities. European industrials firms also notably detracted from performance as a result of fallout from the aforementioned Eurozone sovereign debt crisis. Consumer staples companies were the quarter's least impactful detractor from performance, as returns in the sector were relatively less negative than most other sectors. Negative returns from health care holdings were also relatively muted compared to other sectors.

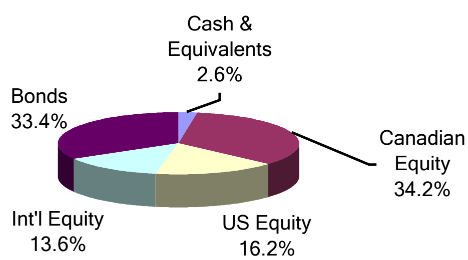
As equities continue to wildly fluctuate, we expect many market participants to attempt tactical asset movements in an effort to minimize losses and catch upside performance. The potentially significant damage which can be done to portfolios when unpredictable markets move against these tactical decisions makes us very wary of such strategies. Instead, we believe that the most effective way to limit the impact of volatility and downdrafts is to build positions in exceptional businesses at inexpensive entry points, then maintain those positions until they become fully valued, an even greater value disconnect is discovered or further information undercuts the initial analysis. While this style of investment can be subject to short term underperformance, we believe investors with resolve will find their long term interests best served by just such a philosophy.

The country weightings of the International Equity Plus Fund at September 30, 2011 were as follows:



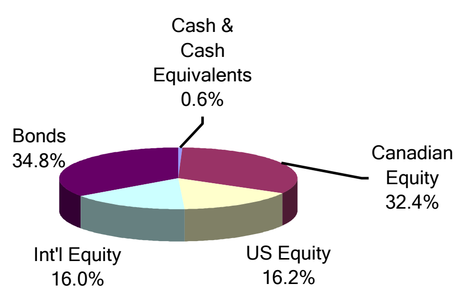
Balanced Fund

The Balanced Fund declined by 6.4% after fees and expenses in the third quarter of 2011. Year-to-date, the Fund has declined by 4.8%. The asset mix for the Fund at September 30, 2011 was as follows:



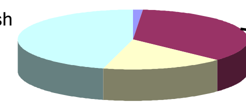
Unrestricted Diversified Fund

The Unrestricted Diversified Fund declined by 6.8% after fees and expenses in the second quarter of 2011. Year-to-date, the Fund has declined by 4.8%. The asset mix for the Fund at September 30, 2011 was as follows:



Income Advantage Fund

The Income Advantage Fund declined by 2.0% during the quarter but has returned 1.8% year-to-date after fees and expenses. The asset mix for the Fund at September 30, 2011 was as follows:



Fixed Income Fund

Investors' concerns about global economic weakness as well as the European debt crisis and the potential for financial market contagion caused bond prices to rise sharply in the quarter. The last minute U.S. debt limit agreement and the subsequent downgrade of U.S. debt by S&P also damaged investor, business and consumer confidence. "Operation Twist", a plan by the U.S. Federal Reserve to stimulate the sagging housing market through buying long term Treasuries while selling short term notes, caused long bond prices to increase further. As a result, interest rates fell significantly over the quarter, especially in the 10 year to 30 year term. Ten year Canadian interest rates dropped by 1.0% to a record low of 2.1%. With inflation in Canada averaging around 2.0% annually (currently 1.9% year over year), bondholders are currently willing to accept a zero or negative real return (interest rates net of inflation), on 10 year bonds.

Our long term view is that interest rates are unsustainably low, and as the economy eventually recovers, rates will rise. As such, we have been positioned defensively to protect against rising rates and capital losses on bonds. The Fixed Income Fund holds a lower weight in 2 to 5 year bonds than the benchmark. We believe that the short end of the yield curve is particularly vulnerable to a rise in short rates since the real rate is -1.0%. Furthermore, the Bank of Canada is not going to leave the overnight rate at 1.0% forever. When it begins to normalize rates, the short dated bonds (2 to 5 year) will fall in value.

The underweight in short government bonds hurt the performance of the Fixed Income Fund relative to the benchmark in the quarter, since bond prices continued to rise. In the quarter, the Fixed Income Fund advanced by 4.2% after fees and expenses compared to the benchmark which returned 5.1% during that same period.

In the wake of increased economic uncertainty, both corporate and provincial bonds lagged government bonds in Canada, as investors shifted to lower risk assets. Although we still see value in non-government bonds longer term and continue to maintain a modest overweight, we wanted to protect the portfolio from the possibility of a market disruption and reduced the overweight position in both corporates and provincials. In addition, we have continued to reposition the corporate holdings to more defensive, senior issues.

We expect economic growth to be weak over the near term. In our base case scenario, Canada and the U.S. avoid going back into recession but muddle along for the next few years with subpar growth in the 0% to 2% range. The U.S. housing market has likely reached a floor as accommodative monetary policy has been effective in lowering mortgage rates (slightly under 4.0% for a 30 year mortgage in the U.S., compared to 4.5% last year), and foreclosure supply is now being met with investors and first time home owner demand. Inflation in Canada and the U.S. remains a low risk, given the level of economic slack. The resolution of the European situation is harder to forecast. Although we expect an orderly restructuring of Greek debt with sufficient ring fencing around the European banks to allow them to weather the storm, policy actions will have to be carefully monitored in the coming months. The potential for further volatility in European capital markets remains the most significant risk to our base case forecast.

Questions about your portfolio?

If you have questions about your Leith Wheeler portfolio, Funds or services, please contact your Portfolio Manager or Karey Irwin at 604-683-3391 or 1-888-292-1122.