Leith Wheeler
INVESTMENT FUNDS LTD.

Quiet Money.

Leith Wheeler Investment Funds
Quarterly Review – September 30, 2016

	MER %	3 Mo. %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
LW Canadian Equity Fund	1.49	7.7	17.9	7.0	10.4	5.5
LW Canadian Dividend Fund	1.49	7.6	20.2	8.2	10.6	n/a
LW U.S. Equity Fund (C$)	1.33	5.4	8.8	14.3	17.2	5.4
LW International Equity Plus Fund (C$)	1.60	8.9	2.9	7.1	6.2	n/a
LW Balanced Fund	1.17	5.0	9.7	8.0	8.8	4.9
LW Unrestricted Diversified Fund*	1.17	5.2	10.5	7.8	9.3	5.0
LW Income Advantage Fund	0.85	4.1	11.0	5.8	6.4	n/a
LW Core Bond Fund***	0.79	1.1	6.0	5.5	4.0	4.3
LW Corporate Advantage Fund***	0.79	1.8	5.8	n/a	n/a	n/a
LW High Yield Bond Fund	0.84	7.1	7.5	n/a	n/a	n/a
LW High Yield Bond Fund (C$ Hedged)	0.84	6.1	9.5	n/a	n/a	n/a
LW Money Market Fund	0.64	0.1	0.3	0.3	0.3	1.0
Peer Comparison**	**Median MER %**	**3 Mo. %**	**1 Yr %**	**3 Yrs %**	**5 Yrs %**	**10 Yrs %**
Median Canadian Equity Fund	2.32	5.0	10.2	7.2	8.1	4.4
Median Dividend & Income Equity Fund	2.13	4.6	11.5	7.1	8.2	4.6
Median US Equity Fund (C$)	2.21	4.8	8.0	15.1	17.0	5.3
Median International Equity Fund (C$)	2.36	6.5	3.5	6.7	10.0	1.4
Median Global Equity Balanced Fund	2.42	4.4	7.1	8.0	8.9	3.9
Median Cdn Fixed Income Balanced Fund	2.13	2.2	5.6	5.2	4.9	3.6
Median Fixed Income Fund	1.55	0.9	4.5	4.0	2.7	3.4
Median High Yield Fixed Income	1.47	4.0	7.2	4.3	5.6	4.6
Median Money Market Fund	0.76	0.0	0.1	0.1	0.1	0.7

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. Returns are Compound Annual Returns for the periods ending June 30, 2016 with the exception of the 3 Month return.
** The Unrestricted Diversified Fund is available to discretionary clients only in non-registered accounts. MER is unaudited as it is a non-prospectus fund ** Source: Fund Data *** LW Core Bond Fund formerly named LW Fixed Income Fund; LW Corporate Advantage Fund formerly named LW Corporate Fixed Income Fund*

After starting the quarter off with Brexit related volatility, financial markets resumed their upward movement during the third quarter. Canadian bond returns continued their strong performance year-to-date despite the subdued domestic economic outlook which caused the Canadian bond yields to move lower.

While the Canadian economy has deteriorated somewhat, the summer fires in Fort McMurray have made the more recent trend in Canadian economic growth more difficult to read. Business survey data has actually been encouraging and the increase in the Canada child care benefit should support consumer spending. Financial instability risks are rising, though, as we saw a sharp increase in household leverage during the quarter and the debt-to-income ratio jumped the most in seven years. Measures related to the housing market address these risks and have so far helped to at least take the wind out of home sales. The subdued domestic economic outlook saw Canadian bond yields move lower in the third quarter. As a result, Canadian bond returns continued their strong performance year-to-date.

While consumer spending still drives the bulk of economic activity in North America, we noticed in the third quarter that the manufacturing side of the economy is showing more growth potential. In the US, manufacturing inventories fell at a 2.7% pace while at the same time, final goods demand grew 6.1%. This bodes well for industrial production.

On the other hand, business investment has remained disappointingly low, particularly in developed market economies like the US and Germany, where it is contracting. This is partly due to a decline in corporate earnings. There are drags on corporate profitability—low economic growth, poor gains in productivity and limited pricing power—which are weighing on corporate profits and business confidence. In addition, credit stresses are emerging due to an ongoing rise in leverage within investment-grade-rated companies. Although interest rates are very low, which softens the pressure from a cash-flow perspective, balance sheets are more levered and US banks are tightening up on their lending standards.

Where does the economy go from here? When business investment is lacking, fiscal policy can play an important role. Although large global fiscal spending is not on the cards, many countries are starting to become more expansive, including Canada. Fiscal purses have been tight in the last five years, *subtracting* approximately 0.5% each year to global GDP. This will now reverse and will provide a small net boost to global GDP growth in 2016. In addition, both US presidential candidates are promising sizeable infrastructure spending that would add 1.5-2.5% to real GDP growth in the US, possibly funded from taxes on repatriated foreign profits of US corporations. This would be an important tailwind for economic growth in both Canada and abroad.

In the US, wage pressures are building as the unemployment rate sits at levels close to “full employment”. However, in Canada, Japan and Europe reflationary impacts appear to be stalling. This divergence between the US and the rest of the world is likely to be accompanied by further differences in interest rate policy which will mean ongoing currency volatility, as seen by the recent US dollar appreciation.

It may have gone unnoticed but the third quarter marked a potential shift in central bank policy. US Federal Reserve Chair Yellen’s speech at Jackson Hole was titled “Redesigning resilient monetary policy frameworks for the future”, while the Bank of Japan made a “comprehensive assessment” of monetary policy at its September meeting. In a recent paper published by Fed board member John Williams, he argued to raise the target inflation rate in the United States. Interesting times indeed! Fixed income markets have started to respond to the prospect of both higher interest rates in the US combined with the prospect that monetary policy elsewhere, namely in Europe and Japan, might be approaching its lower limits. In our view, this assessment may be premature – central bank asset purchases from the European Central Bank, Bank of Japan and Bank of England are expected to be near US$ 1 trillion over the second half of 2016.

Canadian Equity Fund

The TSX Composite Index continued its strong performance into the third quarter, shaking off the uncertainty of "Brexit" very quickly and increasing 5.5%. Some of the perceived safe havens reversed course over the quarter, having had a strong first half of the year. Gold stocks were down 9%, while traditional utilities were essentially flat, both underperforming the broader market. The Canadian Equity Fund's lack of exposure to gold stocks and some traditional utilities helped its relative performance as it returned 7.7% after fees and expenses during the quarter.

Performance in the Materials sector was helped by the Fund's holdings in the mining sector. Specifically, Teck Resources and First Quantum both helped Fund performance during the quarter. While we do not have much exposure to traditional utilities stocks, viewing them as quite expensive given the lower earnings growth prospects of these businesses, we do have a large holding in Brookfield Infrastructure, which is included in the Utilities sector. Brookfield had a strong quarter and also contributed to fund performance.

Relative outperformance was somewhat offset by weaker results from some of the Fund's holdings in the Energy, Financials, Industrials, and Consumer Discretionary sectors. Many Energy stocks that performed well in the second quarter reversed and declined in the third including the Fund's holdings in Baytex Energy and Western Energy Services. In the Financial Sector, Home Capital and CI Financial Group were the largest detractor from performance.

Canadian Dividend Fund

Similar to the Canadian Equity Fund, the Canadian Dividend Fund had a strong third quarter advancing 7.6% after fees and expenses. The top contributors to performance during the quarter included Brookfield, Saputo and Sleep Country which all generated strong returns. Detractors from performance during the quarter included Boardwalk REIT and CI Financial. Boardwalk was eliminated from the Fund during the quarter along with EnCana as we felt we had better risk/reward opportunities elsewhere.

U.S. Equity Fund

The S&P 500 had a strong quarter, increasing 3.8% in US dollars in a period when 7 of 11 sectors showed positive returns. The strengthening of the US dollar over the quarter helped Canadian investors and boosted the Index return to 4.7% in Canadian dollars. The bond proxies, including Telecom (-4.8%) and Utilities (-5.1%), that had led the pack for most of the year experienced a reversal, as markets reacted to their high valuations in favour of other recovering sectors such as Materials (4.6%) and Energy (3.1%). In addition, Financials had a strong rebound over the third quarter, bringing the sector back into positive territory for the year so far.

The US Equity Fund outperformed the S&P 500 during the quarter, returning 5.4% after fees and expenses. Positive contributions came from both stock selection and sector allocation.

In the Financials sector, State Street was the largest contributor to performance followed by E*Trade. Bank of America also performed well during the quarter. The large consumer bank Wells

Fargo has been in the news extensively because of fraudulent practices that were uncovered in the Retail Banking Division. The impact on the Fund so far has been quite small, with the bank contributing a loss of just 0.1%. Looking forward, the bank is generally a well-run organization with a large diversified portfolio of businesses. Its valuation remains compelling but we are monitoring it closely as events develop.

The Fund had no exposure to the worst performing sector, Utilities, which helped relative performance. As bond proxies that were perceived to provide a stable dividend, Utilitie stocks ran up in the first half of the year. However, we believe that the price of these dividends remains too high, being based largely on increased leverage and high payout ratios, and have therefore stayed out of these names.

Relative performance was somewhat offset by the weaker performance of some of your holdings in the Health Care sector. Express Scripts and Sanofi (ADR) were the largest detractors from performance. In Consumer Staples, relative performance was hurt by our overweight in Reynolds American, which fell almost 11.0%, after it had surged in the second quarter as a perceived 'safe-haven' stock. Finally, our underweighting in Information Technology hurt relative performance results, as the sector was the strongest performer in the Index.

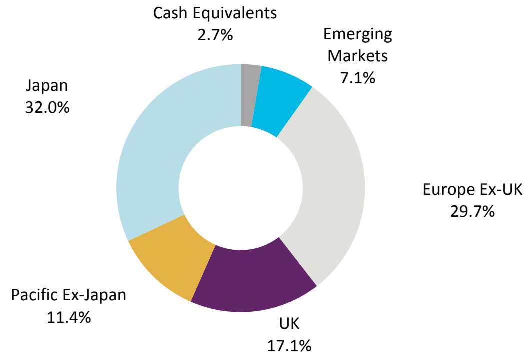
International Equity Plus Fund

The International Equity Plus Fund had a strong return in the third quarter of 2016, advancing by 8.9% after fees and expenses. Throughout the quarter, we witnessed a rally in the more undervalued stocks which is a reversal from earlier this year. The best performing area was the Financials sector, European and Japanese banks in particular. This was truncated slightly at the end of the period as concern arose over a potential fine for Deutsche Bank. This had the effect of damaging general sentiment towards banks but the reality is that, on average, they have the lowest financial leverage and strongest balance sheets that they have had in twenty-five years.

Health Care stocks remained fairly benign as the run-up to the US Presidential election cast a shadow over drugs companies. Supported by strong balance sheets and dividend yields, stocks such as Roche and Novartis remain attractively priced, and the recent strong performance of AstraZeneca's serves as an example of what can happen when sentiment turns more positive. Energy stocks slipped slightly after strong runs but the positive investment case remains unchanged.

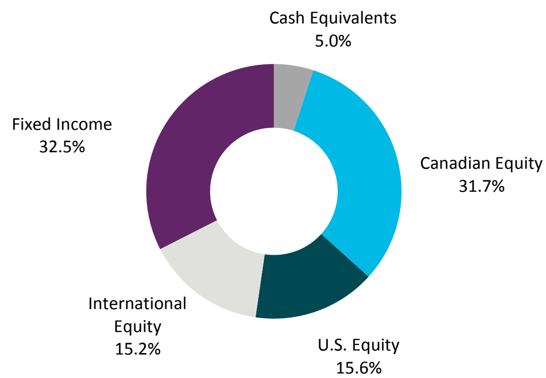
The Brexit referendum vote did not impact the Fund significantly over the quarter and we do not anticipate changes to result in the near-term.

The country weightings of the International Equity Plus Fund at September 30, 2016 were:



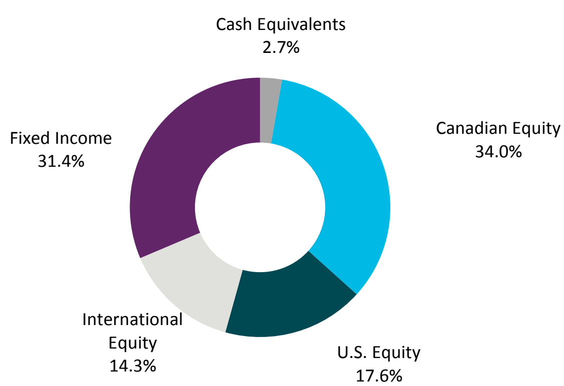
Balanced Fund

The Balanced Fund advanced by 5.0% in the third quarter of 2016 after fees and expenses. The asset mix for the Fund at September 30, 2016 was:



Unrestricted Diversified Fund

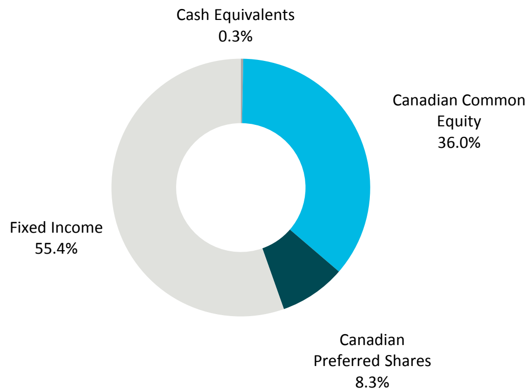
The Unrestricted Diversified Fund returned 5.2% in the third quarter of 2016 after fees and expenses. The asset mix for the Fund at September 30, 2016 was:



Income Advantage Fund

The Income Advantage Fund advanced by 4.1% after fees and expenses during the third quarter. All asset classes added to returns in the third quarter with the strongest performance coming from the Fund's dividend paying common stocks. We trimmed our position in high yield bonds and increased our exposure to preferred shares over the quarter.

The asset mix for the Income Advantage Fund at September, 30, 2016 was:



Core Bond Fund

Fixed income investment returns continued their successive quarterly gains, benefitting from a modest rally in Canadian federal government bonds and a compression in the difference between corporate and government bond yields (known as credit spreads).

The Core Bond Fund performed generally in line with the FTSE TMX Canada Universe Bond Index during the quarter, returning 1.1% after fees and expenses. Our medium-term view remains that global government bond yields are unlikely to deviate significantly from current levels over the next 12 months. We expect the US Federal Reserve will likely continue to normalize interest rates at an extremely slow pace, with the next rate hike most likely to come in December 2016. This would equate to just one rate hike per year over the past two years. Prior tightening cycles from the US Federal Reserve have historically averaged eight rate hikes per year (i.e. one rate hike at each of their eight annual meetings).

By contrast, our view is that the risks for the Bank of Canada are tilted marginally towards further interest rate cuts. Incoming economic data has been clouded by the effects of wildfires in Alberta, as well as the central bank's assessment of the impact of recent fiscal policy measures. In particular, the transition of the Canadian economy towards more non-energy exports, which as a focal point for the Bank of Canada, has failed to materialize.

Interest rate policy, however, cannot be considered in isolation. If the US raises interest rates and/or the US dollar strengthens against the Canadian dollar further, the propensity for the Bank of Canada to cut rates will be reduced.

Due to the heightened uncertainty involved in predicting interest rate policy in both the US and Canada, we continue to position the Core Bond Fund conservatively in terms of overall interest rate risk.

We have modestly added back some provincial credit risk during the quarter, but remain slightly underweight overall. We have maintained our corporate bond position during the quarter but have added some high quality bonds in the Utilities sector.

Our outlook for Canadian fixed income markets remains cautious. We believe that the risks for the Bank of Canada are tilted marginally towards further rate cuts, which would be positive for Canadian fixed income returns. However, rising leverage in investment-grade corporate bonds combined with new highs in household leverage is negative for the credit outlook in Canada.

In this environment, we continue to focus on allocating assets to the best risk-adjusted investments in fixed income. Our view continues to be that there are currently better opportunities in provincial and corporate bond markets rather than in interest rate markets, given the uncertain and divergent global interest rate outlook. We continue to look for high-quality opportunities to add to the Fund's overall exposure as credit spreads widen, and in the meantime, exploit relative value opportunities within both provincial and corporate bonds.

Corporate Advantage Fund

The Corporate Advantage Fund returned 1.8% after fees and expenses during the quarter as all asset classes added to returns. Preferred shares have seen a notable reversal in performance after poor returns through 2015 and early 2016. During the quarter we trimmed our allocation to high yield bonds after the high yield market outperformed, and allocated these funds to preferred shares.

High Yield Bond Fund

The high yield market performed well during the quarter, as it continued to benefit from a global reach for yield in the current low interest rate environment. Higher risk high yield bonds posted strong results: CCC-rated bonds outperformed, while BB-rated bonds underperformed. The High Yield Bond Fund performed well during the quarter due to superior sector and issuer selection.

The Fund is currently positioned with a slightly defensive bias, as the incremental yield from high yield debt decreased over the quarter making valuations relatively less attractive. Default rates (a measure of market stress) remain elevated as a result of pressure on commodity–related issuers. However, outside of the energy and mining sectors, defaults continue to be extremely low and leverage ratios are stable. Over the medium term, we are constructive on high yield debt, due to the strong fundamentals of high yield corporate balance sheets and investors continued search for yield in a low rate environment.

Fund changes and Year End tax information

Against this background, we will be undertaking some changes throughout the remainder of this year to help ensure our Fund offering is positioned for strong future returns:

U.S. Equities

- New U.S. Equity Fund – we have a U.S. Equity Fund now available that can transact in U.S. dollars. This has been designed to suit clients that draw out U.S. dollars without the need for a foreign exchange transaction.

High Yield Bonds

- High Yield Bond Fund – returns in the bond market have been strong to date, but yields and expected returns are trending lower. We have been developing tools to continue to earn reasonable rates of return from bonds into the future. The U.S. high yield market is large and liquid and presents good opportunities for us to invest in. We anticipate including this strategy as part of the fixed income component of our Balanced Fund and Unrestricted Diversified Fund in the first quarter of 2017.

Capital Gain Distributions

- Taxable distributions – our current U.S. Equity Fund will making larger than normal distributions of capital gains at year end, so we are actively evaluating how to mitigate the taxation impact for our clients. While the Fund has been extremely tax efficient over time, the U.S. manager change in early 2016 caused us to trigger some accrued capital gains.

We believe that this is a very good time to rebalance your portfolio to position it for the future and to manage around some of the tax challenges coming our way. Please contact us if you have specific questions about these strategies or if you would like to review your portfolio at 604-683-3391 or 1-888-292-1122.

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