Leith Wheeler
INVESTMENT FUNDS LTD.

Quiet Money.

Leith Wheeler Investment Funds
Quarterly Review – December 31, 2016

	MER %	3 Mo. %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
LW Canadian Equity Fund	1.49	8.3	28.9	6.3	10.9	5.4
LW Canadian Dividend Fund	1.49	9.4	29.6	7.7	11.5	n/a
LW U.S. Equity Fund (C$)	1.33	11.0	8.8	13.6	17.3	5.3
LW International Equity Plus Fund (C$)	1.60	4.2	1.1	6.0	7.9	n/a
LW Balanced Fund	1.17	3.9	10.9	7.0	8.9	4.7
LW Unrestricted Diversified Fund*	1.17	4.1	12.1	6.9	9.2	4.8
LW Income Advantage Fund	0.85	3.5	13.4	5.5	6.6	n/a
LW Core Bond Fund***	0.79	-3.5	1.3	4.1	2.9	3.8
LW Corporate Advantage Fund***	0.79	-0.1	4.4	n/a	n/a	n/a
LW High Yield Bond Fund	0.84	5.1	10.1	n/a	n/a	n/a
LW High Yield Bond Fund (C$ Hedged)	0.84	2.7	13.3	n/a	n/a	n/a
LW Money Market Fund	0.64	0.1	0.3	0.3	0.3	0.9
Peer Comparison**	**Median %**	**3 Mo. %**	**1 Yr**	**3 Yrs %**	**5 Yrs %**	**10 Yrs %**
Median Canadian Equity Fund	2.27	4.2	16.0	6.2	8.7	4.0
Median Dividend & Income Equity Fund	2.11	5.0	17.5	6.3	8.3	4.9
Median US Equity Fund (C$)	2.20	4.3	6.3	11.8	16.5	5.2
Median International Equity Fund (C$)	2.30	-0.9	-3.3	4.2	10.3	0.5
Median Global Equity Balanced Fund	2.41	1.1	4.8	6.1	8.7	3.4
Median Cdn Fixed Income Balanced Fund	2.09	-0.8	3.9	4.1	4.3	3.4
Median Fixed Income Fund	1.50	-3.3	1.3	3.0	2.2	3.4
Median High Yield Fixed Income	1.53	0.7	10.1	3.7	5.5	4.7
Median Money Market Fund	0.71	0.0	0.2	0.2	0.3	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 December 31, 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*

While there was no shortage of worries to contend with throughout the year, capital markets ended 2016 on an optimistic tone. Equity markets globally closed the year at or near recent highs, yields on government bonds were rising, and energy and industrial metal prices continued to recover.

Canadian equity markets had an outstanding year returning 21.1% in 2016, outperforming most global equity markets in local currency terms, as the heavily-weighted Energy and Materials sectors rebounded. Further appreciation of the U.S. dollar (relative to the Canadian dollar) over the quarter has also added materially to total returns generated by global equities. Returns for Canadian investment-grade bond portfolios, by contrast, were sharply negative during the fourth quarter due to the rise in interest rates.

Our equity portfolios in Canada, the U.S. and internationally, all significantly outperformed their respective benchmarks in 2016. In particular, our Canadian equity funds had an exceptional year, outperforming their benchmarks by close to 10%. Our core U.S. and International funds has also produced strong relative returns, outperforming by roughly 2% and 3% respectively. And despite the pullback over the last three months, fixed income portfolios still generated positive results for the year. In sum, balanced portfolios provided solid returns.

Recent optimism has been reflected in many survey-based economic indicators, which we watch closely as useful predictors of future economic activity. These surveys show that both business and consumer confidence are rising sharply, particularly in the United States. However, indicators of actual economic activity have only modestly improved in recent months. In a similar way, rising inflation expectations – which have been the main driver behind rising bond yields – have not yet been accompanied by a rise in actual realized inflation. There is a disconnect between expectations and reality that will likely resolve itself at some point during the first half of 2017 – either through a moderation in expectations or an improvement in actual economic activity – which will ultimately determine the direction of fixed income markets going forward.

Central bank policy has also adapted to the recent optimism. The U.S. Federal Reserve hiked interest rates in December for the second time in the cycle, but more importantly, they revised their expectations for rate hikes in 2017 higher, from two to three hikes, as a result of tightening labour markets and potential fiscal stimulus. The European Central Bank also effectively tapered its bond purchase program during the quarter. Both European and Japanese central banks have shifted their policies away from negative interest rates to other available tools.

Against this global backdrop, our economic outlook for Canada is relatively subdued. Household consumption, which has been the main engine for growth, is likely to experience headwinds from a slowdown in population growth. Other contributing factors include weakness in labour market income, record levels of indebtedness, and concerns over the domestic housing market. Growth will have to come from other sources, such as fiscal spending or net trade, but so far their contribution to net growth has been limited, in the case of fiscal spending, or a net drag on growth, in the case of net trade. Our view is that the Bank of Canada is acutely aware of these risks to growth, and with limited signs of price pressures and the output gap remaining large, they will not follow the U.S. in raising interest rates.

Arguably the main driver of capital markets in Canada, and globally, over the coming year will be the U.S. policy agenda. So far, capital markets have given the Trump administration the "benefit of the doubt". There is no doubt that Canada will benefit from a stronger U.S. economy; however, we expect the path to implementation to be rocky with potential upside as well as downside risks.

Ultimately, we remain focused on the long term fundamentals of the businesses we own. We believe our equity portfolios still offer attractive returns going forward, and maintain an overweight in equities relative to fixed income. We will continue to use our bottom-up, value approach to uncover opportunities in our funds.

Canadian Equity Fund

The TSX Composite Index turned in another quarter of strong performance, increasing 4.5% in the first quarter of 2016. This capped off a remarkable year for Canadian markets, where sentiment shifted quite significantly over the year. Going into 2016, Canada had finished 2015 as one of the worst performing developed markets amid concerns around global growth, weakness in commodities and a gloomy outlook for the Canadian economy. Despite numerous other global concerns that included "Brexit", Trump and European bank issues, market sentiment improved over the course of the year and the TSX climbed the "wall of worry" to end 2016 as the best performing developed market.

The Canadian Equity Fund significantly outperformed the TSX Composite over the year, returning 29.9% after fees and expenses. This was not only a story of many companies that we own performing very well, but also avoiding companies that underperformed. Teck Resources (+405.8%), First Quantum (+158.2%), Tourmaline (+60.7%), Saputo (+45.5%), and Brookfield Infrastructure (+35.6%) were all strong contributors to Fund performance. Not owning Valeant Pharmaceuticals was also a positive, as issues plagued the company throughout the year and led to an 86.2% decline in the stock price. However, these positives were somewhat offset by having no exposure to gold stocks in the Fund. Despite falling in the latter half of the year, the gold sub-sector was still up 47.8% in 2016.

Over the fourth quarter, the Fund outperformed the Index and returned 8.3% after fees and expenses. Performance was helped by positive stock selection in the Materials, Financials, and Energy sectors and helped overall by our sector weight decisions.

Canadian Dividend Fund

The Canadian Dividend Fund also outperformed the TSX over the year, advancing by 29.6% after fees and expenses. Russel Metals (+70.9%), Sleep Country Canada (+70.9%), Canadian Natural Resources (+47.0%) and Mullen Group (+46.9%) were all strong contributors to Fund performance. Similar to the Canadian Equity Fund, not owning Valeant Pharmaceuticals was also a positive.

During the fourth quarter, the Canadian Dividend Fund advanced by 9.4% after fees and expenses. The Financials sector was the top performer in the TSX, increasing 11.5% over the fourth quarter. The Canadian Dividend Fund's holdings in this sector outperformed, as many of the companies held provided strong double-digit returns, while an overweight position also contributed positively.

Overall, after a difficult year of performance in 2015, we are pleased with the results of our Canadian funds this year. We remain committed to our bottom-up investment style, focusing on selecting and holding companies where we believe the potential returns are attractive over the next three years and valuations are reasonable.

U.S. Equity Fund

The U.S. Equity Fund outperformed the S&P 500 during the quarter, returning 11.0% after fees and expenses. Fund performance was helped by both stock selection and sector allocation. Since we hired Barrow Hanley at the end of January of 2016, the Fund has done well, outperforming a solid S&P 500 return (+12.3%) over the 11 month period.

The S&P 500 had a strong quarter, increasing 3.8% in U.S. dollars in a period when eight of 11 sectors showed positive returns. The strengthening of the U.S. dollar by over 2% during the quarter helped Canadian dollar investors by boosting the Index return to 6.3%. The previously high flying "bond proxies", including

Telecom (+7.3%) and Utilities (+2.5%), but lagged other sectors in the fourth quarter. The Trump election win improved sentiment around economic growth, which benefitted Financials (+24.0%) and Industrials (+9.7%) and, with continued commodity price increases, Energy (+9.8%) and Materials (+7.2%) also performed well. The Real Estate (-2.1%) sector was hurt as the expectation for interest rate increases rose, while Health Care (-1.7%) stocks faced a cloud over price hikes and possible intervention on government program pricing.

The Fund had no exposure to the worst performing sector (Real Estate), which helped relative performance. As one of the bond proxies perceived to provide a stable dividend, real estate stocks ran up in the first half of the year only to finish the full year slightly negative. We believe that the price of the bond proxies remains too high, being based largely on increased leverage and high payout ratios.

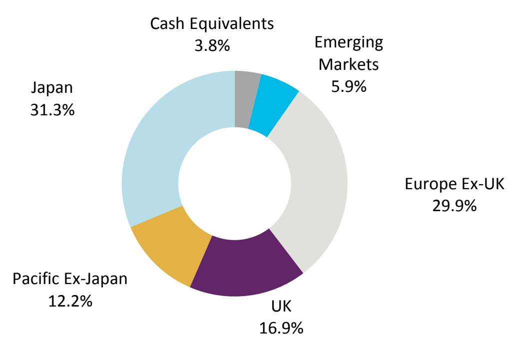
International Equity Plus Fund

The International Equity Plus Fund finished the year strongly, returning 4.2% after fees and expenses, compared to the MSCI EAFE Index which returned 1.6% during the same period.

Within the global equity markets, the Banking sector (which was weak in the first half of 2016) recovered strongly in the fourth quarter aided by improving inflation and interest rate expectations. Defensive sectors, which have performed so strongly for some years as bond proxies, have begun to lose ground as economies and the financial system display tangible evidence of improvement.

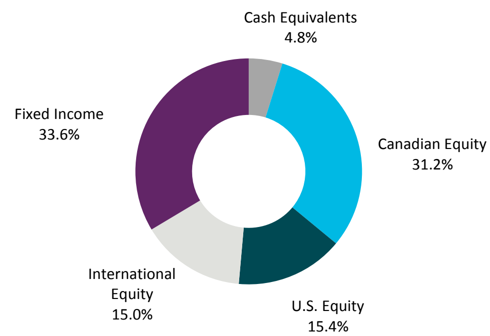
The fourth quarter saw sectors such as Energy and Financial stocks recover strongly while defensive sectors including Consumer Staples, Telecoms and Utilities were weak. Health Care stocks also lagged in this environment. Financials provided the strongest contribution to fund performance as BNP and Commerzbank recovered strongly, while in Japan, Sumitomo Mitsui Financial Group benefitted from improved sentiment regarding the future direction of interest rates. Detractors from fund performance were focused in more defensive areas such as Consumer Staples and Health Care stocks, notably Astrazeneca which was additionally hit by a setback to one of its pipeline drugs. Nokia also produced a negative return as short-term order flows declined.

The country weightings of the International Equity Plus Fund at December 31, 2016 were:



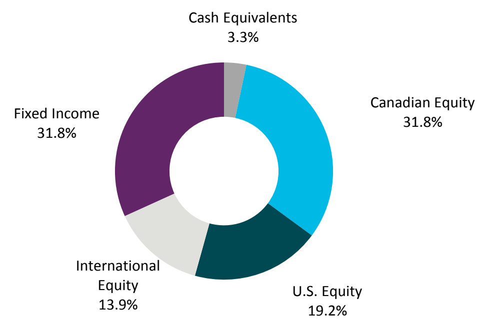
Balanced Fund

The Balanced Fund advanced by 3.9% in the fourth quarter of 2016 after fees and expenses. The asset mix for the Fund at December 31, 2016 was:



Unrestricted Diversified Fund

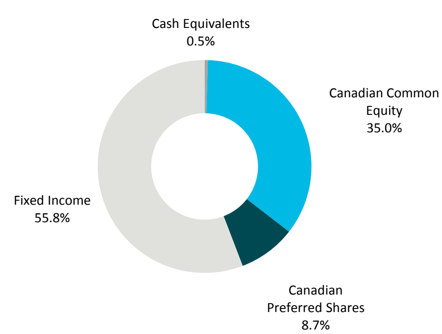
The Unrestricted Diversified Fund returned 4.1% in the fourth quarter of 2016 after fees and expenses. The asset mix for the Fund at December 31, 2016 was:



Income Advantage Fund

The Income Advantage Fund advanced by 3.5% after fees and expenses during the fourth quarter. Canadian dividend stocks, preferred shares and high yield bonds added to returns in the quarter while investment grade (I.G.) corporate bonds declined slightly. We trimmed our position in dividend equities and increased our exposure to preferred shares over the quarter.

The asset mix for the Income Advantage Fund at December 31, 2016 was:



Core Bond Fund

Fixed income investment returns were negative during the quarter as a result of a sharp increase in government bond yields. This was partly offset by a modest decrease in the yield differential of provincial and corporate bonds and government of Canada bonds (known as credit spreads). The Core Bond Fund declined by 3.5% after fees and expenses, slightly more than the FTSE TMX Canada Universe Bond Index which returned -3.4% during the quarter.

Rising inflation expectations coupled with expansionary global fiscal policy expectations caused government bond yields to rise sharply during the quarter, albeit from very depressed levels. Although Canadian 10-year government bond yields almost doubled in the fourth quarter, it is important to put these moves into perspective: those same yields are only approximately 0.3% higher compared to the end of 2015.

Our medium-term view is that the rise in global government bond yields is likely to be sustained given the more optimistic outlook for global growth. This particularly applies to U.S. government bond yields, where the Federal Reserve indicated in December a more aggressive expected path of rate hikes than what was anticipated.

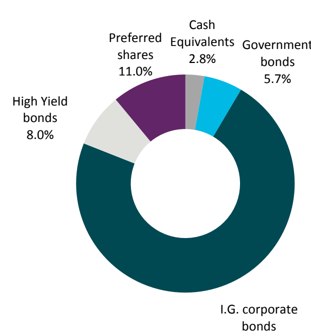
However, our view for Canadian government bond yields is less optimistic compared to current market expectations. In the context of a more subdued outlook for the Canadian economy, our view is that Canadian government bond yields are higher than is justified based on the underlying economic fundamentals. In addition, our view is that the Bank of Canada is likely to keep rates unchanged, with risks skewed to further rate cuts, unless the economic outlook materially improves or the Canadian dollar depreciates further. This is in contrast to interest rate markets that are already pricing in some probability of rate hikes later in 2017.

Our outlook for Canadian fixed income markets remains cautious. Our view is that Canadian government bond yields are likely to drift lower over the medium-term as the economic realities facing the Canadian economy temper some of the recent optimism. In addition, rising indebtedness in both investment-grade corporates and Canadian households, particularly in an environment of rising global interest rates, remains a negative for the credit outlook in Canada.

Corporate Advantage Fund

The Corporate Advantage Fund declined by 0.1% after fees and expenses during the quarter. The Fund's preferred shares and high yield bond holdings added to returns during the quarter, while the investment grade corporate bonds declined. During the quarter we trimmed our allocation to investment grade corporate bonds and maintained the exposure of high yield bonds and preferred shares.

The asset mix of the Corporate Advantage Fund at December 31, 2016 was:



High Yield Bond Fund

The high yield market enjoyed moderate, positive returns in the fourth quarter, driven by a particularly impressive month in December. The High Yield Bond Fund (Canadian dollar hedged) series returned 2.7% while the unhedged series returned 5.1%, both after fees and expenses. This capped off what was a very strong year of performance during 2016. The high yield market benefitted from positive market sentiment as improved economic data bolstered demand for riskier assets, and a continued chase for yield as market participants capitalized on the higher yields offered throughout the quarter. Higher risk, high yield bonds outperformed against this backdrop. Because of our larger weight than the market in single B rated bonds and superior issuer selection, our High Yield Bond Fund significantly beat its benchmark during the quarter.

We remain positive for the outlook of high yield debt over the longer term. The positive momentum in U.S. economic indicators is supportive of high yield balance sheet strength. Default rates (a measure of market stress) remain very low, especially outside of the energy and mining sectors. The High Yield Bond Fund is currently positioned with a neutral outlook, taking into account the magnitude of recent moves and creating capacity to take advantage of any further rise in yields.

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.

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