

# Leith Wheeler Core Bond Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2017



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This annual management report of fund performance contains financial highlights, but does not contain complete annual financial statements of the investment fund. You can get a copy of the 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 interim financial report, 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 declined by (8.4%) in 2017 to \$193.3 million from \$211.0 million at the end of 2016. Of this change, \$5.3 million was attributable to investment gains and (\$23.0) million to net outflows.

The Core Bond Fund performed well in 2017 with Series A units advancing by 2.7% and Series B units returning 1.9% after fees and expenses. The FTSE TMX Canada Universe Bond Index was up 2.5% over this same 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 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.

During the third quarter, fixed income returns were negative as two successive rate hikes from the Bank of Canada pushed short-term bond yields even higher. This was partly offset by a modest tightening in both provincial and investment grade corporate credit spreads. The rise in short-term bond yields in the fourth quarter of 2017 following earlier rate hikes from the Bank of Canada were more than offset by declining long-term bond yields, leading to positive fixed income returns. Meanwhile, both corporate and provincial credit spreads were marginally tighter during the fourth quarter – providing an additional tailwind to returns. Over the year the Fund outperformed the broader market.

Although the Canadian economy continues to grow strongly and employment growth has accelerated, the Bank of Canada remains concerned about labour market slack (particularly relating to youth unemployment). In addition, the Bank of Canada has yet to see a sustained improvement in export growth, with further challenges on the horizon relating to the renegotiation of NAFTA.

Despite this cautious stance from the Bank of Canada, we remain positioned for a very modest and gradual rise in bond yields over the coming year. Although the monetary spigots remain firmly open in Europe and Japan, we believe that this tide is slowly turning, led by the United States, where the unwinding of the Federal Reserve's balance sheet has now begun. In addition, the synchronized global economic recovery increasingly looks on track to become self-sustaining, which should ultimately drive higher real returns globally. Furthermore, we consider the current level of inflation expectations embedded in inflation-linked bonds as too low and not representative of the long-term risk of rising inflation. We, therefore, remain overweight inflation-linked bonds in Canada.

By sector, we remain modestly overweight Financials, particularly through deposit notes issued by the major Canadian banks. We also continue to be overweight the Resources sector, adding to recent issuers such as North West Redwater, BHP Billiton Finance, and local issuers such as Toromont Industries as we saw further evidence of the sector recovering and oil prices stabilizing.

Provincial bonds continue to outperform, with spreads in several provinces reaching new multi-year lows and recent spread tightening being relatively indiscriminate between provinces. We reduced our overall exposure to provincial bonds over the year, given our view that valuations on the larger issuers appear expensive in absolute terms. However, we remain overweight the provincial bonds of Alberta and Manitoba, which we believe continue to offer good relative value compared to the larger issuers of Ontario, Quebec and British Columbia.

In other spread products, we have reduced our overweight to government agency bonds, including National Housing Act mortgage-backed securities (NHA MBS), but continue to be of the view that valuations are attractive relative to Canada Mortgage Bonds (CMB).

## Management Discussion of Fund Performance (cont.)

### Recent Developments

Our outlook for the Canadian economy remains positive, as one that benefits from strong global growth, low interest rates, and a relatively weak currency. We expect the Bank of Canada to raise the overnight lending rate by 50 basis points to 1.50% in 2018 - slightly less tightening than what is currently priced into financial markets - due to concerns over low core inflation, weak exports and high levels of household indebtedness.

Our forecast is for bond yields to rise only modestly in 2018 toward our forecast of 2.40% for 10-year Government of Canada bonds. Any increase in interest rates should be modest enough to keep debt servicing costs at reasonable levels, which in turn will support global credit markets. However, current valuations on corporate and provincial bonds warrant caution as we draw towards the later stages of this credit cycle. Finally, we are increasingly mindful of risks surrounding acceleration in global inflation, with the timing of fiscal stimulus coinciding with full employment in the United States, and any potential impact of any shift in expectations relating to when European and Japanese policymakers might start to remove monetary accommodation.

Looking ahead, your fixed income portfolio is positioned with the expectation of a modest increase in bond yields in 2018, with an overweight in corporate bonds, underweight in provincial bonds, and a reduced overweight in government agency bonds.

The Bank of Canada raised its key interest rate by 0.25% to 1.25% in the first two months of 2018.

### 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 \$ 261,906 (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 commissions, transaction 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 five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

Series A	2017	2016	2015	2014	2013
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
Increase (decrease) from operations:					
Total revenue	0.32	0.32	0.39	0.40	0.41
Total expenses	-	-	-	-	-
Realized gains (losses) for the year	(0.13)	0.18	0.27	0.19	0.03
Unrealized gains (losses) for the year	0.11	(0.29)	(0.22)	0.37	(0.53)
Total increase (decrease) from operations <sup>(1)</sup>	0.30	0.22	0.44	0.96	(0.09)
Distributions:					
From income (excluding dividends)	(0.32)	(0.35)	(0.38)	(0.41)	(0.41)
From dividends	-	-	(0.01)	-	-
From capital gains	-	(0.18)	(0.22)	(0.02)	(0.05)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.32)	(0.53)	(0.61)	(0.43)	(0.46)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.68	\$10.71	\$11.00	\$11.19	\$10.68

Series B	2017	2016	2015	2014	2013
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
Increase (decrease) from operations:					
Total revenue	0.31	0.43	0.37	0.39	0.36
Total expenses	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Realized gains (losses) for the year	(0.12)	0.24	0.26	0.19	0.03
Unrealized gains (losses) for the year	0.10	(0.39)	(0.21)	0.37	(0.46)
Total increase (decrease) from operations <sup>(1)</sup>	0.21	0.20	0.34	0.87	(0.16)
Distributions:					
From income (excluding dividends)	(0.21)	(0.22)	(0.26)	(0.35)	(0.35)
From dividends	-	-	-	-	-
From capital gains	-	(0.18)	(0.23)	(0.02)	(0.05)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.21)	(0.40)	(0.49)	(0.37)	(0.40)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.79	\$10.80	\$11.05	\$11.21	\$10.72

(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	2017	2016	2015	2014	2013
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	161,816	174,933	155,559	164,835	212,174
Number of units outstanding (000s) <sup>(1)</sup>	15,158	16,339	14,145	14,726	19,870
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>	154.60	143.16	101.26	80.38	69.09
Net assets attributable to holders of redeemable units - per unit (\$)	10.68	10.71	11.00	11.19	10.68

Series B	2017	2016	2015	2014	2013
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	31,508	36,034	44,280	48,965	46,472
Number of units outstanding (000s) <sup>(1)</sup>	2,920	3,338	4,009	4,368	4,335
Management expense ratio (%) <sup>(2)</sup>	0.79	0.79	0.79	0.79	0.79
Management expense ratio before waivers or absorptions (%)	0.79	0.79	0.79	0.79	0.79
Trading expense ratio (%) <sup>(3)</sup>	-	-	-	-	-
Portfolio turnover rate (%) <sup>(4)</sup>	154.60	143.16	101.26	80.38	69.09
Net assets attributable to holders of redeemable units - per unit (\$)	10.79	10.80	11.05	11.21	10.72

(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**

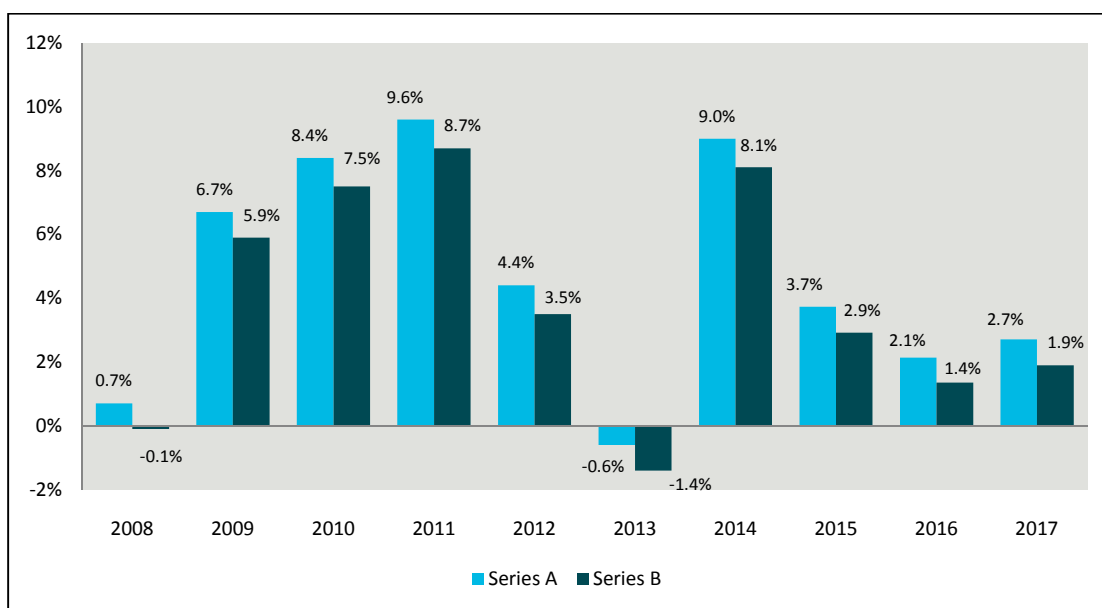
**General**

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.



**Annual Compound Returns**

The following table compares the historical annual compound return of the Fund (before fees for Series A and after fees for Series B) with the FTSE TMX Canada Bond Universe Index, in each case for the year ended December 31, 2017. The FTSE TMX Canada Bond Universe Index measures the total return attributable to bonds, and includes representative bond issues by issuer, quality, and term. A discussion of the performance of the Fund as compared to the benchmark is found in the Results of Operations section of this document.

For the Years ended December 31	1 Year	3 Years	5 Years	10 Years
Fund – Series A	2.7%	2.9%	3.3%	4.6%
Benchmark	2.5%	2.6%	3.0%	4.7%
Fund – Series B	1.9%	2.1%	2.5%	3.8%
Benchmark	2.5%	2.6%	3.0%	4.7%

**Summary of Investment Portfolio**

As at December 31, 2017

**Top 25 Positions**

Issuer	% of Net Asset Value
Canadian Government 1.00% June 01, 2027	4.4%
Canada Housing Trust 2.40% December 15, 2022	4.3%
Province of Alberta 3.05% December 01, 2048	2.6%
Province of Ontario 5.60% June 02, 2035	2.5%
Canadian Mortgage Pools 97509097 1.88% September 01, 2022	2.3%
Province of Manitoba 6.30% March 05, 2031	2.1%
Canadian Government 2.75% December 01, 2048	1.9%
Toronto Dominion Bank 1.68% June 08, 2021	1.6%
Canadian Government 4.00% June 01, 2041	1.5%
Union Gas Ltd 2.76% June 02, 2021	1.5%
Canadian Government 3.50% December 01, 2045	1.5%
Canadian Mortgage Pools 99007726 5.44% March 01, 2028	1.5%
Province of Ontario 2.90% December 02, 2046	1.4%
Province of Quebec 8.50% April 01, 2026	1.3%
Canadian Imperial Bank of Commerce 1.70% October 09, 2018	1.3%
Bruce Power LP 2.84% June 23, 2021	1.3%
Province of Alberta 2.20% June 01, 2026	1.3%
Royal Bank of Canada 2.77% December 11, 2018	1.3%
Sun Life Financial Inc 5.70% July 02, 2019	1.3%
Toronto Dominion Bank 5.83% July 09, 2023	1.1%
Canadian Government RRB 0.50% December 01, 2050	1.0%
Province of Ontario December 02, 2028	1.0%
Province of Manitoba 2.55% June 02, 2026	1.0%
Province of Manitoba 3.40% September 05, 2048	1.0%
Enbridge Inc 3.19% December 05, 2022	0.9%

**Portfolio Allocation**

Portfolio Breakdown	% of Net Asset Value
Corporate Bonds	47.0%
Federal Bonds	22.5%
Provincial Bonds	22.0%
Municipal Bonds	3.0%
Maple Bonds	2.7%
Real Return Bonds	2.0%
Cash & Other Net Assets	0.8%

The Fund held no short positions as at December 31, 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).*