

# Leith Wheeler Income Advantage 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).

Securityholders 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 investors with a relatively stable source of tax efficient monthly income, with some potential for long term growth through capital appreciation and growth in dividends. The Fund derives its income from allocating its investments primarily among fixed income securities, preferred shares, and dividend paying equities.

Of the total Fund, the investment in fixed income securities will range between 30% to 70%, Canadian equities from 15% to 50%, foreign equities between 0% to 25%, preferred shares between 0% to 25%, mortgages from 0% to 10%, and cash and cash equivalents between 0% to 5%. The fixed income securities and preferred shares will provide lower risk income and the common shares will provide an opportunity for dividends and capital gains. Investors will 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 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 increased by 23.7% in 2017, rising to \$87.3 million from \$70.6 million at the end of 2016. Of this change, \$4.6 million was attributable to investment gains and \$12.1 million to net inflows.

The Leith Wheeler Income Advantage Fund had a strong return in 2017 with Series A units advancing by 6.4%. Series B units returned 5.5% and Series F units advanced by 5.6%, both after fees and expenses. The Fund's asset mix at the end of December 2017 was 48.4% investment grade bonds, 3.5% high yield bonds and 3.8% senior loans (through the Leith Wheeler Multi Credit Fund), 34.9% Canadian equities, 8.3% preferred shares and 1.1% cash & other net assets.

At the end of the third quarter, we sold our position in the Leith Wheeler High Yield Bond Fund (CAD Hedged) to establish a neutral allocation to the Leith Wheeler Multi Credit Fund. The Multi Credit Fund has the ability to invest in senior loans, high yield and some investment grade bonds depending on relative value and the opportunity set, while the high yield names remain the same as in the High Yield Bond Fund. This switch allows us more flexibility to add senior loan exposure at a time when moving from high yield to loans is attractive from a risk-return standpoint, essentially moving up the capital structure for similar yield/spread. The Multi Credit Fund has the ability to hold up to 75% in both high yield bonds and senior loans, so that risk can be dialed up or down over a credit cycle. In addition, through the use of loans (floating rate instruments) we are able to shorten the Fund's overall duration.

The U.S. broad high yield market was up 7.5% in local currency in 2017, outperforming the U.S. and Canadian investment grade bond markets. The high yield bonds in the Fund outperformed the Bank of America Merrill Lynch BB-B High Yield Constrained Index, primarily due to an overweight and strong stock selection in Metals & Mining and Technology & Electronics. Teck Resources (+20.2%), First Quantum (+15.0%) and Seagate Technology (+10.5%) were the top contributors in the portfolio. An overweight position in Leisure and underweight position in Retail also helped performance.

The investment grade fixed income component of the Fund generated modestly positive returns over the year. We added corporate credit exposure to the Resources sector as we saw further evidence of the sector recovering and oil prices stabilizing. Within the Resources sector, we increased our exposure to Metal & Mining issuers, mainly BHP Billiton Finance. We also added to Communications issuers (Shaw Communications) and rotated some proceeds out of Distribution issuers (FortisBC Energy) and Infrastructure issuers (Brookfield Infrastructure Finance). In other spread products, we have reduced our allocation to government agency bonds, including National Housing Act mortgage-backed securities (NHA MBS).

Our outlook for the Canadian economy remains positive, as an economy 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.

Preferred shares were the top performing asset class within the Fund in 2017. Since the beginning of the year the preferred shares in the Fund have outperformed the S&P/TSX Preferred benchmark return. The majority of the preferred shares in the Fund (95%) are rate resets, which also serve as a hedge in a rising rate environment. Preferred shares and high yield act as a complementary pairing as preferred shares tend to be concentrated in highly regulated sectors (such as Financials and Utilities) while high yield bonds tend to be in concentrated in more cyclical sectors (such as Energy and Basic Materials). Preferred shares and high yield bonds have also had historically low correlation. Preferred shares continue to play an important role in the Fund as they provide diversification, tax efficiency and seniority to equity holders in the capital structure.

## Management Discussion of Fund Performance (cont.)

### Results of Operation (cont.)

After a stellar year of performance in 2016, the Canadian equity market delivered a solid result in 2017, finishing the year up 9.1%. Consumer Discretionary (+22.8%), Industrials (+19.7%), and Financials (+13.3%) were among the top contributors to performance over the year as strong consumer spending, better economic growth, and rising interest rates helped propel these sectors higher. Although oil prices ended the year up over US\$60, the Energy sector (-7.1%) was the weakest performer as investors worried about a potential border adjustment tax (BAT), NAFTA renegotiations, and pipeline availability.

The Canadian equity portion of the Fund outperformed the TSX Composite over the year with a number of companies providing robust returns. Canadian Western Bank (35.8%), Toromont Industries (+32.1%), and Brookfield Infrastructure (+30.9%) were among the top contributors to performance. On the other hand, weak investor sentiment in the Energy sector led to the underperformance of your holdings, including Cardinal Energy (-48.1%) and Mullen Group (-18.8%).

We added two new names to the common stock component of the Income Advantage Fund in 2017: Stingray Digital and Agrium. We eliminated two of the holdings in the Fund during the year: Sleep Country Canada and Trisura Group.

Canadian Western Bank was added back to the portfolio over the third quarter, after we exited the stock at the start of the year. Forward-looking returns for Canadian Western Bank had narrowed amid the risks of the slowing Alberta and Saskatchewan economies. As the year progressed, we gained confidence the bank's struggles were largely behind it. The outlook for loan growth has improved significantly and the outlook for net interest margins is positive. The combination of the two is powerful for this bank as it generates 90% of its income from basic banking services. Additionally, Canadian Western Bank is in the middle of a large project to upgrade its loan adjudication process which should result in a higher Common Equity Tier 1 ratio by mid-2020. Reinitiating a position has been a positive, as Canadian Western Bank was the top performing name in the Canadian equity portfolio in the fourth quarter, rising 17.2%.

### Recent Developments

Our outlook for 2018 remains constructive, as fiscal stimulus combined with easy global monetary conditions continues to provide a tailwind to growth and investment returns. However, we are mindful of recent outsized investment returns and rising valuations in many asset classes, prompting us to adopt a more conservative view in portfolio allocations heading into the New Year.

In this environment, we continue to focus on allocating assets to the best risk-adjusted investments. We will continue to apply our value investment principles to security selection and remain focused on identifying companies with attractive valuations, good business models, and solid management teams.

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

Canadian equity markets were down 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.

As at December 31, 2017, the Leith Wheeler Income Advantage Fund owns 2,387,308 Series A units of the Leith Wheeler Canadian Dividend Fund, and 653,236 Series A units of the Leith Wheeler Multi Credit Fund, which are funds under common management.

At the end of the third quarter, we sold our position in the Leith Wheeler High Yield Bond Fund (CAD Hedged) to establish a neutral allocation to the Leith Wheeler Multi Credit 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 1.00%. The fee will be reduced to 0.80% per annum as long as the annualized yield on the Fund at quarter end is less than 4.50%. The annualized management fee for the Series F units of the Fund is 0.70%. During the year, the Fund paid the Manager \$ 230,281 for Series B and \$ 27,276 for Series F (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>	\$11.22	\$10.28	\$10.90	\$10.88	\$10.48
Increase (decrease) from operations:					
Total revenue	0.56	0.55	0.40	0.77	0.61
Total expenses	-	-	-	-	-
Realized gains (losses) for the year	0.16	0.05	0.09	0.04	0.03
Unrealized gains (losses) for the year	0.02	0.79	(0.62)	(0.12)	0.30
Total increase (decrease) from operations <sup>(1)</sup>	0.74	1.39	(0.13)	0.69	0.94
Distributions:					
From income (excluding dividends)	(0.19)	(0.21)	(0.16)	(0.19)	(0.20)
From dividends	(0.15)	(0.16)	(0.20)	(0.21)	(0.21)
From capital gains	(0.23)	(0.13)	(0.14)	(0.29)	(0.12)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.56)	(0.50)	(0.50)	(0.69)	(0.53)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$11.37	\$11.22	\$10.28	\$10.90	\$10.88

Series B	2017	2016	2015	2014	2013
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$11.37	\$10.41	\$11.00	\$10.98	\$10.53
Increase (decrease) from operations:					
Total revenue	0.56	0.59	0.36	0.76	0.60
Total expenses	(0.10)	(0.09)	(0.09)	(0.09)	(0.08)
Realized gains (losses) for the year	0.16	0.06	0.09	0.04	0.03
Unrealized gains (losses) for the year	0.02	0.86	(0.57)	(0.12)	0.30
Total increase (decrease) from operations <sup>(1)</sup>	0.63	1.42	(0.21)	0.59	0.85
Distributions:					
From income (excluding dividends)	(0.10)	(0.15)	(0.06)	(0.10)	(0.08)
From dividends	(0.12)	(0.13)	(0.18)	(0.21)	(0.19)
From capital gains	(0.23)	(0.13)	(0.14)	(0.29)	(0.12)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.45)	(0.42)	(0.38)	(0.60)	(0.39)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$11.54	\$11.37	\$10.41	\$11.00	\$10.98

**Financial Highlights (cont.)****The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit (cont.)**

<b>Series F (inception September 10, 2015)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1) (3)</sup>	\$10.59	\$9.83	\$10.57	n/a	n/a
Increase (decrease) from operations:					
Total revenue	0.48	0.87	0.44	n/a	n/a
Total expenses	(0.04)	(0.06)	(0.05)	n/a	n/a
Realized gains (losses) for the year	0.14	0.08	0.10	n/a	n/a
Unrealized gains (losses) for the year	0.01	1.25	(0.68)	n/a	n/a
Total increase (decrease) from operations <sup>(1)</sup>	0.60	2.15	(0.19)	n/a	n/a
Distributions:					
From income (excluding dividends)	(0.19)	(0.24)	(0.15)	n/a	n/a
From dividends	(0.17)	(0.19)	(0.38)	n/a	n/a
From capital gains	(0.21)	(0.12)	(0.13)	n/a	n/a
Return of capital	-	-	-	n/a	n/a
Total Annual Distributions <sup>(2)</sup>	(0.56)	(0.54)	(0.66)	n/a	n/a
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.61	\$10.59	\$9.83	n/a	n/a

(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.

(3) From September 10, 2015, inception date of Series F units of the Fund. Series F initial net asset value per unit offering commenced at the closing net asset value per unit of Series B on September 10, 2015 of \$10.57.

## 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>	49,919	41,469	35,954	39,385	33,084
Number of units outstanding (000s) <sup>(1)</sup>	4,390	3,695	3,498	3,615	3,042
Management expense ratio (%) <sup>(2)</sup>	-	-	-	-	-
Management expense ratio before waivers or absorptions (%)	0.03	0.03	0.04	0.03	0.05
Trading expense ratio (%) <sup>(3)</sup>	0.03	0.04	0.04	0.02	0.03
Portfolio turnover rate (%) <sup>(4)</sup>	74.22	77.40	115.65	53.07	50.08
Net assets attributable to holders of redeemable units - per unit (\$)	11.37	11.22	10.28	10.90	10.88

Series B	2017	2016	2015	2014	2013
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	30,852	27,532	24,747	28,182	22,848
Number of units outstanding (000s) <sup>(1)</sup>	2,673	2,421	2,376	2,562	2,081
Management expense ratio (%) <sup>(2)</sup>	0.85	0.85	0.85	0.85	0.85
Management expense ratio before waivers or absorptions (%)	0.89	0.89	0.89	0.89	0.90
Trading expense ratio (%) <sup>(3)</sup>	0.03	0.04	0.04	0.02	0.03
Portfolio turnover rate (%) <sup>(4)</sup>	74.22	77.40	115.65	53.07	50.08
Net assets attributable to holders of redeemable units - per unit (\$)	11.54	11.37	10.41	11.00	10.98

Series F (inception September 10, 2015)	2017	2016	2015	2014	2013
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	6,486	1,562	661	n/a	n/a
Number of units outstanding (000s) <sup>(1)</sup>	612	148	67	n/a	n/a
Management expense ratio (%) <sup>(2)</sup>	0.77	0.79	0.74	n/a	n/a
Management expense ratio before waivers or absorptions (%)	0.81	0.82	0.77	n/a	n/a
Trading expense ratio (%) <sup>(3)</sup>	0.03	0.04	0.04	n/a	n/a
Portfolio turnover rate (%) <sup>(4)</sup>	74.22	77.40	115.65	n/a	n/a
Net assets attributable to holders of redeemable units - per unit (\$)	10.61	10.59	9.83	n/a	n/a

(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**

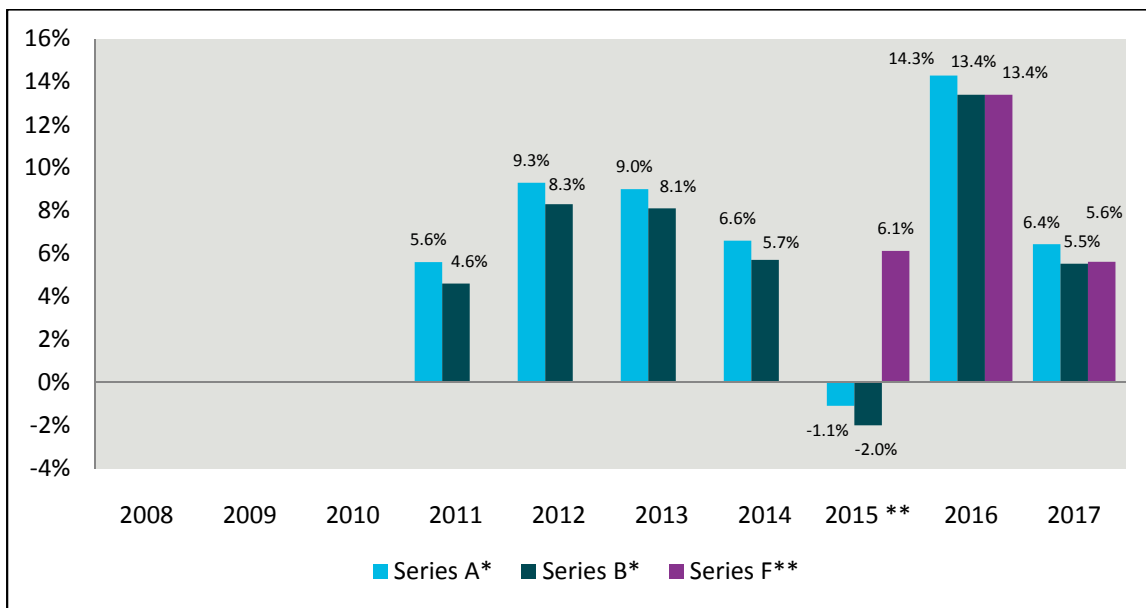
**General**

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.



\* Series A units were created December 21, 2010, Series B units were created on December 23, 2010.

\*\* Series F units were created on September 10, 2015. Return from September 10, 2015 to December 31, 2015, not annualized.

**Past Performance (cont.)****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 and F) compared with the FTSE TMX Canada Universe Bond Index and the S&P/TSX Composite Index, in each case for the year ended December 31, 2016. The FTSE TMX Canada 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 the headline index and the principal broad market measure for the Canadian equity markets. A discussion of the performance of the Fund as compared to these broad-based indices is found in the Results of Operations section of this document.

<b>For the Years ended December 31</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Fund – Series A *	6.4%	6.4%	6.9%	n/a
FTSE TMX Canada Universe Bond Index	2.5%	2.6%	3.0%	n/a
S&P/TSX Composite Index	5.4%	3.9%	4.7%	n/a
Fund – Series B *	5.5%	5.5%	6.0%	n/a
FTSE TMX Canada Universe Bond Index	2.5%	2.6%	3.0%	n/a
S&P/TSX Composite Index	5.4%	3.9%	4.7%	n/a
Fund – Series F **	5.6%	n/a	n/a	n/a
FTSE TMX Canada Universe Bond Index	2.5%	n/a	n/a	n/a
S&P/TSX Composite Index	5.4%	n/a	n/a	n/a

\* Series A units were created December 21, 2010, Series B units were created on December 23, 2010.

\*\* Series F units were created on September 10, 2015.



## Summary of Investment Portfolio

As at December 31, 2017

### Top 25 Positions

Issuer	% of Net Asset Value
Leith Wheeler Canadian Dividend Fund, Series A	35.3%
Leith Wheeler Multi Credit Fund, Series A	7.5%
Bank of Montreal 2.27% July 11, 2022	1.9%
Royal Bank of Canada 3.31% January 20, 2026	1.5%
Toronto Dominion Bank 2.62% December 22, 2021	1.2%
Bank of Nova Scotia 1.90% December 02, 2021	1.2%
Bank of Nova Scotia 2.09% September 09, 2020	1.1%
Cash & Other Net Assets	1.1%
Enbridge Inc	0.9%
BHP Billiton Finance Ltd 3.23% May 15, 2023	0.8%
Enbridge Pipelines Inc 3.45% September 29, 2025	0.8%
Pembina Pipeline Corp 2.99% January 22, 2024	0.7%
Allied Properties REIT 3.64% April 21, 2025	0.7%
Telus Corp 3.75% January 17, 2025	0.7%
Union Gas Ltd 2.76% June 02, 2021	0.7%
Royal Bank of Canada 1.65% July 15, 2021	0.7%
Bell Canada 2.90% August 12, 2026	0.7%
Toronto Dominion Bank 1.91% July 18, 2023	0.7%
First Nations Finance Authority 3.40% June 26, 2024	0.6%
North West Redwater Partnership / NWR Financing Co Ltd 3.20% July 22, 2024	0.6%
Toronto Dominion Bank 2.98% September 30, 2025	0.6%
Toronto Dominion Bank 3.22% July 25, 2029	0.6%
CT Real Estate Investment Trust 2.85% June 09, 2022	0.6%
Inter Pipeline Ltd 2.73% April 18, 2024	0.6%
CI Financial Corp 3.90% September 27, 2027	0.6%

### Portfolio Allocation

Portfolio Breakdown	% of Net Asset Value
Bonds	51.9%
Canadian Equities	34.9%
Preferred Shares	8.3%
Loans	3.8%
Cash & Other Net Assets	1.1%

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)*