Leith Wheeler Investment Funds
Quarterly Review – June 30, 2020

	MER %	3 Mo %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
LW Canadian Equity Fund	1.49	12.3	-8.1	-0.7	2.1	6.2
LW Canadian Dividend Fund	1.51	10.9	-13.0	-2.67	2.3	n/a
LW Carbon Constrained Cdn Equity Fund	1.47	10.6	-5.4	n/a	n/a	n/a
LW US Equity Fund (C$)	1.32	16.8	-8.2	0.8	4.7	10.3
LW US Dividend Fund (USD)	1.34	11.7	-15.2	-3.0	n/a	n/a
LW US Small /Mid-Cap Fund (C$)	1.31	19.1	-3.2	5.3	n/a	n/a
LW International Equity Plus Fund (C$)	1.49	5.6	-9.4	-3.1	0.9	3.4
LW Emerging Markets Fund (C$)	1.63	14.4	-9.7	n/a	n/a	n/a
LW Balanced Fund	1.17	9.7	-1.9	1.7	3.5	6.2
LW Income Advantage Fund**	0.85	9.4	-3.5	0.5	2.7	n/a
LW Core Bond Fund	0.79	6.1	7.0	4.6	3.6	4.1
LW Corporate Advantage Fund	0.79	8.0	1.9	2.0	2.5	n/a
LW High Yield Bond Fund	0.87	5.3	1.2	3.4	5.8	n/a
LW High Yield Bond Fund (C$ Hedged)	0.87	9.5	-5.0	0.4	3.0	n/a
LW Multi Credit Fund	1.00	10.1	-4.6	n/a	n/a	n/a
LW Preferred Share Fund	1.01	14.7	-12.4	n/a	n/a	n/a
LW Short Term Income Fund***	0.37	0.8	2.0	n/a	n/a	n/a
LW Money Market Fund****	0.16	0.1	1.2	1.2	0.8	0.6
Peer Comparison*	**Median %**	**3 Mo %**	**1 Yr %**	**3 Yrs %**	**5 Yrs %**	**10 Yrs %**
Median Canadian Equity Fund	2.10	13.2	-5.3	1.4	2.4	5.5
Median Dividend & Income Equity Fund	2.01	7.3	-9.4	0.3	2.5	5.7
Median US Equity Fund (C$)	1.95	16.3	4.9	7.5	7.7	12.6
Median International Equity Fund (C$)	2.01	11.5	-0.2	1.7	2.7	6.4
Median Global Equity Balanced Fund	2.26	11.7	1.2	3.2	3.7	6.3
Median Cdn Fixed Income Balanced Fund	1.94	7.4	3.0	3.0	2.9	4.0
Median Fixed Income Fund	1.29	6.4	6.3	4.0	2.9	3.3
Median High Yield Fixed Income	1.35	8.2	-0.6	1.8	2.5	4.4
Median Money Market Fund	0.8	0.1	0.9	0.9	0.6	0.5

*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, 2020 with the exception of the 3 Month return.*Source: Fund Data **MER temporarily reduced from 1.0% + GST at the discretion of Leith Wheeler based on current short term investment yields ***MER temporarily reduced from 0.65% plus GST at the discretion of Leith Wheeler based on current short-term yields **** MER temporarily reduced from 0.60%+GST at the discretion of Leith Wheeler based on current short term yields*

Although the world was still processing the full extent of the COVID-19 virus and its economic impact early in the quarter, equity markets quickly began to rebound from their March lows. Through April, May and the beginning of June, markets climbed the proverbial “wall of worry”, as lockdowns eased, and some positive economic data provided optimism for a “V”-shaped recovery. Aggressive fiscal and monetary stimulus, including central bank asset purchases, added a further boost to equities and other risk assets. However, in the final few weeks of the quarter, sentiment turned negative after a dramatic rise in COVID-19 cases in the US, and an outbreak in Beijing renewed focus on the second wave.

This divergence in sentiment over the quarter was clearly reflected in the performance of US equity markets. Through early June, the S&P 500 Index had rebounded by 18% from March 31st, driven by the outperformance of sectors which will benefit from a reopening of the economy, including Consumer Discretionary, Energy, Financials and Industrials. At that point, the US Equity Fund was significantly ahead of the S&P 500 Index as many companies we own that had experienced weakness in the first quarter bounced from their lows. When sentiment shifted in June, some of this added value was given up, but the US Equity Fund still ended the second quarter ahead of the S&P 500, and well ahead of the value index. We are confident that our Fund should deliver significant value-added results when the economy gets closer to fully re-opening, as we feel the outperformance of the stay-at-home stocks, such as Amazon and Netflix, is unsustainable. The evidence of this was compelling during the first part of the quarter.

Recently, we published an article discussing the recent underperformance of the value investing style versus growth. We highlighted how growth's outperformance is more weighted to the last four years of performance, which has been dominated by the FANMAG stocks (Facebook Amazon Netflix Google plus Microsoft and Apple). Growth stocks have experienced significant Price-Earnings Ratio (P/E) expansion, which has led to one of the largest historical dispersions in valuation between the large cap stocks and the average. The difference in valuation at the end of March was in the 4 standard deviation zone, which indicates extreme levels. It can persist but the odds have increased that value stocks will outperform from here.

There is already a healthy amount of optimism priced into many growth stocks. We look for opportunities to find mispriced securities and would rather own solid businesses trading at lower valuations, where expectations are more modest, and surprises tend to be positive. At the current extremes in the market, we believe it is only a matter of time before the value in our stocks gets recognized.

In Canada, equity market performance during the quarter was led by strength in Shopify (+118.7%) and gold stocks (+50.9%). The Canadian Equity Fund lagged the index mainly due to having no exposure to these two expensively valued areas. Indeed, excluding the impact of Shopify and gold from the S&P/TSX Composite Index, the Fund would have outperformed versus the index.

The International Equity Plus Fund posted a positive return in the quarter, but relative performance lagged the MSCI EAFE Index due to its defensive positioning.

In fixed income markets, interest rates, already at very low levels, fell further as market participants assessed the likelihood of further market intervention by monetary authorities to lower longer term interest rates. Corporate bonds staged a sharp recovery as investors responded to the massive amount of government stimulus injected into the global economy by revaluing risk premiums. Declining interest rates coupled with the outperformance in corporate bonds provided strong returns for the Core Bond Fund.

While returns have been positive in the last few months, markets have not yet recovered. In local currency, US, International and Canadian equity markets are still down year-to-date. The volatility seen in recent weeks demonstrates there is still a fair amount of uncertainty in the short term, and the path to recovery will depend on the progress towards a vaccine, the slowing of cases in the US, but is likely to be derailed upon the emergence of a second wave.

Our focus continues to be on owning quality businesses, with attractive long-term prospects and strong balance sheets that will make it through this tough period. In the first quarter and into the second quarter, we were active in making changes across our equity portfolios – selling holdings of companies where we felt there was significant uncertainty to the long-term health of the business. On the other hand, we have added to existing companies where fundamentals are still intact, and invested in attractive new opportunities, many of which are poised to benefit from some key long-term trends.

We cannot predict what will happen in the short term, but we do know that markets are forward looking and tend to recover long before we are back to our normal lives. During the Great Financial Crisis, for example, the outlook was still gloomy when markets started to turn in early 2009. There will likely be bumps along the way, but when we do eventually emerge from this over the long term, we believe our funds are positioned to do well and we expect to deliver outperformance.

Canadian Equity Fund

The first half of 2020 brought about some large swings in market performance. Just as quickly as markets declined over February and March and the world was grappling with the full impact of the coronavirus pandemic, markets began to rebound in the second quarter. Investors became more optimistic as their focus turned to the gradual reopening of the global economy and some positive signs of recovery.

The S&P/TSX Composite finished the quarter up 17.0%, but leadership was narrow as only a few sectors outperformed the broad market. Information Technology (+68.3%) led the way, helped by the staggering performance of Shopify (118.7%) which surpassed Royal Bank as the largest company in Canada. The Materials sector (+42.0%) was led higher by gold stocks, which rose 50.9% over the quarter. Gold and Shopify alone contributed to roughly 48% of the TSX return over the quarter. The Canadian Equity Fund returned 12.3% after fees and expenses during the second quarter, lagging the index primarily due to no exposure to these two areas.

Outside of this, many areas that had been hurt in the first quarter experienced positive returns as sentiment improved – Consumer Discretionary (+32.8%), Industrials (13.3%) and Energy (+10.9%). Fund holdings in these sectors outperformed relative to their respective TSX sectors and were among the top performers in the portfolio.

With improved optimism on the economic outlook, oil prices jumped from just over US$20 at the end of March to US$39 in the quarter. This helped the oil and gas producers owned in the Fund, including NuVista Energy (+58.8%) and Tourmaline Oil (+38.8%). Similarly, industrial company Mullen Group rose 77.3% in the quarter, as it provides services to the energy sector as well as trucking and logistics services which benefit from improved economic activity.

In Materials, not owning gold stocks hurt our relative results over the quarter. We have not owned gold companies due to their expensive valuations and poor record of capital allocation. Short term performance of these stocks tends to be driven by fear, as investors flock to the area in times of uncertainty. However, longer term these companies have proven not to be good places to invest.

As value investors, we tend to look for overlooked and/or misunderstood businesses where investors are being too pessimistic. Outperforming as an investor means having a different view than the market. We prefer to own steady businesses, where we can estimate with some degree of certainty, the future cash flows or earnings over the long term. The current environment has created some great opportunities to find these types of businesses. We have added six new holdings to the Canadian Equity Fund so far this year and have added to several existing holdings.

We remain disciplined and focused on our value approach, which we expect will deliver value for clients over the long term.

Canadian Dividend Fund

The Canadian Dividend Fund advanced by 10.9% after fees and expenses during the second quarter. Factors that impacted the Canadian Equity Fund’s performance applied to the Canadian Dividend Fund. Having a lower exposure to Energy stocks detracted from the Fund’s performance as we saw oil prices rebound significantly from the end of the first quarter values.

Carbon Constrained Canadian Equity Fund

The Carbon Constrained Canadian Equity Fund returned 10.6% after fees and expenses during the quarter.

US Equity Fund

Equity markets rallied swiftly in the second quarter to recoup most of the losses from March following the announcement of COVID-19 as a global pandemic by the WHO. While the trajectory of the coronavirus and the socio-economic response remains uncertain, the US Federal Reserve became the significant driver for a market turnaround. The Fed moved quickly to inject record amounts of liquidity into the system in an attempt to counter the depressive economic effects of the COVID-19 Pandemic. Growth stocks delivered spectacular gains in the second quarter and once again outperformed value stocks within the S&P 500 Index. Great optimism continued for a concentrated group of technology stocks including Microsoft, Apple, Amazon, Facebook and Google which now make up approximately 21.7% of the S&P 500 Index. The combined market weight of the five largest stocks as a percentage of the broad index has never surpassed such a level in the history of the S&P 500 Index.

Despite headwinds for value stocks, The U.S. Equity Fund modestly outperformed the S&P 500 in the quarter, returning 16.8% after fees and expenses versus 15.3% for the Index. Outperformance was led by sectors in the Index geared to an improving economy (Consumer Discretionary, Energy, and Technology) while more “stable” sectors (Utilities, Consumer Staples) lagged. In the first week of June, when confidence in the gradual re-opening of the economy was improving, the Fund outperformed the Index by approximately 10%. However, as concerns over a second wave of COVID-19 resurfaced, some of our stocks gave up these gains against the Index and portfolio outperformance reverted to a modest level. We are confident that these names will continue to deliver good performance as more signs of improvement emerge regarding medical breakthroughs to manage the virus.

During the first quarter sell-off, we purchased additional shares of some of the hardest hit companies; ones in which we believed that valuation became overly depressed, including Lennar Corp, Lowe’s and MGM Resorts. These decisions paid off in a meaningful way. Several holdings within the Consumer Discretionary sector gained more than 50%. In addition, stock selection and allocation in Health Care (Envista Holdings, Hologic), as well as the Fund’s lower exposure to the poorly performing Consumer Staples sector, contributed to relative performance. The Fund’s allocation in Financials and Technology detracted most from relative performance. However, within Technology (Marvell Technology, Microchip Technology), positive stock selection helped offset the underweight position.

Our process remains to focus on the long-term value of businesses. It is our belief that progress on the medical front will inevitably be achieved for COVID-19. The result of this progress will likely result in an economic rebound. We witnessed the speed in which the valuation gap between value and growth stocks could close in early June. In an environment of economic recovery, we expect value stocks will inevitably outperform.

US Dividend Fund (USD)

The US Dividend Fund rebounded in the second quarter, returning 11.7% after fees and expenses (in US dollar terms), but it lagged the S&P 500 Index which returned 20.5% in US dollar terms during the same period. Fund holdings in the Energy and Materials sectors contributed to performance while holding a lower weight in Information Technology and some of the Fund’s Financials stocks detracted from performance. We continued to take advantage of the market volatility in the quarter, adding seven new holdings and existing three positions.

US Small/Mid Cap Equity Fund

The US small/mid-cap equities posted strong gains over the second quarter, as COVID-19 restrictions ease, feeding optimism for a swift economic recovery.

The US Small/Mid-Cap Equity Fund returned of 19.1% after fees and expenses during the second quarter but lagged the Russell 2500 Index by 2.0%, due mainly to having a small cash position of 5% in an extremely strong and volatile market.

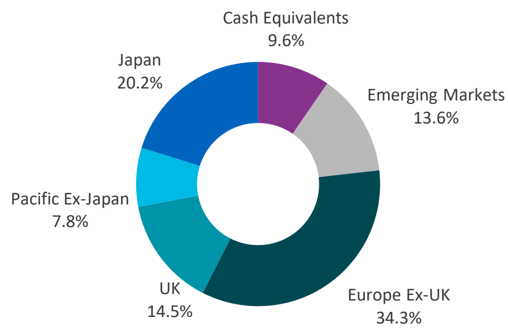
All eleven sectors of the Index ended the quarter in positive territory in local currency, with ten sectors up double digits. Some of the hardest hit sectors during the first quarter, such as Energy and Consumer Discretionary, experienced the strongest recovery during the second quarter. A stronger Canadian dollar shaved a few percentage points off returns in Canadian dollar terms.

In terms of sector positioning, the Fund benefited from an overweight position to Consumer Discretionary (which was up 40.6%), somewhat offset by its limited exposure to Health Care (+26.5%) and Information Technology (+29.4%).

International Equity Plus Fund

The International Equity Plus Fund returned 5.6% after fees and expenses, lagging the MSCI EAFE Index which returned 9.9% during the same period. Fund performance was helped by holdings in the Healthcare and Technology sectors. The largest detractors from performance came from the Energy and Industrials sectors.

The country weightings of the International Equity Plus Fund at June 30, 2020 were:

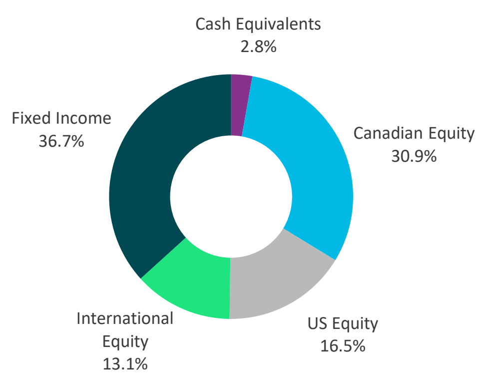


Emerging Markets Equity Fund

Within Emerging Markets, sector performance varied, with a broad mix of sectors performing well. The Emerging Markets Fund returned 14.4% after fees and expenses during the quarter. Similar to developed markets, growth stocks in the EM space outperformed value stocks, having the third largest dispersion since the last 90s. We continue to look for opportunities as we gain greater clarity on the full impact of the most recent market turmoil caused by the COVID-19 pandemic.

Balanced Fund

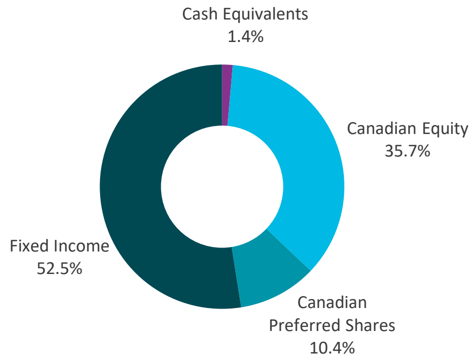
The Balanced Fund advanced by 9.7% after fees and expenses in the second quarter of 2020. The asset mix for the Fund at June 30, 2020 was:



Income Advantage Fund

The Income Advantage Fund returned 9.4% after fees and expenses during the second quarter of 2020. Fund performance was helped by strong performance across all asset classes.

The asset mix for the Income Advantage Fund at June 30, 2020 was:



Core Bond Fund

Financial markets staged a strong recovery in the second quarter as governments unleashed an unprecedent fiscal and monetary stimulus to counter the economic impacts of the COVID-19 pandemic. The scale and speed at which the stimulus was delivered was much greater than the response to the Great Financial Crisis and will undoubtedly help the pace of the post-crisis recovery.

The Core Bond Fund outperformed the FTSE Canada Universe Bond Index during the quarter, returning 6.1% after fees and expenses compared to 5.9% from the Index. This was due to an overweight position in corporate and provincial bonds. In addition, in the spring we had opportunistically added to the corporate and provincial holdings in the Fund at highly discounted levels. These holdings performed well as credit spreads compressed and conditions in the corporate bond markets normalized over the second quarter. Our overweight in real return bonds also added value as inflation expectations rose slightly.

In contrast to the jubilant tone exhibited in risk assets, the economic outlook reflected in government bond yields was more subdued, indicating a market view that the recovery will be bumpy and inflation anemic, with a risk of deflation. Widespread expectation of the adoption of additional non-traditional monetary policy tools by the US Federal Reserve, such as Yield Curve Control, which involves using bond purchases to lower yields on specific maturities to a certain level, has also put downward pressure on yields over the quarter. Specifically, Government of Canada 10-year notes fell about 25 basis points to close to a historical low rate of 0.50%. Meanwhile the Bank of Canada maintained the overnight rate at 0.25% after cutting it three times in the first quarter. At current yield levels, bond market participants are indicating skepticism central banks will be successful in hitting inflation targets and seem to hold a view that economic growth will continue to be weak for an extended period. Under these conditions, monetary policy would remain loose.

Provincial bonds continue to look attractive and offer a low risk source of additional yield in the portfolio. Overall, we added provincial exposure in the quarter with additions to our positions in Quebec, Ontario, and Alberta. We trimmed New Brunswick and Manitoba over the quarter, as they had performed well versus other provinces.

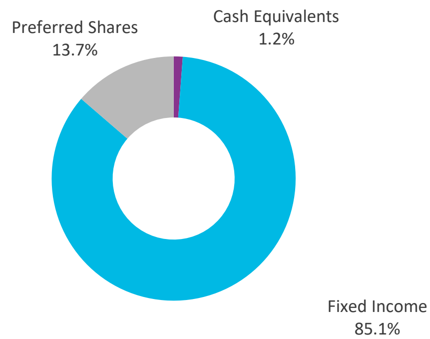
Looking forward, we expect that the enormous amount of monetary and fiscal response to the COVID-19 pandemic will help with the economic recovery over the next few years. In addition, interest rates, which were already very low, have fallen further. Market expectations are for rates to stay low for an extended period, with the possibility of even greater government intervention intended to impact longer term interest rates.

The speed of the economic recovery is somewhat murky and may be affected by the size of a second wave of infections, deteriorating trade relations, job losses and the impact on household finances. As a result, we expect market volatility to be elevated and have positioned our fixed income funds to weather the current crisis over the long-term.

Corporate Advantage Fund

The Corporate Advantage Fund returned 8.0% after fees and expenses during the second quarter. All asset classes provided positive returns during the quarter, but the strongest were Preferred Shares and Non-investment grade bonds, followed by investment grade bonds.

The asset mix of the Corporate Advantage Fund at June 30, 2020 was:



High Yield Bond Fund

High yield bonds and senior secured loans continued to rally following the end of the first quarter. Through May, confidence in the gradual reopening of the economy, strong equity markets and supportive monetary and fiscal spending policies drove markets higher. The US Federal Reserve expanded their purchase program to include all investment grade bonds, a move supportive of BB-rated bonds based on relative value. As an additional supportive measure, the US Federal Reserve continued to purchase the two largest high yield ETFs in the market. Strong performance differentiated little between credit quality.

Credit spreads fell steadily through the quarter before slightly reversing in early June due concerns of a second wave of coronavirus. Broadly speaking, we trimmed bonds and loans into the rally that were perceived to have relatively higher business or balance sheet risk. In turn, we initiated positions in or added to defensive sectors and companies, as well as investment grade rated secured bonds within high yield company capital structures.

New issuance in the high yield market has been robust. With balance sheets coming under sudden stress, companies with near term maturities or liquidity concerns came to the market to raise debt at a breakneck speed. In normal circumstances, companies transitioning into a recessionary environment will try to reduce debt to improve their balance sheet. In the case of COVID-19, the velocity of the move forced companies to increase near term liquidity as quickly as possible despite the need to deal with a higher level of debt maturing at a later date. Issuance came with a mix of ratings, industries and uses for funds. The $75.5 billion of net new high yield bonds issued in the second quarter exceeded the prior record of $52.6 billion in early 2015. 60% of funds raised were used to build up cash reserves or repay credit revolvers.

The High Yield Bond Fund rebounded strongly in the second quarter with the unhedged series returning 5.3% and the hedged series returning 9.5%, both after fees and expenses. The largest contributor to portfolio returns was the Energy (+24.8%) sector. While low interest rates continue to be a headwind for floating rate debt instruments, senior secured loans in the Fund outperformed high yield bonds due to outperforming Energy loan holdings.

It is our belief that the support from the US Federal Reserve will continue to provide positive sentiment in the high yield asset class. However, over the next six to 12 months, a considerable amount of underlying business uncertainty will linger. Our goal remains to increase the defensiveness of the Fund by targeting companies that we believe have solid balance sheets or cashflows (preferably both), without giving up the upside in a recovery scenario. Until we can see more certainty in cashflows, we will continue to maintain a defensive tilt.

Multi Credit Fund

As with the High Yield Bond Fund, the Multi Credit Fund had a strong quarter, returning 10.1% after fees and expenses.

Preferred Share Fund

The Preferred Share Fund advanced by 14.7% after fees and expenses during the second quarter. The preferred share market saw a large drop in volume in the second quarter. We continue to hold a larger weight n rate reset preferred shares than the overall market. Fund performance was helped by our holdings in bank preferred shares which we had added to during the quarter and our underweight position in REITs which lagged the overall market. Perpetual preferred shares performed strongly in the quarter, which detracted from our performance as we had a lower exposure than the overall market to these securities.

Questions about your portfolio?

If you have questions about your Leith Wheeler portfolio, funds or services, please contact your Investment Funds Advisor at 604-683-3391 or 1-888-292-1122.

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