Leith Wheeler INVESTMENT FUNDS LTD. | Quiet Money.®

Leith Wheeler Investment Funds
Quarterly Review – June 30, 2022

	MER %	3 Mo %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
LW Canadian Equity Fund	1.49	-11.0	-0.2	10.1	7.3	8.6
LW Canadian Dividend Fund	1.50	-11.9	-1.9	7.3	5.6	7.8
LW Carbon Constrained Cdn Equity Fund	1.49	-12.7	-6.1	7.7	n/a	n/a
LW US Equity Fund (C$)	1.33	-9.4	-4.4	8.4	7.3	11.9
LW US Dividend Fund (USD)	1.31	-7.5	0.0	6.7	5.5	n/a
LW US Small /Mid-Cap Fund (C$)	1.32	-10.3	-7.0	7.6	8.5	n/a
LW International Equity Plus Fund (C$)	1.59	-10.0	-14.5	-3.0	-1.8	4.6
LW Emerging Markets Fund (C$)	1.65	-8.0	-8.2	3.5	n/a	n/a
LW Balanced Fund	1.16	-8.7	-7.2	3.6	3.6	6.3
LW Income Advantage Fund**	0.85	-7.3	-6.2	3.1	2.9	4.5
LW Core Bond Fund	0.79	-5.9	-11.8	-2.8	-0.3	1.3
LW Corporate Advantage Fund	0.80	-4.6	-8.9	0.0	0.8	n/a
LW High Yield Bond Fund	0.88	-6.3	-8.2	-2.4	0.3	n/a
LW High Yield Bond Fund (C$ Hedged)	0.85	-9.3	-12.0	-2.9	-0.5	n/a
LW Multi Credit Fund	1.03	-8.2	-10.4	-2.4	n/a	n/a
LW Preferred Share Fund	0.95	-8.7	-7.4	6.4	n/a	n/a
LW Short Term Income Fund***	0.37	-0.2	-0.5	0.7	n/a	n/a
LW Money Market Fund****	0.16	0.2	0.3	0.5	0.8	0.5
Peer Comparison*	**Median %**	**3 Mo %**	**1 Yr %**	**3 Yrs %**	**5 Yrs %**	**10 Yrs %**
Median Canadian Equity Fund	2.02	-11.6	-2.7	7.1	6.0	7.5
Median Dividend & Income Equity Fund	2.01	-9.6	3.1	7.6	6.4	7.5
Median US Equity Fund (C$)	1.84	-13.7	-10.3	6.6	7.8	11.9
Median International Equity Fund (C$)	1.82	-11.0	-17.7	0.3	1.3	6.3
Median Emerging Markets Equity Fund	1.39	-10.3	-25.1	-0.2	1.1	4.1
Median Global Equity Balanced Fund	2.21	-10.7	-11.5	2.4	3.1	6.0
Median Cdn Fixed Income Balanced Fund	1.96	-7.5	-9.7	-0.2	0.9	2.8
Median Preferred Share Fixed Income Fund	0.89	-7.8	-6.2	6.7	2.4	2.6
Median Fixed Income Fund	1.27	-6.1	-12.1	-2.8	-0.5	0.8
Median High Yield Fixed Income Fund	1.39	-7.3	-11.3	-0.8	0.6	2.8
Median Money Market Fund	0.45	0.1	0.1	0.3	0.6	0.4

*Note: Returns are for Series B, are total returns and 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, 2022 with the exception of the 3 Month return. *Source: Fundata **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*

The second quarter of 2022 was very challenging for markets around the globe as concerns surrounding inflation weighed heavily on investor sentiment. After holding up relatively well in the first quarter, the Canadian market fell 13.2% in the second quarter while the S&P 500 and MSCI EAFE indices declined 13.6% and 12.0%, respectively. Bond markets also came under pressure as interest rates continued to rise during the quarter.

The economic backdrop has become more uncertain as central banks have communicated their intentions to aggressively combat inflation. The US Federal Reserve has drawn a line in the sand saying they need to see clear and convincing progress on inflationary pressures before changing course on rate hikes. The Fed is prepared to cause a recession to bring inflation back into line if that is what is necessary. In our view, the expected interest rate hikes should be enough to bring inflation under control, but time is needed for the higher rates to work. It is unclear if Central Banks will be able to hold their nerve and hike as expected, as markets have and will react dramatically. Our investment style is not heavily reliant on predicting the outcome for inflation or interest rates. Instead, we place our confidence in companies who we feel can do better than their peers, however things unfold. We prefer preparation over prediction.

Coming into the quarter the economy was already slowing, but it could be explained in large part by trade distortions resulting from supply disruptions while underlying demand remained resilient. We are now seeing weakness in other areas including consumer confidence which is reflected in downward revisions in real personal spending over the last few months, which brings into question the resilience of the consumer. Given this backdrop, market expectations for the probability of a recession in the US. have increased markedly. Canada has not been immune, although there appears to be a lag with the US. We are seeing a rotation in Canada from housing being the primary growth driver to strength in the resource and services sectors, which has been supportive. As we head into the second half of the year, we expect to see the lagged effects of the rapid tightening in financial conditions on households emerge, which will likely dampen growth at home.

It is worth noting that first quarter GDP growth was negative in the US - which is technically halfway to a recession. We very well could be asking the wrong question: it is not when the recession will start, it is when did it start? We did not have a recession when the global economy shut down in 2020, to the surprise of many at the time. It is possible we just delayed it with all the stimulus that was pumped into the economy. As emergency stimulus programs are winding down, we may be getting the recession we would have had two years ago. On a positive front, labour markets remain strong, savings have been stockpiled and there is no stress in the banking system as of yet. Longer term interest rates have also fallen, indicating that the bond market expects inflation to moderate over the medium term. This likely means any recession would more likely be shallow rather than sharp and deep, should it occur.

What does this mean for your portfolio? The worsening economic outlook and higher inflation environment is already being reflected in markets. While stocks have declined across the board, certain sectors have been hit harder than others. Areas of the market that had been popular during the pandemic - and were expensive in our view - have had a very difficult 2022. Two years ago, we commented that "…Shopify has entered a realm beyond any reasonable valuation framework." You heard us many times describing a case of not if but when this situation would revert; the stock is down over 80% from its high. While our portfolios are down, they have weathered the storm better than the overall market due in large part to our companies being attractively priced heading into 2022. The Royal Bank never exceeded a price to earnings ratio of 13.5x over the last several years; it is more attractive now, trading under 11x earnings with a dividend yield of 3.8%. Bond portfolios yield close to 4%, levels not seen since prior to the Financial Crisis in 2008/2009.

The current period of uncertainty will create opportunity for long term investors, and we will take advantage. Whereas it was becoming more challenging to find value after a very strong year in 2021, many areas of equity and bond markets are now more interesting. After many years of growth stocks out-performing in an overstimulated (low rate) environment, a return to more normal interest rates bodes well for our relative performance as value managers.

Canadian Equity Fund

After generating positive returns and escaping the weakness that hit other developed equity markets in the first quarter, the Canadian equity market fell into correction territory during the second quarter as investors worried that aggressive interest rate hikes to combat high inflation would send the economy into a recession.

The S&P/TSX Composite Index (TSX) declined 13.2% over the quarter, with all sectors delivering negative returns. Information Technology was among the worst performing sectors once again, falling 30.7% as the continued rise in interest rates punished tech stocks with higher valuations. Shopify extended its losses, with shares down 52.4% in the second quarter, bringing its year-to-date decline to 76.9%.

Elsewhere, the uncertain economic outlook weighed on the Materials (-23.6%), Financials (-13.1%), and Industrials (-12.7%) sectors. Within Materials, the gold sub-sector declined 22.9%. On the other hand, the Energy (-1.9%) sector fared better, as oil prices rose early in the quarter amid supply concerns stemming from the Russia/Ukraine war and lower output from OPEC members.

While the Canadian Equity Fund also fell 11.0% after fees and expenses in the second quarter, it outperformed relative to the TSX. The primary drivers of outperformance were our exposures in Information Technology and Materials – specifically, not owning Shopify and gold stocks, which both experienced significant declines. Relative performance was partially offset by weakness in Financials, and an underweight in Energy.

With the market sell-off over the second quarter, we have added selectively to existing holdings, including Royal Bank, CN Railway, Enghouse, Brookfield Infrastructure and Saputo.

Our experience managing investments through different cycles has taught us to stay focused on the long term, as predicting what will happen to markets quarter to quarter is a difficult task. We believe our process of investing in quality businesses, with sustainable competitive advantages, strong balance sheets, and capable management teams able to navigate through different environments, will continue to benefit client portfolios over the long term.

Canadian Dividend Fund

The Canadian Dividend Fund declined 11.9% after fees and expenses in the second quarter. The Fund modestly underperformed the TSX Dividend Index which declined 11.1%, with all sectors delivering negative returns. Performance was helped by our exposure in Materials – specifically, not owning gold stocks, which declined significantly. Relative performance was partially offset by weakness in Industrials and Financials, and an underweight in Energy.

With the market sell-off over the second quarter, we have added selectively to existing holdings, including Royal Bank, CN Railway, Enghouse, Brookfield Infrastructure and Saputo.

Carbon Constrained Canadian Equity Fund

The Carbon Constrained Canadian Equity Fund CCCE) follows the same investment process as our core Canadian Equity Fund, where environmental, social and governance issues are addressed in our bottom-up stock analysis. The CCCE Fund adds an additional layer of analysis where companies with more than 30% of their revenues tied to fossil fuel-related activities are screened out of the portfolio. More specifically, investments are excluded if they derive more than 30% of their revenues from:

- The extraction and sale of fossil fuels, or from royalties earned from third parties performing such activities

- Services (including transportation and refining) provided to companies involved in the extraction or sales of fossil fuels
- The sale of power produced by the consumption of fossil fuels

While the Carbon Constrained Canadian Equity Fund also fell 12.7% after fees and expenses in the second quarter, it outperformed relative to the S&P/TSX 60 Fossil Fuel Free Index (TSX FFF) which declined 13.8%. The primary drivers of outperformance were our exposures in Information Technology and Materials – specifically, not owning Shopify and gold stocks, which both experienced significant declines. Relative performance was partially offset by weakness in Financials, and no exposure to Energy as the TSX FFF holds pipeline companies which were helped by the rise in oil prices early in the quarter amid supply concerns stemming from the Russia/Ukraine war and lower output from OPEC members.

With the market sell-off over the second quarter, we have added selectively to existing holdings, including Royal Bank, CN Railway, Enghouse and Saputo.

US Equity Fund

The S&P 500 Index continued its 2022 sell-off over concerns of rising interest rates, inflation, and the potential for an economic recession. Weak performance was broad-based as all index sectors were negative. While the US Equity Fund was down 9.4% after fees and expenses in the second quarter, it outperformed the S&P 500 Index which was down 13.6%, mostly due to strong stock selection with sector allocation also providing a positive contribution.

By sector, outperformance was due to stock selection in the Consumer Discretionary sector, led by Dollar General (+14.1%) and not owning Amazon (-32.7%) and Tesla (-38.7%). The Fund was also underweight the underperforming Information Technology sector (-17.6%). Stock selection in other sectors such as Communication Services led by T-Mobile US (+8.3%) and Real Estate led by American Campus Communities (+18.9%) and VICI Properties (+9.4%) also contributed to outperformance.

Value stocks continued to perform well relative to growth stocks as valuation multiples compressed in an environment of higher interest rates and inflation. We believe that valuation compression will likely remain a headwind for growth stocks, but a pause may unfold given the voracity of market movements in 2022.

In recent years, valuation expansion has been a substantial contributor to market returns. However, over the long term, the largest driver of returns has been earnings, followed by dividends. Compared to the index, the portfolio holds, on aggregate, attractively valued companies with higher projected earnings growth, profitability, and dividend yield. The portfolio also holds companies that have strong brand power, product differentiation, and new technologies, allowing many of them to pass along higher input costs which should protect their margins and revenues moving forward.

Volatility in markets is never fun but it does, however, create opportunities for active managers. Through bottom-up, fundamental analysis, we can identify and own cheap businesses with underappreciated earnings growth while avoiding those with extreme valuations and material risk to their growth. While it remains to be seen the magnitude in which higher levels of inflation and interest rates will negatively impact consumer spending and economic growth, we believe that the businesses held in the portfolio will fare better in the current economic environment and outperform their peers.

US Dividend Fund (USD)

The US Dividend Fund declined 7.5% after fees and expenses in US dollar terms, outperforming the S&P500 Index which declined 16.1% over the same time period. Relative outperformance was driven by both strong stock selection and sector allocation. Most areas of the portfolio added value, such as in the Health Care sector, led by Merck & Co. (+12.0%) and Cigna Corp. (+10.5%). Stock selection in the Consumer Staples sector, led by Coca-Cola Europacific Partners (+7.4%)

also contributed to outperformance. The Fund also benefited from being overweight an outperforming Health Care sector (+0.7%) and underweight an underperforming Consumer Discretionary sector (-14.6%).

US Small/Mid Cap Equity Fund

The Russell 2500 Index declined 14.5% in the second quarter, with all eleven sectors delivering negative returns. Communication Services (-22.1%), Information Technology (-19.2%), and Materials (-17.5%) sectors led the losses while defensive sectors Utilities (-1.1%) and Consumer Staples (-5.1%) held up relatively better.

The US Small/Mid-Cap Equity Fund also declined but significantly outperformed the Index by more than 4% due to both stock selection and sector allocation. This was partially offset by having no exposure to Consumer Staples and Energy sectors, which were among this quarter's best performing sectors.

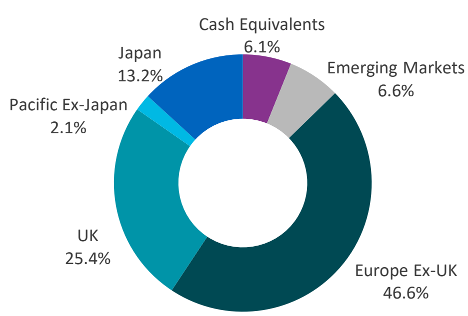
Market volatility led to many portfolio changes - three new positions were added and five were sold.

International Equity Plus Fund

International equity markets ended sharply lower for the quarter (MSCI EAFE -12.0%), bringing several major indices into bear market territory since the start of year. Economic concerns weighed as inflation remains persistently elevated and financial conditions tightened. Equity markets have been increasingly under pressure in the face of rapidly rising interest rates, concerns on slowing growth, ongoing supply chain issues and heightened geo-political risks.

The International Equity Plus Fund declined 10.0% after fees and expenses during the quarter but outperformed the index. The Fund's holdings in banks and telecoms contributed to performance during the quarter due to increasing interest rates and higher inflation respectively. Healthcare stocks were positive contributors thanks to a continued investor interest in more idiosyncratic, defensive areas of the market.

The country weightings of the International Equity Plus Fund as of June 30, 2022 were:



Emerging Markets Equity Fund

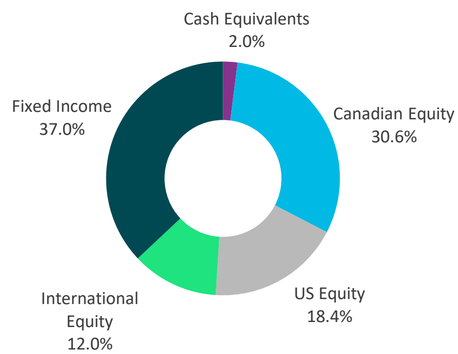
The Emerging Markets Fund declined 8.0% after fees and expenses but outperformed the MSCI Emerging Markets Index in the second quarter. Effective selection in the Information Technology, Industrials, and Financials sectors combined with an underweight to the Information Technology and Materials sectors were primary contributors to the relative returns. Challenging selection in the Consumer Discretionary, Communication Services, Real Estate, and Utilities sectors detracted from performance. On a country basis the strategy added value in Brazil, Taiwan, Thailand, Indonesia, and Korea, with holdings in South Africa, Philippines, Mexico, and Columbia detracting from relative returns.

We have been increasing our exposure to Chinese names in the portfolio as valuations have reached attractive levels. A full re-opening of the Chinese economy, combined with pro-growth efforts by the Chinese government, may be the catalyst to propel not only Chinese equity returns higher, but potentially a broader swath of emerging markets. Further, the re-opening of the supply chains originating in China may help lessen inflationary pressures globally.

Emerging market equities are trading at a significant discount to U.S. equities, and the dividend yield premium of emerging market equities over U.S. equities is at multi-decade highs. This may provide additional support for emerging market equities.

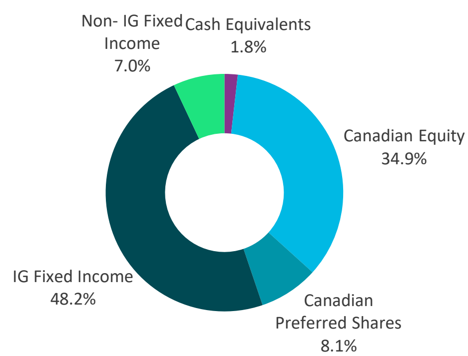
Balanced Fund

The Balanced Fund declined 8.7% after fees and expenses in the second quarter of 2022. The asset mix for the Fund as of June 30, 2022 was:



Income Advantage Fund

The Income Advantage Fund declined 7.3% after fees and expenses during the second quarter. The asset mix for the Fund as of June 30,2022 was:



Core Bond Fund

Fixed income portfolio returns were negative during the second quarter of 2022. Higher and more persistent inflation has resulted in rates rising and central banks accelerating the pace of tightening monetary policy in an effort to cool pricing pressures.

Government bond yields continued to rise, extending the move in interest rates experienced in the first quarter. Over the quarter yields were approximately 0.85% higher across most maturities. The rise in interest rates that has occurred in the first half of this year has been the fastest in the past 30 years, and 10-year yields, at close to 3.20% on June 30, up from 1.40% at the beginning of the year, marks the highest level in over 10 years.

The Core Bond Fund declined 5.9% after fees and expenses during the second quarter and underperformed the FTSE Canada Universe Bond Index due to corporate bond exposure.

Headline inflation in Canada, steadily rising over the past year from pressure from both supply and demand factors, reached 7.7% in May, a 40-year high. In addition, the breadth of price pressure was broad-based, with price gains in most categories including energy, shelter, food, and services. The consumer feels this the most, which is why consumer confidence is depressed. Core inflation measures, which strip out the most volatile components, also rose an average of 4.7% in May, well above the Bank's inflation target level of 1% to 3%.

In reaction to the higher inflation levels, central banks expedited the pace of monetary tightening during the quarter, with both the Bank of Canada and the US Federal Reserve (Fed) delivering aggressive rates hikes. The Fed's increase in its benchmark interest rate of 0.75% in June was the largest rate hike since 1994, and similarly, the Bank of Canada has been raising rates by larger than typical increments and signaling that more rate hikes are coming as they attempt to bring down inflation. The Fed has stated that it needs to see clear and convincing progress on the inflation front to change their outlook or intended policy path. We will continue to see central banks tighten throughout the third quaerter into slowing growth, which is driving an increase in recession probabilities.

The closely watched US yield curve, as measured by the difference in the 10-year and 2-year US Treasury yields, has been hovering close to zero, and dipped briefly negative in April. An inversion of the yield curve has been a reliable indicator that a recession could come over the next 12 to 18 months.

It is likely that central bank tightening will be effective at slowing the economy and relaxing inflation pressures. The transmission of monetary policy to the economy typically takes between 1 to 2 years, therefore the tightening central banks undertook earlier this year will not be fully felt until the end of the year or early next year. As such, we expect that signs of an easing of pricing pressure may take some time to materialize.

In addition, monetary tightening in this cycle may have an outsized impact on the Canadian economy due to the elevated amount of household leverage. The Bank of Canada has highlighted high level of household debt as a key vulnerability, as Canadians have taken on more debt as house prices rose and will face higher mortgage costs as interest rates rise. Indeed, Canada's housing market appears to be cooling down with a 13% drop in average selling prices since February this year and a significant drop in sales volumes.

The large rise in yields coupled with our forecast for slowing economic growth and inflation has improved the risk return profile of bonds, and as a result, we shifted the interest rate sensitivity of the portfolio to a neutral stance relative to its benchmark. We see value in fixed income as yields have increased commensurately. As an example, today's bond market yield, as measured by the FTSE Canada Universe Bond Index, is 3.92% compared to 1.92% at the end of 2021. Today's yields generally represent our fixed income return expectations for the next 3 to 5 years. As existing bonds mature and interest payments are made today, we are re-investing these amounts at rates higher than when they were originally purchased and taking advantage of the more attractive price/yield environment.
Credit spreads widened during the quarter reflecting a deterioration in risk appetite, with heighted uncertainty surrounding central banks' ability to orchestrate a soft landing.

Looking forward we expect rate hikes to work and inflation pressures to subside as tighter monetary policy tempers demand and supply chain issues are reduced. This will take time though, as inflation is a lagging indicator. While difficult to predict, we expect inflation settles between 2% and 3% in the medium term.

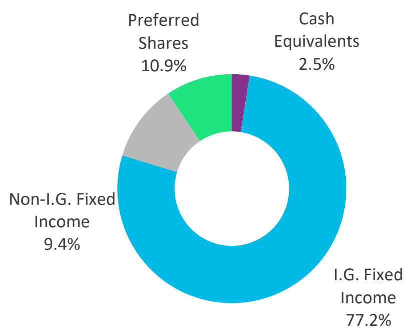
The market has priced in over 2.00% of additional rate hikes from the Bank of Canada by year end, resulting in an overnight rate of close to 3.50%. Higher debt servicing costs, with household leverage close to a record high, is likely to result in a slowing of consumer demand, and possibly result in an economic contraction. On the positive side, tight labour markets, a savings stockpile, no stress in the banking system and declining longer-term rates all bodes well for a long and shallow recession, instead of a sharp and deep one.

We have positioned the portfolio duration neutral relative to the benchmark, reflecting the heightened uncertainty about the path of interest rates over the near term. In other areas of the portfolio, we remain conservatively positioned in corporate bonds and have reduced our exposure to provincial bonds with the expectation of heightened volatility in credit spreads.

Corporate Advantage Fund

The Corporate Advantage Fund declined 4.6% after fees and expenses during the second quarter. Underperformance in Investment Grade bond holdings, High Yield bond holdings, and Preferred Shares all detracted from relative performance.

The asset mix of the Corporate Advantage Fund as of June 30, 2022 was:



High Yield Bond Fund

The second quarter of 2022 was challenging for high yield bonds, as rising interest rates and concerns surrounding inflation weighed heavily on investor sentiment. The CAD hedged series of the High Yield Bond Fund declined 9.3% and the unhedged series declined 6.3% during the quarter, both after fees and expenses.

Credit spreads in the high yield market widened moderately during the quarter, starting at 2.95% and ending at 5.14%. Expected default rates for both high yield bonds and bank loans also rose in the quarter; however, they remain at levels near long-term averages.

In the broader high yield market, all sectors had negative returns. Healthcare, followed by Retail and Media, were the most significant contributors to negative performance, all suffering double digit declines. B-rated and CCC-rated bonds underperformed the broader market. Bank loans outperformed high yield bonds as their floating rate coupons benefited from rising interest rates.

The Fund continues to be positioned with a bias towards owning fixed rate high yield bonds over bank loans, as declining high yield bond prices offer opportunistic valuation discounts to loans. Currently, bank loans represent approximately one-tenth of the overall portfolio.

In contrast to 2021, the high yield bond market has limited new issue activity, and the economy has less fiscal and monetary support. We expect central bank rate hikes to continue over the near term and inflation pressures to subside as tighter monetary policy tempers demand and supply chain issues moderate. In this period of uncertainty in sub-investment grade markets, we will look to take advantage of lower prices and higher yields.

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Multi Credit Fund

The Multi Credit Fund declined 8.2% after fees and expenses during the second quarter. The Fund continues to be positioned with a bias towards owning fixed rate high yield bonds over bank loans, as declining high yield bond prices offer opportunistic valuation discounts to loans. Currently, bank loans represent approximately one-quarter of the overall portfolio.

Preferred Share Fund

The Preferred Share Fund declined 8.7% after fees and expenses during the second quarter. Our overweight to rate reset preferred shares and underweight to perpetual preferred shares has been a contributor to relative performance, as perpetual preferred shares lagged the other structural types as bond yields rose. Within the Fund's sector exposure, we remain overweight Utilities and underweight Financial and Real Estate. Our overweight exposure to Utilities was a drag on relative performance in the quarter.

Despite these challenges, we see short-term upside as redemptions continue with limited new issuance. If five-year bond yields continue trending higher as we expect them to, the Fund should benefit from the overweight exposure to rate reset preferred shares through higher dividend rate resets.

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.

How to reach us:

Leith Wheeler Investment Funds Ltd.
1500 - 400 Burrard Street
Vancouver, BC
V6C 3A6
Phone: 604.683.3391 or 1.888.292.1122
Fax: 604.683.0323
Email: info@leithwheeler.com
Website: Leithwheeler.com