Leith Wheeler INVESTMENT FUNDS LTD. | Quiet Money.®

Leith Wheeler Investment Funds
Quarterly Review –September 30, 2020

	MER %	3 Mo %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
LW Canadian Equity Fund	1.49	7.5	-3.8	0.4	5.9	6.0
LW Canadian Dividend Fund	1.51	6.4	-10.2	-1.9	5.1	n/a
LW Carbon Constrained Cdn Equity Fund	1.47	7.2	-2.3	n/a	n/a	n/a
LW US Equity Fund (C$)	1.32	4.9	-5.9	2.5	6.2	10.1
LW US Dividend Fund (USD)	1.34	3.0	-14.8	-2.8	n/a	n/a
LW US Small /Mid-Cap Fund (C$)	1.31	1.9	-5.9	5.9	n/a	n/a
LW International Equity Plus Fund (C$)	1.49	-2.3	-10.0	-4.4	1.0	2.3
LW Emerging Markets Fund (C$)	1.63	3.8	-3.7	-0.3	n/a	n/a
LW Balanced Fund	1.17	3.0	-0.4	2.4	4.9	5.8
LW Income Advantage Fund**	0.85	4.7	-0.3	1.7	4.5	n/a
LW Core Bond Fund	0.79	0.4	6.4	5.4	3.7	3.9
LW Corporate Advantage Fund	0.79	3.4	5.0	3.3	3.5	n/a
LW High Yield Bond Fund	0.87	0.9	0.5	4.4	5.0	n/a
LW High Yield Bond Fund (C$ Hedged)	0.87	2.9	-2.6	0.9	4.1	n/a
LW Multi Credit Fund	1.00	2.6	-2.9	0.1	n/a	n/a
LW Preferred Share Fund	1.01	13.9	0.8	n/a	n/a	n/a
LW Short Term Income Fund***	0.37	0.3	1.8	n/a	n/a	n/a
LW Money Market Fund****	0.16	0.0	0.8	1.1	0.8	0.6
Peer Comparison*	**Median %**	**3 Mo %**	**1 Yr %**	**3 Yrs %**	**5 Yrs %**	**10 Yrs %**
Median Canadian Equity Fund	2.10	4.8	-3.0	2.3	4.6	5.2
Median Dividend & Income Equity Fund	2.00	4.1	-7.7	1.0	4.4	5.2
Median US Equity Fund (C$)	1.92	6.4	9.8	9.1	9.7	12.4
Median International Equity Fund (C$)	1.89	4.7	5.0	2.6	4.6	5.6
Median Global Equity Balanced Fund	2.27	4.5	4.8	4.5	5.3	6.0
Median Cdn Fixed Income Balanced Fund	1.95	1.9	4.0	3.8	3.6	3.7
Median Fixed Income Fund	1.30	0.7	6.1	4.8	3.3	1.3
Median High Yield Fixed Income	1.34	3.4	2.0	2.5	4.3	4.3
Median Money Market Fund	0.80	0.0	0.6	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 September 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*

Equity markets continued their path to recovery during the third quarter. Markets were strong through July and August, as economic data improved, and company earnings reports were generally better than expected. However, September lived up to its reputation as the worst month for stock performance, with markets pulling back on concerns of rising COVID-19 cases across many developed countries and uncertainty over US fiscal stimulus.

The US was the top performing developed market, with the S&P 500 Index up 8.9% in US dollars in the quarter. Canadian and International markets also provided strong returns, both up close to 5% in local currency. Overall, some of the more economically sensitive sectors including Industrials, Consumer Discretionary and Materials performed well across all equity markets. On the other hand, Energy was among the worst performing sectors, held back by lower demand for fuel amid travel constraints and fears of renewed lockdowns due to the continued spread of COVID-19.

In fixed income markets, interest rates were broadly unchanged during the third quarter, as the Bank of Canada provided guidance that interest rates are at their lower bound and it committed to leave policy rates where they are until inflation is sustainable above 2%. As a result, our fixed income funds' returns were modestly positive during the quarter. This follows the exceptionally strong returns experienced in the first half of 2020 due to the decline in interest rates.

In the last six months, we have seen a remarkably quick rebound in equity markets, which has been supported by unprecedented and coordinated monetary and fiscal stimulus around the world. Value stocks have generally done well as optimism returned to the market and parts of the economy began their road to recovery. Our equity portfolios, which had a particularly challenging first quarter, have performed in-line to ahead of their respective value indices on a year-to-date basis. But with the popularity of stay-at-home technology stocks continuing to drive market returns this year, our equity funds are still underperforming relative to the broader indices.

What are the catalysts needed to turn things around for value stocks? With the caveat that predicting where the markets are going in the short-term carries a wide funnel of doubt, there are several factors that make us optimistic.

First off, while we know that the COVID-19 pandemic is a significant issue right now, we are hopeful that the global efforts to find medical solutions will be successful. At some point, concerns about the timing of the economy re-opening will dissipate. By holding on to most of our positions which disappointed when the lockdown began, we believe our funds are extremely well positioned to outperform when we eventually return to a more normal environment. This is a key catalyst for value stocks and a headwind for the stay-at-home technology stocks – more visibility on a COVID-19 solution and a sustained re-opening of the economy. We have seen some glimpses of this optimism in the last six months with some areas re-opening and many health care companies working to develop COVID-19 treatments and vaccines. Our equity funds have done very well during these times of optimism, as the value in our holdings was recognized.

Second, we haven't crowded into the areas that others are piling into. Instead, we looked for companies that were beaten up, but have a very strong chance of surviving. In spring, we bought companies that were down 40%, 50% or more, with more pessimism priced in than we felt was warranted. That is not what the market was buying at the time. Growth stocks continued to be the popular trade, pushing valuations to extremes. Growth and momentum factors are performing in the top fifth percentile, while value as a factor is in the bottom percentile. Any kind of normalization or reversion would be a catalyst. In our view growth stocks as a group need to continue to deliver double digit earnings growth per annum over the next decade to justify their lofty multiples. In a world where the economy is likely to grow at no more than three or four percent, that's a significant ask. Can it be sustained? It's hard to believe it can. This bodes well for value stocks over the next decade, as there is much less optimism factored into current prices.

Third, the massive amount of stimulus from governments around the world is supportive of the next cycle of economic recovery, which also bodes well for our equity funds. There is the potential for this stimulus to be inflationary as well, which usually favours financial stocks – even if inflation does not rise soon, Financials usually do very well during the early years of a recovery.

Valuations matter, as they are a key determinant to future returns. We are not prone to making market calls, but it seems to us that the big surprise coming to investors who have crowded into passive ETFs and private assets may be a rebound in traditional value portfolios versus more sluggish gains in these crowded trades. In a time of uncertainty, it is best to own businesses that have a very good chance of doing well over the next decade, with more modest expectations baked into their current price.

Canadian Equity Fund

The S&P/TSX Composite Index (TSX) rose 4.7% in the quarter, with nine of the 11 sectors delivering positive returns. More economically sensitive sectors performed well as we saw positive signs of an economic recovery. The Industrial sector (+13.6%) was the top performer, while Materials (+8.7%) and Consumer Discretionary (+8.4%) also posted solid returns. The Energy sector declined 8.1%, primarily due to a pull back in September, as a surge in COVID-19 cases renewed concerns for lockdowns and weaker demand for oil.

The Canadian Equity Fund outperformed the TSX over the quarter, returning 7.5% after fees and expenses. Fund performance was helped by our holdings in Industrials, Energy, Consumer Discretionary and Materials. Overall, broad-based strength across many areas of the portfolio more than outweighed the impact of not owning gold stocks (+6.2%) and Shopify (+5.6%), which both posted more modest returns compared to the first six months of the year.

Tourmaline Oil increased 38.1% in the quarter and was the top performer in the portfolio. The company reported strong second quarter results with higher production, lower operating costs, and reduced debt. Stronger natural gas prices in August also helped the stock, as warmer summer weather improved demand while the California wildfires tightened supplies. We trimmed our position on the recent stock price strength. Elsewhere in Energy, Pembina Pipeline declined 15.1%, on broader weakness in the Energy sector during September. Pembina reported better than expected results, demonstrating the resilience of its contract-based business. The strong results were partially offset by weakness in its marketing segment, due to lower oil and gas volumes and slightly higher capital expenditures due to weather and COVID-19 disruptions.

In Industrials, Fund performance was helped by our overweight position as well as the outperformance of our holdings relative to the TSX sector. Mullen Group (+25.1%), Toromont Industries (+18.8%), and CN Rail (+18.6%) all reported good financial results given the tougher environment they faced in the second quarter. All three companies have done well to control costs amid the slowdown in economic and industrial activity as a result of the COVID-19 pandemic. Some positive economic data, pointing to the gradual recovery, also benefitted these companies during the third quarter.

After delivering strong returns in the first six months in 2020, Constellation Software (-3.4%) experienced a modest decline in the third quarter. The company reported revenues that were lower than expected due to a decline in software license revenues from businesses that were impacted by COVID-19 such as health clubs, salons and spas and tour operators. On the positive side, recurring maintenance and support revenues held up well, and the company's cost reductions helped boost margins.

Overall, the market has come a long way since the lows experienced back in the first quarter. The TSX is up 46.3% since the low reached on March 23rd. Not all areas of the market have rebounded to the same extent, so we are still finding some attractive opportunities. During the third quarter we added to our positions in Bank of Montreal, CGI, and Pembina Pipeline.

We have seen some positive steps towards the recovery, but still recognize the uncertainty that exists in the short term from a potential rise in COVID-19 cases. However, when we do eventually get to a more normal environment, we believe the Canadian Equity fund is well positioned to outperform.

Canadian Dividend Fund

The Canadian Dividend Fund advanced by 6.4% after fees and expenses in the third quarter. Similar to the Canadian Equity Fund, holdings in the Industrials, Energy, Consumer Discretionary and Materials sector helped performance. We added to positions in the Bank of Montreal and Pembina Pipeline at attractive valuation levels.

Carbon Constrained Canadian Equity Fund

The S&P/TSX 60 Fossil Fuel Free Index rose 5.4% in the quarter, with nine of the 11 sectors delivering positive returns. The Carbon Constrained Canadian Equity Fund returned 7.2% after fees and expenses during the same time period. The top contributor to performance was the fund's holding in Stella-Jones which was up 32.5% during the quarter. We added to positions in Bank of Montreal and CGI at attractive prices during the quarter.

US Equity Fund

Equity markets continued to rally in the third quarter. Strong performance in the S&P 500 Index was led by the Consumer Discretionary (+12.8%), Materials (+11.2%) and Industrial (+10.4%) sectors.

The US Equity Fund returned 4.9% after fees and expenses during the quarter, outperforming the Russell 1000 Value Index (+3.6%), but it lagged its benchmark S&P 500 Index (+6.9%) as growth stocks continued to be in favour. Our stock selection was better than the market in many sectors, including in Technology, Consumer Discretionary and Industrials, which were areas of weakness earlier in the year. Our holdings in Financials were the main reason why we lagged the broad market. On the other hand, positive relative performance came from security selection and overweight in the Consumer Discretionary sector (Lennar Corp, SeaWorld and MGM Resorts).

The Energy sector fell by 21.3% and was the weakest performing sector, despite flat crude oil and higher natural gas prices in the quarter. We have a fairly modest 4% weight in this sector. Sentiment remains downbeat as rising cases of COVID-19 globally heightened concerns of continued reduction in the demand for energy.

We believe the Fund is well positioned to perform well when we see a broader economic recovery.

US Dividend Fund (USD)

The US Dividend Fund advanced by 3.0% (in USD terms) after fees and expenses during the third quarter. The Fund benefitted from stock selection in the Consumer Discretionary sector and an overweight in the Materials sector. The Energy and Financials sectors were the biggest detractors from performance.

We added one new holding and exited two holdings during the quarter. Now, more than ever, we stress the importance of employing active management to avoid the overvalued areas of the market.

US Small/Mid Cap Equity Fund

Despite heightened market volatility, US small/mid-cap equities continued to climb in the third quarter, albeit with a wide dispersion among sector performance. Cyclicals such as Consumer Discretionary (+13.8%) and Industrials (+7.4%) led the gains of the benchmark Russell 2500 Index (+3.9%) as the economy moves further along the reopening path. Energy (-17.5%) pulled back significantly after a stellar second quarter while those interest rate sensitive sectors (Utilities (-3.6%), Financials (-3.2%), and Real Estate (-2.6%)) also lagged.

The US Small/Mid Cap Equity Fund returned 1.9% after fees and expenses during the quarter, lagging the Russell 2500 Index which advanced by 3.9% during the same time period.

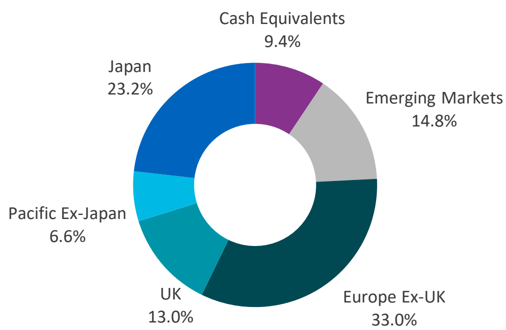
The largest detractor to relative performance in the third quarter was the Communication Services holding Cogent Communications (-23.1%), one of the world's largest internet service providers. The company's stock price reached multi-year highs in April, benefiting from demand spikes for capacity and data consumption as a result of the COVID-19 pandemic. We trimmed over 3% from peak weight of 5.8% from February to April as stock price approached fair valuation on continued price appreciation. Since then, price has pulled back significantly on no specific company news. Despite its recent price weakness, the stock remains one of the Fund's top contributors year-to-date.

On the positive side, our overweight position to the top performing Consumer Discretionary sector, along with strong performers, including Tri Pointe Group Inc. (+21.1%) and Wyndham Hotels & Resorts Inc. (+16.4%), helped relative performance. Tri Pointe benefited from the robust housing market in the low interest rate environment with pent up demand, whereas Wyndham benefited from its lower-end, drive-to focus and its capital light business structure when compared to most other hotel businesses.

International Equity Plus Fund

The International Equity Plus Fund declined by 2.3% after fees and expenses during the quarter, lagging the MSCI EAFE Index which returned 2.8%. The primary detractors from performance were from holdings in the Telecommunications and Energy sectors while the Fund's holdings in the Information Technology sector helped performance.

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

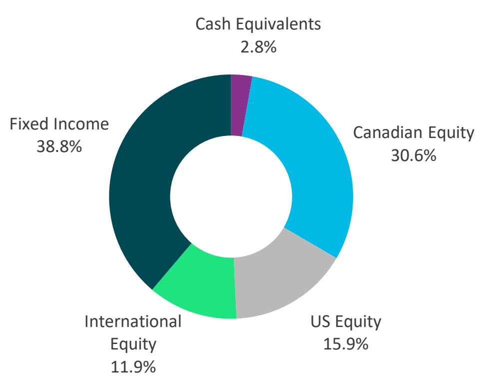


Emerging Markets Equity Fund

The Emerging Markets Fund advanced by 3.8% after fees and expenses. Fund holdings in the Financials and Materials sectors contributed to positive return, while holdings in the Information Technology and Consumer Discretionary sectors were the largest detractors from performance.

Balanced Fund

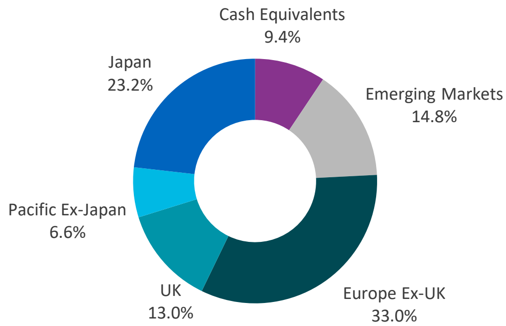
The Balanced Fund advanced by 3.0% after fees and expenses in the third quarter of 2020. The asset mix for the Fund at September 30, 2020 was:



Income Advantage Fund

The Income Advantage Fund returned 4.8% after fees and expenses during the third quarter of 2020. The Fund experienced positive returns in all asset classes, but the largest positive contributor to return was its holding in preferred shares, which had a strong return during the quarter of 14.2%.

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



Core Bond Fund

Following exceptionally strong returns from fixed income investments in the first half of 2020 due to the decline in interest rates, the Core Bond Fund returned 0.4% after fees and expenses during the quarter, in line with the benchmark FTSE Canada Universe Bond Index. Interest rates were close to unchanged, but corporate and provincial credit spreads continued to tighten.

Government bond yields were broadly unchanged during the quarter, the Bank of Canada provided guidance that interest rates are at their lower bound and committed to leave rates unchanged until inflation is sustainable above 2%. The yield on short-dated government bonds maturing over the next two years declined by 0.05% and converged to the policy rate, yielding just 0.25%.

Credit spreads continued to grind tighter, approximately 0.15% lower during the quarter. This rally in corporate credit was despite an increase in new issue supply and growing concerns about a second wave of COVID-19 infections, economic lockdowns and spillover effects into sectors including retail and commercial real estate. The Core Bond Fund remains overweight corporate bonds with an overall portfolio yield modestly higher than the FTSE Canada Universe Bond Index. These corporate bond holdings are biased towards high quality issues (in particular, bank debt) with maturities that are shorter than the Index. This generates additional yield for the portfolio without exposing it to significant additional credit risk.

During the third quarter, we reduced the Fund’s exposure to corporate bonds after strong performance and increased its exposure to provincial bonds. Our view is that the government bond buying programs that are currently in place, combined with a prolonged low interest rate environment, are likely to continue to push investors into high quality credit including provincial issuers. We find provincial credit valuations particularly attractive and offer a significant pick-up in yield given the low level of interest rates and the government support measures in place for these markets.

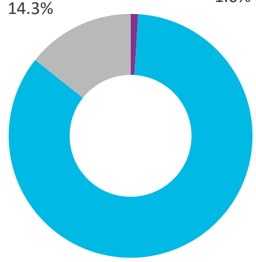
There is a significant amount of uncertainty about many factors that can impact capital markets over the near term. Notwithstanding the development, production and distribution of a COVID-19 vaccine, there are many other factors that are contributing to the level of uncertainty, including a highly divisive US Presidential Election, unprecedented - and in some cases untested - global monetary policy measures, unprecedented fiscal policy measures, lockdowns to address the spread of the COVID-19 virus, and a structural shift in the work environment and use of technology. However, offsetting all this is significant government support for both the real economy and the functioning of capital markets, which has alleviated market volatility during the quarter and supported credit markets.

We see the distribution of risk, relative to current market pricing, as being tilted somewhat towards a slower normalization of economic activity. This could occur as a result of a multitude of different catalysts, including (but not limited to) a slower development of a COVID-19 vaccine, issues with the production, distribution, and efficacy of the vaccine, as well as the speed in which the vaccine is administered and the potential of herd immunity is achieved. Due to this unusual level of uncertainty, we continue to position the Core Bond Fund conservatively in high quality, liquid issuers in order to take advantage of further market volatility and dislocations over the near-term, while continuing to provide an attractive risk-adjusted return, in excess of inflation, in the current low interest rate environment.

Corporate Advantage Fund

The Corporate Advantage Fund returned 3.4% after fees and expenses during the quarter. Performance was led by the Fund's preferred share holdings which returned 14.2% in the quarter, but both the non-investment grade bonds (+2.8%) and the investment grade bonds (+1.8%) contributed positively to performance.

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



High Yield Bond Fund

High yield bonds and bank loans continued to perform strongly in the third quarter with both respective indices returning between 3% to 4%. Sentiment in the high yield asset class remained upbeat, buoyed by investors searching for yield in a low interest rate environment and continued support from the US Federal Reserve. High yield bonds have attracted significant inflows from investors in 2020. Demand for higher yielding bonds has been met by strong supply from a diverse set of companies, industries and ratings. In addition, we have noted a shift in the purpose of new issuance in high yield markets, from efforts to raise cash during the crisis in first half of 2020 towards more normal refinancing activity, including in the Energy sector, in the third quarter.

High yield credit spreads fell steadily through the quarter before a slight reversal in mid-September when risk assets across markets experienced a brief sell-off.

The BB-B High Yield Index returned 2.3%during the quarter. The unhedged series of the High Yield Bond Fund returned 0.9% and the hedged series returned 2.9%, both after fees and expenses. Relative underperformance was largely due to a more cautious and defensive positioning in the quarter. No sector had an outsized contribution to relative returns, but results were weighed by Brookfield Property REIT (-5.6%), Teine Energy (+1.9%) and Reynolds Group (+0.9%). AES Corp. (+9.2%) and Tegna (+6.4%), both additions last quarter, were two of the larger contributors to positive relative returns.
We continue to believe that monetary and fiscal support will remain for the foreseeable future. We believe that further challenges will be met with additional stimulus. In saying that, the elevated leverage profile and stressed cashflows of many

companies will result in challenges ahead until businesses can normalize their operations. Therefore, it is important that we remain vigilant and focus on companies that have balance sheet and business model resiliency. Overall, we believe that an environment of gradual recovery with the support from monetary and fiscal policy is conducive to positive high yield market returns.

Multi Credit Fund

The Multi Credit Fund returned 2.6% after fees and expenses during the quarter. Positive returns for the portfolio was broad-based, led by higher weighted sectors like Basic Industry (+4.0%), Utilities (+3.5%) and Capital Goods (+3.4%). At the end of the quarter, the asset mix of the Multi Credit Fund was 69.3% high yield bonds and 30.7% senior loans.

Preferred Share Fund

The Preferred Share Fund returned 13.9% after fees and expenses during the third quarter, after a weak first half of 2020. Recovery in the equity markets, tighter credit spreads and relatively unchanged interest rates all contributed to performance. The introduction of 'Additional Tier 1 bonds' (also referred to as Limited Recourse Capital Note bonds. "LRCNs") was a positive for the preferred share market. These bonds are a new bank capital structure for institutional investors which sit below subordinated debt and alongside preferred shares. The introduction of these bonds is extremely positive for higher rate reset preferred shares issued by banks, which are likely to be redeemed at the next call date and replaced with LRCNs.

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