

# Leith Wheeler Canadian Equity Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2021



Quiet Money®

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 proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

To provide superior long-term investment returns by investing primarily in a diversified portfolio of common shares and other equity related securities of Canadian issuers. The Fund is not restricted by capitalization or industry sector although portfolio diversification is a consideration in the selection of securities for the Fund. Under normal circumstances, the Fund will keep its portfolio fully invested, to the greatest extent possible, in Canadian equity and equity related securities.

Our approach to stock picking is based on fundamental research with a strong “value” bias. Our test for value is viewing any investment we make as if we were “buying the whole business”. Therefore, the critical question becomes “what would be the price of the whole business that would make the purchase a profitable one?” Our experience has been that the price of a company in the stock market does not always reflect its real value. This discrepancy between price and value creates excellent investment opportunities.

As value investors, we tend to include companies in the portfolio when they are “out of favour” by the market and have declined in price. Companies can become undervalued when there is a lack of investor awareness; when an entire industry is out of favour with investors; or when a company experiences a short-term difficulty which, following careful analysis, we believe can be overcome. By purchasing these companies after a price decline, we find we are able to control risk in the portfolio as these investments often have less downside risk while offering a decent potential return.

### 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 14.5% in 2021 to \$3,794.8 million from \$3,314.9 million at the end of 2020. Of this change, \$921.9 million was attributable to positive investment performance and \$442 million to net outflows from unitholders.

Investor optimism over the economic recovery drove equity markets higher in 2021, as vaccinations ramped up across the world, regions began to reopen, and the US approved further fiscal stimulus.

The S&P/TSX Composite Index ended 2021 +25.1% higher than it began the year. Ten of the 11 sectors delivered positive returns for the period with the index being led by Energy (+48.9%), Real Estate (+37.4%), and Financials (+36.5%). Health Care (-19.2%) was the only negatively performing sector.

The Canadian Equity Fund outperformed the S&P/TSX Composite Index during 2021, with Series A of the Fund earning +29.5% and Series B of the Fund earning +27.6% after fees and expenses.

Among the top contributors to the Fund’s performance in 2021 were Tourmaline Oil Corp (+147.1%), Canadian Natural Resources (+82.8%), and WPT Industrial Real Estate (+53.4%). Tourmaline Oil and Canadian Natural Resources both benefited from the rise in both oil and natural gas prices. In addition, natural gas producer, Tourmaline Oil announced the acquisition of privately owned Black Swan Energy for approximately \$1.1 billion. The transaction solidifies Tourmaline’s position as the leading producer in the North Montney basin, which will be a key supplier of Canadian LNG. Canadian Natural Resources reported good results, helped by higher realized prices and lower operating expenses. With the lowest cost structure among Canadian oil producers, we expect the company will generate strong free cash flow to continue to pay dividends and improve the balance sheet. WPT Industrial REIT, which owns warehouses and distribution centres in the US, reported solid results, with better-than-expected revenues and funds from operations. Occupancy rates were very strong at 97.6% with rent collections approaching 100%. Leasing fundamentals continue to be attractive with most of the leases expiring in 2021 being negotiated at higher rates. The tailwinds of growing e-commerce demand and tenants looking to improve distribution and supply chain capabilities continue to benefit WPT.

In contrast, Saputo (-18.3%) and Stella Jones (-12.2%) detracted from performance. Dairy producer, Saputo, had a difficult year, reporting softer quarterly results on several occasions. While its Canadian business has been strong, the US business continued to face challenges related to the pandemic, including a slow recovery in food services, labour shortages, and supply chain issues. The management team has taken significant steps to improve the US business by increasing prices, rationalizing its product line-up, and reducing costs. The outlook for the coming quarters is improving and we believe that the company’s long-term earnings will be significantly higher than current levels as volumes and margins recover. Shares of Stella-Jones fell as spot lumber prices reversed course. We expect reopening activity will continue to generate solid demand in residential lumber and see strong demand for its other core product categories.

There were five holdings added to the Fund in 2021: Telus International, First Capital REIT, Metro Inc., Enghouse Systems, and Definity Financial.

## Management Discussion of Fund Performance (cont.)

### Results of Operations (cont.)

We participated in the initial public offering of Telus International, which provides a variety of voice and digital customer experience solutions for consumer-focused businesses. The business started in 2005 as a call centre, and since that time, consumer demands have evolved as they now interact with businesses through many digital channels including websites, mobile apps, chat, email, social media platforms, and text. As a result, Telus has shifted from the legacy voice service to offer solutions for many of these digital channels as well as the expanding work processes required to run them effectively. The company has over 600 clients, which includes an impressive list of companies experiencing strong growth such as Epic Games, TikTok, Google, Wix and Uber. Telus is a profitable company that provides services in an area of growing demand. We believe organic growth will continue and the company's capital-light, above-average return-on-invested-capital business model will generate value for shareholders over the long term.

First Capital REIT was added to the portfolio in the second quarter. First Capital owns a high quality and urban-focused portfolio of retail real estate assets. Over the last year, the market has been worried about the retail environment and prospects for tenants. However, we believe that First Capital's attractively located assets will still be in demand going forward. Leasing rates have been holding up well, which speaks to the quality of the company's portfolio and growing tenants taking the opportunity to expand. In addition, the company has a large development pipeline which provides an attractive growth opportunity over the long-term.

Metro Inc. operates over 950 grocery stores and 650 drugstores primarily located in Quebec and Ontario. Its banners include Metro, Super C, Food Basics and Jean Coutu. At the start of the pandemic, grocers benefited from increased sales as consumers moved from dining out to eating from home. As the recovery took place, grocers have underperformed as investors looked for equities that would benefit more from re-opening activity, which allowed us to buy the stock at an attractive price. Metro has a strong management team and a long history of profitability, delivering a mid-to-high teens return on equity. In the short term, the company is facing some tough comparisons to last year's elevated grocery sales. We believe this is temporary and that longer term, Metro's profitability will improve as COVID-related costs dissipate, pharmacy store sales recover, and we expect some working (and eating) from home continues even as the pandemic recedes.

Enghouse Systems provides software and services through two operating divisions that are focused on vertical end markets. The Interactive Management Group specializes in customer interaction software with technologies such as contact centres and video conferencing to facilitate remote work. The Asset Management Group's products include fleet routing and scheduling for the transportation industry. Enghouse's business has a natural moat due to high switching costs for customers and limited competition due to the specialized nature of their target end markets. The company also enjoys high recurring revenue through subscriptions and maintenance fees and generates strong free cash flow which it deploys into acquisitions. Enghouse has a very attractive track record of capital deployment, producing a historical return on invested capital of over 25%. In the last year, one of Enghouse's recent acquisitions, video conferencing provider Vidyo, saw a significant spike in demand due to the pandemic. As the company lapped the strong results of last year, organic growth for the first quarter of 2021 turned negative which caused the stock to sell off. We took the opportunity to purchase shares at a discount to its intrinsic value, as we expect Enghouse's disciplined acquisition strategy will continue to generate attractive revenue growth and high returns on capital for shareholders.

We participated in the IPO of Definity Financial in November. Definity was created from Economical Insurance, as it moved from a mutual company, (essentially a non-profit owned by its policy holders) to a for-profit company through demutualization. Definity is a property & casualty (P&C) insurer, which is an attractive industry as it tends to have short-duration policies that can get re-priced every year. This means that the industry's assets are also quite short-term in nature and companies' results are much less sensitive to changes in equity markets and long-term interest rates than life insurance companies. For the last few years, a new, high quality management team headed by CEO Rowan Saunders has been working on changing the culture of the company to focus on expense management and improving profitability in preparation for becoming a public company. They have made good progress so far and given the CEO's previous experience and track record, we see further opportunities to improve profitability.

There were seven holdings deleted from the Fund in 2021: Spin Master, BRP, Topicus, CT REIT, WPT Industrial REIT, Slate Grocery REIT, and Nutrien.

Given the strength we have seen in markets over the last year, we expect returns to moderate over the next year. Overall, valuations continue to look attractive and have been supported by solid earnings growth, which we expect will continue as the economy gradually recovers.

### Recent Developments

The Canadian Equity Market was down in January of 2022.

## Management Discussion of Fund Performance (cont.)

### Related Party Transactions

Leith Wheeler Investment Counsel Ltd. (the “Manager”) is the manager and portfolio advisor of the Fund and is responsible for the Fund’s day-to-day operations. The Fund pays the Manager a management fee as compensation for managing the investment portfolio of the Fund.

### Management Fees

The Manager provides the Fund with investment management services, including fund accounting and unitholder record keeping. In return, the Manager receives a management fee based on the net assets of the Fund, calculated on a daily basis. The annualized management fee for the Series B units of the Fund is 1.40%. During the year, the Fund paid the Manager \$842,400 (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	2021	2020	2019	2018	2017
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$46.80	\$45.21	\$38.45	\$44.90	\$41.67
Increase (decrease) from operations:					
Total revenue	1.44	1.40	1.17	1.05	1.00
Total expenses	-	-	-	-	-
Realized gains (losses) for the year	4.16	0.68	0.58	0.81	0.80
Unrealized gains (losses) for the year	8.16	1.67	6.20	(6.96)	2.56
Total increase (decrease) from operations <sup>(1)</sup>	13.76	3.75	7.95	(5.10)	4.36
Distributions:					
From income (excluding dividends)	-	(0.01)	(0.01)	-	-
From dividends	(1.46)	(1.32)	(1.17)	(1.04)	(0.91)
From capital gains	(0.13)	-	-	(0.36)	-
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(1.59)	(1.33)	(1.18)	(1.40)	(0.91)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$58.87	\$46.80	\$45.21	\$38.45	\$44.90

Series B	2021	2020	2019	2018	2017
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$52.47	\$50.17	\$42.60	\$49.59	\$45.94
Increase (decrease) from operations:					
Total revenue	1.63	(1.20)	1.30	1.08	1.06
Total expenses	(0.89)	(0.57)	(0.69)	(0.66)	(0.60)
Realized gains (losses) for the year	4.70	(0.58)	0.65	0.83	0.85
Unrealized gains (losses) for the year	9.24	(1.43)	6.94	(7.16)	2.69
Total increase (decrease) from operations <sup>(1)</sup>	14.68	(3.78)	8.20	(5.91)	3.99
Distributions:					
From income (excluding dividends)	-	-	(0.01)	-	-
From dividends	(0.72)	(0.32)	(0.51)	(0.28)	(0.24)
From capital gains	(0.14)	-	-	(0.40)	-
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.86)	(0.32)	(0.52)	(0.68)	(0.24)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$66.04	\$52.47	\$50.17	\$42.60	\$49.59

(1) Net assets attributable to holders of redeemable units and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

(2) Distributions are reinvested in additional units of the Fund or paid in cash.

## Financial Highlights (cont.)

### Ratios and Supplemental Data

Series A	2021	2020	2019	2018	2017
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	3,733,099	3,256,668	3,129,925	2,590,288	2,898,971
Number of units outstanding (000s) <sup>(1)</sup>	63,410	69,588	69,227	67,375	64,560
Management expense ratio (%) <sup>(2)</sup>	-	-	-	-	-
Management expense ratio before waivers or absorptions (%)	-	-	-	-	-
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.03	0.04	0.04
Portfolio turnover rate (%) <sup>(4)</sup>	13.40	23.06	17.60	20.33	19.86
Net assets attributable to holders of redeemable units - per unit (\$)	58.87	46.80	45.21	38.45	44.90

Series B	2021	2020	2019	2018	2017
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	61,651	58,192	102,467	96,281	133,872
Number of units outstanding (000s) <sup>(1)</sup>	934	1,109	2,042	2,260	2,700
Management expense ratio (%) <sup>(2)</sup>	1.49	1.48	1.49	1.49	1.49
Management expense ratio before waivers or absorptions (%)	1.49	1.48	1.49	1.49	1.49
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.03	0.04	0.04
Portfolio turnover rate (%) <sup>(4)</sup>	13.40	23.06	17.60	20.33	19.86
Net assets attributable to holders of redeemable units - per unit (\$)	66.04	52.47	50.17	42.60	49.59

(1) This information is provided as at December 31 of the year shown; unless noted otherwise.

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

## Past Performance

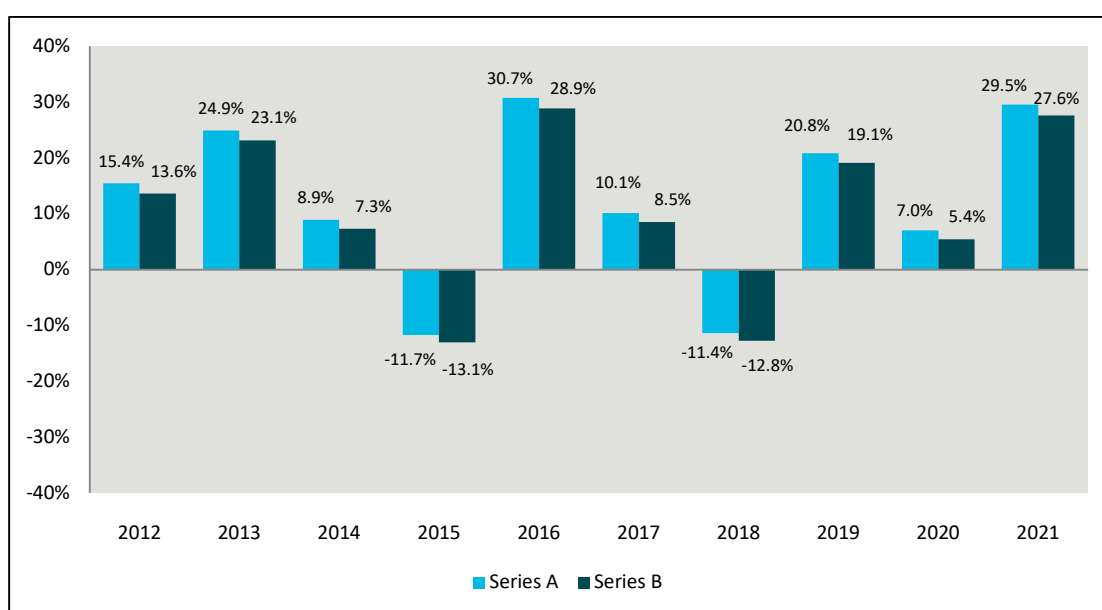
### General

The Fund's performance assumes all distributions made by the Fund in the years shown were reinvested in units of the Fund and is based on net asset value per unit. If you hold the Fund outside a Registered Plan, you will be taxed on these distributions.

The performance information does not take into account sales charges, other charges or taxes that, if applicable, would have reduced returns or performance; but includes management fees and other expenses borne directly by the Fund. Past performance does not necessarily indicate how the Fund may perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund's historical return, which changes each year and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each year.



### Annual Compound Returns

The following table compares the historical annual compound return of the Fund (before fees for Series A and after fees for Series B) with the S&P/TSX Composite Index, in each case for the year ended December 31, 2021. 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 the benchmark is found in the Results of Operations section of this document.

For the Years ended December 31	1 Year	3 Years	5 Years	10 Years
Fund – Series A	29.5%	18.7%	10.3%	11.4%
Benchmark	25.1%	17.5%	10.0%	9.1%
Fund – Series B	27.6%	17.0%	8.7%	9.8%
Benchmark	25.1%	17.5%	10.0%	9.1%

## Summary of Investment Portfolio

As at December 31, 2021

### Top 25 Positions

Issuer	% of Net Asset Value
Toromont Industries Ltd	6.7%
Royal Bank of Canada	6.4%
Toronto-Dominion Bank	6.0%
Brookfield Asset Management Inc	5.9%
Canadian National Railway Co	5.0%
Constellation Software Inc	4.6%
Brookfield Infrastructure Partners LP	4.1%
Bank of Montreal	3.8%
Tourmaline Oil Corp	3.5%
Open Text Corp	3.5%
Bank of Nova Scotia	3.3%
CGI Inc	3.0%
Canadian Natural Resources Ltd	3.0%
Canadian Tire Corp Ltd	3.0%
Waste Connections Inc	2.8%
Saputo Inc	2.7%
Rogers Communications Inc	2.6%
Canadian Imperial Bank of Commerce	2.5%
Manulife Financial Corp	2.5%
iA Financial Corp Inc	2.3%
Finning International Inc	2.1%
Pembina Pipeline Corp	2.0%
Hydro One Ltd	1.9%
Metro Inc	1.8%
Great-West Lifeco Inc	1.7%

### Portfolio Allocation

Portfolio Breakdown	% of Net Asset Value
Financials	37.4%
Industrials	18.7%
Information Technology	11.9%
Energy	9.0%
Utilities	6.0%
Consumer Staple	4.5%
Consumer Discretionary	4.3%
Communication Services	3.0%
Materials	2.8%
Real Estate	1.6%
Cash & Other Net Assets	0.8%

The Fund held no short positions as at December 31, 2021.

*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).*