

# Leith Wheeler Income Advantage Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2022



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This annual management report of fund performance contains financial highlights, but does not contain complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-292-1122, by writing to us at 1500 – 400 Burrard Street, Vancouver, BC V6C 3A6 or by visiting our website at [www.leithwheeler.com](http://www.leithwheeler.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

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

Of the total Fund, the investment in fixed income securities will range between 30% to 70%, Canadian equities from 15% to 50%, foreign equities between 0% to 25%, preferred shares between 0% to 25%, mortgages from 0% to 10%, and cash & other net assets between 0% to 5%. The fixed income securities and preferred shares will provide lower risk income and the common shares will provide an opportunity for dividends and capital gains. Investors will participate in a professionally managed portfolio in which specific security selection and asset mix decisions will be made by experienced portfolio managers.

### Risk

The overall risks of investing in the Fund are as described in the Simplified Prospectus. There were no material changes to the Fund during the year that affected the overall level of risk.

### Results of Operations

The Fund's net assets decreased by 12.1% in 2022 to \$61.8 million from \$70.3 million at the end of 2021. Of this change, \$4.6 million was attributable to negative investment performance and \$3.9 million to net outflows from unitholders.

For the twelve months ended December 31, 2022, the Income Advantage Fund Series A decreased -6.2% before fees, and Series B and F decreased -7.0% and -6.9%, respectively, both after fees and expenses.

The Fund's asset mix at the end of December was 47.9% investment grade bonds, 7.4% high yield bonds and senior loans (through the Leith Wheeler Multi Credit Fund), 34.8% Canadian equities, 8.5% preferred shares, 0.1% hedging and 1.3% cash and equivalents.

The Bank of Canada and the US Federal Reserve increased their policy rate by a cumulative total of about 4% in 2022 and have indicated that they are close to the end of their rate tightening cycles. However, central banks and markets have lower confidence about the time frame for getting back to inflation targets. The government bond yield curve also continued to invert as shorter-term yields rose more than longer-term yields. Compared to the beginning of the year, short term government bond yields increased approximately 4.0% while long-term bond yields rose 1.75%.

Corporate bond portfolio returns were negative for 2022 as central banks pursued tighter monetary policy throughout the year to combat inflation, and credit spreads widened. Inflation in Canada and the US have exhibited signs of rolling over since the peaks reached in the summer of 2022. Corporate credit strengthened towards the end of the year as the market started to anticipate the end of central bank interest hikes and the portfolio has benefited. We added to credit throughout the year on weakness and continue to position the portfolio overweight with a bias towards short-dated, higher quality issuers.

High yield portfolio returns were positive in the second half of the year, following the deeply negative first half of 2022. Credit spreads in the high yield market tightened in the second half of 2022, ending the year at 4.0%. Expected default rates for both high yield bonds and bank loans remain at levels near the long-term average. The high yield portfolio continues to be positioned with a bias towards owning fixed rate high yield bonds over bank loans, as high yield bond prices offer opportunistic valuation discounts to loans. Currently, bank loans represent approximately one-quarter of the overall portfolio.

We believe that most of the pain from rising bond yields was transmitted to investors in the first half of 2022. With yields now substantially higher, we think that the overall return outlook from fixed income is relatively attractive.

The preferred share market was down 10 of 12 months in 2022 due to bearish market sentiment as rates rose. In terms of volume, Canadian preferred share ETFs had the worst showing since 2017, as investors withdrew a total of \$1.2 billion from ETFs in 2022. The Leith Wheeler Preferred Share Fund declined by -18.9% in 2022 and underperformed the S&P/TSX Preferred Share Index by 0.81%. The Fund remains overweight rate reset preferreds at 84.7%, and underweight perpetual preferreds at 14.0%. The Fund has no exposure to floating rate preferred shares, which make up 3.4% of the Index.

This year financial markets endured significant volatility as investors grappled with central banks raising interest rates to combat surging inflation, and implications from the war in Ukraine. In 2022, the uncertainty and volatility resulted in the TSX Dividend Index declining -0.1%, with seven of the 11 sectors delivering negative returns. Energy (+29.9%) was the top performing sector, helped by strong oil and natural gas prices due to the war in Ukraine and its follow-on impacts to energy markets. On the other hand, Health Care sector was down -23.6% while rising interest rates sent Information Technology and Real Estate sectors down -20.4% and -21.7%, respectively.

The Canadian Equity portfolio underperformed the index due to weakness in Consumer Discretionary and Industrials, and an underweight in Energy.

## Management Discussion of Fund Performance (cont.)

### Results of Operation (cont.)

Shares of Sleep Country (-36.8%) declined as concerns of an economic slowdown increased and investors worried about the impact on consumers. Weakness in Toromont Industries (-13.3%) and NFI Group (-52.5%) also detracted from performance. Relative returns for the year were partially offset by an overweight in Consumer Staples and strength in Saputo (+20.4%). Amid the rebound in oil and natural gas prices, our Energy holdings have outperformed with significant gains in Tourmaline (+88.3%), Canadian Natural Resources (+49.8%) and Pembina Pipeline (+26.7%).

One new holding (Methanex) was added to the Canadian equity portfolio in 2022 while three holdings were deleted: Brookfield Asset Management Reinsurance (BAMR), a spinoff from Brookfield Asset Management, Canadian Western Bank, and Great West Life.

As recession fears loom for 2023, we believe that the businesses held in the portfolio are resilient and well positioned to weather the storm. Volatility can provide opportunities for stock pickers such as ourselves. During this time, we remain focused on fundamentals and our approach – investing in established businesses, trading at attractive valuations – which we expect will deliver value for clients over the long term.

### Recent Developments

In January 2023, the Bank of Canada raised its key interest rate to 4.5%, and the S&P/TSX Preferred Share Index rose +7.3% while the S&P/TSX Composite Dividend Index gained +6.6%.

Effective January 1, 2023, the manager is no longer waiving certain management fees, and reinstated the standard management fees for each of the following series: from 0.80% to 1.00% for Series B, plus applicable taxes. Series F remains unchanged at 0.70%, plus applicable taxes.

### Related Party Transactions

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

As at December 31, 2022, the Fund owned 1,606,774 Series A units of the Leith Wheeler Canadian Dividend Fund, 520,822 Series A units of the Leith Wheeler Multi Credit Fund, and 665,032 Series A units of the Leith Wheeler Preferred Share Fund, which are funds under common management.

### Management Fees

The Manager provides the Fund with investment management services, including fund accounting and unitholder record keeping. In return, the Manager receives a management fee based on the net assets of the Fund, calculated on a daily basis. The annualized management fee for the Series B units of the Fund is 1.00%. The fee will be reduced to 0.80% per annum as long as the annualized yield on the Fund at quarter end is less than 4.50%. The annualized management fee for the Series F units of the Fund is 0.70%. During the year, the Fund paid the Manager \$95,728 for Series B and \$75,559 for Series F (exclusive of GST/HST) of its net assets as management fees. The Fund does not reimburse the Manager for operating costs incurred in administering the Fund. The Manager paid all operating expenses except brokerage commissions, transaction charges and taxes. In respect of Series A units, the unitholder pays the Manager a negotiated management fee outside the Fund.

We do not, directly or indirectly pay fees, sales commissions or trailing commissions, nor do we provide any non-monetary benefits to registered dealers for distributions of units of the Fund. If a broker charges you a commission or fee, that is a matter between you and the dealer.

## Financial Highlights

### The Fund's Net Assets Attributable to Holders of Redeemable Units per Unit

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements.

Series A	2022	2021	2020	2019	2018
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$12.23	\$11.37	\$11.18	\$10.37	\$11.37
Increase (decrease) from operations:					
Total revenue	0.49	0.36	0.56	0.38	0.49
Total expenses	-	-	-	-	-
Realized gains (losses) for the year	(0.11)	0.22	(0.08)	0.06	-
Unrealized gains (losses) for the year	(1.08)	0.74	0.16	0.76	(1.00)
Total increase (decrease) from operations <sup>(1)</sup>	(0.70)	1.32	0.64	1.20	(0.51)
Distributions:					
From income (excluding dividends)	(0.26)	(0.19)	(0.20)	(0.16)	(0.16)
From dividends	(0.20)	(0.17)	(0.21)	(0.20)	(0.19)
From capital gains	-	(0.11)	-	(0.03)	(0.16)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.46)	(0.47)	(0.41)	(0.39)	(0.51)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$11.02	\$12.23	\$11.37	\$11.18	\$10.37

Series B	2022	2021	2020	2019	2018
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$12.52	\$11.62	\$11.35	\$10.54	\$11.54
Increase (decrease) from operations:					
Total revenue	0.75	0.38	0.09	0.39	0.45
Total expenses	(0.10)	(0.10)	(0.11)	(0.11)	(0.11)
Realized gains (losses) for the year	(0.18)	0.23	(0.01)	0.07	-
Unrealized gains (losses) for the year	(1.64)	0.78	0.02	0.78	(0.92)
Total increase (decrease) from operations <sup>(1)</sup>	(1.17)	1.29	(0.01)	1.13	(0.58)
Distributions:					
From income (excluding dividends)	(0.05)	(0.07)	(0.08)	(0.08)	(0.06)
From dividends	(0.10)	(0.16)	(0.17)	(0.21)	(0.19)
From capital gains	-	(0.11)	-	(0.03)	(0.16)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.15)	(0.34)	(0.25)	(0.32)	(0.41)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$11.50	\$12.52	\$11.62	\$11.35	\$10.54

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

<b>Series F (inception September 10, 2015)</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net assets attributable to holders of redeemable units - per unit, beginning of year <sup>(1)</sup>	\$11.35	\$10.58	\$10.38	\$9.65	\$10.61
Increase (decrease) from operations:					
Total revenue	0.49	0.33	0.30	0.35	0.50
Total expenses	(0.08)	(0.09)	(0.03)	(0.04)	(0.04)
Realized gains (losses) for the year	(0.11)	0.20	(0.04)	0.06	-
Unrealized gains (losses) for the year	(1.07)	0.68	0.08	0.69	(1.03)
Total increase (decrease) from operations <sup>(1)</sup>	(0.77)	1.12	0.31	1.06	(0.57)
Distributions:					
From income (excluding dividends)	(0.15)	(0.11)	(0.10)	(0.09)	(0.08)
From dividends	(0.17)	(0.17)	(0.18)	(0.20)	(0.19)
From capital gains	-	(0.10)	-	(0.03)	(0.15)
Return of capital	-	-	-	-	-
Total Annual Distributions <sup>(2)</sup>	(0.32)	(0.38)	(0.28)	(0.32)	(0.42)
Net assets attributable to holders of redeemable units - per unit, end of year <sup>(1)</sup>	\$10.25	\$11.35	\$10.58	\$10.38	\$9.65

(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	2022	2021	2020	2019	2018
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	44,135	42,868	39,424	39,573	40,718
Number of units outstanding (000s) <sup>(1)</sup>	4,005	3,506	3,466	3,540	3,927
Management expense ratio (%) <sup>(2)</sup>	-	-	-	-	-
Management expense ratio before waivers or absorptions (%)	0.05	0.04	0.04	0.04	0.03
Trading expense ratio (%) <sup>(3)</sup>	0.01	0.01	0.01	0.01	0.01
Portfolio turnover rate (%) <sup>(4)</sup>	81.11	56.79	99.60	65.09	70.71
Net assets attributable to holders of redeemable units - per unit (\$)	11.02	12.23	11.37	11.18	10.37

Series B	2022	2021	2020	2019	2018
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	7,097	16,866	18,433	28,544	25,847
Number of units outstanding (000s) <sup>(1)</sup>	617	1,347	1,586	2,516	2,453
Management expense ratio (%) <sup>(2)</sup>	0.85	0.85	0.85	0.85	0.85
Management expense ratio before waivers or absorptions (%)	0.90	0.89	0.89	0.89	0.88
Trading expense ratio (%) <sup>(3)</sup>	0.01	0.01	0.01	0.01	0.01
Portfolio turnover rate (%) <sup>(4)</sup>	81.11	56.79	99.60	65.09	70.71
Net assets attributable to holders of redeemable units - per unit (\$)	11.50	12.52	11.62	11.35	10.54

Series F (inception September 10, 2015)	2022	2021	2020	2019	2018
Total net assets attributable to holders of redeemable units (\$000s) <sup>(1)</sup>	10,574	10,576	8,372	9,800	7,990
Number of units outstanding (000s) <sup>(1)</sup>	1,032	932	791	945	828
Management expense ratio (%) <sup>(2)</sup>	0.76	0.76	0.75	0.75	0.75
Management expense ratio before waivers or absorptions (%)	0.81	0.80	0.79	0.79	0.78
Trading expense ratio (%) <sup>(3)</sup>	0.01	0.01	0.01	0.01	0.01
Portfolio turnover rate (%) <sup>(4)</sup>	81.11	56.79	99.60	65.09	70.71
Net assets attributable to holders of redeemable units - per unit (\$)	10.25	11.35	10.58	10.38	9.65

- (1) This information is provided as at December 31 of the year shown; unless noted otherwise.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Past Performance

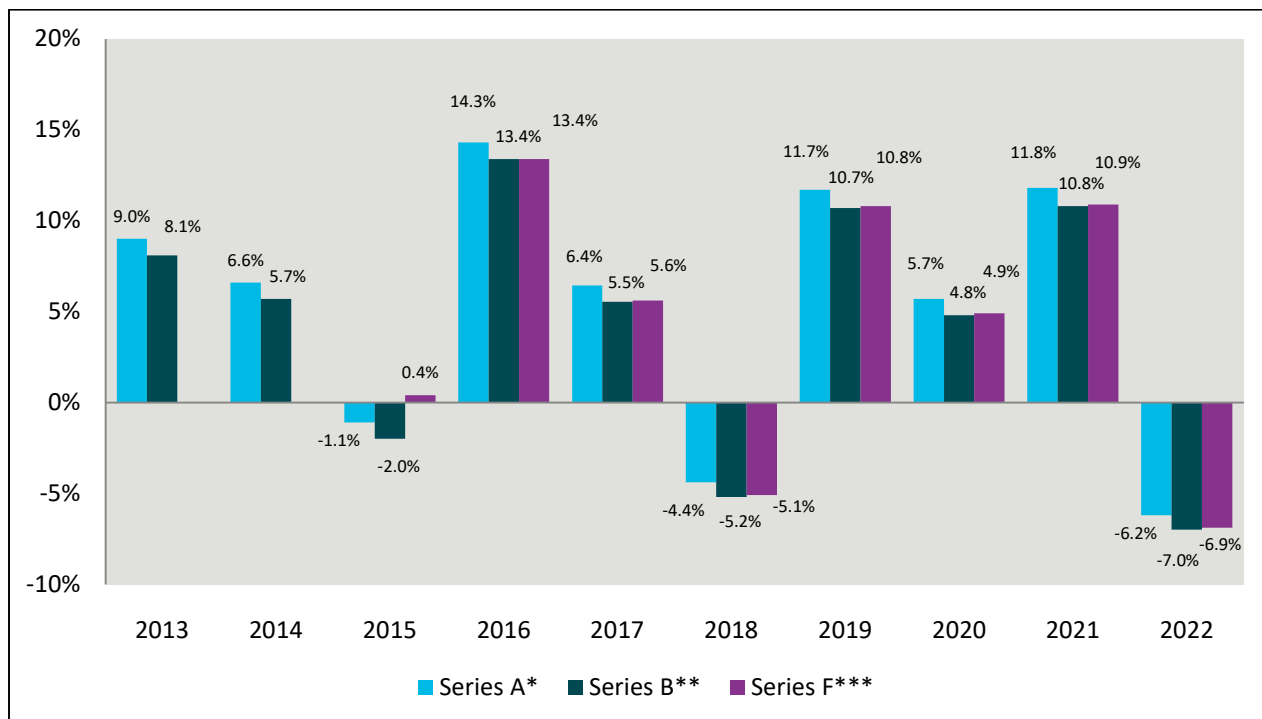
General

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

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

Year-by-Year Returns

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



\* Series A units were created December 21, 2010. Return from December 21, 2010 to December 31, 2010, not annualized.

\*\*Series B units were created on December 23, 2010. Return from December 23, 2010 to December 31, 2010, not annualized.

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

**Past Performance (cont.)****Annual Compound Returns**

The following table compares the historical annual compound return of the Fund (before fees for Series A and after fees for Series B and F) with a blended benchmark return for the year ended December 31, 2022. The blended benchmark (the "Benchmark") is comprised of 32.5% FTSE Canada Short Term Corporate Bond Index, 32.5% FTSE Canada Mid Term Corporate Bond Index and 35% S&P/TSX Composite Dividend Index. Each of these indices is used as a proxy to measure returns for the associated asset classes. The FTSE Canada Short Term Corporate Bond Index measures the total return attributable to bonds with maturities 5 years and under. The FTSE Canada Mid Term Corporate Bond Index measures the total return attributable to bonds with maturities between 5 to 10 years. The S&P/TSX Composite Dividend Index measures the total return of Canadian dividend-paying stocks in the S&P/TSX Composite with positive annual dividend yields. A discussion of the performance of the Fund as compared to these broad-based indices is found in the Results of Operations section of this document.

For the Years ended December 31	1 Year	3 Years	5 Years	10 Years
Fund – Series A *	-6.2%	3.5%	3.4%	5.2%
Benchmark***	-4.6%	3.3%	3.8%	4.7%
Fund – Series B *	-7.0%	2.6%	2.6%	4.3%
Benchmark***	-4.6%	3.3%	3.8%	4.7%
Fund – Series F **	-6.9%	2.7%	2.7%	n/a
Benchmark***	-4.6%	3.3%	3.8%	n/a

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

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

\*\*\* Effective April 1, 2021, the Fund formally adopted an investment performance benchmark, which you can use to assess the relative performance of your investments versus a blend of published indices. We have chosen a custom blended benchmark that has similar asset class(es) and risk and return characteristics to the Fund. However, the characteristics of the benchmark will not match that of the Fund due to our active management of the Fund. The benchmark will be presented retroactively to help you better assess the Fund's past performance.



## Summary of Investment Portfolio

As at December 31, 2022

### Top 25 Positions

Issuer	% of Net Asset Value
Leith Wheeler Canadian Dividend Fund Series A	35.1%
Leith Wheeler Preferred Share Fund Series A	8.4%
Leith Wheeler Multi Credit Fund Series A	7.1%
Toronto-Dominion Bank 3.10% April 22, 2030	1.5%
BP Capital Markets PLC 4.38% June 22, 2025	1.2%
Choice Properties Real Estate Investment Trust 2.85% May 21, 2027	1.2%
Bank of Nova Scotia 1.40% November 01, 2027	1.1%
Bell Telephone Co of Canada or Bell Canada 2.50% May 14, 2030	1.1%
Bank of America Corp 2.93% April 25, 2025	1.0%
Royal Bank of Canada 1.83% July 31, 2028	0.9%
TransCanada PipeLines Ltd 3.00% September 18, 2029	0.8%
Toronto-Dominion Bank 4.86% March 04, 2031	0.8%
Enbridge Gas Inc 2.35% September 15, 2031	0.7%
Bank of Montreal 6.53% October 27, 2032	0.7%
Cash & Other Net Assets	0.7%
North West Redwater Partnership / NWR Financing Co Ltd 4.25% June 01, 2029	0.7%
TransCanada Trust 5.30% March 15, 2077	0.7%
Manulife Financial Corp 2.82% May 13, 2035	0.7%
Shaw Communications Inc 2.90% December 09, 2030	0.6%
Vancouver Airport Fuel Facilities Corp 2.17% June 23, 2025	0.6%
Cenovus Energy Inc 3.50% February 07, 2028	0.6%
Royal Bank of Canada 1.59% May 04, 2026	0.6%
Inter Pipeline Ltd 5.76% February 17, 2028	0.6%
Greater Toronto Airports Authority 1.54% May 03, 2028	0.5%
Bank of Montreal 1.55% May 28, 2026	0.5%

### Portfolio Allocation

Portfolio Breakdown	% of Net Asset Value
Bonds	47.9%
Canadian Equities	34.8%
Preferred Shares	8.5%
High Yield Bonds	5.3%
Senior Loans	2.1%
Cash & Other Net Assets	1.3%
Hedging	0.1%

The Fund held no short positions as at December 31, 2022.

*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)*