



HAWAII MUNICIPAL FUND
SURF

ANNUAL REPORT

September 30, 2017



Hawaii Municipal Fund

October 30, 2017

Dear fellow shareholder,

Since 1988, the Hawaii Municipal Fund (the “Fund”) has provided shareholders with the opportunity to earn double tax-free income* while supporting local projects designed to enrich the community. These projects may include improvements to schools, roads, utility systems, hospitals, housing and other projects that help to improve the quality of life here in Hawaii.

According to the Hawaii Department of Business, Economic Development & Tourism (“DBEDT”) report released for the third quarter of 2017, Hawaii’s economy continues positive growth, but at a slower pace this year and projected for the next few years. While Hawaii’s unemployment rate is the second lowest among all the states in the nation and visitor expenditures jumped 8.7% during the first half of 2017, a few industries including construction, manufacturing and health care lost jobs during the same time period. After two consecutive years of economic growth above 2%, DBEDT is projecting Hawaii’s 2017 economic growth rate to be 1.4% and between 1.3% - 1.5% between 2018 and 2020.

Interest rates are one of the most important of many factors which can affect bond prices. In 2017, the Federal Open Market Committee (“FOMC”) increased the federal funds rate twice. On March 15, 2017, the FOMC increased the federal funds rate to a target range of 0.75% to 1.00% and then to 1.00% to 1.25% on June 15, 2017. There have been four increases since tightening began in December 2015. On September 20, 2017, the FOMC announced that they decided to maintain the target range at 1.00% to 1.25%, citing that “...the labor market has continued to strengthen and that economic activity has been rising moderately so far this year. Job gains have remained solid in recent months, and the unemployment rate has stayed low.” The FOMC expects that with gradual adjustments in their stance on monetary policy, inflation will stabilize around 2% over the medium term and U.S. economic activity will continue to expand at a moderate pace.

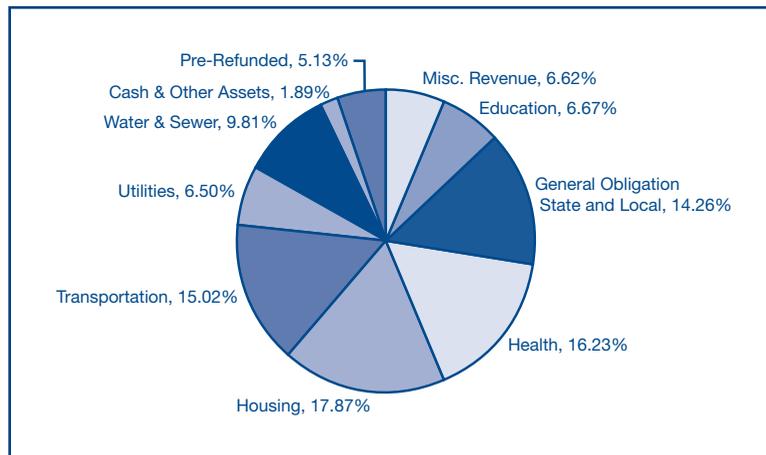
The Fund had a beginning net asset value (“NAV”) of \$11.36 per share on October 1, 2016 and a closing NAV of \$11.13 per share on September 30, 2017. The Fund’s \$0.23 per share decrease in NAV combined with the net income distribution of \$0.26 per share resulted in a total return of 0.31% for the twelve month reporting period ended September 30, 2017.

On the following pages are line graphs comparing the Fund’s performance to the Bloomberg Barclays Municipal Bond Index for the 10 years ended September 30, 2017. The graph assumes a hypothetical \$10,000 investment in the Fund. The object of the graph is to permit a comparison of the Fund with a benchmark and to provide perspective on market conditions and investment strategies and techniques that materially affected the performance of the Fund. While the Fund generally lagged the Index, we believe that the Fund is generally competitive against the Index, as the Index does not include any mutual fund operating expenses and does not reflect municipal bond performance specific to the State of Hawaii, as it is a nationally oriented index.

The Fund’s portfolio manager will continue to evaluate potential and current portfolio holdings believed to provide an advantageous combination of yield, quality and maturity. We continue to believe that municipal bonds are attractive investments for long term investors.



CATEGORY ALLOCATION (% of Net Assets)
September 30, 2017



As a Hawaii resident, 100% of the income dividends earned in 2017 were both state and federal tax-free*. There was no capital gain distribution to shareholders for the 2016 calendar year. There will not be a capital gain distribution for the Hawaii Municipal Fund for the 2017 calendar year.

If you have any questions about this Annual Report or would like us to provide information about the Fund to your family or friends, please call us at (808) 988-8088. Thank you for the trust you have placed in us to manage your investments. On behalf of the staff and management of Lee Financial Group Hawaii, Inc., I would like to extend best wishes for a safe and happy holiday season.

Warmest Aloha,

Terrence K.H. Lee
President and CEO

Before investing, read the prospectus carefully. Please carefully consider the Fund's investment objective, risks, and charges and expenses before investing. The prospectus contains this and other information about the Fund. This Annual Report must be accompanied or preceded by a prospectus.

A word about risk: Mutual fund investing includes risks. Principal loss is possible. The Fund's investments in municipal bonds subjects the Fund to interest rate, credit, call and geographic concentration risk. This is not a complete list of risks that may affect the Fund. For additional information concerning the risks applicable to the Fund, please see the Fund's prospectus.

*Some income may be subject to the federal alternative minimum tax for certain investors. Income may also be subject to capital gains taxes.

The Fund's yield, share price and investment return fluctuate so that you may receive more or less than your original investment upon redemption. Past performance is no guarantee of future results. The Fund is a series of Lee Financial Mutual Fund, Inc.



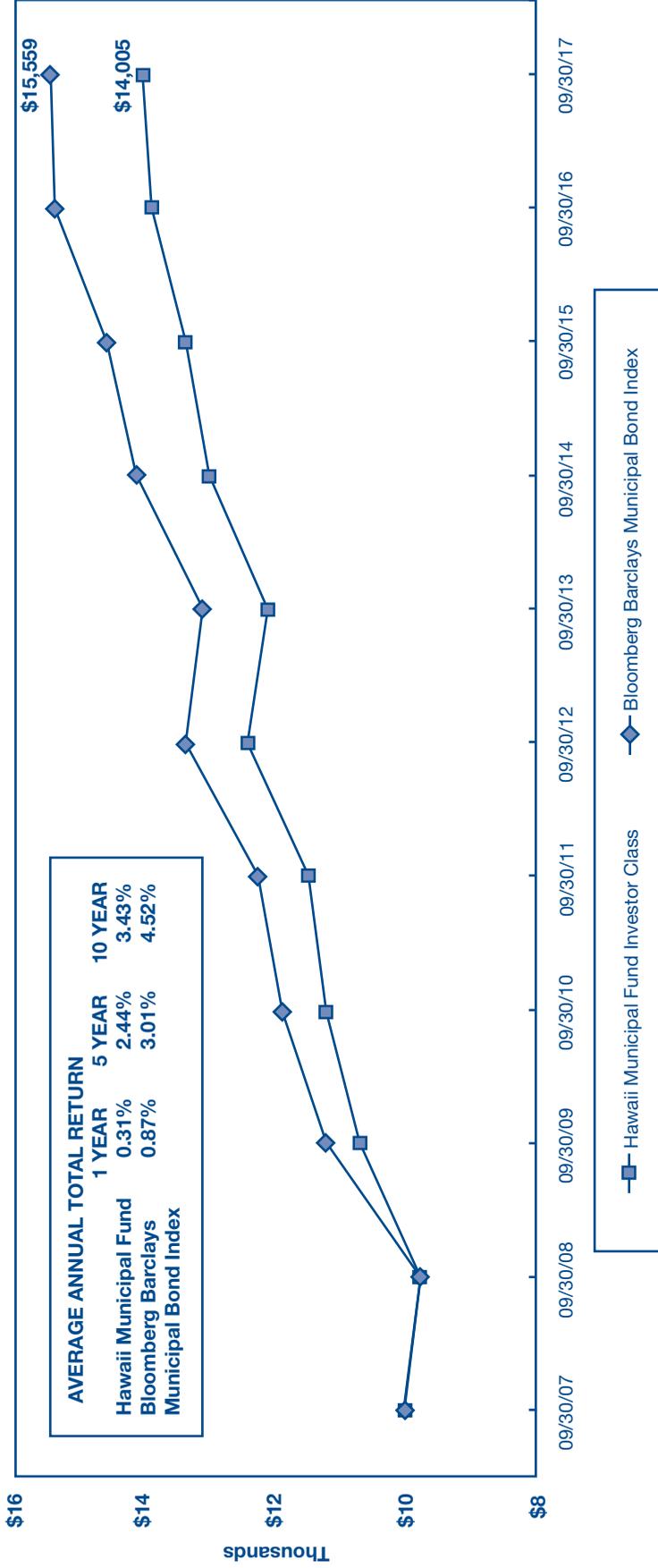
Lee Financial Securities, Inc., member FINRA is the Distributor for Lee Financial Mutual Fund, Inc. Lee Financial Securities, Inc. is a wholly owned subsidiary of Lee Financial Group Hawaii, Inc., a registered investment adviser with the SEC.

This Annual Report may contain certain forward-looking statements about factors that may affect the performance of the Fund in the future. These statements are based on the predictions and expectations of Lee Financial Group Hawaii, Inc., the Fund's investment manager (the "Investment Manager"), concerning certain future events, such as performance of the economy, changes in interest rates and other factors that may impact the performance of the Fund. The Investment Manager believes that these forward looking statements are reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.



HAWAII MUNICIPAL FUND INVESTOR CLASS

\$10,000 Investment in Fund Compared to the Bloomberg Barclays Municipal Bond Index



The Bloomberg Barclays Municipal Bond Index consists of a broad selection of investment grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. This index is made up of all investment grade municipal bonds issued after December 31, 1990 having a remaining maturity of at least one year. It is not possible to invest directly in an unmanaged index.

The graph above compares the increase in value of a \$10,000 investment in the Fund with the performance of the Bloomberg Barclays Municipal Bond Index. The objective of the graph is to permit you to compare the performance of the Fund with the current market and to give perspective to market conditions and investment strategies and techniques pursued by the investment manager that materially affected the performance of the Fund. The Bloomberg Barclays Municipal Bond Index reflects reinvestment of dividends but not the expenses of the Fund. It is not possible to invest directly in an index. The return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance is not indicative of future results. Current performance may be higher or lower than the total return shown. Please call the Fund at (808) 988-8088 or (800) 354-9654 to obtain the most recent month-end returns. The total returns are before taxes on distributions or redemptions of Fund shares. The Fund's annual operating expense ratio, as stated in the current prospectus dated February 1, 2017, is 1.03%. This rate can fluctuate and may differ from the expense ratio for the most recently completed fiscal year disclosed in the "Financial Highlights" portion of this Annual Report.

YOUR FUND'S EXPENSES

As a Fund shareholder, you can incur the following costs:

- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

Actual Fund Expenses

The first line (Actual) for the share class listed in the table below provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period, by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by \$1,000.
If an account had an \$8,600 value, the $\$8,600 \div \$1,000 = 8.6$.
2. Multiply the result by the number under the heading "Expenses Paid During Period."
If expenses Paid During Period were \$7.50, then $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Information in the second line (Hypothetical) in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for the Fund and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Please note that expenses shown in the table are meant to highlight ongoing costs. Therefore, the second line is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. Please refer to the Fund prospectus for additional information on operating expenses.

	Beginning Account Value 04/01/17	Ending Account Value 09/30/17	Expenses Paid During Period* 04/01/17-09/30/17
Hawaii Municipal Fund Investor Class			
Actual	\$1,000.00	\$1,022.00	\$5.49
Hypothetical	\$1,000.00	\$1,019.64	\$5.48

*Expenses are equal to the annualized expense ratio (1.08%), which is net of fee reductions, multiplied by the average account value over the period, multiplied by 183/365 to reflect the one-half year period.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Lee Financial Mutual Fund, Inc.

We have audited the accompanying statement of assets and liabilities of Hawaii Municipal Fund, a series of Lee Financial Mutual Fund, Inc., including the schedule of investments, as of September 30, 2017, the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2017, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Hawaii Municipal Fund as of September 30, 2017, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads 'Tait Weller & Co. LLP'. The signature is written in a cursive style.

Philadelphia, Pennsylvania
November 27, 2017

HAWAII MUNICIPAL FUND

SCHEDULE OF INVESTMENTS

September 30, 2017

<u>Par Value</u>		<u>Value</u> <u>(Note 1 (A))</u>
	HAWAII MUNICIPAL BONDS – 92.98%	
	Hawaii County	
	General Obligation Bonds – 1.87%	
\$ 1,025,000	5.000%, 09/01/27	\$ 1,248,655
800,000	4.000%, 09/01/31	879,624
1,000,000	3.000%, 09/01/32	969,470
		<u>3,097,749</u>
	Hawaii State	
	General Obligation Bonds – 4.55%	
1,500,000	5.000%, 10/01/24	1,820,730
2,000,000	4.000%, 10/01/26	2,279,900
2,000,000	5.000%, 08/01/30	2,358,720
1,000,000	4.000%, 05/01/36	1,076,650
		<u>7,536,000</u>
	Airport Systems Revenue Bonds – 8.63%	
1,000,000	5.000%, 07/01/24	1,105,780
690,000	5.250%, 07/01/26	766,797
8,030,000	5.250%, 07/01/27	8,921,410
1,200,000	5.250%, 07/01/28	1,332,864
180,000	5.000%, 07/01/34	197,179
750,000	5.000%, 07/01/41	848,513
1,000,000	5.000%, 07/01/45	1,125,480
		<u>14,298,023</u>
	Certificates of Participation – State Office Buildings – 0.64%	
500,000	4.000%, 05/01/19	522,135
500,000	4.000%, 05/01/20	532,795
		<u>1,054,930</u>
	Department of Budget & Finance Special Purpose Revenue Bonds	
	Hawaiian Electric Company, Inc. – 6.50%	
2,890,000	4.000%, 03/01/37	2,998,375
7,200,000	6.500%, 07/01/39	7,762,752
		<u>10,761,127</u>
	Hawaii Pacific Health – 4.89%	
775,000	4.625%, 07/01/21	840,302
6,000,000	5.500%, 07/01/40	6,423,180
750,000	5.500%, 07/01/43	837,322
		<u>8,100,804</u>

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

SCHEDULE OF INVESTMENTS – (Continued)

September 30, 2017

<u>Par Value</u>		<u>Value (Note 1 (A))</u>
	Hawaii Mid-Pacific Institute – 2.15%	
\$1,920,000	5.000%, 01/01/26	\$ 1,923,552
1,635,000	4.625%, 01/01/36	1,634,984
		<u>3,558,536</u>
	Kahala Nui – 6.02%	
500,000	5.000%, 11/15/21	563,625
1,200,000	5.000%, 11/15/27	1,354,284
3,200,000	5.125%, 11/15/32	3,555,488
4,055,000	5.250%, 11/15/37	4,500,888
		<u>9,974,285</u>
	Queen’s Health Systems – 5.31%	
2,000,000	5.000%, 07/01/23	2,356,100
1,000,000	5.000%, 07/01/25	1,211,820
4,600,000	5.000%, 07/01/35	5,234,754
		<u>8,802,674</u>
	Department of Hawaiian Home Lands – 3.82%	
600,000	5.000%, 04/01/30	724,386
800,000	5.000%, 04/01/31	960,616
300,000	5.000%, 04/01/32	358,002
1,000,000	5.875%, 04/01/34	1,071,820
3,000,000	6.000%, 04/01/39	3,221,010
		<u>6,335,834</u>
	Department of Hawaiian Home Lands COP – 1.13%	
680,000	5.000%, 11/01/29	837,420
500,000	5.000%, 11/01/30	612,235
350,000	5.000%, 11/01/31	425,775
		<u>1,875,430</u>
	Department of Transportation Airports COP – 4.85%	
1,000,000	5.000%, 08/01/23	1,167,220
1,420,000	5.250%, 08/01/24	1,646,362
2,570,000	5.250%, 08/01/26	2,946,479
1,000,000	5.000%, 08/01/27	1,123,790
1,025,000	5.000%, 08/01/28	1,144,269
		<u>8,028,120</u>

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

SCHEDULE OF INVESTMENTS – (Continued)

September 30, 2017

<u>Par Value</u>			<u>Value (Note 1 (A))</u>
	Highway Revenue – 6.39%		
\$1,640,000	5.000%,	01/01/26	\$ 1,888,280
1,500,000	5.000%,	01/01/27	1,785,690
160,000	5.000%,	01/01/31	187,822
500,000	4.000%,	01/01/32	546,235
2,065,000	5.000%,	01/01/33	2,404,403
1,250,000	4.000%,	01/01/34	1,352,475
1,000,000	4.000%,	01/01/35	1,077,970
1,250,000	4.000%,	01/01/36	1,338,513
			<u>10,581,388</u>
	Housing Authority		
	HFDC Rental Housing System Revenue Bonds – 3.79%		
810,000	4.750%,	07/01/22	845,348
600,000	4.750%,	07/01/23	624,186
895,000	5.000%,	07/01/24	932,930
100,000	5.000%,	07/01/25	103,915
990,000	6.000%,	07/01/26	1,043,866
1,055,000	6.000%,	07/01/27	1,111,938
785,000	6.000%,	07/01/28	827,021
750,000	6.000%,	07/01/29	789,758
			<u>6,278,962</u>
	HFDC Multi-Family-Kuhio Park – 3.57%		
2,430,000	4.750%,	10/01/27	2,642,018
3,000,000	4.950%,	04/01/29	3,276,030
			<u>5,918,048</u>
	HFDC Multi-Family-Iwilei Apartments – 2.37%		
150,000	3.300%,	01/01/26	155,605
3,620,000	3.750%,	01/01/31	3,770,049
			<u>3,925,654</u>
	HFDC Multi-Family-Kooloaula Apartments – 2.27%		
170,000	3.125%,	09/01/22	175,032
3,435,000	4.000%,	09/01/33	3,580,919
			<u>3,755,951</u>

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

SCHEDULE OF INVESTMENTS – (Continued)

September 30, 2017

<u>Par Value</u>			<u>Value (Note 1 (A))</u>
	University of Hawaii - Revenue Bonds – 4.52%		
\$1,000,000	5.000%,	10/01/19	\$ 1,079,000
2,000,000	5.000%,	10/01/29	2,434,680
1,200,000	5.000%,	10/01/30	1,454,304
1,600,000	5.000%,	10/01/31	1,928,992
500,000	5.000%,	10/01/34	587,300
			<u>7,484,276</u>
	Honolulu City & County General Obligation Bonds – 5.09%		
1,000,000	5.000%,	10/01/25	1,223,110
2,700,000	5.000%,	10/01/29	3,223,044
800,000	5.000%,	10/01/31	947,296
500,000	5.000%,	11/01/33	586,850
1,000,000	5.000%,	10/01/35	1,163,610
1,200,000	4.000%,	09/01/37	1,286,232
			<u>8,430,142</u>
	Water System Revenue Bonds Board of Water Supply – 3.16%		
2,000,000	5.000%,	07/01/29	2,362,900
2,500,000	5.000%,	07/01/32	2,873,225
			<u>5,236,125</u>
	Wastewater System Revenue Bonds – 6.65%		
1,100,000	5.000%,	07/01/20	1,174,294
1,225,000	5.000%,	07/01/24	1,475,476
1,750,000	5.000%,	07/01/26	2,140,337
1,000,000	5.000%,	07/01/26	1,227,090
2,000,000	5.000%,	07/01/32	2,376,320
775,000	4.000%,	07/01/34	839,154
1,520,000	5.000%,	07/01/36	1,784,146
			<u>11,016,817</u>
	Kauai County General Obligation Bonds – 1.35%		
400,000	3.125%,	08/01/23	427,456
770,000	5.000%,	08/01/24	875,413
880,000	3.625%,	08/01/25	932,422
			<u>2,235,291</u>

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

SCHEDULE OF INVESTMENTS – (Continued)

September 30, 2017

<u>Par Value</u>		<u>Value</u> <u>(Note 1 (A))</u>
	Kukuiula Development – 2.06%	
\$1,090,000	5.625%, 05/15/33	\$ 1,112,312
2,250,000	5.750%, 05/15/42	2,293,605
		<u>3,405,917</u>
	Maui County	
	General Obligation Bonds – 1.40%	
1,000,000	5.000%, 09/01/23	1,191,650
1,000,000	4.000%, 09/01/28	1,123,080
		<u>2,314,730</u>
	Total Hawaii Municipal Bonds (Cost \$148,481,467)	<u>\$154,006,813</u>

PRE-REFUNDED¹
HAWAII MUNICIPAL BONDS – 5.13%

	Hawaii County	
	General Obligation Bonds – 1.89%	
\$1,755,000	5.000%, 07/15/21	\$ 1,810,037
1,210,000	5.000%, 03/01/25	1,322,578
		<u>3,132,615</u>
	Hawaii State	
	General Obligation Bonds – 3.24%	
2,340,000	5.000%, 06/01/25	2,494,580
1,660,000	5.000%, 06/01/25	1,769,660
940,000	5.000%, 11/01/28	1,105,807
		<u>5,370,047</u>
	Total Pre-Refunded Hawaii Municipal Bonds (Cost \$8,326,702)	<u>\$ 8,502,662</u>

See accompanying notes to financial statements.



HAWAII MUNICIPAL FUND

SCHEDULE OF INVESTMENTS – (Continued)

September 30, 2017

<u>Par Value</u>		<u>Value (Note 1 (A))</u>
Total Investments (Cost \$156,808,169) (a)	98.11%	162,509,475
Other Assets Less Liabilities	1.89%	<u>3,125,365</u>
Net Assets	<u>100.00%</u>	<u>\$165,634,840</u>

(a) Aggregate cost for federal income tax purposes is \$156,776,305.

At September 30, 2017, unrealized appreciation (depreciation) of securities for federal income tax purposes is as follows:

Gross unrealized appreciation	\$ 6,188,167
Gross unrealized (depreciation)	<u>(454,997)</u>
Net unrealized appreciation	<u>\$ 5,733,170</u>

¹ Pre-Refunded bonds are bonds for which U.S. Government Obligations usually have been placed in escrow to retire the bonds at their earliest call date.

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

STATEMENT OF ASSETS AND LIABILITIES

September 30, 2017

	<u>Municipal Fund</u>
ASSETS	
Investments at market value (Identified cost \$156,808,169) (<i>Note 1 (A)</i>)	\$162,509,475
Cash	1,292,138
Interest receivable	2,088,041
Subscriptions receivable	23,000
Other assets	18,049
Total assets	<u>165,930,703</u>
LIABILITIES	
Distributions payable	99,555
Redemptions payable	10,208
Management fee payable	68,396
Administration fee payable	2,736
Distribution plan payable	20,519
Shareholder servicing fee payable	13,679
Transfer agent fee payable	8,207
Director's fee payable	2,708
Director's expense payable	4,226
Chief Compliance Officer fee payable	5,753
Accrued expenses	59,876
Total liabilities	<u>295,863</u>
NET ASSETS	<u>\$165,634,840</u>
(Applicable to 14,887,936 shares outstanding, \$0.01 par value, 40,000,000 shares authorized)	
NET ASSET VALUE, OFFERING AND REPURCHASE PRICE PER SHARE, INVESTOR CLASS SHARES	<u>\$11.13</u>
NET ASSETS	
At September 30, 2017, net assets consisted of:	
Paid-in capital	\$160,269,035
Undistributed net investment income	31,864
Accumulated net realized (loss) on investments	(367,365)
Net unrealized appreciation	5,701,306
	<u>\$165,634,840</u>

See accompanying notes to financial statements.



HAWAII MUNICIPAL FUND

STATEMENT OF OPERATIONS

For the year ended September 30, 2017

	Municipal Fund
INVESTMENT INCOME	
Interest income	<u>\$ 5,973,539</u>
Expenses	
Management fee <i>(Note 2)</i>	840,907
Distribution costs <i>(Notes 2 and 3)</i>	252,274
Transfer agent fee <i>(Note 2)</i>	100,907
Shareholder services fee <i>(Note 2)</i>	168,180
Administration fee <i>(Note 2)</i>	33,634
Accounting fee	76,144
Legal and audit fees	158,120
Printing	10,253
Mailing expense	2,920
Custodian fee	21,900
Insurance	11,450
Registration fee	8,908
Director's fee	17,264
Director's expense	8,168
Chief Compliance Officer fee <i>(Note 2)</i>	68,711
Shareholder Communications	9,676
Transfer Agent out of pocket expenses	<u>25,550</u>
Total expenses	<u>1,814,966</u>
Net investment income	<u>4,158,573</u>
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	
Net realized (loss) from security transactions	(594,133)
Change in unrealized appreciation (depreciation) of investments	<u>(3,211,142)</u>
Net loss on investments	<u>(3,805,275)</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 353,298</u>

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

STATEMENTS OF CHANGES IN NET ASSETS

	For The Year Ended September 30, 2017	For The Year Ended September 30, 2016
INCREASE (DECREASE) IN NET ASSETS FROM Operations		
Net investment income	\$ 4,158,573	\$ 4,258,753
Net realized(loss) gain on investments	(594,133)	924,597
(Decrease) Increase in unrealized appreciation (depreciation) of investments	(3,211,142)	1,201,756
Net increase in net assets resulting from operations	<u>353,298</u>	<u>6,385,106</u>
Distributions to shareholders from:		
Net investment income		
Investor Class (\$0.26 and \$0.29 per share, respectively)	(3,964,837)	(4,264,818)
Total distributions to shareholders	<u>(3,964,837)</u>	<u>(4,264,818)</u>
Capital share transactions (a)		
(Decrease) Increase in net assets resulting from capital share transactions	(5,926,235)	7,016,541
Total (decrease) increase in net assets	<u>(9,537,774)</u>	<u>9,136,829</u>
NET ASSETS		
Beginning of year	175,172,614	166,035,785
End of year (including undistributed net investment income of \$31,864 and \$64,952 respectively)	<u>\$165,634,840</u>	<u>\$175,172,614</u>
(a) Summary of capital share activity follows:		
	Investor Class For The Year Ended September 30, 2017	Investor Class For The Year Ended September 30, 2016
Shares sold	<u>Shares</u> <u>Value</u> 1,025,674 \$11,392,991	<u>Shares</u> <u>Value</u> 1,435,588 \$ 16,307,560
Shares issued on reinvestment of distributions	255,347 2,830,259	262,297 2,971,416
	1,281,021 14,223,250	1,697,885 19,278,976
Shares redeemed	<u>(1,815,434)</u>	<u>(1,084,887)</u>
Net (decrease) increase	<u>\$ (5,926,235)</u>	<u>\$ 7,016,541</u>

See accompanying notes to financial statements.

HAWAII MUNICIPAL FUND

FINANCIAL HIGHLIGHTS

(For a share outstanding throughout each year)

	INVESTOR CLASS				
	Years Ended September 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net asset value					
Beginning of year	\$11.36	\$11.21	\$11.21	\$10.72	\$11.31
Income from investment operations					
Net investment income	0.26	0.29	0.31	0.32	0.34
Net gain (loss) on securities (both realized and unrealized)	(0.23)	0.15	-	0.49	(0.59)
Total from investment operations	<u>0.03</u>	<u>0.44</u>	<u>0.31</u>	<u>0.81</u>	<u>(0.25)</u>
Less distributions					
Dividends from net investment income	(0.26)	(0.29)	(0.31)	(0.32)	(0.34)
Distributions from capital gains	-	-	-	-	-
Total distributions	<u>(0.26)</u>	<u>(0.29)</u>	<u>(0.31)</u>	<u>(0.32)</u>	<u>(0.34)</u>
End of year	<u>\$11.13</u>	<u>\$11.36</u>	<u>\$11.21</u>	<u>\$11.21</u>	<u>\$10.72</u>
Total return	0.31%	3.94%	2.81%	7.69%	-2.28%
Ratios/Supplemental Data					
Net assets, end of year (in 000's)	\$165,635	\$175,173	\$166,036	\$166,315	\$161,209
Ratio of expenses to average net assets	1.08%	1.03%	1.05%	1.03% ^(a)	1.01% ^(a)
Ratio of net investment income to average net assets	2.47%	2.53%	2.79%	3.02%	3.07%
Portfolio turnover	18.41%	18.46%	5.87%	13.46%	9.43%

(a) Ratios of expenses to average net assets after the reduction of custodian fees and other expenses under a custodian arrangement were 1.03%, and 1.01%, for the years ended September 30, 2014, and 2013, respectively. *See Note 5.*

See accompanying notes to financial statements.



HAWAII MUNICIPAL FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hawaii Municipal Fund (“*Fund*”) is a series of Lee Financial Mutual Fund, Inc. which is registered under the Investment Company Act of 1940, as a non-diversified open-end management investment company. Lee Financial Mutual Fund, Inc. currently has one investment portfolio, the Fund, which is currently offering one Class of Shares: Investor Shares.

The investment objective of the Fund is to provide a high level of current income exempt from federal and Hawaii state income taxes, consistent with preservation of capital and prudent investment management. The Fund seeks to achieve its objective by investing primarily in a portfolio of investment grade municipal securities issued by or on behalf of the State of Hawaii, or any of its political subdivisions, which pay interest that is exempt from regular federal and Hawaii income taxes.

The Fund is subject to the risk of price fluctuation of the municipal securities held in its portfolio which is generally a function of the underlying credit rating of an issuer, the maturity length of the securities, the securities’ yield, and general economic and interest rate conditions.

Since the Fund invests primarily in obligations of issuers located in Hawaii, the Fund is subject to additional concentration of risk. Due to the level of investment in Hawaii municipal obligations, the marketability and market value of these obligations may be affected by certain Hawaiian constitutional provisions, legislative measures, executive orders, administrative regulations, voter initiatives, and other political and economic developments. If any such problems arise, they could adversely affect the ability of various Hawaiian issuers to meet their financial obligation. Therefore, an investment in the Fund may be riskier than investment in other types of municipal bond funds.

(A) SECURITY VALUATION

Portfolio securities, that are fixed income securities, are valued by an independent pricing service using methodologies that it believes are appropriate, including actual market transactions, mean between bid and ask prices, broker-dealer supplied valuations, matrix pricing, or other electronic data processing techniques designed to identify market values for such securities, in accordance with procedures established in good faith by the Board of Directors. Securities with remaining maturities of 60 days or less are valued on the amortized cost basis as reflecting fair value. Securities for which market quotations are not readily available or for which available prices are suspect will be valued at “fair value” using methods determined in good faith by or at the direction of the Board of Directors. For these purposes, “fair value” means the price that the Investment Manager reasonably expects the Fund could receive from an arm’s-length buyer upon the current sale of the securities within seven (7) days, after considering all appropriate factors and indications of value available to them. Such value will be cost if the Investment Manager determines such valuation is appropriate after considering a multitude of factors in accordance with established procedures.

The Fund utilizes various methods to measure the fair value of most of its investments on a recurring basis. U.S. generally accepted accounting principles (“GAAP”) establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

HAWAII MUNICIPAL FUND

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2017

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Changes in valuation techniques may result in transfers in/out changing an investment's assigned level within the hierarchy.

The following is a description of the valuation techniques applied to the Fund's major categories of financial instruments measured at fair value on a recurring basis:

Municipal bonds are categorized in Level 2 of the fair value hierarchy.

The following is a summary of the inputs used in valuing the Fund's investments, as of September 30, 2017. The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities.

Valuation Inputs at Reporting Date:

Description	Level 1	Level 2	Level 3	Total
Municipal Bonds	\$-0-	\$162,509,475	\$-0-	\$162,509,475

There were no transfers in to and out of Levels 1 and 2 during the current period presented.

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value during the course of the September 30, 2017 period.

Hawaii Health Systems at Value

Balance as of 09/30/2016	Realized gain (loss)	Change in unrealized appreciation (depreciation)	Purchases (sales)	Transfers in and/or (out) of Level 3	Balance as of 09/30/2017
\$498,960	\$(603,076)	\$104,116	\$-0-	\$-0-	\$-0-



HAWAII MUNICIPAL FUND

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2017

(B) FEDERAL INCOME TAXES

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute its taxable income, if any, to its shareholders. Therefore, no federal income tax provision is required.

The Fund has reviewed all open tax years for all major jurisdictions, which is the Federal jurisdiction, and concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. As of September 30, 2017, open Federal tax years include the tax years ended September 30, 2014 – September 30, 2017. The Fund has no examination in progress and is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

In order to avoid imposition of the excise tax applicable to regulated investment companies, the Fund intends to declare each year as dividends in each calendar year at least 98% of its net investment income (earned during the calendar year) and 98% of its net realized capital gains (earned during the twelve months ended October 31) plus undistributed amounts, if any, from prior years.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted. The Act modernized several of the federal income and excise tax provisions related to regulated investment companies such as the Fund, and, with certain exceptions, was effective for taxable years beginning after December 22, 2010. Among the changes made are changes to the capital loss carryforward rules allowing for capital losses to be carried forward indefinitely. Rules in effect prior to the effective date of the Act limited the carryforward period to eight years. Capital loss carryforwards generated in taxable years beginning after effective date of the Act must be fully used before capital loss forwards generated in taxable years prior to effective date of the Act; therefore, under certain circumstances, capital loss carryforwards available as of the report date, if any, may expire unused. The prior year capital loss carryforward of \$209,734 expired unused.

Capital losses incurred after October 31 within the fiscal year are deemed to arise on the first business day of the Fund's following fiscal year for tax purposes. The Fund incurred and elected to defer \$367,365 of such capital losses.

(C) SECURITY TRANSACTIONS, INVESTMENT INCOME AND DISTRIBUTIONS TO SHAREHOLDERS

Security transactions are recorded on the trade date. Interest income is recorded on the accrual basis. Bond discounts and premiums are amortized using the interest method. Distributions to shareholders are declared daily and reinvested or paid in cash monthly.

(D) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



HAWAII MUNICIPAL FUND

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2017

(E) SHARE VALUATION

The net asset value per share for the Fund is determined by calculating the total value of the Fund's assets, deducting its total liabilities and dividing the result by the number of shares outstanding.

(2) INVESTMENT MANAGEMENT FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Lee Financial Group Hawaii, Inc. ("**LFG**") provides the Fund with management and administrative services pursuant to a management agreement and administrative services agreement, respectively. In accordance with the terms of the management agreement and of the administrative services agreement, LFG receives compensation at the annual rate of 0.50% and up to 0.05% of the Fund's average daily net assets, respectively. For the period ended September 30, 2017, the Fund was allocated, and paid LFG, \$68,711 of the Fund's Chief Compliance Officer fee.

The Fund's distributor, Lee Financial Securities, Inc. ("**LFS**"), a wholly-owned subsidiary of LFG, received \$243,681 for costs incurred in connection with the sale of the Fund's shares (*See Note 3*).

Lee Financial Recordkeeping, Inc. ("**LFR**"), a wholly-owned subsidiary of LFG, serves as the transfer agent for the Fund. In accordance with the terms of the transfer agent agreement, LFR receives compensation at the annual rate of 0.06% of the Fund's average daily net assets. LFR has delegated certain of its duties and responsibilities to Ultimus Fund Solutions, LLC as sub-transfer agent. LFR also provides the Fund with certain clerical, bookkeeping and shareholder services pursuant to a service agreement approved by the Fund's directors. As compensation for these services LFR receives a fee, computed daily and payable monthly, at an annualized rate of 0.10% of the Fund's average daily net assets.

Certain officers and directors of the Fund are also officers of LFG, LFS and LFR.

(3) DISTRIBUTION COSTS

The Fund's Board of Directors, including a majority of the Directors who are not "*interested persons*" of the Fund, as defined in the Investment Company Act of 1940, adopted a distribution plan pursuant to Rule 12b-1 of the Act. Rule 12b-1 regulates the manner in which a regulated investment company may assume costs of distributing and promoting the sales of its shares.

The Plan provides that the Hawaii Municipal Fund Investor Class may incur certain costs, which may not exceed 0.25% per annum of the Fund's average daily net assets, for payment to the distributor for items such as advertising expenses, selling expenses, commissions or travel, reasonably intended to result in sales of shares of the Fund.

(4) PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities aggregated \$30,388,734 and \$33,476,942, respectively, for the Fund during the period October 1, 2016 through September 30, 2017.

(5) CUSTODY CREDITS

Under an agreement with the Fund's custodian bank, a portion of the custodian fees were paid by credits for cash balances. Any remaining credits were used to offset expenses of other vendors and service providers. If not for the offset agreement, the assets could have been employed to produce income. Effective August 1, 2014, this arrangement has ceased.

HAWAII MUNICIPAL FUND

NOTES TO FINANCIAL STATEMENTS – (Continued)

September 30, 2017

(6) TAX COMPONENTS OF CAPITAL AND DISTRIBUTIONS TO SHAREHOLDERS

The tax character of distributions paid during the years ended September 30, 2017 and 2016 were as follows:

	<u>Exempt- Interest Dividends</u>	<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Total Distributions</u>
Hawaii Municipal Fund				
2017	\$3,964,837	\$ -	\$ -	\$3,964,837
2016	\$4,264,818	\$ -	\$ -	\$4,264,818

The tax character of distributable earnings at September 30, 2017 were as follows:

	<u>Undistributed Ordinary Exempt- Interest Income</u>	<u>Undistributed Capital Gains</u>	<u>Capital Loss Carryforwards</u>	<u>Post October Losses</u>	<u>Unrealized Gain/ (Loss)*</u>	<u>Total Distributable Earnings</u>
Hawaii Municipal Fund	\$ -	\$ -	\$ -	\$(367,365)	\$5,733,170	\$5,365,805

*The difference between book basis and tax basis unrealized appreciation is attributable to market discount on debt securities.

Accounting principles generally accepted in the United States of America require that certain components of net assets be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. The primary difference relates to the different treatment on amortization of discount for financial reporting purposes versus tax reporting purposes. For the year-ended September 30, 2017, the Hawaii Municipal Fund's undistributed investment income was decreased by \$226,824, paid in capital was decreased by \$209,734 and accumulated net realized loss on investments was decreased by \$436,558.

(7) NEW ACCOUNTING PRONOUNCEMENTS OR REGULATIONS

In October 2016, the Securities and Exchange Commission (the "SEC") adopted Final Rule Release No. 33-10231, Investment Company Reporting Modernization, to modernize and enhance the reporting and disclosure of information by registered investment companies. The SEC is adopting amendments to Regulation S-X, which will require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The new rules will allow the SEC to more effectively collect and use data reported by funds, enhance disclosure regarding fund liquidity and redemption practices, and permit open-end funds to offer swing pricing, subject to board approval and review.

Compliance with the modifications to Regulation S-X is required for financial statements filed with the SEC on or after August 1, 2017 and other amendments and rules are effective during 2018. Adoption of these rules will have no effect on the Fund's net assets or results of operations. Management is currently evaluating the impact on the Fund's financial statements.

(8) SUBSEQUENT EVENTS DISCLOSURE

In preparing the Fund's financial statements as of September 30, 2017, the Fund's management considered the impact of subsequent events for potential recognition or disclosure in these financial statements.

LEE FINANCIAL MUTUAL FUND, INC. BOARD OF DIRECTORS AND OFFICERS (Unaudited)

Overall responsibility for management of Lee Financial Mutual Fund, Inc., (the “Company”) rests with the Board of Directors. Each Director serves during the lifetime of the Company and until its termination, or until the Director’s death, resignation, retirement or removal. The Directors, in turn, elect the Officers of the Company to actively supervise its day-to-day operations. The Officers have been elected for an annual term. The following table provides information regarding each Director and Officer of the Company. Unless otherwise indicated below, the address of each Director and Officer is c/o Lee Financial Group Hawaii, Inc., 3113 Olu Street, Honolulu, HI 96816.

Name, Age and Address	Position & Office With the Company	Term of Office and Length of Time Served	Principal Occupation During the Past Five Years	Number of Portfolios in Company Complex Overseen by Director*	Other Directorships Held by Director
<u>DISINTERESTED DIRECTORS</u>					
Clayton W.H. Chow (65)	Director	Unlimited Term 29 years	Retired: March 2012-August 2014, Sales Manager, Estes Express	1	None
Lynden M. Keala (63)	Director	Unlimited Term 28 years	February 2014–Present, Account Executive, American Solutions for Business; September 2005-January 2014, Account Executive, Workflow One (formerly The Relizon Company)	1	None
Stuart S. Marlowe (77)	Director	Unlimited Term 29 years	Owner, Surfside Sales and Marketing (Sales and marketing of music for the State of Hawaii)	1	None
Karen T. Nakamura (73)	Director	Unlimited Term 20 years	January 2015 - Present, Karen T. Nakamura Associates, Partner; December 2000-present, Vice President, Wallpaper Hawaii, Ltd.; December 1998-December 2014, CEO, Building Industry Association of Hawaii	1	None
Kim F. Scoggins (70)	Director	Unlimited Term 20 years	Vice President & Division Manager, Colliers International HI, LLC	1	None
<u>INTERESTED DIRECTORS</u>					
Terrence K.H. Lee (60)	Director, Chairman, President and CEO	Unlimited Term 29 years	Director, President and CEO, Lee Financial Group Hawaii, Inc., Lee Financial Securities, Inc., and Lee Financial Recordkeeping, Inc.	1	None
<u>OFFICERS</u>					
Nora B. Foley (57)	Treasurer, (Since October 2004), Chief Compliance Officer (Since October 2004), Assistant Secretary (Since July 2002)		Vice President, CCO, CFO and Treasurer, Lee Financial Group Hawaii, Inc., Lee Financial Securities, Inc., and Lee Financial Recordkeeping, Inc.		
Charlotte A. Meyer (64)	Assistant Treasurer (Since October 2004)		Director, Assistant Treasurer, and Vice President, Lee Financial Group Hawaii, Inc., Lee Financial Securities, Inc., and Lee Financial Recordkeeping, Inc.		
Lugene Endo Lee (61)	Secretary (Since July 1991)		Director, Secretary, and Vice President, Lee Financial Group Hawaii, Inc., Lee Financial Securities, Inc., and Lee Financial Recordkeeping, Inc.		

Terrence K.H. Lee and Lugene Endo Lee are husband and wife.

Terrence K.H. Lee is an interested person of the Company by virtue of his relationship as a director, officer and shareholder of the Fund’s investment manager, as a director and officer of the Fund’s principal underwriter and transfer agent and because he has had a material and professional relationship with the Company for the last two completed calendar years.

*Each Company director oversees one portfolio of the Company that is currently offered for sale.

Additional information about members of the Board of Directors and executive Officers is available in the Fund’s Statement of Additional Information (“SAI”). To obtain a free copy of the SAI, please call (808) 988-8088.



HAWAII MUNICIPAL FUND INVESTOR CLASS (Unaudited)

Shareholder Information

Household Delivery of Shareholder Documents: Only one Prospectus, Annual and Semi-Annual Report will be sent to shareholders with the same last name and address on their Fund account, unless you request multiple copies. If you would like to receive separate copies, please call us at (808) 988-8088. We will begin sending you additional copies within 30 days. If your shares are held through a service provider, please contact them directly.

Business Continuity Plan Summary Disclosure Statement: Lee Financial Mutual Fund, Inc., Lee Financial Group Hawaii, Inc., Lee Financial Securities, Inc. and Lee Financial Recordkeeping, Inc. have developed Business Continuity Plans on how we will respond to events that significantly disrupt our business. Since the timing and impact of disasters and disruptions is unpredictable, we will have to be flexible in responding to actual events as they occur. Contacting Us - If after a significant business disruption you cannot contact us as you usually do at (808) 988-8088, you should go to our website at www.LeeHawaii.com. Please visit our website at www.LeeHawaii.com for the Business Continuity Plan Disclosure Statement.

Proxy Voting Policies and Procedures

The Fund has established Proxy Voting Policies and Procedures (“Policies”) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may request copies of the Policies free of charge by calling (808) 988-8088 or by sending a written request to Lee Financial Group Hawaii, Inc., 3113 Olu Street, Honolulu, HI 96816. Copies of the Fund’s proxy voting records are posted on the Securities and Exchange Commission’s website at www.sec.gov and the Fund’s website at www.LeeHawaii.com and reflect the 12-month period beginning July 1, 2016 and ending June 30, 2017.

Quarterly Statement of Investments

The Fund files a complete statement of investments with the Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission’s website at www.sec.gov or the Fund’s website at www.LeeHawaii.com. The filed form may also be viewed and copied at the Commission’s Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling 1-800-SEC-0330.



Disclosure Regarding Approval of the Investment Management Agreement Hawaii Municipal Fund(Unaudited)

At a meeting held on July 24, 2017, the Board of Directors (the “Board”) of Lee Financial Mutual Fund, Inc. (the “Fund”) considered and approved the continuance of the Investment Management Agreement between the Fund and Lee Financial Group Hawaii, Inc. (the “LFG”) with respect to the Hawaii Municipal Fund (the “Portfolio”), a series of Lee Financial Mutual Fund, Inc., for an additional one-year period ending September 30, 2018.

Prior to the meeting, the Board had received detailed information from LFG. This information together with other information provided by LFG and the information provided to the Board throughout the course of year formed the primary (but not exclusive) basis for the Board's determinations as summarized below. The information, material factors and conclusions that formed the basis for the Board's subsequent approval of the Investment Management Agreement are described below.

1. Information Received

Materials reviewed. During the course of the year, the Board received a wide variety of materials relating to the services provided by LFG, including reports on the Portfolio's investment results; portfolio composition; portfolio trading practices; and other information relating to the nature, extent and quality of services provided by LFG to the Fund and Portfolio. In addition, the Board reviewed and considered supplementary information and presentations by LFG that included materials regarding the Portfolio's investment results; management fee; performance; financial and profitability information regarding LFG, descriptions of various functions such as compliance monitoring and portfolio trading, and information about the experience and qualifications of the personnel providing investment management and administrative services to the Portfolio. Further, an independent third party prepared an analytical report which provided comparative management fee, expense and performance information for the Portfolio and its peer group and its representatives gave a presentation to the Board about the report.

Review Process. The Board received assistance regarding legal and industry standards from independent counsel to the independent Directors of the Board. The Board discussed the renewal of the Investment Management Agreement with LFG representatives. In deciding to recommend the renewal of the Investment Management Agreement, the Board did not identify any single issue or particular information that, in isolation, was the controlling factor. This summary describes the most important, but not all, of the factors considered by the Board.

2. Nature, Extent and Quality of Services

In the Board's review of LFG, its personnel and its resources, it considered the depth and quality of LFG's investment management process; the experience, capability and integrity of its senior management, portfolio manager and other personnel; the turnover rates of its personnel; and the overall financial strength and stability of its organization. Based on this review, the Board determined that LFG has the capabilities, resources and personnel necessary to manage the Fund and Portfolio and the Board is satisfied with the quality of services provided by LFG in advising the Portfolio.

Other Services. The Board considered, in connection with the performance of LFG's investment management services to the Fund and the Portfolio, the following: LFG's policies, procedures and systems for compliance with applicable laws and regulations and its commitment to these programs; its efforts to keep the Board informed; and its attention to matters that may involve conflicts of interest with the Fund. As a point of comparison, the Board also considered the nature, extent, quality and cost of certain non-investment related administrative services provided by LFG to the Fund and Portfolio under the Administrative Agreement.

3. Investment Performance

The Board considered the Portfolio's unique pursuit of its investment objective and the investment results of the Portfolio in light of its objective. The Board reviewed the short-term and long-term performance of the Portfolio on an absolute basis and in comparison to its benchmark index and other comparable Hawaii and other single-state mutual funds. The Board also reviewed the rankings for the Portfolio by an independent rating and ranking organization. The Board took into consideration LFG's explanation of the over- or under-performance of the Portfolio over various periods as compared



to its benchmark and peer group. The Board concluded that the performance of the Portfolio is generally competitive (in some cases performance for certain periods was higher than the comparative performance information, and in other cases it was lower) as compared to its benchmark and other comparable funds in the peer group median as selected by the independent rating and ranking organization.

4. Management Fees and Total Operating Expenses

The Board reviewed and considered the management fee payable by the Portfolio to LFG in light of the nature, extent and quality of the investment management and administrative services provided by LFG. Additionally, the Board received and considered information comparing the Portfolio's management fee and overall expenses with those of other comparable funds as selected by the independent rating and ranking organization. The comparative information included investment style, share class characteristics, asset size, expenses broken down by category, and showed that the Portfolio's management fee and operating expenses are competitive with the management fees and expenses of such other funds, however, the current Portfolio management fee is equal to the peer group and lower than the category medians and the current net expenses are higher than the peer group and category medians for other funds of similar size. The Board also considered the advisory fee information for other LFG clients that are similarly managed to the Portfolio. Based on this information the Board concluded that: the management fees and total operating expenses for the Portfolio are reasonable in light of the nature, extent and quality of the investment management and administrative services provided by LFG.

5. Adviser Costs, Level of Profits, Economies of Scale and Ancillary Benefits

The Board reviewed information regarding LFG's costs of providing services to the Fund and the Portfolio, as well as the resulting level of profits to LFG. The Board further concluded that the profit to LFG for investment management services seems reasonable based on the services provided. The Board noted that since the management fee does not contain breakpoints, there would be no economies of scale from reduction of the management fee as the Portfolio's assets grow. In assessing the benefits to LFG from its relationships with the Portfolio, the Board noted that there are no soft dollar arrangements. The Board also took into account potential benefits to LFG as the Fund's administrator and the engagement of affiliates for distribution, shareholder servicing and transfer agency services and concluded that the management fee for the Portfolio was reasonable in relation to the benefits derived by LFG and its affiliates from these relationships.

6. Conclusions

No single factor was determinative of the Board's decision to re-approve the Fund Portfolio Investment Management Agreement, but rather the Board based their determination on the total mix of information available to them. Based on their review, including their consideration of each of the factors referred to above, the Board, including all of the Fund's Independent Directors of the Board present, concluded that the Portfolio's Investment Management Agreement, and the compensation is determined to be fair and reasonable in light of such services provided and expenses incurred under the Investment Management Agreement.



INVESTMENT MANAGER

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DISTRIBUTOR

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