



# Caldwell Investment Management Ltd.

*Independent Investment Managers*

## Annual Management Report of Fund Performance

For the Year Ended December 31, 2015

## Caldwell Income Fund

Note: The fund's auditor does not audit the Management Report of Fund Performance ("MRFP") but checks the figures to ensure they are consistent with the audited financial statements.

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, free of charge, by calling 1-800-256-2441, by writing to us at Caldwell Investment Management Ltd., 150 King Street West, Suite 1702, P.O. Box 47, Toronto, ON M5H 1J9 or by visiting our website at [www.caldwellinvestment.com](http://www.caldwellinvestment.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us by 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**

The fundamental investment objective of the Caldwell Income Fund (the “Fund”) is to provide superior investment returns through income and growth securities while preserving capital and maintaining liquidity by investing in a diverse portfolio of Canadian government fixed income (federal, provincial and municipal) and corporate securities.

The Fund is designed for people who want to see their money grow faster than putting it with the bank, but who do not want to worry about it.

The Fund maintains a balance of approximately 80% government guaranteed bonds and 20% senior, income paying equities. Over time, this blend of stocks and bonds has shown better performance, with less risk, than even bonds on their own.

For over twenty-five years, the Fund’s management team has been of the opinion that it makes more sense to own government guaranteed bonds than to take any risk with lesser credits for modest incremental return. To that end, the Fund owns only federal and provincial government and crown corporation bonds.

It also makes sense to empower a portion of any portfolio with the ability to grow both its principal and income which is why the Fund owns shares of dividend and distribution paying equities.

Bonds have the advantage of having their income stream and redemption values fixed. Profitable companies raise their dividends regularly and this lifts their share price over time. Blending the best attributes of both bonds and stocks creates a potent combination for preserving and building wealth.

J. Dennis Freeman of Caldwell Investment Management Ltd. (the “Manager”) resigned as portfolio manager effective October 31, 2015. William Chin of Caldwell Investment Management Ltd. (the “Manager”) became the portfolio manager of the Fund as of November 1, 2015.

### **Results of Operations**

The Fund’s Series A units dropped from \$5.02 to \$4.78 during 2015, a decline of 4.8%. Assets in Series A were also down from \$11 million to \$8.2 million.

Introduced last August, the Fund’s Series F are intended for use in fee-based accounts. These units declined from \$5.19 to \$5.02; however, assets in Series F were up from \$33,783 to \$137,875 since



December 31<sup>st</sup>, 2014.

Volatility derived from China and the uncertainty over monetary policy from the US Federal Reserve weighed heavily on investor sentiment.

The Fund did not pay distributions in 2015.

### **Recent Developments**

The Fund's target asset mix of 75% to 80% government guaranteed bonds and 20% to 25% of dividend paying equities has meant that the Fund's volatility has historically been less than owning either bonds or stocks alone. During 2015, both stocks and bonds contributed to the Fund's performance, through income and capital gains/losses.

The Manager of the Fund approaches the issue of rising interest rates by limiting portfolio duration and by actively trading the bonds during times of volatility to take advantage of opportunities and protect capital. Longer term securities, such as a 30 year bond, have bigger reactions to interest rate moves than shorter term bonds, like treasury bills. Our strategy in a volatile interest rate environment is to own very short-term bonds, and only extend term into longer-term bonds when we sense that interest rates have moved too high, too quickly. An added risk feature is that, when we do extend term, we protect capital by limiting the maximum term of the portfolio to 10 years, which limits volatility.

The 10-year Government of Canada bond yield was volatile throughout 2015 fluctuating between 1.75% and 1.25% and back again. The summer of 2015 has seen these yields drop back down towards the 1.25% level again. Through this period the Fund owned a combination of 5 year and short-term Canadian Government guaranteed bonds. In August, the Manager realized capital gains on the 5 year bonds, extended term and bought 10 year Canada Housing Trust bonds that are guaranteed by our federal government.

The Manager also focuses on equities that have the capacity to grow their dividends/distributions and thereby increase the Fund's income to its investors. These stocks include the TD Bank, AGF Management Ltd. and Gluskin, Sheff & Associates. Overall, the yield on the equity portion of the Fund's portfolio is over 4%, a much better yield than a bank GIC can provide.

William Chin succeeded as Portfolio Manager in November 2015 and has since applied an active management approach. His focus is on actively managing Government bonds of the highest quality; and on the equities portion of the portfolio, actively manage a selection of low-Beta Canadian stocks.

### **Independent Review Committee**

Under the provisions of National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”), which came into force on November 1, 2006, it is now required that all publicly offered investment funds, such as the Fund, establish an independent review committee (“IRC”) to whom the Manager is to refer all potential conflict of interest matters in



order to obtain a recommendation or approval, as applicable. NI 81-107 further mandates that the IRC be composed of at least three independent members and requires that they conduct assessments and regularly report to the Manager and unitholders in respect of its duties.

The current members of the Manager's IRC are Robert Guilday, Sharon Kent and F. Michael Walsh

### **Forward-looking Statements**

Certain statements included in this report may constitute forward-looking statements, including those identified by the expressions "believe", "anticipate", "expect" or similar expressions to the extent they relate to the Fund, its Manager or its portfolio manager. Such forward-looking statements are not historical facts but reflect the Fund's, the Manager's or the portfolio manager's current expectations regarding future results or events. Such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Readers are cautioned to consider these and other factors carefully when making decisions with respect to the Fund and not place undue reliance on forward-looking statements. Unless required by applicable law, the Fund does not undertake any obligation to update publicly or to revise any of such forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements included or incorporated by reference in this report include statements with respect to:

- Interest rates
- Change in accounting policy

### **Related Party Transactions**

#### **Manager and Portfolio Adviser**

The Manager is a wholly owned subsidiary of Caldwell Financial Ltd. The Manager is also the portfolio adviser of the Fund. The Manager is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. For its administrative services, trustee fees, asset allocation, security selection, ongoing monitoring and related services, the Manager is paid an annual fee up to 1.25% based on the net asset value of Series A units of the Fund and up to 0.75% based on the net asset value of Series F units of the Fund.

#### **Trustee**

The trustee of the Fund is Caldwell Investment Management Ltd.

#### **Principal Distributor**

Caldwell Securities Ltd. is related to the Manager in that both are wholly-owned subsidiaries of Caldwell Financial Ltd. Caldwell Securities Ltd. markets units of the Fund directly to the public



and receives sales commissions and trailer fees based on the total value of their clients' holdings in the Fund on the same basis as other dealers that distribute units to the public.

### Brokerage

The Manager may choose to execute a portion or all of the Fund's portfolio transactions with Caldwell Securities Ltd. on terms as favourable or more favourable to the Fund as those available through other broker or dealers. In 2015 the Fund paid \$123,165 in commissions to Caldwell Securities Ltd. or 100 % of total commissions paid.

## Financial Highlights

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. This information is derived from the Fund's audited annual financial statements.

The Fund's Net Asset Value (NAV), per Series A Unit, as at December 31.

	2015	2014	2013	2012	2011
Net Assets, beginning of year <sup>(3)</sup>	5.02	5.04	5.19	4.96	5.15
<b>Increase (decrease) from operations:</b>					
Total Revenue	0.10	0.14	0.13	0.10	0.12
Total Expenses	(0.08)	(0.07)	(0.12)	(0.09)	(0.08)
Realized gains (losses) for the period	(0.32)	0.30	(0.06)	0.00	0.14
Unrealized gains (losses) for the period	0.07	(0.10)	(0.03)	0.22	(0.19)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.23)</b>	<b>0.27</b>	<b>(0.08)</b>	<b>0.23</b>	<b>(0.01)</b>
<b>Distributions:</b>					
From Income (excluding dividends)	0.00	(0.01)	0.00	0.00	0.00
From Dividends	0.00	(0.05)	(0.05)	0.00	(0.04)
From Capital Gains	0.00	(0.22)	0.00	0.00	(0.15)
Return of Capital	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>	<b>0.00</b>	<b>(0.28)</b>	<b>(0.05)</b>	<b>0.00</b>	<b>(0.19)</b>
<b>Net Assets at December 31 of year shown <sup>(3)</sup></b>	<b>4.78</b>	<b>5.02</b>	<b>5.04</b>	<b>5.19</b>	<b>4.96</b>

<sup>(1)</sup> Net asset value 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.

<sup>(2)</sup> Distributions were paid in cash or reinvested in additional units of the Fund or both.

<sup>(3)</sup> All per unit figures presented from 2013-2015 are referenced to net assets determined in accordance with IFRS and are derived from the Fund's audited financial statements for the year ended December 31, 2015. Net assets per unit for all other prior years were derived from the Fund's audited annual financial statements that were prepared in accordance with Canadian GAAP. Net assets per unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices for the years ended December 31, 2013 to 2015 and for all other prior years at bid prices) and the aggregate value of the liabilities, divided by the number of units then



outstanding.



The Fund's Net Asset Value (NAV), per Series F Unit, as at December 31.

	2015	2014
Net Assets, beginning of year* <sup>(3)</sup>	5.19	5.29
<b>Increase (decrease) from operations:</b>		
Total Revenue	0.10	0.06
Total Expenses	(0.05)	(0.03)
Realized gains (losses) for the period	(0.33)	0.07
Unrealized gains (losses) for the period	0.08	(0.08)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.02)</b>	<b>0.02</b>
<b>Distributions:</b>		
From Income (excluding dividends)	0.00	(0.02)
From Dividends	0.00	(0.01)
From Capital Gains	0.00	(0.08)
Return of Capital	0.00	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>	<b>0.00</b>	<b>(0.11)</b>
<b>Net Assets at December 31 of year shown <sup>(3)</sup></b>	<b>4.98</b>	<b>5.19</b>

<sup>(1)</sup> Net asset value 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.

<sup>(2)</sup> Distributions were paid in cash or reinvested in additional units of the Fund or both.

<sup>(3)</sup> All per unit figures presented from 2013-2015 are referenced to net assets determined in accordance with IFRS and are derived from the Fund's audited financial statements for the year ended December 31, 2015. Net assets per unit for all other prior years were derived from the Fund's audited annual financial statements that were prepared in accordance with Canadian GAAP. Net assets per unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices for the years ended December 31, 2013 to 2015 and for all other prior years at bid prices) and the aggregate value of the liabilities, divided by the number of units then outstanding.

\* The Fund's Series F commenced on August 1, 2014







### Ratios and Supplemental Data (unaudited) - Series A

	2015	2014	2013	2012	2011
Net assets (000's) <sup>(1)</sup>	8,151	11,072	11,422	14,172	14,656
Number of units outstanding <sup>(1)</sup>	1,705,509	2,204,301	2,265,487	2,732,604	2,955,574
Management expense ratio <sup>(2)</sup>	1.66%	1.62%	1.63%	1.68%	1.62%
Management expense ratio before waivers or absorptions	2.47%	2.00%	1.96%	2.00%	1.78%
Portfolio turnover rate <sup>(3)</sup>	854.83%	584.67%	381.44%	658.22%	314.32%
Trading Expense ratio <sup>(4)</sup>	1.26%	0.89%	0.68%	0.48%	0.39%

### Ratios and Supplemental Data (unaudited) - Series F

	2015	2014
Net asset value (000's) <sup>(1)</sup>	138	175
Number of units outstanding <sup>(1)</sup>	27,670	33,783
Management expense ratio <sup>(2)</sup>	1.17%	1.15%
Management expense ratio before waivers or absorptions	2.48%	2.09%
Portfolio turnover rate <sup>(3)</sup>	854.83%	584.67%
Trading Expense ratio <sup>(4)</sup>	1.26%	0.89%

<sup>(1)</sup> This information is provided as at December 31 of the year shown.

<sup>(2)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>(3)</sup> 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.

<sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

### Management Fees

As compensation for managing the Fund, the Manager can receive an annual fee up to 1.25% of the average net asset value of the Fund. Such fees are calculated daily and payable monthly. The Manager in turn is responsible for paying investment adviser fees, trustee fees, sales commissions, trailer fees and has chosen to absorb certain expenses for which the Fund is responsible.

Distribution	51%
Management and Portfolio Adviser Services	(47%)
Waivers and Absorption of Fund Expenses	96%

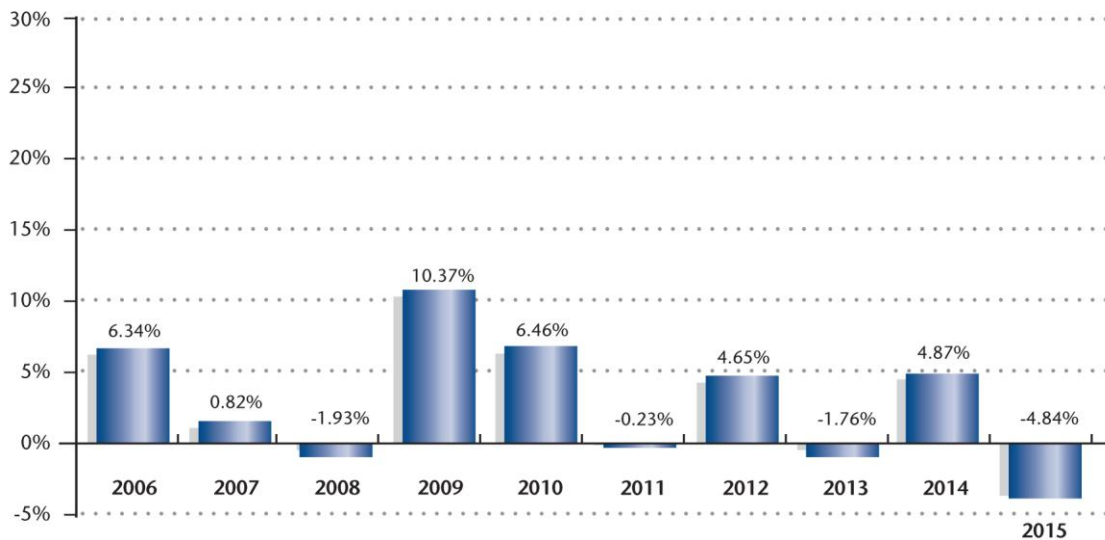


## Past Performance

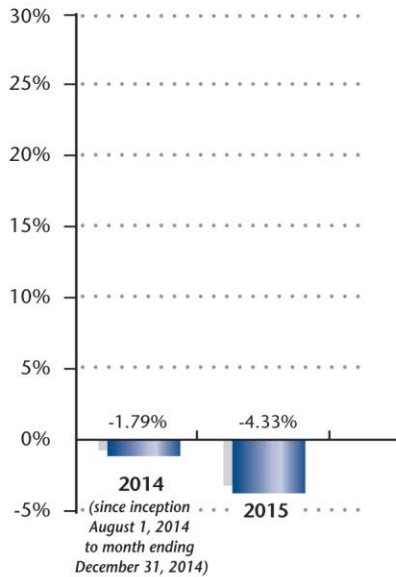
The following charts shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if they did not. They don't include deduction of sales, switch, redemption, or other optional charges (which distributors may charge) or income taxes payable, and would be lower if they did. The Fund's past performance is no guarantee of how it will perform in the future.

### Year-by-Year Returns

The bar charts shows how the Fund's annual past performance has varied from year to year for each of the years shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 for each year.



Caldwell Income Fund - Series A



Caldwell Income Fund - Series F  
For the years ended December 31

### Annual Compound Returns

The table shows the Fund's historical annual compound total return for each period since inception of the Fund, compared with the Fund benchmark, the DEX Universe Bond Total Return Index. The Index is a specific measure of total return for Canadian Federal, Provincial, Municipal and corporate issuers (rated AA-BBB) with a term to maturity of more than one year.

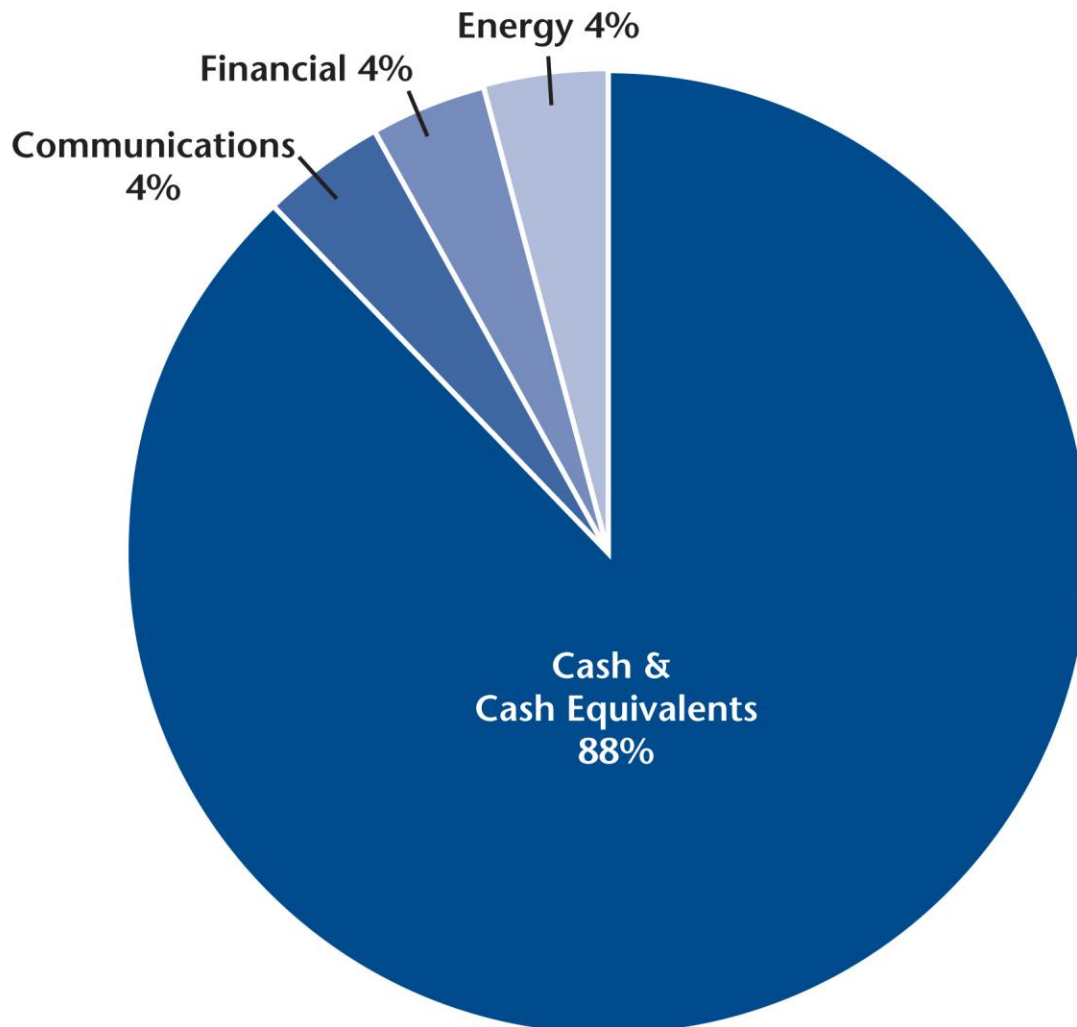
The DEX Universe Bond Total Return Index has ceased to become a publicly available Index. In future years, the Fund proposes to use the SP Canada Sovereign Bond Index as its benchmark. This Index comprises fixed-rate Canadian dollar denominated debt issued by the Canadian government for the Canadian market. The one, three, five and ten year returns for this Index are presented below for comparative purposes.

Annualized Compound Returns	1 Year	3 Years	5 Years	10 Years
<b>Fund - Series A</b>	(4.84%)	(0.66%)	(0.47%)	2.37%
<b>Fund - Series F</b>	(4.33%)	N/A	N/A	N/A
<b>DEX Universe Bond Total Return Index</b>	3.52%	3.63%	4.80%	5.03%
<b>SP Canada Sovereign Bond Index</b>	3.30%	2.61%	3.71%	3.65%



## Summary of Investment Portfolio

Portfolio Breakdown as at December 31, 2015



Caldwell Income Fund



**All Fund Holdings (unaudited)**

**Top 25 Holdings  
As at December, 2015**

<b>SECURITY</b>	<b>Percentage of Net Assets</b>
Cash and Cash Equivalents	88.2%
Suncor Energy Inc.	3.8%
BCE Inc.	3.8%
Canadian Imperial Bank of Commerce	2.2%
Onex Corp.	2.0%
<hr/>	
All Holdings (the Fund has less than 25 holdings)	100.0%

The summary of investment portfolio may change. A quarterly update is available at [www.caldwellinvestment.com](http://www.caldwellinvestment.com).