



# Caldwell Investment Management Ltd.

*Independent Investment Managers*

## **Annual Management Report of Fund Performance**

For the Year Ended December 31, 2016

# **Caldwell U.S. Dividend Advantage 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 and Strategies**

The investment objectives of the Fund are to provide holders of Units (“Unitholders”) with:

- (i) monthly cash distributions; and
- (ii) the potential for capital appreciation and enhanced long-term risk adjusted returns.

The Fund has been created to invest in an actively managed portfolio (the “Portfolio”) comprised primarily of U.S. dividend-paying equity securities that exhibit a combination of low current volatility and high profitability and are expected by the Manager to significantly benefit from the current U.S. economic expansion.

In addition, the Fund incorporates a disciplined risk management process that tactically shifts the portfolio away from certain market factors. From time to time, the Fund will hedge currency risk, market risk, or sector specific risk. Our strategy consists of utilizing a disciplined investment process that consists of a combination of quantitative and qualitative fundamental analysis in constructing and maintaining the portfolio. Our portfolio consists of the three following characteristics:

- 1) High Profitability
- 2) Dividend Paying
- 3) Low current volatility, determined in respect of the short term average distribution of daily returns

Our monthly newsletters and fact sheets keeps investors informed about how the portfolio is positioned.

### **Results of Operations**

Performance Highlights:

The Caldwell US Dividend Advantage Fund ("The Fund") returned 9.9% in simple terms and 16.2% on a total return basis for the year 2016. The year of 2016 was positive as volatility decreased in markets throughout the world. Large advances in U.S. equities, the price of oil and the U.S. Dollar took place over this period. The election of President Trump helped raise U.S. equity markets into the end of 2016 as prospect of deregulation, changes to the Affordable Care Act, and tax reform could bolster the U.S economy in 2017.

### **Recent Developments – Sub Advisory Comments**

Markets around the world closed out 2016 on a high note. The late Sir John Templeton famously said “Bull markets are born in pessimism, grown in skepticism, mature in optimism, and die in



euphoria.” Looking back on the past eight years, it is hard not smile at the enduring wisdom of this quotation. This bull market has given us moments of elation in energy in 2013, biotechnology in 2014, and most recently precious metals in 2016, but we have not seen the unbridled enthusiasm that has long been linked with market tops. Coming into 2016, negative outlooks rode on the crest of a wave ominously approaching to destroy markets. Now ten months later, we can see the high water mark where the wave rolled back and markets marched to new all-time highs.

Investors have long been reticent to admit their confidence in this secular bull market. The “Tech Wreck” of 2001 and financial crisis of 2008 anchored a generation of investors to believe that capitulation is to be expected every decade or so. This panic seemed to grip investors in early 2016. This was not because the fundamentals of the economy were warning us, but history tells us that all good things must come to an end. Now, the markets have not crashed. A new American government focused on growth, tax cuts, and deregulation is on the way, igniting animal spirits. Finally, in the second half of 2016 investors began to rotate into equities and out of bonds. The unloved sectors of energy, financials, and materials, left for dead a year earlier, all outperformed the S&P 500 in 2016. This was a good reminder that returns are best where capital is scarce.

The market rally of late November and December was supported by increased earnings expectations for the S&P 500 in 2017. These expectations are fueled by a belief in accelerating growth, higher oil prices, lower corporate tax rates and a steeper yield curve. Earnings estimates, for the S&P 500 in 2017, have now moved into the \$125 to \$131 range, up from the \$115 to \$120 range of six months ago. Based on current market prices the forward price earnings multiple is around 17 times, which is not historically expensive. The defensive positioning of most investor portfolios makes the equity market ripe for multiple-expansion as a result of a portfolio rotation out of fixed income and into equities. The combination of the most pro-growth government entering office in forty years combined with investor portfolio repositioning into risk assets could push this market higher for the first six months of 2017.

We remain constructive on the U.S. housing market. Secular tailwinds continue to work in its favour. New one family houses sold in the U.S. have risen off of their 2011 nadir and monthly sales have been firmly in an uptrend ever since. Sales of homes over the last twelve months in this category are still one and a half standard deviations below the rolling twelve months average using data that goes back to 1963.

The energy markets moved materially higher in December as the Organization of the Petroleum Exporting Countries (“OPEC”) came to an agreement with Russia to remove 1.8 million barrels per day from the market. This will bring the oil market out of oversupply and into deficit by early 2017. Consensus forecasts project the drawdown to average 700 thousand barrels per day throughout 2017. However, this is only the start of a long-term tightening cycle in the energy market. Now that drillers of shale oil in the United States have become the marginal producer, prices are capped in the short-term because of their ability to quickly respond to spikes in price



and demand. Due to this ceiling on prices, capital expenditures (“capex”) by oil companies fell from a peak in 2014 of \$700 billion USD to \$450 billion USD. Companies are hesitant to invest and investors are hesitant to lend if the price of oil is thought to be constrained for the rest of the decade. This reduction is forecasted to remove six million barrels per day of previously forecasted production by 2021. Alongside the political risk throughout oil revenue-dependent nations, the likelihood that major supply disruptions increase in both frequency and intensity in the coming years from production delays is moving higher. Major oil projects can take close to a decade to come on-line and by the time major oil deficits occur it will be far too late to take action, not unlike the major over supply that happened in 2015. The pendulum swings both ways.

Inflation expectations in the near-term are most likely over done. The labour force participation rate in the U.S. is close to its lowest level since 1980 and is off nearly 5% from its highs of the early 2000’s. The business sector has been on the sidelines in terms of making significant capital expenditure investments until visibility on the political landscape occurred. Now that a pro-growth Republican slate is entering Washington, D.C. long overdue investment into infrastructure, development and technology can be made with a higher degree of certainty that government policy and the economy will support it. Wage growth will most likely be slower than forecasted as corporate America picks up the slack of those who have left the workforce but want to return. Many have made parallels of Donald Trump’s impact on the stock market to Ronald Reagan’s election. For Reagan, the stock market rallied until he took office and appointed Paul Volcker to break the back of crippling inflation which lead to almost three million Americans losing their jobs and sent short term interest rates to 18.5%. Things are quite different today. Inflation is below 2% and seven years of gridlock offers much low hanging fruit for the incoming administration. Paring back Dodd-Frank and the Volcker Rule are easy initiatives that come to mind and would boost life into the long dormant financial sector. This would significantly free up the balance sheets of banks (especially large banks), improve liquidity in markets, and increase growth in the short-term. Next would be pushing through the large backlog of pipeline projects that the Obama administration has denied. This would have a small effect on employment in the short run but would open large areas of the United States to commercial production of oil and natural gas. These oil and gas fields currently are not economically feasible simply because they have no end market to serve and would provide a plethora of high paying jobs.

In Closing:

Markets have recently moved to new highs as they anticipate accommodative central banks around the world and an improving U.S. Economy. A declining U.S. unemployment rate, rising wage growth, and strong U.S Dollar provide the backdrop for a continued U.S expansion. The Fund will continue to search and invest in U.S dividend paying companies that benefit from an expanding U.S. economy, possess low volatility, and have strong fundamentals. U.S. Economic data continues to improve and U.S. consumer demand, which accounts for two thirds of U.S. GDP, is expanding. This should increase consumer confidence and along with accelerating wage growth and low oil prices will translate into increased consumer spending. This strategy is well suited in



the current investment climate. Increased volatility provide opportunities for active management. Good companies, exposed to the economic factors described above, can decline in price in broad market sell offs, and create advantageous purchase prices. The Fund will continue to invest in U.S. dividend paying stocks that benefit from an expanding U.S economy and an improving U.S. consumer.

### **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

Caldwell Investment Management Ltd. is the manager of the Fund and will perform or arrange for the performance of management and administrative services for the Fund and will also be responsible for implementing the investment strategy of the Fund pursuant to a management agreement (the “Management Agreement”) between the Fund and the Manager. CIM is a wholly-



owned subsidiary of Caldwell Financial Ltd. and is a member of the Caldwell group of companies (“Caldwell”). The Manager will act as the investment fund manager and the portfolio manager of the Fund pursuant to the Management Agreement. The Manager will be entitled to receive fees as compensation for the management and investment management services rendered to the Fund. The principal office of the Manager is located at Suite 1702, P.O. Box 47, 150 King Street West, Toronto, Ontario, M5H 1J9.

#### Trustee

CST Trust Company is the trustee of the Fund.

#### Brokerage

The Manager has brokerage arrangements for purposes of trading in the equity markets. The Manager may utilize brokers with whom soft commission arrangements are in place. Any such arrangements will provide for Best Execution (as defined below) and any goods or services received will be of a type which assist in the provision of investment services to the Fund. Neither the Manager nor any of its connected persons will retain any cash commission rebates from such arrangements.

"Best Execution" means the best price and results for the Fund, taking into account price, costs, speed, likelihood of execution and settlement, order size and nature, or any other consideration relevant to the execution of the order.

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. So far in 2016 the Fund has paid \$623,764 in commissions to Caldwell Securities Ltd.

### **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 year. This information is derived from the Fund's audited annual financial statements and is presented for Series A units of the Fund and Series F units of the Fund.



The Fund's Net Asset Value (NAV), per Unit as at December 31, unless otherwise noted.  
(unaudited)

	<b>2016</b>	<b>2015</b>
Net Assets, beginning of year <sup>(3)</sup>	9.54	10.00
<b>Increase (decrease) from operations:</b>		
Total Revenue	0.71	0.36
Total Expenses	(0.35)	(0.19)
Realized gains (losses) for the period	0.26	(0.42)
Unrealized gains (losses) for the period	0.89	0.08
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.51</b>	<b>(0.17)</b>
<b>Distributions:</b>		
From Income (excluding dividends)	0.00	0.00
From Dividends	(0.22)	(0.09)
From Capital Gains	0.00	0.00
Return of Capital	(0.33)	(0.20)
<b>Total Annual Distributions <sup>(2)</sup></b>	<b>(0.55)</b>	<b>(0.29)</b>
<b>Net Assets at December 31 of year shown</b>	<b>10.43</b>	<b>9.54</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.

\*The Fund commenced on June 22nd, 2015.



## Ratios and Supplemental Data (unaudited)

	2016	2015
Net asset value (000's) <sup>(1)</sup>	65,652	55,700
Number of units outstanding <sup>(1)</sup>	5,063,100	5,055,000
Management expense ratio <sup>(2)</sup>	2.69%	2.56%
Management expense ratio before waivers or absorptions	2.69%	2.56%
Portfolio turnover rate <sup>(3)</sup>	103.50%	79.62%
Trading Expense ratio <sup>(4)</sup>	1.23%	1.35%

<sup>(1)</sup> This information is provided as at December 31, 2016.

<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 asset value during the year.

<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 co

<sup>(4)</sup> 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 year.

## Management Fees

The Fund will pay to the Manager an annual management fee (the "Management Fee") equal to 1.75% per annum of the NAV of the Fund, accrued and calculated daily and payable monthly in arrears, plus applicable taxes.

Distribution	0%
Management and Portfolio Adviser Services	100%
Waivers and Absorption of Fund Expenses	0%

## Past Performance

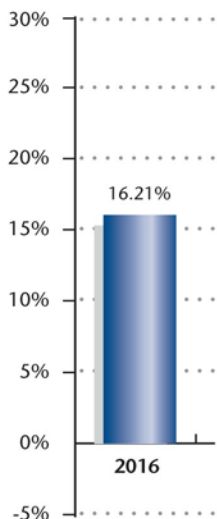
The following charts shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if they did not. They don't include deduction of sales, switch, redemption, or other optional 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 US Dividend Advantage Fund

For the year ended December 31

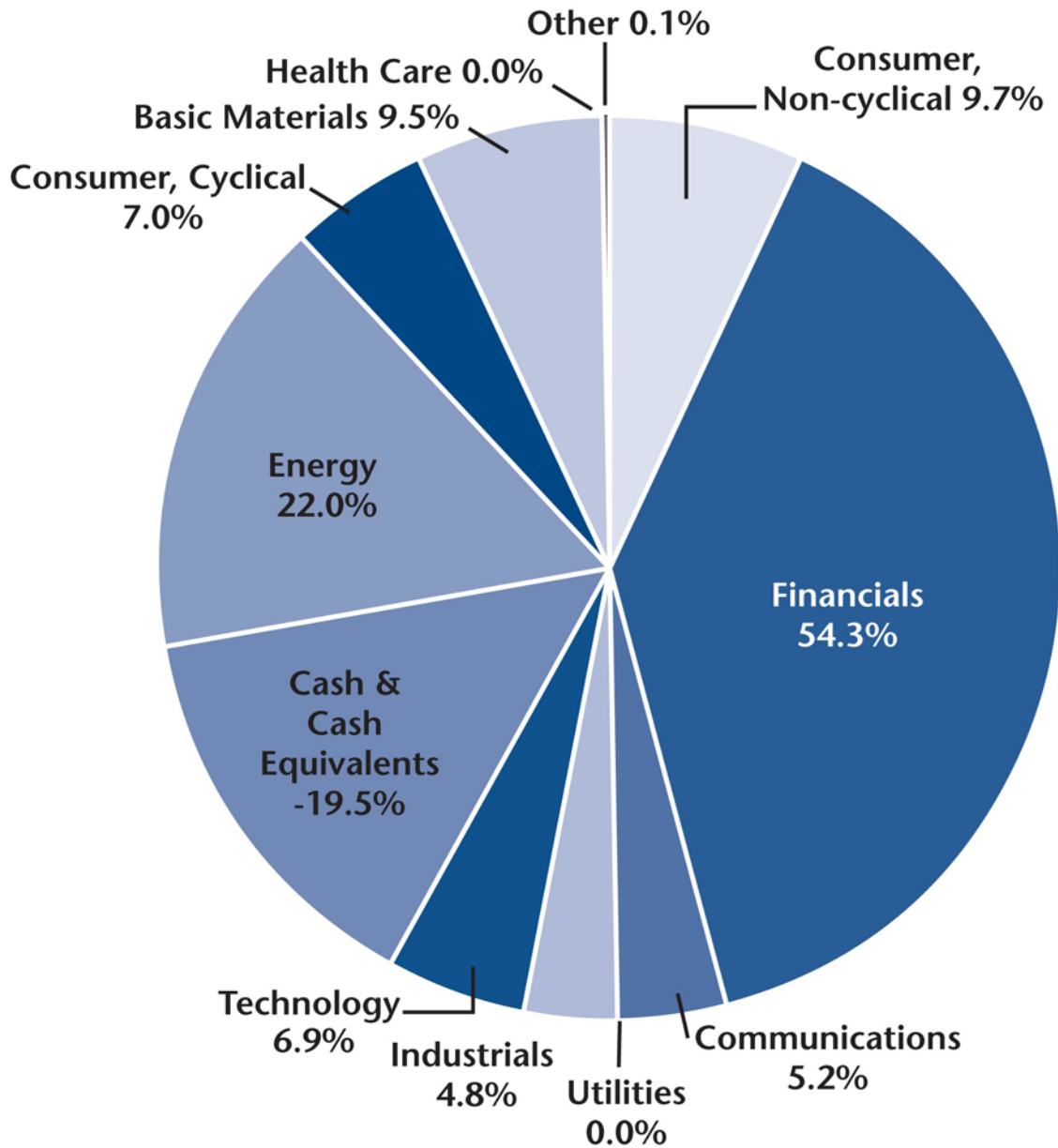
**Annual Compound Returns**

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 benchmark is: the S&P 500 Index Total Return (CAD).

<b>Annualized Compound Returns</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Fund</b>	16.21%	N/A	N/A	N/A
<b>Index</b>	8.09%	17.66%	21.15%	8.47%



## Summary of Investment Portfolio



## CALDWELL U.S. DIVIDEND ADVANTAGE FUND



## Top 25 Holdings

As at December 31, 2016

	Percentage of Net Assets
<b>SECURITY</b>	
TPG Specialty Lending Inc.	3.80%
Goldman Sachs BDC Inc.	3.65%
Ares Capital Corp.	3.61%
Apollo Commercial Real Estate Finance Inc.	3.46%
Dream Office Real Estate Investment Trust	3.31%
Canadian Apartment Properties REIT	3.12%
Main Street Capital Corp.	3.09%
JPMorgan Chase & Co.	3.07%
Blackstone Mortgage Trust Inc.	3.06%
Golub Capital BDC Inc.	3.04%
Macquarie Infrastructure Corp.	3.03%
Gladstone Capital Corp.	3.01%
Slate Office REIT	2.99%
Weyerhaeuser Co.	2.98%
Labrador Iron Ore Royalty Corp.	2.98%
Apple Inc.	2.95%
Norfolk Southern Corp.	2.91%
Amgen Inc.	2.86%
AltaGas Ltd	2.86%
Air Products & Chemicals Inc.	2.85%
The Williams Cos Inc.	2.85%
Timbercreek Financial Corp.	2.81%
Kinder Morgan Inc.	2.74%
Alcentra Capital Corp.	2.70%
Apache Corp.	2.67%
<b>Top 25 Holdings</b>	<b>76.40%</b>