



# **Caldwell Investment Management Ltd.**

*Independent Investment Managers*

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

For the Year Ended December 31, 2017

## **Caldwell Balanced 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 Fund is to provide consistent capital appreciation through a balanced portfolio while emphasizing the preservation of unitholder value. The Fund invests in a balance of income generating securities and equities both in Canada and internationally.

The investment objective of the Fund may only be changed with the approval of unitholders at a meeting called for that purpose.

### Results of Operations

#### 2017 Performance Review & 2018 Outlook

Digging into performance, the portfolio did a very good job of sector allocation (i.e. being in the right business sectors), while security selection (i.e. being in the right stocks), detracted from performance. Top contributors from a sector standpoint included:

- 1) The portfolio being over-weight the Technology sector, which out-performed the broader markets in both the U.S. and Canada;
- 2) Security selection in Materials stocks, driven by CCL Industries;
- 3) Security selection in Financials stocks, driven by KKR, Citigroup and Onex.

Top detractors included:

- 1) Security selection in Technology stocks, driven by Celestica and Amdocs and the lack of exposure to Apple and Facebook
- 2) Security selection in Consumer Discretionary stocks, driven by Omnicom and Whirlpool and the lack of exposure to Amazon;
- 3) Security selection in Industrials stocks, driven by Apogee.

Top Contributors		Bottom Contributors	
Company	Bps	Company	Bps
Broadridge Financial Solutions Inc	118	Trinidad Drilling Ltd	-120
KKR & Co LP	113	SunOpta Inc	-113
CCL Industries Inc B- Non-Voting	111	Apogee Enterprises Inc	-98
Cisco Systems Inc	101	Omnicom Group Inc	-87
LCI Industries Inc	97	Cardinal Health Inc	-76
<b>Top 5</b>	<b>540</b>	<b>Bottom 5</b>	<b>-494</b>

Table 1—Top and bottom contributors to performance in 2017

One of the more interesting things about 2017 was the apparent shift in investor psychology. Up until the latter part of the year, fear (Is this the top? Are we headed for another crash?) and disbelief/skepticism (How can markets make new highs with Brexit and Trump?), seemed to



dominate investor thinking. As markets continued to reach new highs, however, ‘fear of loss’ seemed to shift to ‘fear of missing out’. It has once again become exciting for people to talk about the markets and the amount of questions and money being thrown at unproven business models in digital currencies and marijuana is telling. While these are signs that the market is closer to a top than a bottom – we buy into the ‘cycle of emotion’ where market bottoms coincide with extreme fear while tops come with extreme exuberance – predicting the timing of when the top will occur is anyone’s guess. This creates difficulty given we live in a world where performance returns are published on a daily basis. Most pundits expected higher volatility in 2017 (an erroneous forecast). That forecast has now shifted into 2018.

Our recommendation to investors is to have a conversation with their investment advisors on cash needs. If money is required in the next year or two, it may be wise to lock in some gains.

While not immediately evident by performance last year, we continue to believe that a focused portfolio of ~25 stocks targeted at select company-specific opportunities will serve investors well going forward. As outlined above, we have made meaningful changes to the portfolio in the last several months. Studying where we have recently under-performed, while we owned high quality companies trading at attractive valuations, these companies lacked catalysts or growth opportunities to move the share prices higher. This is something we have targeted in the purchases made since this past summer; results on these investments have been encouraging thus far and we look forward to tracking the portfolio’s progress as we move forward.

We appreciate your continued support.

### **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 Trent Morris, 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 2% based on the net asset value of Series A units of the Fund, up to 1% based on the net asset value of Series F units of the Fund, and up to 0.75% based on the net asset value of Series M 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 2017, the Fund paid \$74,871 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 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.

	2017	2016	2015	2014	2013
Net Assets, beginning of year <sup>(3)</sup>	10.71	10.05	9.69	8.72	7.13
<b>Increase (decrease) from operations:</b>					
Total Revenue	0.19	0.17	0.18	0.18	0.17
Total Expenses	(0.30)	(0.26)	(0.28)	(0.25)	(0.25)
Realized gains (losses) for the period	0.66	0.55	0.46	0.80	0.63
Unrealized gains (losses) for the period	(0.31)	0.18	(0.02)	0.24	1.07
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	0.24	0.64	0.34	0.97	1.62
<b>Distributions:</b>					
From Income (excluding dividends)	0.00	0.00	0.00	0.00	0.00
From Dividends	0.00	0.00	0.00	0.00	0.00
From Capital Gains	0.00	0.00	0.00	0.00	0.00
Return of Capital	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>		0.00	0.00	0.00	0.00
<b>Net Assets at December 31 of year shown <sup>(3)</sup></b>	10.95	10.71	10.05	9.69	8.72

<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.

<sup>(3)</sup> All per unit figures presented in 2013 to 2017 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, 2017. 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 2017 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.

	2017	2016	2015	2014
Net Assets, beginning of year <sup>(3)</sup>	11.05	10.26	9.78	9.13
<b>Increase (decrease) from operations:</b>				
Total Revenue	0.20	0.18	0.20	0.07
Total Expenses	(0.19)	(0.12)	(0.17)	(0.07)
Realized gains (losses) for the period	0.63	0.63	0.42	0.21
Unrealized gains (losses) for the period	(0.32)	0.98	(0.31)	0.44
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	0.32	1.67	0.14	0.65
<b>Distributions:</b>				
From Income (excluding dividends)	0.00	0.00	0.00	0.00
From Dividends	0.00	0.00	0.00	0.00
From Capital Gains	0.00	0.00	0.00	0.00
Return of Capital	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>	0.00	0.00	0.00	0.00
<b>Net Assets at December 31 of year shown <sup>(3)</sup></b>	11.43	11.05	10.26	9.78

<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.

<sup>(3)</sup> All per unit figures presented in 2014 to 2017 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, 2017. 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, 2014 to 2017 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 8, 2014.



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

	2017	2016
Net Assets, beginning of year <sup>(3)</sup>	10.45	10.00
<b>Increase (decrease) from operations:</b>		
Total Revenue	0.19	0.07
Total Expenses	(0.16)	(0.05)
Realized gains (losses) for the period	0.57	0.25
Unrealized gains (losses) for the period	0.00	0.41
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	0.60	0.68
<b>Distributions:</b>		
From Income (excluding dividends)	0.00	0.00
From Dividends	0.00	0.00
From Capital Gains	0.00	0.00
Return of Capital	0.00	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>	0.00	0.00
<b>Net Assets at December 31 of year shown <sup>(3)</sup></b>	10.84	10.45

<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.

<sup>(3)</sup> All per unit figures presented in 2016 to 2017 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, 2017. 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, 2016 to 2017) and the aggregate value of the liabilities, divided by the number of units then outstanding.

\* The Fund's Series M commenced on September 15, 2016.



## Ratios and Supplemental Data - Series A

	2017	2016	2015	2014	2013
Net asset value (000's) <sup>(1)</sup>	50,866	54,009	52,846	47,324	39,736
Number of units outstanding <sup>(1)</sup>	4,644,411	5,043,980	5,256,477	4,881,726	4,558,628
Management expense ratio <sup>(2)</sup>	2.67%	2.49%	2.70%	2.73%	2.78%
Management expense ratio before waivers or absorptions	2.67%	2.72%	2.73%	2.73%	2.78%
Portfolio turnover rate <sup>(3)</sup>	200.53%	123.59%	110.80%	224.21%	177.70%
Trading Expense ratio <sup>(4)</sup>	0.13%	0.13%	0.21%	0.22%	0.29%

## Ratios and Supplemental Data - Series F

	2017	2016	2015	2014
Net asset value (000's) <sup>(1)</sup>	2,891	2,328	562	123
Number of units outstanding <sup>(1)</sup>	252,869	210,663	54,799	12,611
Management expense ratio <sup>(2)</sup>	1.54%	1.07%	1.59%	1.76%
Management expense ratio before waivers or absorptions	1.54%	1.27%	1.64%	1.76%
Portfolio turnover rate <sup>(3)</sup>	200.53%	123.59%	110.80%	224.21%
Trading Expense ratio <sup>(4)</sup>	0.13%	0.13%	0.21%	0.22%

## Ratios and Supplemental Data - Series M

	2017	2016
Net asset value (000's) <sup>(1)</sup>	91	107
Number of units outstanding <sup>(1)</sup>	8,369	10,311
Management expense ratio <sup>(2)</sup>	1.42%	1.42%
Management expense ratio before waivers or absorptions	1.42%	1.48%
Portfolio turnover rate <sup>(3)</sup>	200.53%	123.59%
Trading Expense ratio <sup>(4)</sup>	0.13%	0.13%

<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 2% 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	33%
Management and Portfolio Adviser Services	67%
Waivers and Absorption of Fund Expenses	0%

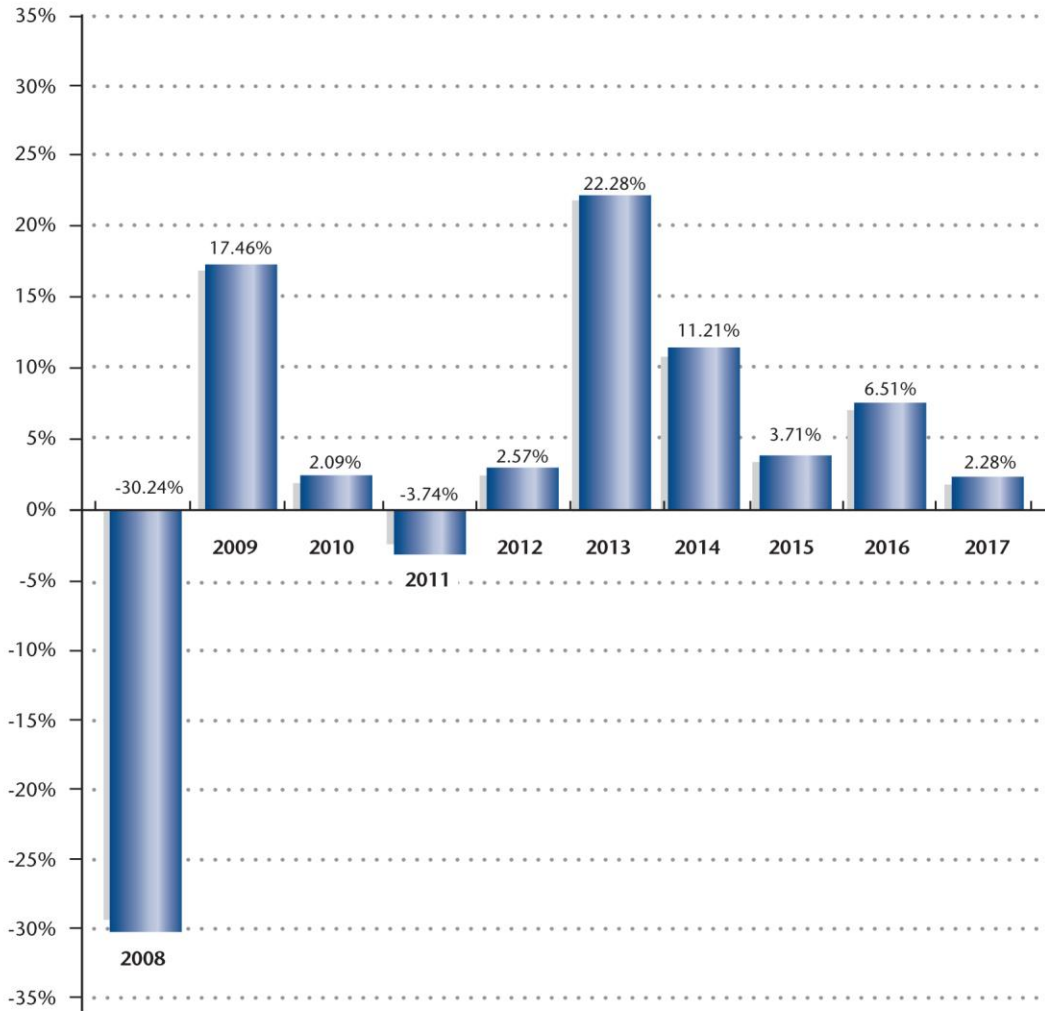
## Past Performance

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

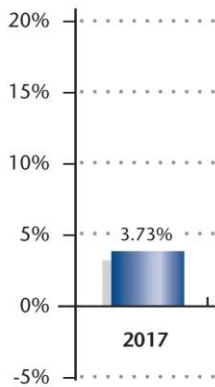
The bar charts shows how the Fund's annual past performance has varied from year to year for each of the years shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 for that year.



Caldwell Balanced Fund - Series A



Caldwell Balanced Fund - Series F



Caldwell Balanced Fund - Series M

For the years ended December 31

**Annual Compound Returns**

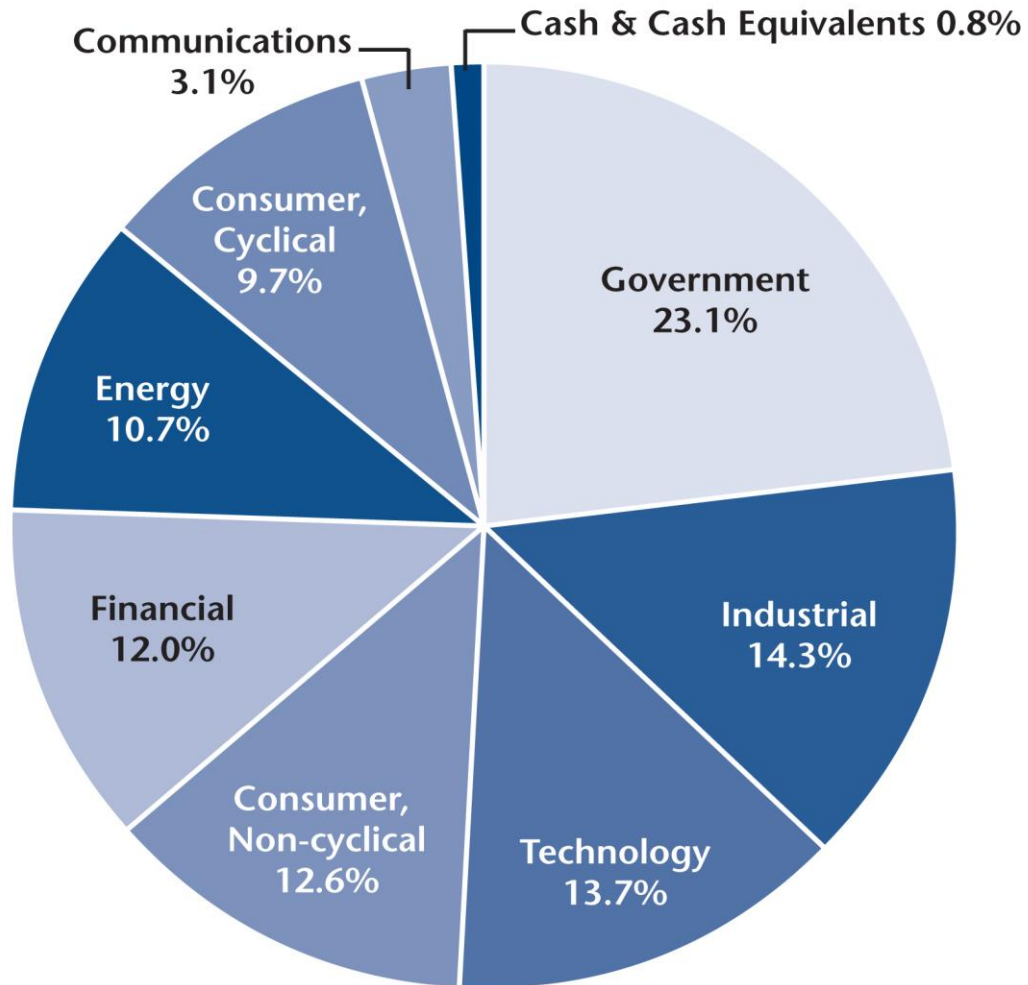
The table shows the Fund’s historical annual compound total return for each period since inception of the Fund, compared with the Fund benchmark. The benchmark is: (45% S&P/TSX Total Return, 20% S&P 500 Total Return, 35% equally distributed between DEX Gov Mid Term, DEX Gov SHT Term & DEX 91 Day T-Bill Index.)

<b>Annualized Compound Returns</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Fund - Series A</b>	2.28%	3.71%	22.28%	(30.24%)
<b>Fund - Series F</b>	3.45%	4.87%	N/A	N/A
<b>Fund - Series M</b>	3.74%	N/A	N/A	N/A
<b>Index</b>	6.90%	6.31%	8.63%	5.58%



## Summary of Investment Portfolio

Portfolio Breakdown as at December 31, 2017



### Caldwell Balanced Fund



**Top 25 Holdings  
As at Dec 31, 2017**

<b>SECURITY</b>	<b>Percentage of Net Assets</b>
<b>Canadian Government Bond 1% 01JUN2027</b>	<b>10.49%</b>
<b>Canadian Government Bond 1.50% 01JUN2023</b>	<b>9.64%</b>
<b>Bird Construction Inc.</b>	<b>4.19%</b>
<b>LCI Industries</b>	<b>3.87%</b>
<b>Tricon Capital Group Inc.</b>	<b>3.41%</b>
<b>Citigroup Inc.</b>	<b>3.31%</b>
<b>Tyson Foods Inc.</b>	<b>3.30%</b>
<b>KKR &amp; Co LP</b>	<b>3.28%</b>
<b>TFI International Inc.</b>	<b>3.28%</b>
<b>Broadridge Financial Solutions Inc.</b>	<b>3.16%</b>
<b>Amdocs Ltd</b>	<b>3.11%</b>
<b>Cognizant Technology Solutions Corp.</b>	<b>3.07%</b>
<b>Cisco Systems Inc.</b>	<b>3.06%</b>
<b>Keysight Technologies Inc.</b>	<b>3.05%</b>
<b>Canadian Government Bond 0.50% 01MAR2022</b>	<b>2.99%</b>
<b>STERIS PLC</b>	<b>2.99%</b>
<b>Kohl's Corp.</b>	<b>2.98%</b>
<b>Parkland Fuel Corp.</b>	<b>2.89%</b>
<b>Whirlpool Corp.</b>	<b>2.86%</b>
<b>CGI Group Inc.</b>	<b>2.66%</b>
<b>Celestica Inc.</b>	<b>2.45%</b>
<b>AmerisourceBergen Corp.</b>	<b>2.37%</b>
<b>Suncor Energy Inc.</b>	<b>2.27%</b>
<b>SunOpta Inc.</b>	<b>2.25%</b>
<b>Enerflex Ltd</b>	<b>2.11%</b>
<b>Top 25 Holdings</b>	<b>89.03%</b>

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