CALDWELL U.S. Dividend Advantage Fund

July 2016 Management Update
TMX: UDA.UN

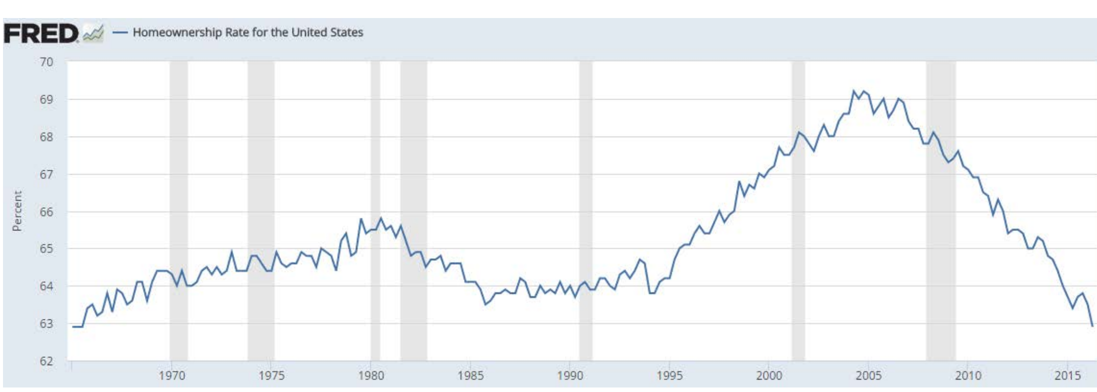
It was a record-breaking month in the United States. The U.S. (S&P 500) completed July by reaching a new all-time high on July 29th and finished up 3.6%. Canada (S&P/TSX Composite Index) was up 3.7%, Europe (Euro Stoxx 50) was up 4.4%, and Japan (Nikkie 225) was up 6.38%. Crude oil ("WTI") finished down -13.9% in July.

The past few months have given investors much to think about. Recent global events, such as was Brexit, the attempted Coup D'Etat in Turkey, the Italian bank bailout, and the terrorist attack in France, provide market participants a reason to pause and collect their thoughts. These events will challenge global growth and recently the World Bank and the International Monetary Fund ("IMF") reduced their estimates for global Gross Domestic Product ("GDP"). The Federal Reserve ("The Fed") has discussed in past meetings that a challenged global economic environment is one of its concerns when assessing interest rates hikes. Further, the U.S. Dollar has begun to strengthen, depressing commodity prices. Raising interest rates would cause the U.S. Dollar ("USD") to increase further and exacerbate problems globally. The reasoning for this is twofold: First, raising interest rates in a world dominated by zero or negative interest rate policies would cause a substantial flow of capital out of poor performing markets and into the USD and U.S. Treasuries. Second, the strengthened USD would hurt developing countries around the world that have U.S. denominated debt, especially those that are commodity exporters. This is because all commodities are priced in USD and its strength drives the underlying commodity price down further. For these reasons, the market believes that the Fed will not raise rates until the global backdrop improves. This has helped propel the S&P 500 to all-time highs as investors position themselves for an extended low interest rate environment.

Source: Federal Reserve St. Louis

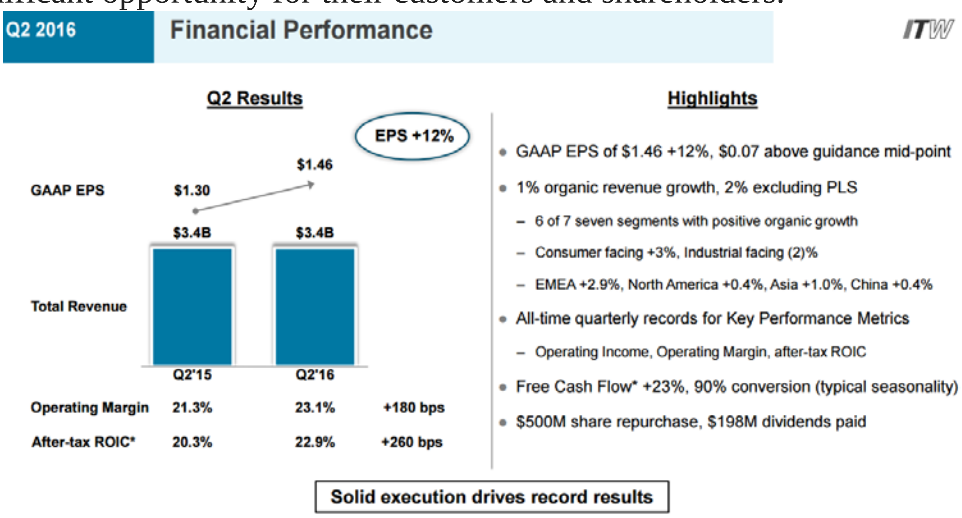
The labour market in the United States continues to improve and surprise to the upside. Job creation in July crushed estimates as the economy added 255,000 positions, far higher than the 180,000 that analysts had been expecting. This was compounded by hourly wages increasing at an annualized pace of 2.6% and the average work week increasing to 34.5 hours. GDP growth does not paint as rosy a picture. The Atlanta Federal Reserve lowered their growth estimate in their GDPNow projection to 1.8% from 2.3%. This was mainly due to declining inventory levels in Q1 and Q2 of 2016. However, this is expected to be positive in Q3 and Q4 as companies look to restock shelves and warehouses. Inflation continues to run below 2% with the 10-year breakeven inflation rate still in 1.5% range. The concern for the Fed right now is not employment but inflation. One of the unintended consequences of central bank policy being at zero rates is that debt levels around the world have soared. Since 2008, total public and private debt in major economies has risen by $60 trillion to over $200 trillion or nearly 300% global debt-to-GDP. If the average interest rate on this debt is only 1% then global nominal GDP needs to be above 3% in order to create the escape velocity necessary to have real growth in the global economy. Inflation is necessary to drive down the real value of this debt and increase the ability of borrowers to service and repay it. The great battle ahead for the Fed is not employment but deflation which could have terrible effects if it is not defeated.

This new "lower for longer" mindset helps explain why the bond proxy sectors (Consumer Staples, Utilities, and Telecom) are outperforming their peers. Investment managers look to replace the fixed income portion of their portfolios with steady, dividend paying companies. Non-defence Capital Goods Orders should also increase, helping industrial companies, as corporations believe low rates will persist and the economy will continue to expand. The Caldwell U.S. Dividend Advantage Fund ("The Fund") continues to be positive on the U.S. housing sector. An economy at full employment, historic low interest rates, and a home ownership rate at its lowest level in 50 years provides the perfect backdrop for the housing vertical to grow profits in the oncoming cycle in U.S. economy.



Source: Federal Reserve of St Louis

The Fund has been gradually increasing its exposure to the industrial sector. One company that is notable is Illinois Tool Works Inc (NYSE: ITW). ITW is a Fortune 500 global multi-industrial manufacturing leader with revenues totaling $13.4 billion in 2015. The company's seven industry-leading segments leverage the unique ITW Business Model to drive solid growth with best-in-class margins and returns in markets where highly innovative, customer-focused solutions are required. ITW's products and solutions are at work all over the world, in deep-sea oil rigs, aerospace technology, bridges and wind turbines, healthcare, the spaces in which we live and work, the cars we drive, and the mobile devices we rely on. ITW businesses operate globally, with a significant presence in developed as well as emerging markets. More than half of ITW's revenue is generated outside of the United States, allowing for strategic, global expansion, which offers significant opportunity for their customers and shareholders.



Source: Illinois Tool Works 2016 Investor Presentation

ITW is a company focused on organic growth. The company has been extremely successful in this endeavor, realizing significant organic growth both globally and in North America after focusing on seven core segments, each having their own strong sustainable competitive advantage and long-term growth fundamentals. It is this highly profitable and diversified approach that has led to an increase in their EPS by 7% to $1.29, $0.04 above guidance mid-point on strong operational performance. Additionally, ITW has recently acquired Engineered Fasteners and Components. This has helped strengthen their offerings to global and regional automotive customers, expanding their long-term growth potential. This puts ITW in a far better position in the coming years, with the expected returns on invested capital to increase by 16-20% in seven years.

The Fund believes that ITW will be a strong performer in 2016 due to its high organic growth levels and long-term growth fundamentals. We believe that this U.S. dividend paying company, which posses a combination of low volatility and high profitability, will significantly benefit from the continued U.S. economic expansion.

Unitholders are reminded that the Caldwell U.S. Dividend Advantage Fund offers a Distribution Reinvestment Plan ("DRIP") which provides Unitholders with the ability to automatically reinvest distributions and realize the benefits of compounded growth. Unitholders can enroll in the DRIP program by contacting their Investment Advisor.

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