



# **Caldwell Investment Management Ltd.**

*Independent Investment Managers*

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

For the Year Ended December 31, 2018

# **Caldwell Canadian Value Momentum Fund**

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 generate capital growth by investing in a concentrated basket of Canadian equities which show the highest potential for capital gains over a moderate holding period.

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**

The Fund declined 6.0% in 2018 versus a loss of 8.9% for the Index. Despite the Fund ending the year with a loss, we are pleased to have once again significantly out-performed the Index. Over the past 5 years, the Fund holds a category-best downside capture ratio of 38.1% and ranks in the top 2% of all Canadian Equity funds for the 3-year period, and top 5% for the 5-year period, ending December 31, 2018.

The Fund held a 54.7% cash weighting at the end of December. There has been strong 'risk off' sentiment to the market these last three months with investors focusing more on macro issues (trade/global growth and interest rates) over company-specific drivers. During more challenging markets, it is important to remember the fundamental reasons for owning an investment. Specific to the CCVMF, the fund has generated substantial value to investors over its long-term history, driven by the combination of strong company-specific catalysts and a concentrated portfolio. We continue to look forward to strong results as we progress through 2019 and beyond.

### **Recent Developments**

The Fund declined 4.6% in December versus a loss of 5.4% for the S&P/TSX Composite Total Return Index ("Index"). It was another month of broad-based weakness with only the gold sector posting a positive return. This is now the 7th consecutive month in which the CCVMF out-performed a declining Index. Since inception (August 2011), the fund has outperformed the Index in 27 of 34 down months for a 79% success ratio.

Three stocks were added to the portfolio in December: Badger Daylighting ("BAD"), Alimentation Couche-Tard ("ATD.B") and Metro Inc. ("MRU"). Badger provides non-destructive excavating and related services in Canada and the U.S and owns the largest hydrovac excavation fleet in North America. Business momentum is strong while new segment disclosures illustrate decreased exposure to oil & gas, which should re-rate the multiple higher. BAD has a 17%, 10-year, organic revenue growth rate and management believes they have only scratched the surface on growth opportunity, given low penetration of non-destructive excavation and expansion runway into new geographies. Revenue and EBITDA are at record highs while the stock still trades meaningfully below its all-time high.



While MRU and ATD.B are likely benefiting from the market's shift to defensive stocks, both companies also have company-specific catalysts to drive share prices higher. Metro operates grocery and pharmacy stores across Canada. It is benefiting from a positive inflection in grocery inflation, lower-than-expected headwinds from minimum wage hikes and synergies from the Jean Coutu pharmacy acquisition. Alimentation Couche-Tard is one of the largest convenience store operators and fuel retailers in North America. ATD.B was a very successful holding for the CCVMF between October 2014 and March 2016. We are back in this company after a sideways trading consolidation period which saw the forward Enterprise Value/EBITDA multiple contract from 11.9x to 10.0x. Same store sales growth has inflected positively on the back of food and beverage initiatives while the company continues to see a healthy, multi-year acquisition pipeline.

### **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 1.0% based on the net asset value of Series F units of the Fund and up to 1.5% based on the net asset value of Series O 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 Arrangements*

The purchase and sale of portfolio securities is arranged by the Manager through registered brokers or dealers. The Manager has a regulatory obligation to make reasonable efforts to achieve best execution of those portfolio trades when acting for the Fund. Best execution refers to the most advantageous execution terms reasonably available under the circumstances.

The Manager may choose to execute a portion of the Fund's portfolio transactions with Caldwell Securities Ltd., an affiliate of the Manager. The Manager applies its best execution policy in respect of both affiliated and non-affiliated dealers. Specifically, any trade allocation to an affiliated dealer is based on an assessment of the same best execution criteria.

Because Caldwell Securities Ltd. is an affiliate of the Manager and the interrelationship of their businesses, a conflict of interest exists that has the potential of influencing the Manager's choice of Caldwell Securities Ltd. to execute Fund portfolio transactions. The Manager addresses this conflict of interest by applying its best execution policy and by following best execution standing instructions issued by the Fund's independent review committee.

The Fund pays Caldwell Securities Ltd. an annual brokerage fee of 0.50% of the net asset value as compensation for portfolio transactions executed by Caldwell Securities Ltd. Portfolio transactions executed by brokers other than Caldwell Securities Ltd. will be subject to those broker's customary commissions, taxes and fees.

In 2018 the Fund has paid \$229,391 in brokerage fees to Caldwell Securities Ltd. and in 2017, the Fund paid \$84,784.



## 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 F Unit, as at December 31.

|   | 2018          | 2017          | 2016          | 2015         | 2014*         |
|---|---------------|---------------|---------------|--------------|---------------|
| Net Assets, beginning of year <sup>(3)</sup>                    | 16.67         | 15.31         | 13.67         | 12.39        | 13.88         |
| <b>Increase (decrease) from operations:</b>                     |               |               |               |              |               |
| Total Revenue   | 0.19          | 0.24          | 0.24          | 0.22         | 0.14          |
| Total Expenses  | (0.27)        | (0.71)        | (0.83)        | (0.17)       | (0.07)        |
| Realized gains (losses) for the period                          | (0.73)        | 1.52          | 0.65          | 0.06         | (0.75)        |
| Unrealized gains (losses) for the period                        | (0.56)        | 1.48          | 1.79          | 1.23         | (0.82)        |
| <b>Total increase (decrease) from operations <sup>(1)</sup></b> | <b>(1.38)</b> | <b>2.53</b>   | <b>1.85</b>   | <b>1.34</b>  | <b>(1.50)</b> |
| <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          | (0.63)        | (0.51)        | 0.00         | 0.00          |
| Return of Capital   | 0.00          | (0.03)        | 0.00          | 0.00         | 0.00          |
| <b>Total Annual Distributions <sup>(2)</sup></b>                | <b>0.00</b>   | <b>(0.66)</b> | <b>(0.51)</b> | <b>0.00</b>  | <b>0.00</b>   |
| <b>Net Assets at December 31 of year shown <sup>(3)</sup></b>   | <b>15.74</b>  | <b>16.67</b>  | <b>15.31</b>  | <b>13.67</b> | <b>12.39</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.

<sup>(3)</sup> All per unit figures presented in 2014 to 2018 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, 2018. Net assets per unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities, divided by the number of units then outstanding

\* The Fund's Series F commenced on August 29, 2014.



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

|   | <b>2018</b>   | <b>2017</b>   | <b>2016</b>   | <b>2015</b>  | <b>2014</b>   |
|---|---------------|---------------|---------------|--------------|---------------|
| Net Assets, beginning of year <sup>(3)</sup>                    | 14.45         | 13.48         | 11.71         | 10.85        | 12.55         |
| <b>Increase (decrease) from operations:</b>                     |               |               |               |              |               |
| Total Revenue   | 0.16          | 0.24          | 0.21          | 0.19         | 0.23          |
| Total Expenses  | (0.32)        | (0.53)        | (0.31)        | (0.38)       | (0.27)        |
| Realized gains (losses) for the period                          | (0.58)        | 1.40          | 0.62          | 0.06         | 3.19          |
| Unrealized gains (losses) for the period                        | (0.27)        | 0.65          | 1.71          | 1.10         | (2.20)        |
| <b>Total increase (decrease) from operations <sup>(1)</sup></b> | <b>(1.01)</b> | <b>1.76</b>   | <b>2.23</b>   | <b>0.97</b>  | <b>0.95</b>   |
| <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          | (0.89)        | (0.53)        | 0.00         | (1.54)        |
| 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>(0.89)</b> | <b>(0.53)</b> | <b>0.00</b>  | <b>(1.54)</b> |
| <b>Net Assets at December 31 of year shown <sup>(3)</sup></b>   | <b>13.58</b>  | <b>14.45</b>  | <b>13.48</b>  | <b>11.71</b> | <b>10.85</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.

<sup>(3)</sup> All per unit figures presented in 2014 to 2018 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, 2018. Net assets per unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities, divided by the number of units then outstanding.



### Ratios and Supplemental Data - Series F

|   | 2018      | 2017    | 2016   | 2015    | 2014    |
|---|-----------|---------|--------|---------|---------|
| Net asset value (000's) <sup>(1)</sup>                    | 32,206    | 15,860  | 952    | 466     | 480     |
| Number of units outstanding <sup>(1)</sup>                | 2,046,514 | 951,655 | 62,178 | 34,094  | 38,749  |
| Management expense ratio <sup>(2)</sup>                   | 1.05%     | 4.03%   | 1.91%  | 0.82%   | 0.36%   |
| Management expense ratio before<br>waivers or absorptions | 1.14%     | 4.24%   | 2.97%  | 2.24%   | 0.67%   |
| Portfolio turnover rate <sup>(3)</sup>                    | 161.77%   | 136.17% | 81.34% | 149.67% | 167.41% |
| Trading Expense ratio <sup>(4)</sup>                      | 0.58%     | 0.52%   | 0.50%  | 0.50%   | 0.48%   |

### Ratios and Supplemental Data - Series O

|   | 2018      | 2017    | 2016    | 2015    | 2014    |
|---|-----------|---------|---------|---------|---------|
| Net asset value (000's) <sup>(1)</sup>                    | 16,657    | 11,595  | 8,212   | 4,090   | 5,403   |
| Number of units outstanding <sup>(1)</sup>                | 1,226,779 | 802,402 | 609,208 | 349,196 | 498,102 |
| Management expense ratio <sup>(2)</sup>                   | 1.65%     | 3.72%   | 2.21%   | 2.80%   | 1.53%   |
| Management expense ratio before<br>waivers or absorptions | 1.73%     | 4.07%   | 3.28%   | 4.22%   | 1.88%   |
| Portfolio turnover rate <sup>(3)</sup>                    | 161.77%   | 136.17% | 81.34%  | 149.67% | 167.41% |
| Trading Expense ratio <sup>(4)</sup>                      | 0.58%     | 0.52%   | 0.50%   | 0.50%   | 0.48%   |

<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 1.0% of the average net asset value of the Fund in respect of Series F units and 1.5% in respect of Series O units. 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                              | 40% |
| Management and Portfolio Adviser Services | 48% |
| Waivers and Absorption of Fund Expenses   | 12% |

## **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**

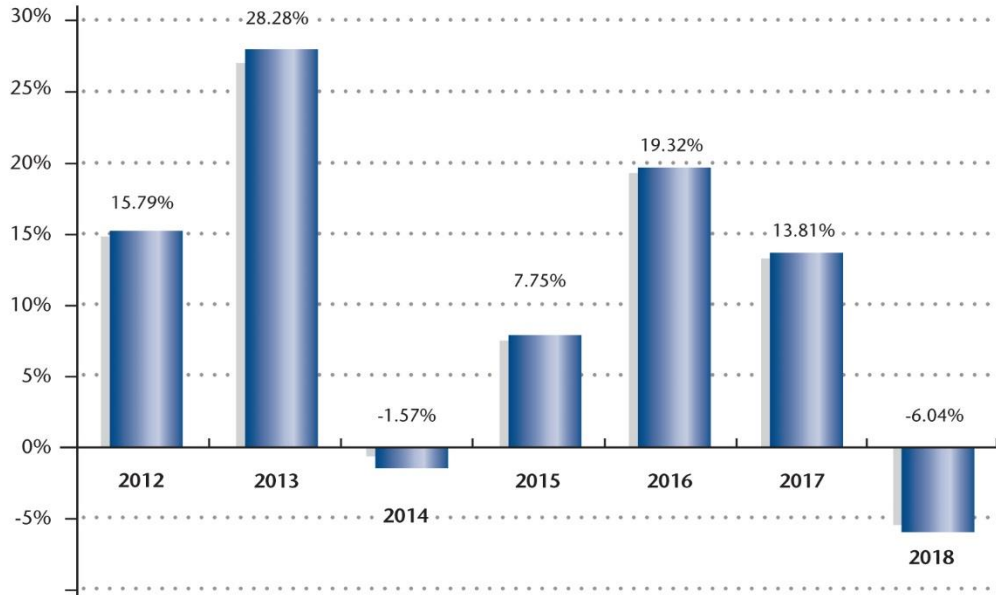
The bar charts shows how the Fund's annual past performance has varied from year to year for each of the years shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 for that year.

**For the years ended December 31**



Caldwell Canadian Value Momentum Fund - Series F





Caldwell Canadian Value Momentum Fund - Series O

For the years ended December 31

### Annual Compound Returns

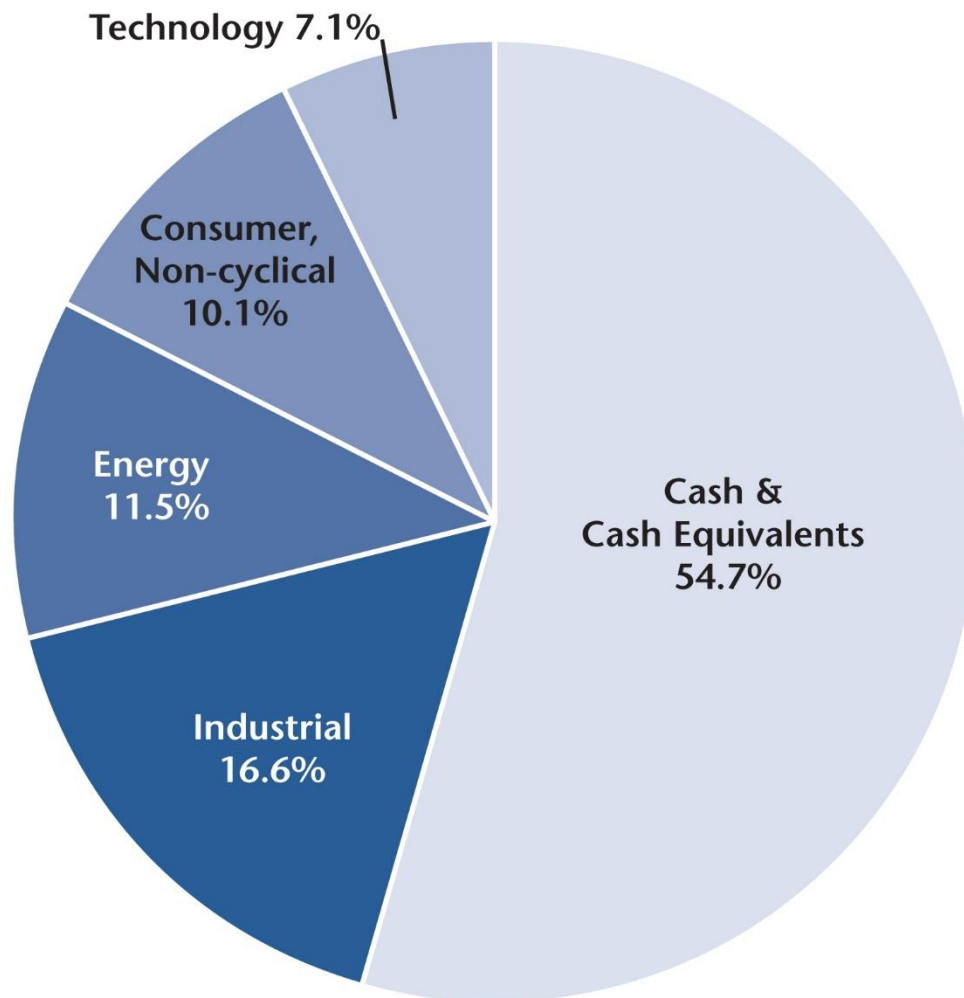
The table shows the Fund's historical annual compound total return for each period since inception of the Fund, compared with the Fund benchmark. The benchmark is: S&P/TSX Composite TR

| Annualized Compound Returns | 1 Year  | 3 Years | 5 Years | 10 Years |
|-----------------------------|---------|---------|---------|----------|
| Fund - Series F             | (5.57%) | 18.36%  | N/A     | N/A      |
| Fund - Series O             | (6.04%) | 19.32%  | (1.57%) | N/A      |
| Index                       | (8.89%) | 6.37%   | 4.06%   | 7.92%    |



## Summary of Investment Portfolio

Portfolio Breakdown as at December 31, 2018



## Caldwell Canadian Value Momentum Fund



**Summary of Investment Portfolio  
Top 25 Holdings  
As at December 31, 2018**

| <b>SECURITY</b>                       | <b>Percentage of Net Assets</b> |
|---------------------------------------|---------------------------------|
| Cash & Cash Equivalents               | 54.60%                          |
| CGI Group Inc.                        | 7.13%                           |
| Aecon Group Inc.                      | 6.74%                           |
| Parkland Fuel Corp.                   | 6.30%                           |
| North American Construction Group Ltd | 5.23%                           |
| Alimentation Couche-Tard Inc.         | 5.09%                           |
| Metro Inc.                            | 5.04%                           |
| Cargojet Inc.                         | 4.39%                           |
| Badger Daylighting Ltd                | 3.37%                           |
| TFI International Inc.                | 1.92%                           |
| People Corp.                          | 0.19%                           |

\*All holdings. Fund has less than 25 holdings.

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|                        |                |
|------------------------|----------------|
| <b>Top 25 Holdings</b> | <b>100.00%</b> |
|------------------------|----------------|

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