



# Caldwell Investment Management Ltd.

*Independent Investment Managers*

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

For the Period Ended June 30, 2020

## **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 semi-annual management report of fund performance contains financial highlights, but does not contain the complete semi-annual financial statements of the investment fund. You may obtain a copy of the semi-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 fundamental investment objective of the Fund is to provide unitholders with: (i) monthly distributions; and (ii) the potential for capital appreciation and enhanced long-term risk adjusted returns.

The Fund invests primarily in dividend paying equity securities of U.S. domiciled issuers or issuers that derive a significant portion of their revenue or earnings from the U.S.

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

The Fund aims to achieve its objectives by investing in an actively managed Portfolio comprised primarily of high- quality U.S. dividend-paying equity securities. By utilizing a unique combination of quantitative and qualitative fundamental analysis, the Manager employs a disciplined investment process to identify securities for inclusion in the Portfolio which are financially strong and have exhibited improving operating performance. Emphasis is particularly placed on those securities and issuers which have demonstrated a history of dividend growth and which offer the potential for future dividend and business growth. The Fund may also invest a portion of its assets in non-dividend paying securities and in the securities of non-U.S. issuers which, in the Manager's opinion, offer the potential to enhance returns and reduce overall Portfolio risk.

The Manager has a conservative bias, placing considerable focus on the price paid for a security and generally intends to invest the Fund in a concentrated basket of securities. The Manager also utilizes a value-based investment philosophy focused on capital preservation and a measured risk approach to capital growth.

In accordance with the requirements of NI 81-102, the Fund may write cash-covered put options or covered call options from time to time in respect of the securities it holds, in order to seek to achieve one or more of the following: (i) enhance the Fund's total returns, (ii) enhance the dividend yield of the Portfolio securities, and/or (iii) lower the overall volatility of the Fund's Portfolio. The Fund may also use warrants, ETFs and derivatives such as options, futures, forward contracts, swaps or customized derivatives to hedge exposure to market, commodity price, foreign exchange, interest rate and/or other risks.

From time to time, the Fund may hold a large portion of its assets in cash or cash equivalents and short-term fixed income securities in anticipation of a market decline or during periods of high market valuations and volatility.

In order to generate additional returns, the Fund may, from time-to-time, enter into securities lending transactions, repurchase transactions and reverse repurchase transactions as permitted and in accordance with the requirements of NI 81-102 and relevant tax legislation. For a description of these transactions and how the Fund manages the risks associated with these transactions, please

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see the discussion under Repurchase and reverse repurchase transactions and securities lending risk.

The Fund may engage in active and frequent trading of Portfolio securities in order to capitalize on investment opportunities in changing markets. A mutual fund generally realizes capital gains, or capital losses, if it sells an investment for more, or less, than its cost amount plus reasonable costs of disposition, if any. The higher a fund's Portfolio turnover rate in a year, the more likely it will realize accrued gains or losses which may accelerate the recognition of taxable capital gains if net gains are being realized, and the greater the trading costs payable by the fund in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

The Fund may depart temporarily from the foregoing as a result of adverse market conditions.

### Results of Operations

The Caldwell U.S. Dividend Advantage Fund ("CUSDAF") declined 1.6% in the first half of 2020. The first half of 2020 ("1H20") saw significant volatility with the CBOE Volatility Index ("VIX") reaching levels not seen since the depths of the Global Financial Crisis in the fall of 2008. The S&P 500 hit a low of 2,191.86 on March 23rd (32.2% below its December 31, 2019 close) as the COVID-19 pandemic hit peak uncertainty. Subsequent government stimulus to fight the pandemic and economic impact from shelter-in-place measures caused the S&P 500 to rally sharply off of its March 23rd low. At June 30th, the S&P 500 had gained 41.5% off its low and closed the first half down 4.0%. A closer look at the S&P 500 shows a meaningful negative skew in the performance of its underlying constituents. Specifically, nearly two thirds of the stocks in the S&P 500 have under-performed the S&P 500's return (Chart I). The skew is so notable that there is a 8.3 percentage point difference between the S&P 500 return (-4.0%) and the mean (midpoint) return of -12.3%.

#### Year-to-Date Performance: % of stocks beating the S&P 500 Index

	# stocks	# above	% above	% below
Health Care	62	39	62.9%	37.1%
Information Technology	71	44	62.0%	38.0%
Consumer Staples	33	16	48.5%	51.5%
Communication Services	26	10	38.5%	61.5%
Industrials	73	22	30.1%	69.9%
Materials	28	8	28.6%	71.4%
Consumer Discretionary	61	16	26.2%	73.8%
Real Estate	31	8	25.8%	74.2%
Financials	66	13	19.7%	80.3%
Utilities	28	5	17.9%	82.1%
Energy	26	1	3.8%	96.2%
<b>Total</b>	<b>505</b>	<b>182</b>	<b>36.0%</b>	<b>64.0%</b>

S&P 500 Return:	-4.0%
Median Return:	-12.3%
Difference:	8.3%



Top contributors to the CUSDAF's performance in the first half of 2020 were Microsoft ("MSFT"), S&P Global ("SPGI") and Pool Corp ("POOL"). All three companies saw demand for its products and services increase/accelerate as a result of the COVID-19 pandemic and related shelter-in-place measures. Microsoft saw strong demand for its office productivity suite, cloud computing services and personal electronics. Management noted that COVID-19 had accelerated the shift to the cloud and the Teams platform saw active daily users increase significantly as companies shifted to remote working. We remain enthusiastic about Microsoft's long term growth prospects and ability to increase profitability over time. S&P Global's Ratings business benefited from companies preemptively issuing record amounts of debt in order to secure liquidity while its Market Intelligence businesses performed well given its software subscription model. With a diversified, recurring revenue business model, sticky customers, a wave of debt maturities over the next 5 years and an increasing presence in China, the long-term thesis remains in tact and SPGI remains one of our core holdings. Lastly, Pool Corp saw significant demand for its pool-related products as consumers shifted spending towards the home given shelter-in-place measures.

Leading detractors were Tyson Foods ("TSN"), U.S. Bancorp ("USB"), and JP Morgan ("JPM"). TSN faced operational challenges, with some of its plants having COVID-19 outbreaks, along with lower export demand and significantly lower chicken prices. The stock also moved lower as the anticipated benefits of African Swine Fever were yet to materialize. USB and JPM both moved lower amidst overall profitability concerns for the banking industry given low interest rates and rising credit losses.

## **Recent Developments**

With rates now likely to remain lower for the foreseeable future, we believe that dividend strategies could be some of the biggest beneficiaries in this type of environment. Dividend growth investing has been the foundation of our investment approach for the U.S. Dividend Advantage Fund, as these stocks typically provide an attractive risk and reward profile over the long-term. Given the lower interest rate backdrop along with attractive valuations of dividend growth stocks, we believe this is an opportune time for investors to increase their exposure to dividend funds.

## **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 Supriya Kapoor, Ann Y. M. Harris and Jerry Beniuk, all of whom were appointed on December 1, 2019.



## **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 1.75% based on the net asset value of Series A units of the Fund, up to 1.00% based on the net asset value of Series D units, and up to 0.75% based on the net asset value of Series F and the ETF series units of the Fund.

### **Trustee**

The trustee of the Fund is Caldwell Investment Management Ltd.

### **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 assists 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 of the Funds' 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 Funds' independent review committee.

To date in 2020, the Fund has paid \$54 in commissions to Caldwell Securities Ltd. and in similar period in 2019, the Fund paid \$20.

## **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, D, and F units of the Fund and the ETF Series units of the Fund.



The Fund's Net Asset Value (NAV), per Series A Unit as at June 30, 2020 and December 31 of previous years:

	<b>2020</b>	<b>2019</b>	<b>2018*</b>
Net Assets, beginning of year	10.96	9.50	10.11
<b>Increase (decrease) from operations:</b>			
Total Revenue	0.10	1.59	0.02
Total Expenses	(0.12)	(0.63)	(0.03)
Realized gains (losses) for the period	(0.07)	(0.86)	0.46
Unrealized gains (losses) for the period	(0.10)	1.93	(0.96)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.19)</b>	<b>2.03</b>	<b>(0.51)</b>
<b>Distributions:</b>			
From Income (excluding dividends)	(0.20)	0.00	0.00
From Dividends	0.00	0.00	0.00
From Capital Gains	0.00	0.00	0.00
Return of Capital	0.00	(0.40)	(0.23)
<b>Total Annual Distributions <sup>(2)</sup></b>	<b>(0.20)</b>	<b>(0.40)</b>	<b>(0.23)</b>
<b>Net Assets at June 30 and December 31 of year shown</b>	<b>10.58</b>	<b>10.96</b>	<b>9.50</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.

\* Series A units commenced operations on November 22, 2018.



The Fund's Net Asset Value (NAV), per Series D unit as at June 30, 2020 (unaudited):

	2020*
Net Assets, beginning of year	-
<b>Increase (decrease) from operations:</b>	
Total Revenue	0.09
Total Expenses	(0.06)
Realized gains (losses) for the period	(0.33)
Unrealized gains (losses) for the period	1.23
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	0.93
<b>Distributions:</b>	
From Income (excluding dividends)	(0.20)
From Dividends	0.00
From Capital Gains	0.00
Return of Capital	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>	(0.20)
<b>Net Assets at June 30 and December 31 of year shown</b>	10.62

<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.

\* Series D units commenced operations on January 27, 2020.





The Fund's Net Asset Value (NAV), per Series F Unit as at June 30, 2020 (unaudited) and December 31 of previous years:

	2020	2019	2018	2017	2016
Net Assets, beginning of year	11.35	9.74	10.80	10.43	9.54
<b>Increase (decrease) from operations:</b>					
Total Revenue	0.10	0.05	0.41	0.58	0.71
Total Expenses	(0.06)	(0.24)	(0.35)	(0.36)	(0.35)
Realized gains (losses) for the period	(0.01)	0.93	0.50	0.63	0.26
Unrealized gains (losses) for the period	(0.30)	1.49	(0.97)	0.13	0.89
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.27)</b>	<b>2.23</b>	<b>(0.41)</b>	<b>0.98</b>	<b>1.51</b>
<b>Distributions:</b>					
From Income (excluding dividends)	(0.20)	0.00	(0.16)	(0.14)	0.00
From Dividends	0.00	0.00	(0.11)	(0.08)	(0.22)
From Capital Gains	0.00	0.00	(0.19)	(0.15)	0.00
Return of Capital	0.00	(0.40)	0.00	(0.23)	(0.33)
<b>Total Annual Distributions <sup>(2)</sup></b>	<b>(0.20)</b>	<b>(0.40)</b>	<b>(0.46)</b>	<b>(0.60)</b>	<b>(0.55)</b>
<b>Net Assets at June 30 and December 31 of year shown</b>	<b>11.02</b>	<b>11.35</b>	<b>9.74</b>	<b>10.80</b>	<b>10.43</b>

- (1) 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.
- (2) Distributions were paid in cash or reinvested in additional units of the Fund.



The Fund's Net Asset Value (NAV), per ETF Series unit as at June 30, 2020 (unaudited):

	<b>2020*</b>
Net Assets, beginning of year	-
<b>Increase (decrease) from operations:</b>	
Total Revenue	0.09
Total Expenses	(0.09)
Realized gains (losses) for the period	(0.25)
Unrealized gains (losses) for the period	1.04
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>0.79</b>
<b>Distributions:</b>	
From Income (excluding dividends)	(0.11)
From Dividends	0.00
From Capital Gains	0.00
Return of Capital	0.00
<b>Total Annual Distributions <sup>(2)</sup></b>	<b>(0.11)</b>
<b>Net Assets at June 30 and December 31 of year shown</b>	<b>12.67</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.

\* ETF Series units commenced operations on March 11, 2020.



### Ratios and Supplemental Data – Series A

	2020	2019	2018
Net asset value (000's) <sup>(1)</sup>	7,346	6,332	477
Number of units outstanding <sup>(1)</sup>	694,272	577,951	50,183
Management expense ratio <sup>(2)</sup>	1.91%	3.18%	2.96%
Management expense ratio before waivers or absorptions	3.18%	5.37%	4.47%
Portfolio turnover rate <sup>(3)</sup>	13.85%	75.77%	47.40%
Trading Expense ratio <sup>(4)</sup>	0.03%	0.07%	0.31%

### Ratios and Supplemental Data – Series D

	2020
Net asset value (000's) <sup>(1)</sup>	25
Number of units outstanding <sup>(1)</sup>	2,351
Management expense ratio <sup>(2)</sup>	1.14%
Management expense ratio before waivers or absorptions	3.16%
Portfolio turnover rate <sup>(3)</sup>	13.85%
Trading Expense ratio <sup>(4)</sup>	0.03%

### Ratios and Supplemental Data – Series F

	2020	2019	2018	2017	2016
Net asset value (000's) <sup>(1)</sup>	20,906	22,443	30,033	68,298	65,652
Number of units outstanding <sup>(1)</sup>	1,896,484	2,088,297	3,084,761	5,161,479	5,063,100
Management expense ratio <sup>(2)</sup>	1.14%	2.62%	2.90%	2.73%	2.69%
Management expense ratio before waivers or absorptions	3.16%	2.95%	2.94%	2.73%	2.69%
Portfolio turnover rate <sup>(3)</sup>	13.85%	22.53%	47.40%	65.76%	103.50%
Trading Expense ratio <sup>(4)</sup>	0.03%	0.08%	0.31%	0.67%	1.23%



## Ratios and Supplemental Data – ETF Series

	<b>2020</b>
Net asset value (000's) <sup>(1)</sup>	1,267
Number of units outstanding <sup>(1)</sup>	100,000
Management expense ratio <sup>(2)</sup>	0.91%
Management expense ratio before waivers or absorptions	2.02%
Portfolio turnover rate <sup>(3)</sup>	13.85%
Trading Expense ratio <sup>(4)</sup>	0.03%

<sup>(1)</sup> This information is provided as at June 30 (unaudited) and December 31 of the previous years 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 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 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 asset value during the year.

## Management Fees

The Fund will pay to the Manager an annual management fee (the “Management Fee”) up to 2.75% based on the gross asset value of Series A units of the Fund and up to 1.75% based on the gross asset value of Series F units of the Fund, accrued and calculated daily and payable monthly in arrears, plus applicable taxes.

Distribution	24%
Management and Portfolio Adviser Services	(11)%
Waivers and Absorption of Fund Expenses	87%

## Past Performance

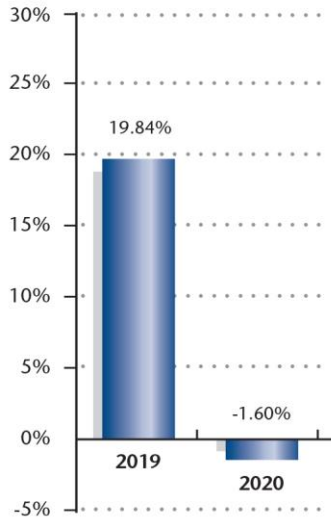
The following charts shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if they did not. They don't include deduction of sales, switch, redemption, or other optional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



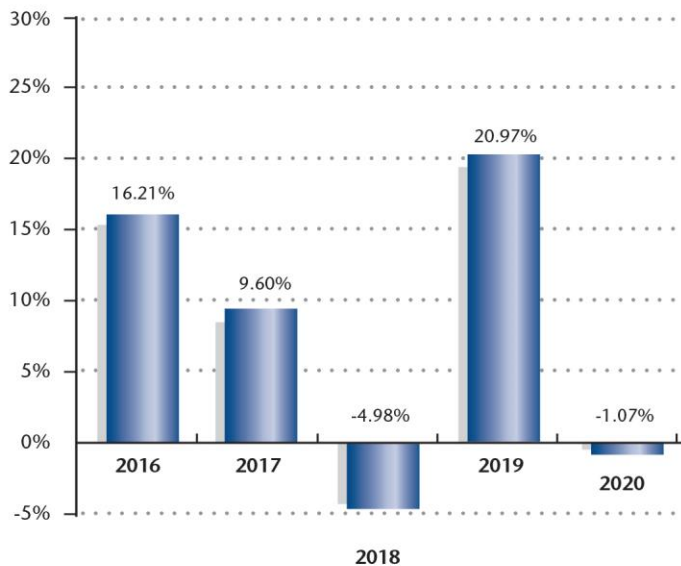
## Year-by-Year Returns

The bar chart 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.

### For the years ended December 31 and the semi-annual period ended June 30, 2020



### Caldwell U.S. Dividend Advantage Fund – Series A

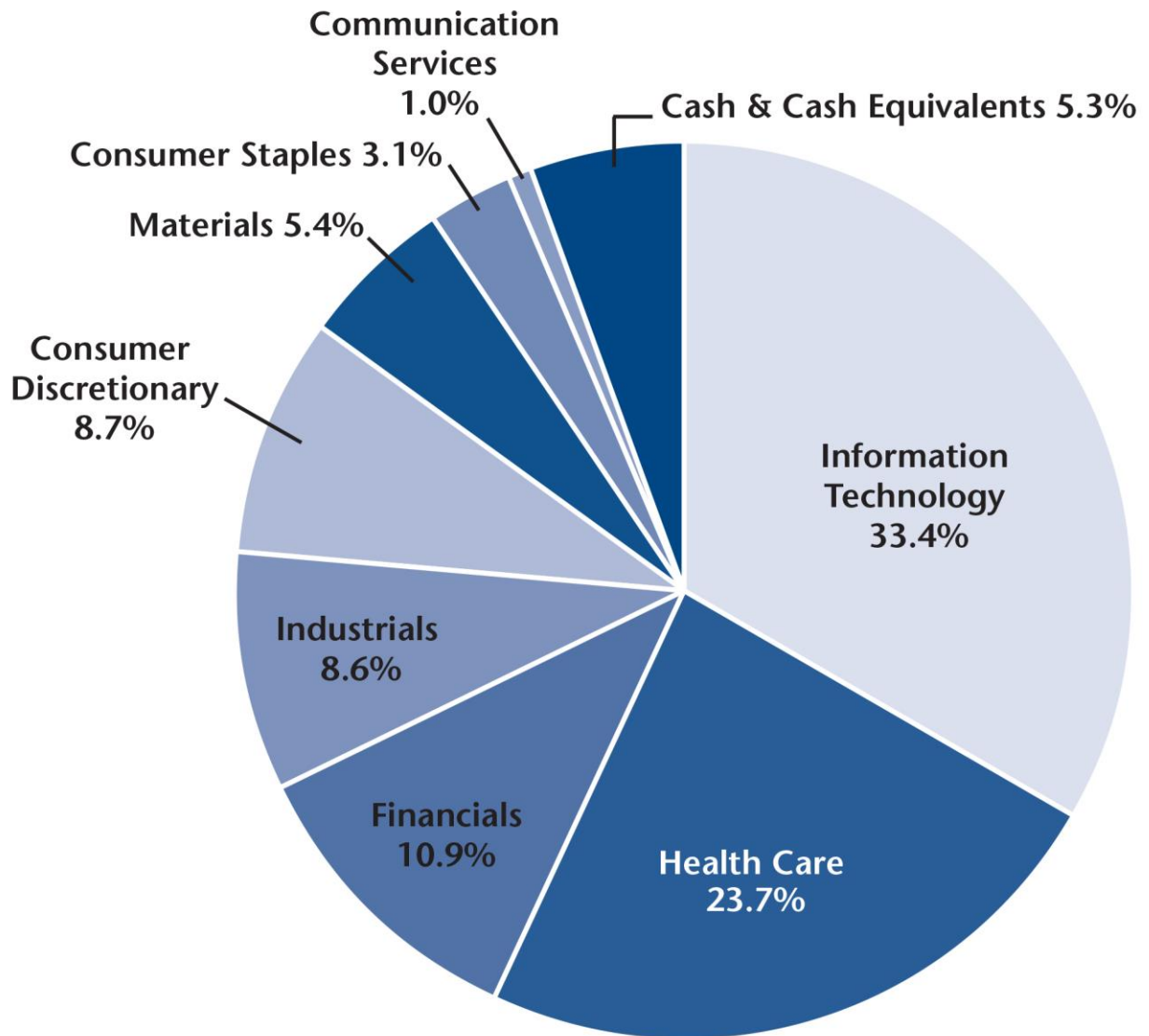


### Caldwell U.S. Dividend Advantage Fund – Series F



## Summary of Investment Portfolio

Portfolio Breakdown as at June 30, 2020



## CALDWELL U.S. DIVIDEND ADVANTAGE FUND



## CALDWELL U.S. DIVIDEND ADVANTAGE FUND

### Summary of Investment Portfolio

#### Top 25 Holdings

As at June 30, 2020

SECURITY	Percentage of Net Assets
Microsoft Corp.	6.10%
L3Harris Technologies Inc.	5.41%
Cash & Cash Equivalents	5.32%
UnitedHealth Group Inc.	4.65%
McDonald's Corp.	4.41%
S&P Global Inc.	4.41%
Motorola Solutions Inc.	4.22%
Johnson & Johnson	4.16%
CVS Health Corp.	4.13%
Quest Diagnostics Inc.	4.08%
Broadcom Inc.	4.07%
KLA Corp.	4.02%
The Cooper Cos Inc.	3.79%
Oracle Corp.	3.62%
Marsh & McLennan Cos Inc.	3.44%
Tyson Foods Inc., Class 'A'	3.14%
Air Products and Chemicals Inc.	3.11%
Mastercard Inc., Class 'A'	3.11%
Visa Inc., Class 'A'	3.05%
Medtronic PLC	2.89%
QUALCOMM Inc.	2.76%
Pool Corp.	2.47%
AptarGroup Inc.	2.25%
JPMorgan Chase & Co.	2.02%
Xylem Inc.	1.92%
<b>Top 25 Holdings</b>	<b>92.55%</b>

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