



# Caldwell Investment Management Ltd.

*Independent Investment Managers*

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

For the Year Ended December 31, 2010

## **Caldwell Exchange 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, 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 Caldwell Exchange Fund (the “Fund”) is to provide long term capital growth by investing in the common shares and memberships of securities exchanges and financial services companies in Canada, the United States and countries around the world.

The Fund was created for investors who wanted to participate in the growth of the world’s economy through investing in securities exchanges. These companies facilitate trading in a wide range of securities, including shares of the largest companies in the world (equities) and derivatives such as options and futures on equities, interest rates, commodities and currencies. They also generate revenue from listing fees, data sales, technology services & infrastructure and back-office solutions (clearing, settlement and depository). These latter sources of revenue are contributing increasingly greater portions to total revenue and profitability.

The Fund also invests in other financial services companies such as banks, insurance companies, asset managers, brokers and real estate trusts. The global financial services industry is going through much change due to the financial crisis in 2008 and many companies are in a position to benefit, either from rebuilding their businesses or growing from a position of strength. The Fund seeks to take advantage of these opportunities.

Jennifer Radman is the portfolio manager of the Fund. Ms. Radman has been a part of the portfolio management team at Caldwell Investment Management Ltd. (the “Manager”) since 2003.

### **Results of Operations**

In 2010, the Fund declined 6.40%, compared to a return of 8.4% for the Fund's benchmark, the Dow Jones Industrial Average Total Return CAD. The net asset value per unit fell from \$5.32 to \$4.95. The Fund’s assets decreased from \$10.6 million to \$8.6 million. Specific stocks that had a positive impact on performance were Manulife Financial Corp., AGF Management Limited, Intact Financial Corp., JSE Ltd., Ameriprise Financial Inc., and NYSE Euronext; these were offset primarily by CBOE Holdings, Inc.



## **Recent Developments**

The Fund took a change in direction in late April of 2010 with the appointment of Jennifer Radman to lead portfolio manager of the Fund. The Fund's strategy shifted to diversifying a portion of the Fund's holdings away from the exchange sector and into other financial services areas such as banks, insurance companies, brokers, asset managers and real estate companies. The Fund is looking to change the name of the Fund to reflect the actual mandate.

At the end of February 2011, nearly half the portfolio was invested in non-exchange financials. The Fund will continue to diversify into other areas of the financial services sector, following the investment philosophy of buying good companies at good value and taking advantage of the opportunities created by the financial crisis.

## **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 H. Clifford Hatch Jr. (Chair), Robert Guilday and Sharon Kent.

## **Changeover to International Financial Reporting Standards**

The Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (“CICA”) for changeover to International Financial Reporting Standards (“IFRS”). The key elements of the plan include disclosures of the qualitative impact in the annual financial statements, the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The Manager has presently determined that there will be no impact to net asset value per unit from the changeover to IFRS.

In September 2010, the Canadian Accounting Standards Board (“AcSB”) approved a one year deferral of adoption of IFRS for investment companies currently applying Accounting Guideline 18, Investment Companies, which include investment funds. In January 2011, the AcSB made a decision to extend the deferral of IFRS adoption by investment companies for an additional year to January 2013. This results in a two year deferral of IFRS adoption by investment companies compared to other publicly accountable entities. The AcSB noted in its Decision Summary that the deferral is a result of the delay in the International Accounting Standards Board's (“IASB”) investment company project and that a final standard would likely not be issued before January 2012, the previous mandatory IFRS changeover date for investment companies in Canada.



## **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. The Manager is paid an annual fee up to 2% based on the net asset value of the Fund for its administrative services, trustee fees, asset allocation, security selection, ongoing monitoring and related services.

### **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 executed through other broker or dealers. In 2010 the Fund paid \$32,046 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), (transactional NAV) per Unit as at December 31. (unaudited)

	2010	2009	2008	2007	2006
Net Assets, beginning of year	5.32	4.31	7.86	5.64	4.23
<b>Increase (decrease) from operations:</b>					
Total Revenue	0.20	0.14	0.16	0.10	0.01
Total Expenses	(0.15)	(0.22)	(0.17)	(0.23)	0.12
Realized gains (losses) for the period	(1.10)	0.13	(0.17)	0.49	0.56
Unrealized gains (losses) for the period	0.58	1.06	(3.49)	1.77	1.50
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.47)</b>	<b>0.99</b>	<b>(3.68)</b>	<b>2.13</b>	<b>1.95</b>
<b>Distributions:</b>					
From Income (excluding dividends)	0.00	0.00	0.00	0.00	0.00
From Dividends	(0.02)	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>	<b>(0.02)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net Assets at December 31 of year shown</b>	<b>4.95</b>	<b>5.32</b>	<b>4.31</b>	<b>7.86</b>	<b>5.64</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.



## Ratios and Supplemental Data (unaudited)

	2010	2009	2008	2007	2006
Net assets (000's) <sup>(1)</sup>	8,638	13,266	13,106	32,266	11,186
Number of units outstanding <sup>(1)</sup>	1,742,340	2,491,639	3,024,721	4,105,894	1,982,131
Management expense ratio <sup>(2)</sup>	2.91%	3.96%	2.83%	2.83%	2.79%
Management expense ratio before waivers or absorptions	3.60%	4.15%	3.12%	3.09%	5.04%
Portfolio turnover rate <sup>(3)</sup>	62.81%	5.49%	28.77%	37.94%	137.2%
Trading Expense ratio <sup>(4)</sup>	1.21%	0.18%	0.18%	2.70%	2.97%

<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	36 %
Management and Portfolio Adviser Services	29 %
Waivers and Absorption of Fund Expenses	35 %



## Past Performance

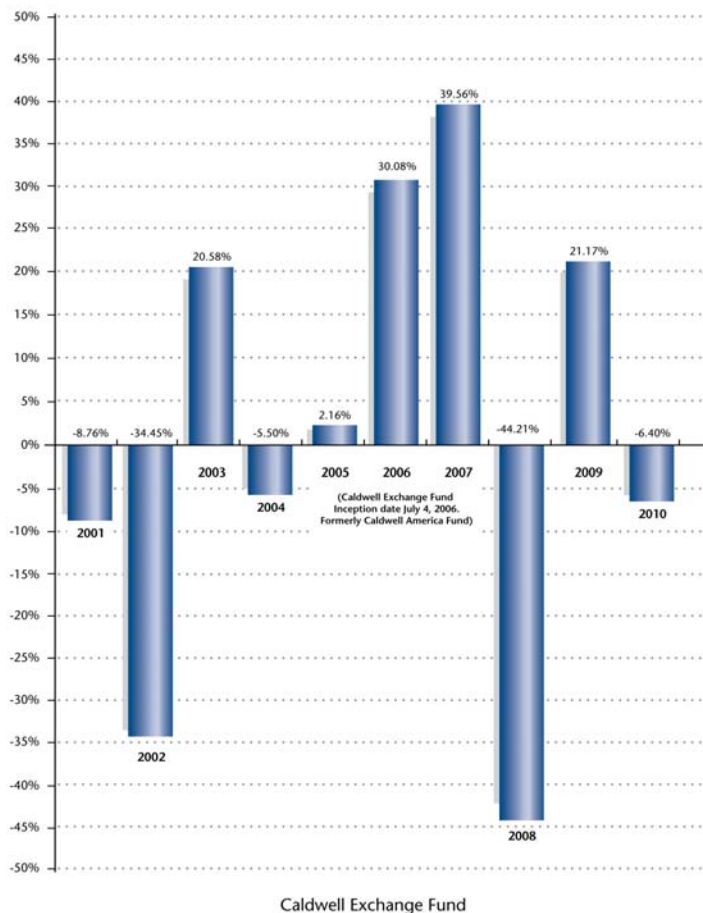
The following chart shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if they did not. They don't include deduction of sales, switch, redemption, or other optional charges (which distributors may charge) or income taxes payable, and would be lower if they did. The Fund's past performance is no guarantees 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

Note: The returns for the period prior to July 4, 2006 represent the returns of the Caldwell America Fund





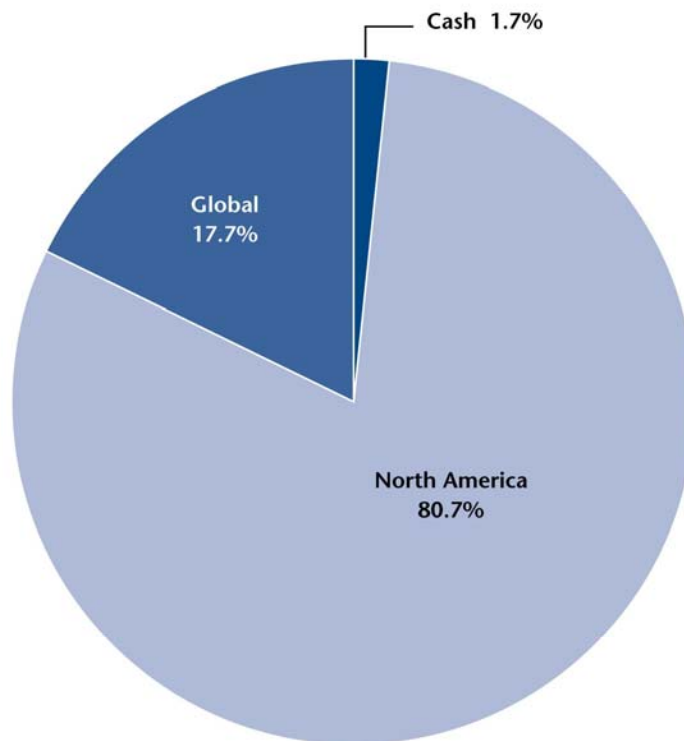
## Annual Compound Returns

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 Dow Jones Industrial Average Total Return CAD. The Dow Jones Industrial Average Total Return CAD is comprised of 30 blue chip companies that represent the most widely held stocks traded on the New York Stock Exchange. This index is tracked in U.S. dollars and has been converted to Canadian dollars.

Annualized Compound Returns	1 Year	3 Years	5 Years	10 Years
Fund	(6.40%)	(14.15%)	3.34%	(1.95%)
Dow Jones Industrial Average Total Return CAD	8.40%	(1.39%)	1.04%	(1.00%)

## Summary of Investment Portfolio

### Portfolio Breakdown



Caldwell Exchange Fund



## Top 25 Holdings (unaudited)

<b>SECURITY</b>	<b>Percentage of Net Assets</b>
CBOE Holdings, Inc.	11.4%
Royal Bank of Canada	7.9%
Intercontinental Exchange Inc.	7.8%
NYSE Euronext	7.3%
Manulife Financial Corp.	7.1%
Deutsche Boerse AG	6.4%
Canadian Imperial Bank of Commerce	6.3%
Kansas City Board of Trade	4.8%
CME Group Inc.	4.8%
Power Financial Corp.	3.9%
Hong Kong Exchanges & Clearing Ltd.	3.9%
Singapore Exchange Ltd.	3.4%
Bank of Nova Scotia	3.3%
JSE Ltd. (Johannesburg Stock Exchange)	3.3%
Ameriprise Financial Inc.	3.0%
Intact Financial Corp.	2.6%
Minneapolis Grain Exchange Seat	2.5%
PNC Financial Services Group	2.5%
Brookfield Properties Corp.	2.4%
CASH	1.7%
Bulgarian Stock Exchange	0.0%
Amex Investment	0.0%
<b>All Holdings (the Fund has less than 25 holdings)</b>	<b>96.3%</b>

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