



**VIKING
COMMONWEALTH FUND LTD.**

(Formerly Eaton Commonwealth Fund Ltd.)

EDWARD BONE LIBRARY
OF MANAGEMENT

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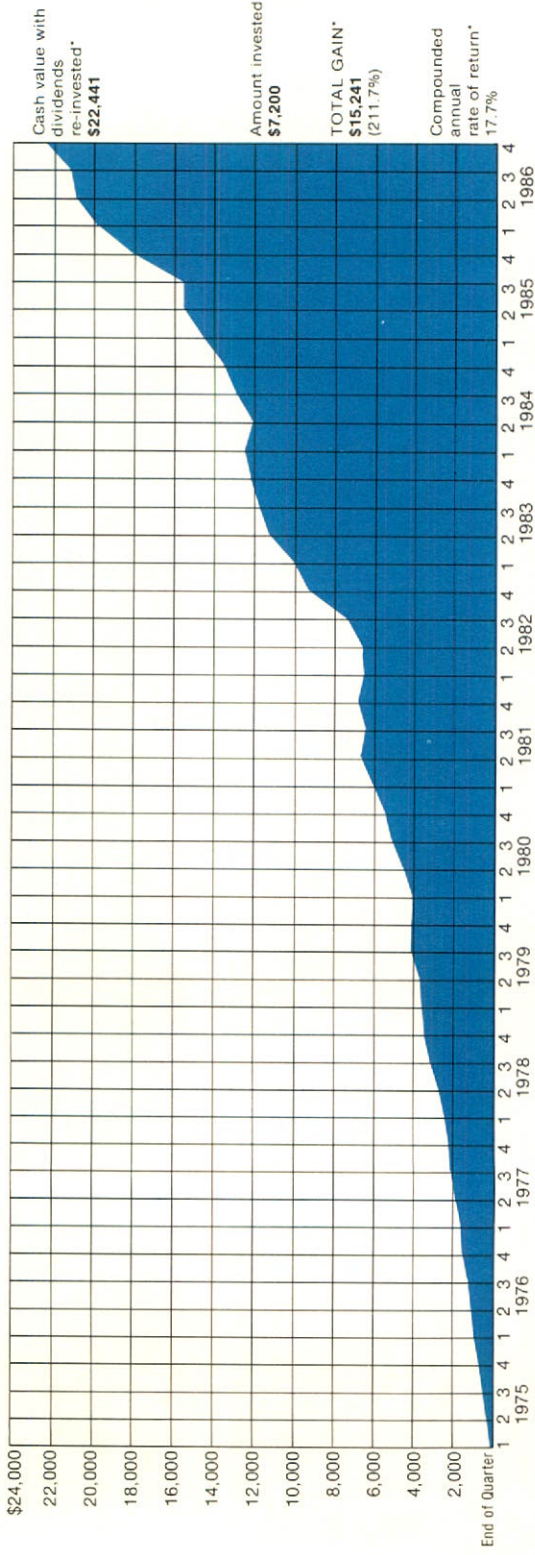
MCGILL UNIVERSITY

Annual Report

December 31st, 1986

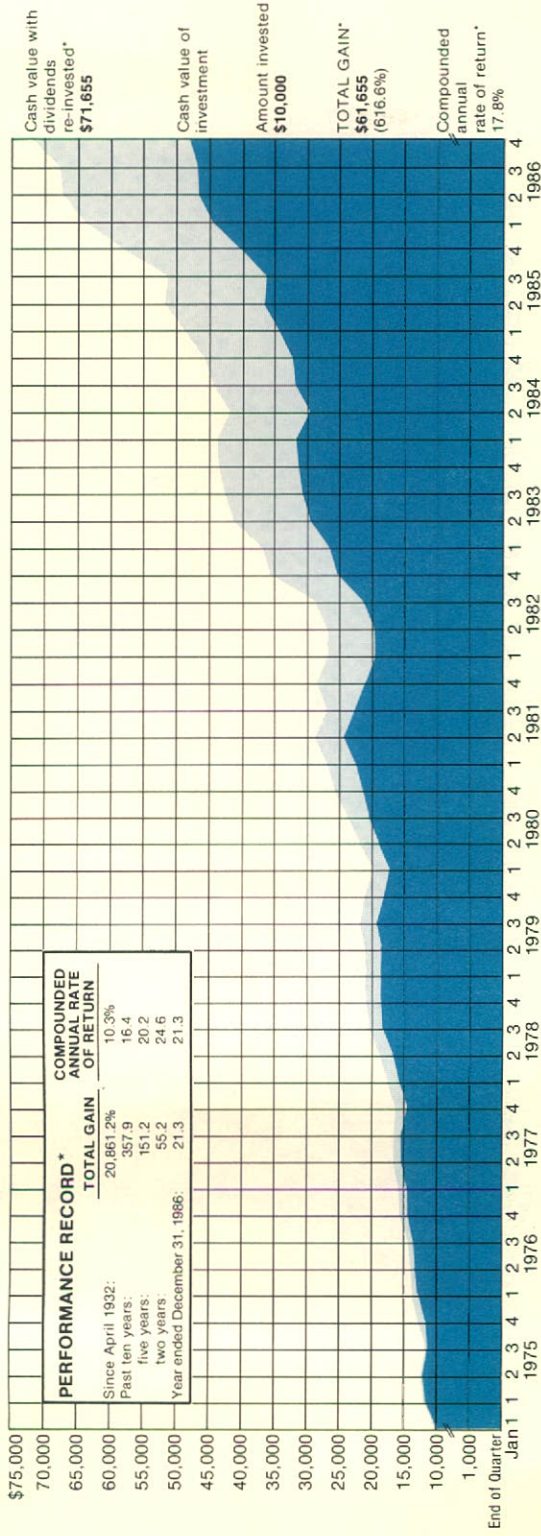
VIKING COMMONWEALTH FUND LTD.

INITIAL \$50 INVESTED ON JANUARY 1, 1975 AND SUBSEQUENT INVESTMENTS OF \$50 INVESTED ON THE 1ST OF EACH MONTH FOR 12 YEARS. DIVIDENDS RE-INVESTED. VALUES END OF QUARTERS*.



VIKING COMMONWEALTH FUND LTD.

\$10,000 INVESTMENT MADE ON JANUARY 1, 1975, INVESTED FOR 12 YEARS.
VALUES AT END OF QUARTERS*



* The results shown should not be considered as a representation of the dividend income, or capital gain or loss which may be realized from an investment made in the Fund today. Acquisition and Redemption Fees are not deducted in the illustrations.

to the shareholders:

In 1986, the net asset value per share of your Fund, including dividends paid, increased 21.3%. The Toronto Stock Exchange Composite Index advanced 5.7%, while the Dow Jones Industrials and the Standard & Poor's 400 Industrials rose 22.6% and 15.1%. The Tokyo Stock Exchange Index gained 48.3%. The U.S. dollar declined 1.3% while the Japanese yen appreciated 26.0% relative to the Canadian dollar. At year-end, total net assets of your Fund were \$139.0 million, up from \$99.2 million the year before.

With the expansion in its fourth year, the Canadian and U.S. economies in 1986 experienced similar, though modest, growth. This represented a slowing for Canada for the second consecutive year and about the same rate for the U.S. as 1985's 2.7% advance. The rates of inflation in both countries, partly as a result of the oil price collapse, receded to 20-year lows. The Toronto stock market lagged behind the U.S. and most other stock markets owing to the relatively heavy energy and other resource weighting of the Toronto index.

Consumer spending growth in 1987 should level off in the U.S. and, to a lesser degree, in Canada, as increases in employment and wage rates remain modest and consumers take time to rebuild their balance sheets. Rising exports and reduced imports ought to provide a boost to the Canadian and U.S. economies following the decline of the U.S. dollar against most major currencies. While business investment outlays will begin to make a positive contribution, the high growth rates of residential construction spending will not be sustained. Overall, the expansion in its fifth year is likely to continue at a sluggish pace. Although petroleum prices could begin a gradual recovery, a revival of inflation appears improbable in the face of ample capacity, persistently high unemployment rates, and keen international competition.

Your Fund performed well again in 1986. The prospects for slow growth and subdued inflation are expected to produce real returns from fixed income investments in 1987. Continued moderate economic expansion should provide attractive opportunities in equities and produce the positive returns we expect your Fund to achieve.

On Behalf of the Board



Chairman



President

Toronto, Ontario
March 9, 1987

(Incorporated under the Canada Business Corporations Act)

statements of financial position

December 31, 1986 and 1985

	1986	1985
ASSETS:		
Investments, at quoted value (Average cost 1986 — \$63,650,350; 1985 — \$43,841,964):		
Canadian common stocks . . .	\$ 37,174,107	\$27,852,943
Foreign common stocks ...	60,764,978	47,917,716
Canadian preferred stocks	10,116,075	5,555,750
Canadian bonds	5,699,000	2,008,250
Foreign bonds	—	2,009,374
	<u>113,754,160</u>	<u>85,344,033</u>
Cash, interest-bearing	588,934	86,308
Short-term notes, at cost which approximates market value	24,698,626	13,465,224
Accrued investment income ...	1,502,037	485,497
Accounts receivable:		
Shares issued	259,432	108,026
Refundable income taxes	9,999	92,355
Other	131,342	199,606
	<u>140,944,530</u>	<u>99,781,049</u>
LIABILITIES:		
Accounts payable:		
Investment securities purchased	959,423	—
Shares redeemed	121,287	30,466
Dividends	333,349	150,283
Other	100,813	7,997
Income taxes payable (note 4) .	305,122	179,250
Call options, at market (premium received 1986 — \$159,243; 1985 — \$48,029)	179,450	153,998
	<u>1,999,444</u>	<u>521,994</u>
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (notes 2 and 3)	<u>\$138,945,086</u>	<u>\$99,259,055</u>
NET ASSET VALUE PER SHARE	<u>\$12.90</u>	<u>\$10.92</u>

On behalf of the Board:

A.L. Beattie, Director

W.R. Livingston, Director

(See accompanying notes)

statements of earnings

for the years ended December 31, 1986 and 1985

	1986	1985
INVESTMENT INCOME:		
Dividends		
— Canadian	\$2,366,114	\$1,446,620
— Other	1,470,173	1,462,914
Interest	2,197,129	965,005
Premium earned on expired options	39,710	—
	<u>6,073,126</u>	<u>3,874,539</u>
EXPENSE:		
Management fee (note 5)	<u>1,998,856</u>	<u>1,447,146</u>
Earnings before provision for income taxes	4,074,270	2,427,393
Provision for income taxes (note 4)	<u>900,376</u>	<u>506,462</u>
NET EARNINGS FOR THE YEAR	<u><u>\$3,173,894</u></u>	<u><u>\$1,920,931</u></u>
NET EARNINGS PER SHARE —		
Based on average number of shares outstanding during the year	<u><u>33.2¢</u></u>	<u><u>22.5¢</u></u>

(See accompanying notes)

statements of changes in net assets

for the years ended December 31, 1986 and 1985

	1986	1985
NET ASSETS, BEGINNING OF YEAR	<u>\$ 99,259,055</u>	<u>\$74,413,474</u>
ADDITIONS TO NET ASSETS:		
Net earnings for the year	3,173,894	1,920,931
Proceeds from issue of mutual fund shares (note 3)	41,765,015	16,170,601
Unrealized appreciation of investments (note 2)	8,687,503	14,300,659
Net gain on sales of securities*	<u>10,080,010</u>	<u>4,697,415</u>
	<u>63,706,422</u>	<u>37,089,606</u>
DEDUCTIONS FROM NET ASSETS:		
Dividends (note 5)	3,512,189	1,369,185
Payments on redemption of mutual fund shares (note 3)	<u>20,508,202</u>	<u>10,874,840</u>
	<u>24,020,391</u>	<u>12,244,025</u>
INCREASE IN NET ASSETS ...	<u>39,686,031</u>	<u>24,845,581</u>
NET ASSETS, END OF YEAR .	<u><u>\$138,945,086</u></u>	<u><u>\$99,259,055</u></u>
NET ASSET VALUE PER SHARE (note 5):		
Beginning of year	<u>\$10.92</u>	<u>\$8.65</u>
End of year	<u>\$12.90</u>	<u>\$10.92</u>
*NET GAIN ON SALES OF SECURITIES:		
Proceeds from sales of securities (a)	<u>\$ 26,257,627</u>	<u>\$ 9,472,119</u>
Cost of securities sold —		
Securities at cost, beginning of year	43,841,964	39,079,551
Purchases	<u>35,986,003</u>	<u>9,537,117</u>
	<u>79,827,967</u>	<u>48,616,668</u>
Securities at cost, end of year	<u>63,650,350</u>	<u>43,841,964</u>
Cost of securities sold	<u>16,177,617</u>	<u>4,774,704</u>
Net gain on sales of securities	<u><u>\$ 10,080,010</u></u>	<u><u>\$ 4,697,415</u></u>

(a) Excluding short-term debt instruments redeemed during the year of \$90,776,605 (1985 — \$25,591,580)

(See accompanying notes)

statement of investments and other net assets

December 31, 1986

COMMON STOCKS — 70.49%

AUTO PARTS AND ACCESSORIES — 3.53%

*The Goodyear Tire and Rubber Company

*Lucas Industries PLC

BANKS AND FINANCE COMPANIES — 6.25%

The Bank of Nova Scotia

Continental Bank of Canada

Crownx Inc. "A"

The Royal Bank of Canada

The Toronto-Dominion Bank

COMMUNICATIONS AND PUBLISHING — 3.91%

Southam Inc.

*McGraw-Hill Inc.

ELECTRICAL AND ELECTRONICS — 16.30%

Canadian General Electric Company Limited

*Hitachi Ltd.

*Matsushita Electric Industrial Co., Ltd.

*Matsushita Electric Industrial Co., Ltd. ADR

*Schlumberger Limited

FOOD AND BEVERAGES — 3.91%

*Cadbury Schweppes PLC ADR

*Campbell Soup Company

LEISURE — 3.73%

*Fuji Photo Film Co. Ltd.

METALS AND MINING — 1.97%

Alcan Aluminium Limited

Noranda Inc.**

OFFICE SYSTEMS AND EQUIPMENT — 6.53%

*International Business Machines Corporation

Moore Corporation Limited

OIL AND GAS — 2.42%

Imperial Oil Limited "A"

*Tenneco Inc.

PUBLIC UTILITIES — 3.66%

Bell Canada Enterprises Inc.

British Columbia Telephone Company**

TRANSPORTATION — 6.44%

Canadian Pacific Limited**

*Norfolk Southern Corporation

*Santa Fe Southern Pacific Corporation

UTILITIES — 2.83%

*British Gas

TransCanada PipeLines Ltd.

TransCanada PipeLines Ltd. Warrants

MISCELLANEOUS — 9.00%

*Bristol-Myers Corp.

*Interco Incorporated

*PPG Industries Inc.

TOTAL COMMON STOCKS

PREFERRED STOCKS — 7.28%

Canadian Utilities Limited 8.74% Cumulative

Retractable Second Preferred Series I

Consolidated-Bathurst Inc. 6% 1966 Series

Manitoba Properties Inc. 9¼% A Cumulative Retractable

Preferred Shares Series A

Noranda Inc. 7.75% Convertible Preferred

Series "C"

NOVA, an Alberta Corporation, 6.5% Convertible Preferred

Rothmans of Pall Mall Canada Limited 6.85% First Preferred

Series A

TOTAL PREFERRED STOCKS

BONDS — 4.10%

GOVERNMENT AND GOVERNMENT GUARANTEED — 4.10%

Government of Canada 5¼% May 1, 1990

Government of Canada 10% October 1, 1995

Government of Canada 9¼% October 1, 2001

Government of Canada 11¼% February 1, 2003**

TOTAL BONDS

TOTAL INVESTMENT PORTFOLIO — 81.87%

Short-term notes — 17.78%

Other assets less liabilities and

unearned option premiums — 0.35%

TOTAL NET ASSETS — 100.00%

*Foreign Securities

**Outstanding call options written

Canadian Pacific Limited

Noranda Inc.

Noranda Inc.

British Columbia Telephone Company

Government of Canada 11¼% February 1, 2003

A statement of Portfolio Transactions for the year ended December 31, 1986 is available upon request v

(See accompanying notes)

Number of shares or par value	Average cost	Quoted value	Diversification of \$10,000 of net assets
45,000	\$ 1,626,007	\$ 2,608,200	\$ 188
250,000	2,784,567	2,295,975	165
115,734	591,987	1,996,412	144
40,000	375,505	645,000	46
225,000	2,544,750	2,109,375	152
54,297	800,677	1,744,291	126
91,626	1,620,658	2,176,118	157
43,800	910,602	914,325	66
60,000	3,857,852	4,522,950	326
60,000	1,830,000	7,320,000	527
800,000	721,707	7,732,416	557
141,900	60,535	2,557,435	184
22,500	313,877	3,935,588	283
25,000	1,394,593	1,091,063	79
60,000	2,149,427	2,297,700	165
40,000	666,008	3,146,400	226
160,000	18,208	5,182,176	373
39,976	829,983	1,544,073	111
60,000	1,252,938	1,200,000	86
30,000	2,221,967	4,983,525	359
141,276	2,781,900	4,079,345	294
24,428	773,614	1,251,935	90
40,000	1,900,929	2,111,400	152
116,360	2,194,409	4,319,865	311
28,155	394,290	770,743	55
200,000	1,632,735	3,575,000	257
25,000	1,124,893	2,923,875	210
60,000	1,163,310	2,463,300	177
30,000	298,500	405,000	29
200,000	3,245,300	3,375,000	243
82,500	103,125	152,625	11
30,000	2,442,937	3,420,675	246
60,000	1,494,413	3,053,250	220
60,000	2,359,061	6,034,050	434
	<u>48,481,264</u>	<u>97,939,085</u>	<u>7,049</u>
60,000	1,553,100	1,627,500	117
55,000	1,201,118	1,058,750	76
70,000	1,826,850	1,890,000	136
120,000	3,039,600	3,510,000	253
58,600	1,203,019	1,179,325	85
10,500	997,899	850,500	61
	<u>9,821,586</u>	<u>10,116,075</u>	<u>728</u>
\$1,000,000	735,000	918,750	66
700,000	644,000	747,250	54
400,000	346,000	425,500	30
3,000,000	3,622,500	3,607,500	260
	<u>5,347,500</u>	<u>5,699,000</u>	<u>410</u>
	63,650,350	113,754,160	8,187
	24,698,626	24,698,626	1,778
	512,507	492,300	35
	<u>\$88,861,483</u>	<u>\$138,945,086</u>	<u>\$10,000</u>

Shares subject to call	Date/Price	Premium received	Market value of option
50,000	Feb/\$16	\$ 36,000	\$ 92,500
30,000	May/\$22½	38,100	7,500
30,000	May/\$20	43,350	45,000
26,900	Jan/\$27½	15,333	13,450
3,000,000	Mar/\$122½	26,460	21,000
		<u>\$159,243</u>	<u>\$179,450</u>

without charge from the registered office of the corporation.

auditors' report

To the Shareholders of
Eaton Commonwealth Fund Ltd.
(Formerly Eaton Bay Commonwealth Fund Ltd.):

We have examined the statements of financial position of Eaton Commonwealth Fund Ltd. as at December 31, 1986 and 1985, the statement of investments and other net assets as at December 31, 1986 and the statements of earnings and changes in net assets for each of the years in the two year period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1986 and 1985, the investments and other net assets as at December 31, 1986 and the results of its operations and the changes in its net assets for each of the years in the two year period ended December 31, 1986 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada,
January 30, 1987.

(Signed) Clarkson Gordon
Chartered Accountants

notes to financial statements

December 31, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared within the framework of the accounting policies summarized below.

- (a) Investments are recorded in the accounts at their quoted value in Canadian currency at the close of each business day, with the difference between this amount and the average cost being shown as unrealized appreciation (depreciation) of investments.
- (b) The quoted value of foreign investments, other assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the close of each business day.
- (c) Purchases and sales of foreign securities and the related income are translated into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.
- (d) The gain or loss on sales of securities is calculated with reference to the average cost of the related securities.
- (e) The corporation follows the accrual method of recording income and expenses. Security transactions are recorded on the trade date. Dividends are recorded on the ex-dividend dates.
- (f) For each mutual fund share sold, the corporation receives an amount equal to the net asset value per share at the date of sale, which amount is included in shareholders' equity. Mutual fund shares are redeemable at the option of shareholders at their net asset value on the redemption date. For each share redeemed, the issued and outstanding capital stock is reduced and shareholders' equity is reduced by the related net asset value at the date of redemption.
- (g) Premiums received by the corporation upon writing a call option are recorded as a deferred credit and are adjusted daily to the current market value of the call. If the option is exercised, the premium is included as part of the proceeds on disposition of the underlying security. If the option expires, the premium is taken into income.

2. SHAREHOLDERS' EQUITY

Shareholders' equity consists of amounts paid for capital stock, retained earnings and realized and unrealized appreciation of investments.

The authorized capital stock as at December 31, 1986 is an unlimited number of mutual fund shares without nominal or par value. The issued and outstanding capital stock is summarized as follows:

1986 — 10,767,369 mutual fund shares
1985 — 9,085,650 mutual fund shares

The net unrealized appreciation of investments and call options is:

	1986	1985
Balance, beginning of year	\$41,396,100	\$27,095,441
Unrealized appreciation of investments during the year .	<u>8,687,503</u>	<u>14,300,659</u>
Balance, end of year	<u>\$50,083,603</u>	<u>\$41,396,100</u>

3. CAPITAL STOCK TRANSACTIONS

Capital stock transactions during the year were as follows:

	1986		1985	
	Number of shares	Amount	Number of shares	Amount
Subscriptions	3,374,516	\$41,765,015	1,615,820	\$16,170,601
Redemptions	1,692,797	20,508,202	1,132,831	10,874,840

4. INCOME TAXES

Eaton Commonwealth Fund Ltd. qualifies as a mutual fund corporation for income tax purposes. The provision for income taxes in the statement of earnings includes taxes on interest income and dividends from foreign corporations. Federal income taxes of 25% payable on dividends from Canadian corporations are refundable on the basis of one dollar for each four dollars that the fund distributes as dividends to its shareholders. Income taxes on taxable capital gains are refundable when the realized gains are distributed, or deemed to be distributed to shareholders through redemptions. Accordingly, these refundable taxes are not deducted in arriving at the net earnings for the year.

5. MANAGEMENT FEE AND DIVIDENDS

Under the terms of an agreement between the corporation and Eaton Funds Management Limited (formerly Eaton Bay Funds Management Limited), all expenses, including remuneration of directors and officers, incurred in the ordinary course of business, other than brokerage fees and all taxes, are paid by Eaton Funds Management Limited. In return for this and other investment management and administrative services, Eaton Funds Management Limited receives a management fee based on the average net assets of the corporation.

Net asset values per share, charges to the corporation, and dividends paid per share over the last five years were as follows:

Net asset value per share		Dividends per share		Total fees charged to the corporation	Total fees charged to the corporation as a % of average net assets
Beginning of year	End of year	Out of net earnings	Out of capital gains		
1982 \$ 5.66	\$ 6.90	16.4¢	3.8¢	\$ 596,002	1.6484%
1983 6.90	8.36	11.4	nil	876,072	1.6040
1984 8.36	8.65	12.9	nil	1,196,722	1.6827
1985 8.65	10.92	15.3	nil	1,447,146	1.7500
1986 10.92	12.90	16.4	17.2	1,998,856	1.7140

(a) Under the terms of the management agreement all charges were paid by the corporation. Administrative charges and fees for services provided to shareholders on an elective basis are not included.

(b) Average net assets are calculated to be the average of the net asset values determined on a daily basis.

(c) Management fee charges vary from one mutual fund to another.

6. BROKERAGE FEES

During the year, the corporation paid brokerage commissions amounting to \$130,007 (1985 — \$56,437) with respect to security transactions.

7. DIRECTORS AND OFFICERS

During 1985 and 1986 the corporation had twelve directors and seven officers. Four of the officers also served as directors.

8. CHANGE OF NAME

During the year the corporation changed its name from Eaton Bay Commonwealth Fund Ltd. to Eaton Commonwealth Fund Ltd.

directors

ALLAN L. BEATTIE	Toronto, Ont.
KENNETH L. BEAUGRAND	Toronto, Ont.
ROBERT E. BROWN	Toronto, Ont.
CLAUDE CASTONGUAY	Montreal, Que.
JACQUES A. DROUIN	Montreal, Que.
GEORGE R. EATON	Toronto, Ont.
The Honorable DOUGLAS D. EVERETT	Winnipeg, Man.
MURRAY J. HOWE	Deerfield Beach, Florida
DAVID KINNEAR	Toronto, Ont.
WILLIAM R. LIVINGSTON	Toronto, Ont.
PETER W. WOOD	Toronto, Ont.
GORDON D. deS. WOTHERSPOON	Uxbridge, Ont.

officers

ALLAN L. BEATTIE	Chairman of the Board
WILLIAM R. LIVINGSTON	Vice-Chairman
ROBERT E. BROWN	President
CECIL R. HUNTER	Vice-President
W. BARRY PLACE	Vice-President
PETER N. DABBIKEH	Assistant Vice-President and Treasurer
BETTY J. MADGE	Secretary
R. WARREN LAW	Assistant Secretary

business office

595 Bay Street
Toronto, Ontario M5G 2C6

manager and distributor

Eaton Funds Management Limited
Toronto, Ontario

transfer agent and registrar

Eaton Trust Company

custodian

A Canadian Chartered Bank
Toronto, Ontario

auditors

Clarkson Gordon
Toronto, Ontario

The Advantages of an Investment Fund

Diversification of Risk	Your capital has a greater degree of security through a wide participation in various equity markets.
Liquidity	You can buy or sell shares daily. The net asset value is reported every day in major newspapers.
Ownership	You own a share of the fund's equities instead of lending your capital to a financial institution for it to use at a fixed rate.
Capital Growth Potential	You have the potential to achieve greater returns through ownership of equities.
Protection Against Inflation	You can retain the value of your capital when the value of your shares increases at a faster rate than inflation.
Full-time Professional Management	Your fund is actively managed by investment professionals who have in the aggregate many years of experience in the equity markets.
Tax Advantages	You can achieve higher after-tax returns because of the tax exemption applicable to capital gains.
Withdrawal Options	You can have a systematic withdrawal plan which can provide income and can reduce your investment's exposure to tax.
Shareholder Accounting	Your record-keeping is simplified.
Transfer Provisions	You can easily modify your investment objectives by transferring between other funds in the Viking group of funds at a nominal fee.

For full details, see your fund's Simplified Prospectus.

The Viking group of funds includes:

Viking Canadian Fund Ltd.
Viking Dividend Fund Ltd.
Viking Growth Fund Ltd.
Viking Income Fund
Viking International Fund Ltd.
Viking Money Market Fund

VIKING COMMONWEALTH FUND LTD.

A PART OF THE EATON FINANCIAL FAMILY

In today's ever changing economy, it is important for individuals to maximize the use of all their resources in order to ensure that they meet their financial responsibilities to their family today and their own financial security in later years. One way of accomplishing that maximization is the development of a Financial Program which clearly defines objectives and outlines steps to be followed to reach these objectives.

At Eaton Financial the wide range of products and services offered provides basic insurance protection, savings, investment, and annuity programs, each of which is a necessary part of your total financial plan, and all available from a single source. In addition, Eaton Financial Representatives are trained to provide sound advice when developing a total program specifically designed to meet your personal goals, by

- (a) assessing your current needs using data supplied by you;
- (b) providing direction to help you establish your current needs and long range objectives; and
- (c) making recommendations that will enable you to achieve your overall goals.

Financial Planning ... the key for your security TODAY and IN THE FUTURE. Eaton Financial can help you start. Contact an Eaton Financial Representative at an Eaton Financial Centre location near you to discuss your personal financial program.



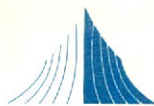
**EATON
FINANCIAL SERVICES**

A member of The Laurentian Group

fund highlights

- Low initial investment. \$25 minimum instalments if investing under Pre-Authorized Cheque Plan. \$300 investment required in first twelve months.
- Voluntary investments. No long term contract.
- Convenient payment system. Automatic monthly transfers from your bank account.
- Inter-fund transfer privilege.
- A balanced portfolio invested internationally.
- Service at any Eaton Financial Centre.

For further information, please contact your nearest Eaton Financial Centre.



MEMBER

THE INVESTMENT FUNDS INSTITUTE OF CANADA