Investment Foundation Limited

ANNUAL REPORT

March 31st, 1972

DIRECTORS

A. Scott Fraser, *President*
James L. Davis
H. C. Flood
Albert S. Fraser

Ian B. Campbell, C.A., *Vice-President*
Sévère Godin
Mostyn Lewis

J. D. Hopkins, *Secretary-Treasurer*
D. S. Patterson, O.B.E.
Kenneth A. Wilson, Q.C.

The Common Shares are listed and traded on the Canadian Stock Exchange, Montreal.
Transfer and Registry Agents — Canada Permanent Trust Company, Montreal.

April 11th, 1972.

To the Shareholders:

Your Directors are pleased to present the 43rd Annual Report of your Company, together with a statement of Assets and Liabilities, Earnings and Surplus Accounts for the year ending March 31st, 1972, with the report approved by your Auditors.

Generally speaking, the fiscal year ending March 31st, 1972 was a difficult one for investors in common stocks. The Toronto Stock Exchange Industrial Index was 185.32 at the close of business March 31st, 1971. From that point it declined sharply to 158.83 in November 1971, rose to a high point of 204.62 in early March 1972 and closed the fiscal year at 197.74. These violent market changes were fueled by weak metal prices and an uncertain economy partially caused by the sharp increase in value of the Canadian dollar vis-a-vis the U.S. dollar. In addition, the new Canadian income tax act with its Capital Gains Tax provisions added to the uncertainties in the capital markets. Many of these problems directly affected certain of the companies in which Investment Foundation has invested. In consequence, several of these companies reduced or eliminated dividend payment during the fiscal year.

The net profit of your Company, as shown in the attached statements, was $212,761. As dividends paid were $239,847., a reduction in earned surplus of $27,086. was incurred reducing earned surplus to $313,729. Your directors appreciate that paying dividends out of retained earnings is not in the best interest of shareholders on a long term basis. Non-taxable dividend payments, under the terms of Section 83 of the Income Tax Act 1972 are being studied, but in view of the uncertainty on the status of such dividends received by Canadian residents under the new income tax regulations yet to be published by Provincial Authorities, it was decided to defer action until the matter has been clarified.

The Income Tax Act 1972 has also caused a reappraisal of investment philosophy to be followed in the future. Firstly, there is no longer any depletion allowance on dividends paid by taxable Canadian companies. Secondly, as realized capital gains are taken on securities sold, a capital gains tax liability is incurred. This causes an immediate reduction in liquidating value per share. Obviously, any investment in cyclical stocks which must be sold in the high range of the cycle creates a problem for your management which does not occur when purchases are made in stable, long term growth stocks which enjoy a high return on equity. Your directors have already, and will continue to realign the portfolio in this direction. A material percentage of the total portfolio has been changed from the cyclical area, primarily mining, with reinvestment in the general groups of finance, pipelines, oil, retail, business forms, etc. We expect this policy to be continued during the forthcoming year.

We have prepared a breakdown of the types of securities held by your company and, in addition, a more detailed analysis of the holdings of common stocks. It clearly illustrates the change in investment policy.

At this time, all share holdings are in Canadian companies which are listed and traded on regular stock exchanges with the exception of the recent issue of The Mercantile Bank of Canada. It is expected that this issue will be listed in the near future.

World currencies in general, and Canadian in particular, will continue on an inflationary trend. While the rate of inflation could moderate on a temporary basis, government policy both here and in the United States will prevent any return to the annual increase of 2%—3% prevailing in the early 1960's. Our current outlook is cautiously optimistic for the current year and we will endeavour to add suitable common stock holdings to your Company's portfolio as opportunities occur.

At the year end March 31st, 1972 market values of the Company's security holdings included

	1971	%	1972	%
Bonds	$ 133,713.	2.74	$ 79,375.	1.63
Preferred	1,321,919.	27.12	1,101,863.	22.68
Common (including conv't. Prefs.)	3,418,755.	70.14	3,676,784.	75.69
	$4,874,387.	100.00	$4,858,022.	100.00

A breakdown of common share holdings (including convertible preferreds) follows:

		Percentage of Total Portfolio
Banks & Finance — The Bank of Nova Scotia, IAC Limited, The Mercantile Bank of Canada	$ 363,125.	7.47
Mines & Smelters including Craigmont Mines Limited, Granisle Copper Limited, Hollinger Mines Limited, Hudson Bay Mining and Smelting Co., Limited, The International Nickel Company of Canada, Limited	945,760.	19.47
Forest Products — Fraser Companies, Limited, Maclaren Power & Paper Company, The Price Company Limited	375,750.	7.74
Utilities — Bell Canada, Maritime Telegraph & Telephone Company Limited, Québec Téléphone, Canadian International Power Company Limited	713,087.	14.68
Pipelines — TransCanada Pipe Lines, Trans Mountain Oil Pipe Line Company, Interprovincial Pipe Line Company	222,212.	4.57
Oils — Murphy Oil Company Limited, Texaco Canada Limited	164,375.	3.38
Foods — Dominion Stores Limited	231,000.	4.76
Steel — The Steel Company of Canada, Limited	182,250.	3.75
Fabricating — Eddy Match Company, Limited, The Niagara Wire Weaving Company Limited	230,600.	4.75
Miscellaneous including The Canadian Salt Company Limited, Moore Corporation, Limited	248,625.	5.12
	$3,676,784.	75.69

Respectfully submitted on behalf of the Directors,

A. SCOTT FRASER,

President.

INVESTMENT FOUNDATION LIMITED

(Incorporated under the Quebec Companies Act)

BALANCE SHEET AS AT 31ST MARCH, 1972

	1972	1971
ASSETS		
CURRENT		
Cash	$ 45,081	$ 130,785
Income taxes refundable	—	33
Accrued dividends and interest	41,979	37,845
	87,060	168,663
Investment securities — at book value (approximate market value 1972 — $4,858,022; 1971 — $4,874,387)	5,048,956	4,718,481
Furniture and fixtures — at depreciated value	1	1
	$5,136,017	$4,887,145
LIABILITIES		
CURRENT		
Accounts payable	$ 725	$ 750
Due to brokers	—	43,187
Income taxes payable	4,495	—
Common dividends payable April 15th	59,962	59,962
	65,182	103,899
SHAREHOLDERS' EQUITY		
CAPITAL		
Common stock — no par value		
Authorized: 200,000 Shares		
Issued: 79,949 Shares	1,547,450	1,547,450
CONTRIBUTED SURPLUS — discount on preferred shares redeemed (net)	160,689	160,689
CAPITAL SURPLUS — net realized appreciation on investments sold	3,048,967	2,734,292
RETAINED EARNINGS	313,729	340,815
	5,070,835	4,783,246
	$5,136,017	$4,887,145

Approved by the Board of Directors
A. SCOTT FRASER, Director
IAN B. CAMPBELL, Director

AUDITORS' REPORT

To the Shareholders,
INVESTMENT FOUNDATION LIMITED.

We have examined the balance sheet of Investment Foundation Limited as at March 31, 1972 and the statements of earnings, retained earnings and capital surplus for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information, the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at March 31, 1972 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HYDE, HOUGHTON & CO.
Chartered Accountants

Montreal, Que.
April 14, 1972.

Investment Foundation Limited

STATEMENT OF EARNINGS
YEAR ENDED MARCH 31, 1972

	1972	1971
Revenue		
Dividends	$ 232,464	$ 268,996
Interest	8,170	8,952
	240,634	277,948
Expenses		
General expenses	23,456	24,391
Directors' fees	3,080	3,010
	26,536	27,401
Net revenue before income taxes	214,098	250,547
Provision for income taxes	1,337	1,053
Net earnings for the year	$ 212,761	$ 249,494

STATEMENT OF RETAINED EARNINGS
YEAR ENDED MARCH 31, 1972

Balance at beginning of year	$ 340,815	$ 323,173
Net earnings for the year	212,761	249,494
	553,576	572,667
Dividends	239,847	231,852
Balance at end of year	$ 313,729	$ 340,815

STATEMENT OF CAPITAL SURPLUS
NET REALIZED APPRECIATION ON INVESTMENTS SOLD
YEAR ENDED MARCH 31, 1972

	1972	1971
Balance at beginning of year	$2,734,292	$2,608,870
Net appreciation on investments sold during the year	318,921	125,422
	3,053,213	2,734,292
Provision for taxes on capital gains	4,246	—
Balance at end of year	$3,048,967	$2,734,292

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For the Fiscal Year Ended March 31, 1972

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