

INTERNATIONAL TRUST COMPANY

Fourth  
Quarter Report  
Diversified  
Investment Funds  
October 1 to  
December 31, 1971

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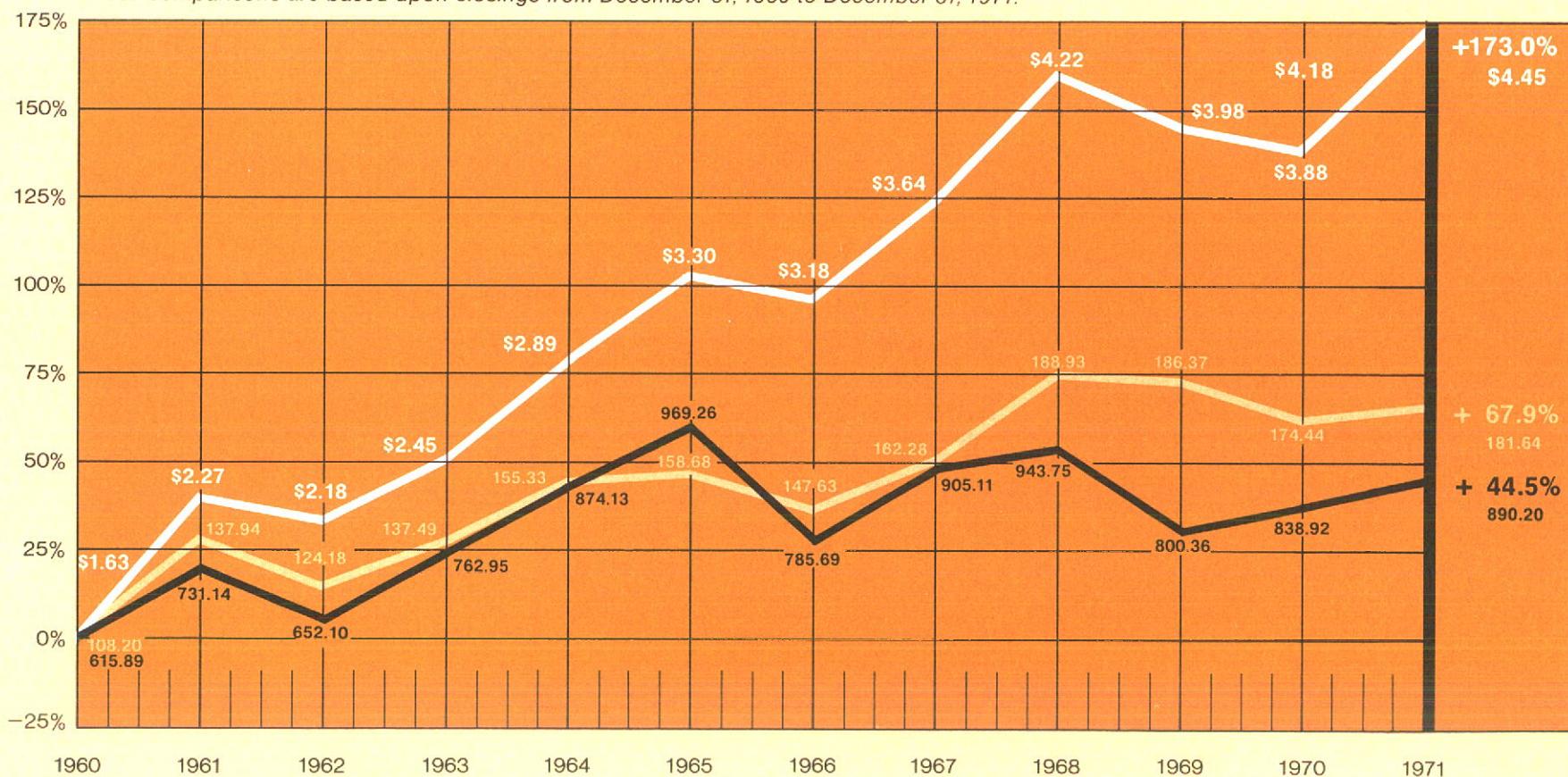


# Andreae Equity Investment Fund Limited

## Comparisons between

	GRAPH COLOUR	VALUE DEC. 31/ 71	VALUE DEC. 31/ 60	PERCENT CHANGE SINCE DEC. 31/ 60
<b>Andreae Equity Fund (Excl. Divd.)</b>	□	\$ 4.45	\$ 1.63	+173.0%
<b>T.S.E. Industrial Index</b>	■	181.64	108.20	+ 67.9%
<b>Dow Jones Industrial Average</b>	■	890.20	615.89	+ 44.5%

These comparisons are based upon closings from December 31, 1960 to December 31, 1971.





The international monetary agreement of December 18th has set the stage for a strong economic advance in 1972.

It is not only that Canada came out of the December meeting with an extraordinarily good deal, it is also that the agreement itself removed the heavy pessimism which had depressed businessmen and investors.

There seems to be little in the way now to prevent Canada from participating fully in the U.S. economic recovery, which appears likely to be stronger in real terms than anything seen since the early 1960's. Moreover, the other fears, that world trade would be strangled by recriminations over the U.S. policies, that a slowdown in the Japanese and European economies would curtail Canadian trade, have both been lessened, if not removed by the December international currency agreement.

And meanwhile, the Canadian economy continues to perform well. By the end of the third quarter, Canadian GNP had been moving up at a healthy rate for about a year. In nominal terms, GNP was 10.2% larger in the third quarter 1971 than in the third quarter 1970, and real growth in the same period was 6.9%. Moreover, a nine months comparison shows an acceleration in economic growth.

## GROSS NATIONAL PRODUCT Nine Months Comparison

	1971-1970	1970-1969
Nominal	+8.7%	+7.5%
Real	+5.3%	+3.3%

The main stimulant to the economy in 1971 was consumer spending, on both goods and services. Through the year consumer spending on durables led the way, with first automobiles and then house furnishings, furniture and others picking up the lead later in the year.

Government spending has also been a major factor in the 1971 revival, with the big outlays coming from provinces and municipalities.

Although there was a large buildup at the retail level in the third quarter, inventories in manufacturing and at wholesale continued to decline during 1971. Indeed, the stock to shipments ratio had fallen to an historically low level of 1.91 by the end of the third quarter, and this stands as an important source of demand for 1972.

Unemployment, which had been running at depressingly high levels during 1971, seemed to moderate, and closed in December at 6.2%, still high but better than it had been during the year.

Significantly for the stock market, corporation profits recovered all the ground they lost in 1970 and passed through the 1969 peak in 1971. In fact, the level of corporation profits in the third quarter was 14% above that of the third quarter of 1970.

Thus, it appears that 1971 closed on a strong note.

For the year 1971, as a whole, it appears likely that real growth will be close to 6%, assuming some further increase in the fourth quarter, and nominal GNP might be up around 9.5%.

This strong expansion should continue into 1972, and it is possible GNP might be up 10.5% in nominal terms and 6.5% on a real basis. In this environment, and particularly because of the high level of unused capacity, profit margins should have room to move, and corporation profits might be up in the neighbourhood of 15% or more. This is certainly the setting for a very good year.

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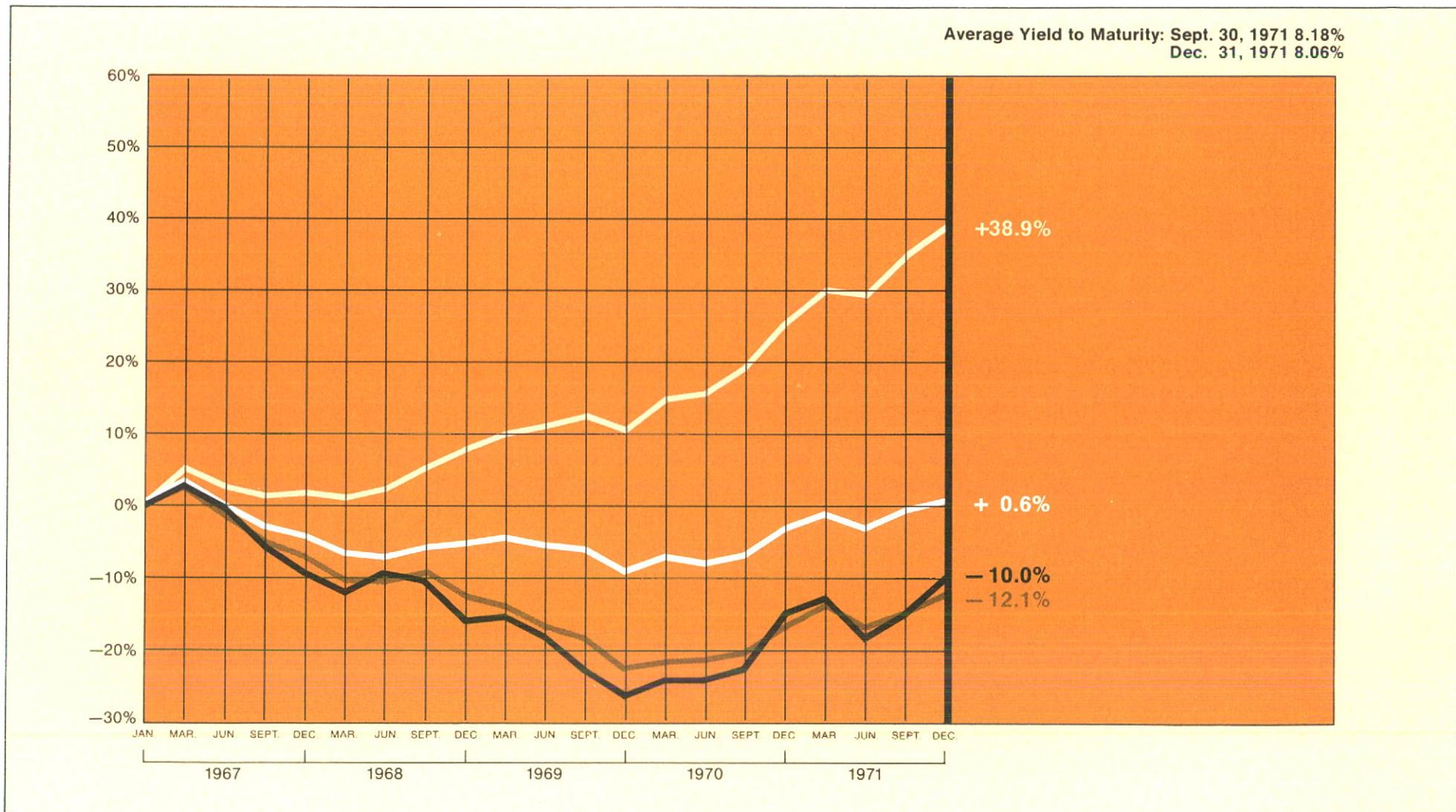
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# Fixed Income Fund

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/71	VALUE SEPT. 30/71	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Fixed Income Fund	□	\$10.06	\$ 9.90	+1.6%	+ 0.6%
Fixed Income Fund (Incl. Income)	■	13.89	13.48	+3.0%	+38.9%
40-Bond Index	■	—	—	+2.8%	— 12.1%
Canada 5 3/4% Sept. 1/92	■	90.00	85.00	+5.9%	— 10.0%



# Fixed Income Fund



## Investment Portfolio

Bonds/Convertible Bonds 94% Par Value		Market Value Dec. 31, 1971	Bonds/Convertible Bonds 94% Par Value	Market Value Dec. 31, 1971
\$200,000	Prov. of Alta. 8% Apr. 15/90 Prepay Apr. 15/75	\$ 219,000	275,000	Great Lakes Paper Cum. Wts. 8% Jul. 1/89 \$ 270,875
100,000	Alta. Mun. Fin. 8% Nov. 1/74 Ext. Nov. 1/89	105,000	150,000	Gulf Oil 8½% Dec. 1/89 Prepay Dec. 1/74 158,250
100,000	Alta. Mun. Fin. 8½% Jun. 1/90 Prepay Jun. 1/75	108,000	200,000	Gulf Oil 8% Sept. 15/75 Ext. 8½% Sept. 15/90 212,000
150,000	Man. Hydro 9% Apr. 1/90 Prepay Apr. 1/75	165,000	100,000	Imperial Oil 8½% Aug. 15/89 Prepay Aug. 15/74 106,000
150,000	N.B. Elec. Pwr. Comm. 9% Aug. 1/75 Ext. Aug. 1/90	163,500	200,000	Int. Nickel 9½% Oct. 1/90 216,000
250,000	Prov. of Nova Scotia 8% Aug. 1/94	263,074	350,000	Intl. Nickel 8½% Jun. 30/91 365,750
400,000	Hydro Elec. Pwr. Comm. of Ont. 9% Apr. 1/94	448,000	300,000	Interprovincial Pipe Line 9½% Dec. 1/90 325,500
400,000	Hydro Elec. Pwr. Comm. of Ont. 8½% Jul. 21/96	424,000	300,000	John Labatt 9½% Sept. 1/90 321,000
250,000	Hydro Elec. Pwr. Comm. of Ont. 7% Sept. 15/96	257,500	100,000	Maritime Tel. & Tel. 8½% Jun. 15/77 Ext. Jun. 15/90 104,000
200,000	Prov. of Sask. 8½% Dec. 1/90	219,500	225,000	Molson Industries 8½% Nov. 1/91 228,375
100,000	Alta. Gas. Trk. Conv. 7½% Feb. 1/90	129,000	100,000	N.B. Tel. 9½% Jun. 1/90 Prepay Jun. 1/75 105,000
400,000	Alum. Co. of Canada 9% Jan. 2/91	434,000	200,000	Noranda Mines 9½% Oct. 15/90 216,000
100,000	Bell Canada 9% Jan. 15/89 Prepay Jan. 15/76	108,000	250,000	Northern Electric 9½% Apr. 30/90 203,300
300,000	Bell Canada 9% Aug. 14/90	330,000	200,000	Royal Bank of Cda. 7% Apr. 15/91 Prepay Apr. 15/77 201,000
300,000	Bell Canada 8% Nov. 15/95	301,500	100,000	Scott Paper Limited 8¾% Jul. 2/91 255,000
300,000	Beneficial Fin. Co. of Canada 9% Jan. 2/91 Prepay Jan. 2/76	312,000	250,000	Simpsons-Sears Limited 7¾% Feb. 15/91 194,000
100,000	B.C. Tel. 9½% Apr. 1/90 Prepay Apr. 1/75	107,500	200,000	Simpsons-Sears Acc. 9½% Feb. 1/90 Prepay Feb. 1/75 108,000
100,000	Calgary Power 9% Nov. 1/90	107,000	100,000	Steel Co. Cda. 9½% Nov. 1/90 434,000
100,000	Canada Cement Lafarge 9½% Oct. 15/90	107,000	225,000	Trans-Canada Pipe. 10% Jun. 20/90 245,250
120,000	Consumers Gas Conv. 5½% Feb. 1/89	115,200	200,000	Trans-Canada Pipe. 9¾% Sept. 20/90 216,000
210,000	Distillers Corp.—Seagrams Ltd. 7% Dec. 15/78	210,000	100,000	Westcoast Transmission Conv. 7½% Jan. 1/91 119,000
100,000	Distillers Corp.—Seagrams Ltd. 7½% Dec. 15/91	97,500		\$ 9,865,074
300,000	Dominion Foundries and Steel 9% Feb. 1/91	319,500		\$ 575,471
200,000	T. Eaton Acceptance 8¾% Jul. 15/74 Ext. Jul. 15/79 or Jul. 15/84	210,000		\$ 575,471
			Reserve—6%	
			Cash & Short-Term Notes	
			Total Assets as at Market Dec. 31, 1971	\$ 10,440,545

# Fixed Income Fund



## Portfolio Review and Analysis

The fixed income market acted well during the fourth quarter of 1971. As expected, there was some upward pressure on short-term rates during the month of October, due to the usual chartered bank activity prior to their year end. Since November, short-term rates declined and closed the year at their lows. Long-term rates, however, saw their low point during November. There was some deterioration in long-term bond prices in the last few weeks of the year, which resulted in most long-term issues being off 1 to 2 points from their highs.

The bond market received most of its encouragement this quarter from such things as the introduction of Phase II of President Nixon's new economic plan which initially was viewed as being favourable to long-term interest rates. Further, in Canada the outstanding success of the Canada Savings Bond issue, which provided the Government with over \$2½ billions, certainly helped the market and undoubtedly any pressure that might have been exerted on it from financing our large deficit position, for the most part, has been removed. Another plus factor was the intervention by the Bank of Canada in the market at times when technical problems such as over-large inventories were

causing some upward pressure on interest rates. The market action by the Central Bank consisted of maintaining quite low short-term rates, and in some cases, they did involve themselves in supporting the long-term market.

On the minus side, the continued high level of increase in the money supply brought fear to some participants of what the effects on longer term interest rates might be. In addition, the temporary settlement of the international monetary problems caused some to wonder if the excessively easy Bank of Canada policy might not move to a more neutral stance in view of the fact that some upward pressure would be removed from the Canadian dollar. Another minus factor that was evident in the latter stages of the quarter was the improvement in the stock market which had the effect of drawing some funds away from the fixed income area.

The general consensus for 1972 is that interest rates will remain relatively stable for the first part of the year and show some increase thereafter. Some forecasts have actually offered the view that rates will go lower over the near term and only see the possibility of any increase coming late in the year. Our view is somewhat more sceptical. We feel that interest rates will trend higher and that this movement could easily

begin immediately. We do not expect any sharp upward movement of rates but feel that the trend will develop much sooner than generally forecast. The main reason for adopting this viewpoint is related to the increase in the money supply that has taken place in 1971. It will be in excess of 15% regardless of which definition of money supply is used. This cannot continue unless we wish to risk a substantial increase in the rate of inflation in the latter part of 1972 and on into 1973. In fact, with the increase in the money supply that occurred in 1971, there is very little hope that our rate of inflation in 1972 can match this year's rate of about 3½%. More than likely the

rate of increase will move on an upward pattern throughout the year. With this, long-term interest rates should also increase. We would expect that long-term, top quality Corporates, which closed 1971 at between 7.75% and 8.00%, will show an increase at least ½ of 1% by the end of 1972. In the short-term area we expect rates to also move up certainly more in line with external short-term rates.

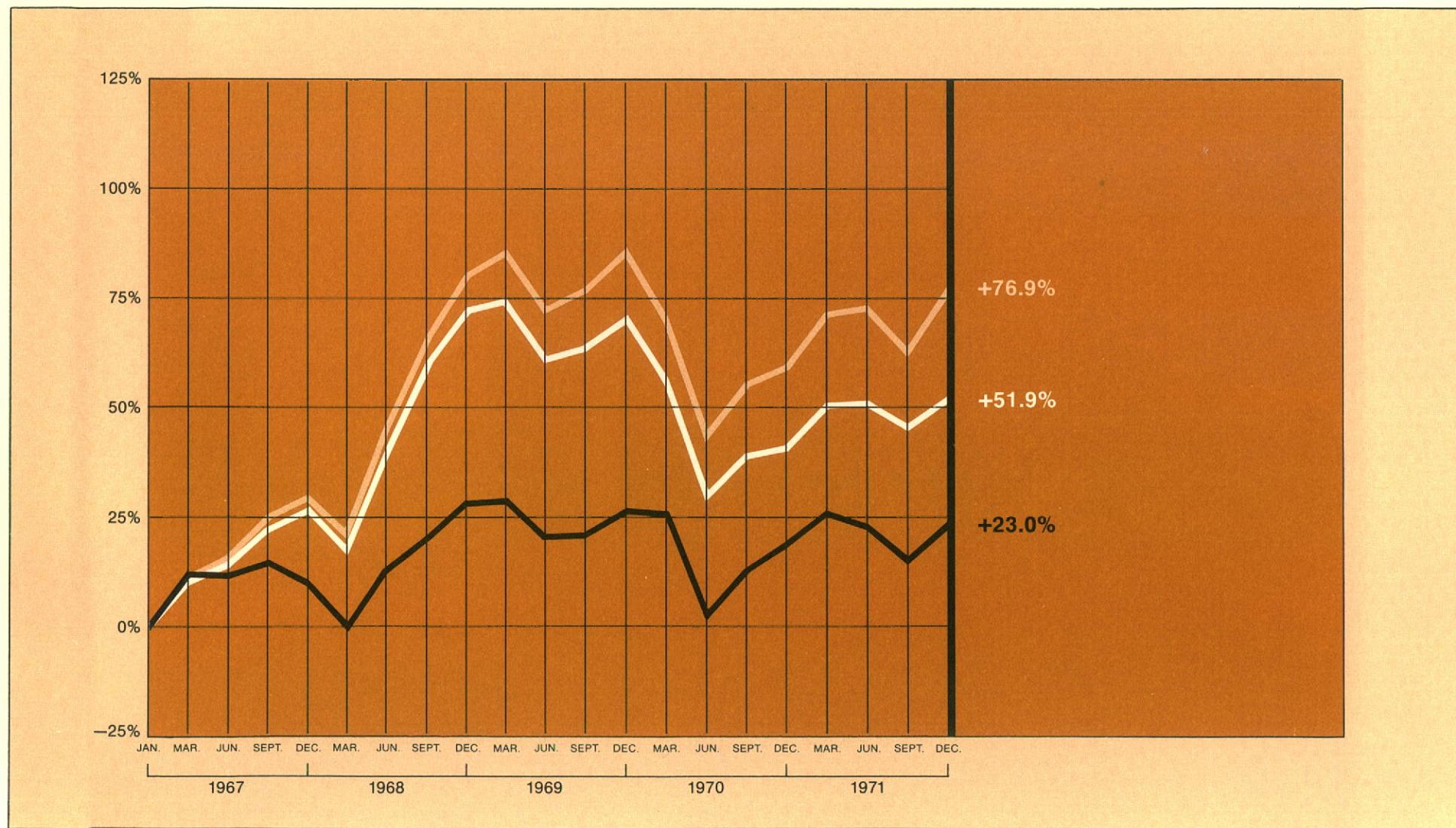
The Fixed Income Fund remained fully invested during most of the period with the reserve being built up in the latter stages. Also it had begun to move out of some long-term issues into the mid-term area in view of our outlook for long-term rates.

### Portfolio Composition

	Sept. 30, 1971	Dec. 31, 1971
Reserve	6%	6%
Provincials	23%	23%
Corporates	62%	65%
Corporates Cum Wts.	5%	3%
Conv. Debs.	4%	3%
	<u>100%</u>	<u>100%</u>

# Canadian Equity Fund

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/71	VALUE SEPT. 30/71	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
<b>Canadian Equity Fund</b>	□	\$ 15.19	\$ 14.59	+4.1%	+51.9%
<b>Canadian Equity Fund (Incl. Income)</b>	■	\$ 17.69	\$ 16.89	+4.7%	+76.9%
<b>T.S.E. Industrial Index</b>	■	181.64	169.88	+6.9%	+23.0%



## Canadian Equity Fund

## Investment Portfolio



## Portfolio Analysis

Portfolio Balance			Portfolio Review				
	Dec. 31/70	Sept. 30/71	Dec. 31/71				
Convertible Securities	3.8%	8.0%	7.4%	A strong recovery in stock prices started late in November. The Toronto Stock Exchange Industrial Index closed at 181.64, roughly 14% above the November low. The climb in the month of December alone was 9.3%.			
Common Stocks	81.1	87.5	83.9	The strongest groups and the ones leading the advance were the banks, communications, merchandising, oil refining, western oils, pipelines, and trust & loan companies.			
Reserve	15.1	4.5	8.7	From September 30th to December 31st the T.S.E. Industrial Index was up 6.9%, and for the year as a whole, it was up 4.1%.			
	100.0%	100.0%	100.0%	During the final quarter of 1971, the unit value of the Canadian Equity Fund rose from \$14.59 at 30 September to \$15.19 at 31 December, an increase of 4.1%.			
Portfolio Composition			We continued to believe the reviving economy would eventually dominate stock prices and used market weakness to build up equity positions.				
	Dec. 31/70	Sept. 30/71	Dec. 31/71	Holdings of Great Lakes Paper, Noranda Mines, Texaco, Leigh Instruments, Acres, Focal Properties, Investors Group A, Irwin Toy, Oshawa Group A, Scott Paper, and George Weston were eliminated. Positions in Canadian Superior Oil, International Nickel, Pacific Petroleum, Shell Investments, I.P.L., Westcoast Transmission Convertible Debentures, Bank of Nova Scotia, Grafton Group, I.A.C., and Royal Bank of Canada were increased. New positions were taken in Distillers Corporation-Seagrams, Reitman's A, Southam Press, Standard Broadcasting, and Western Broadcasting.			
Capital Goods	22.7%	33.8%	29.1%				
Regulated	22.4	16.4	15.7				
Consumer Products & Services	35.4	41.0	42.9				
Technology	4.4	4.3	3.6				
Reserve	15.1	4.5	8.7				
	100.0%	100.0%	100.0%				
Largest Common Stock Holdings as at Dec. 31, 1971 (By Market)							
	Percent of Total Portfolio						
Moore Corporation	3.6%						
International Nickel Company of Canada	3.5%						
Canadian Imperial Bank of Commerce	3.2%						
The Great-West Life Assurance Company	3.1%						
Grafton Group Limited	3.0%						

# International Equity Fund

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/71	VALUE SEPT. 30/71	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
<b>International Equity Fund</b>	□	\$ 12.32	\$ 11.79	+4.5%	+23.2%
<b>International Equity Fund (Incl. Income)</b>	■	\$ 13.72	\$ 13.08	+4.9%	+37.2%
<b>Dow Jones Industrial Averages</b>	■	890.20	887.19	+0.3%	+13.3%



## International Equity Fund



## Investment Portfolio

Par Value Shares	Convertible Securities or Common Stocks	Market Value Dec. 31/71	Par Value Shares	Convertible Securities or Common Stocks	Market Value Dec. 31/71				
<b>Capital Goods—24.6%</b>									
6,000	Amerada Hess Corporation	\$ 251,048	4,400	AMP Incorporated	\$ 313,083				
6,000	Armstrong Cork Company	258,564	4,100	Eastman Kodak Company	399,597				
8,000	Atlantic Richfield Company	577,260	4,600	Eli Lilly & Company	262,197				
9,200	FMC Corporation	230,503	3,125	International Business Machines Corporation	1,053,863				
4,900	Ford Motor Company—U.S.	344,978	2,000	Minnesota Mining and Manufacturing Company	270,591				
5,200	General Electric Company	326,362	5,000	National Cash Register Company	147,196				
3,000	General Motors Corporation	242,028	5,000	Perkin-Elmer Corporation	291,887				
5,500	Huyck Corporation	264,578	1,500	Polaroid Corporation	133,792				
6,000	Sybron Corp.	208,204	12,500	Rank Organization Ltd. A	265,625				
		\$ 2,703,525	3,000	Texas Instruments Inc.	376,948				
			6,400	Xerox Corporation	803,353				
					\$ 4,318,132				
<b>Consumer Products &amp; Services—27.8%</b>									
1,500	American Home Products Corporation	\$ 134,356	<b>Regulated—7.7%</b>						
6,200	American Hospital Supply Corporation	246,989	5,000	Allegheny Power System, Inc.	\$ 110,241				
1,000	ARA Services, Inc.	155,840	8,000	Continental Telephone Corporation	179,392				
3,600	Avon Products Incorporated	362,140	5,000	Ohio Edison Company	122,768				
4,500	Citizens & Southern National Bank	164,609	10,100	Southern California Edison Company	298,602				
1,200	Coca-Cola Company	146,720	7,000	United Utilities, Incorporated	139,429				
6,000	Dayton-Hudson Corporation	200,231			\$ 850,432				
5,000	Federated Department Stores, Inc.	258,690							
2,500	First National Bank of Dallas	144,691							
8,500	Marcor Inc.	260,882							
4,000	Pabst Brewing Company	303,162							
23,800	Ramada Inns, Inc.	396,541							
3,000	Schering-Plough Corp.	258,188							
		\$ 3,053,039							
			<b>Reserve—0.6%</b>						
				Cash & Short-Term Notes	\$ 61,452				
					\$ 61,452				
				<b>Total Assets as at Market Dec. 31, 1971</b>					
					<b>\$10,986,580</b>				



## Portfolio Analysis

### Portfolio Balance

	Dec. 31/70	Sept. 30/71	Dec. 31/71
Convertible Securities	0.2%	Nil	Nil
Common Stocks	87.4	94.7%	99.4%
Reserve	12.4	5.3	0.6
	100.0%	100.0%	100.0%

### Portfolio Composition

	Dec. 31/70	Sept. 30/71	Dec. 31/71
Capital Goods	16.4%	21.4%	24.6%
Regulated	7.8	9.0	7.7
Consumer Products & Services	27.7	30.0	27.8
Technology	35.7	34.3	39.3
Reserve	12.4	5.3	0.6
	100.0%	100.0%	100.0%

### Largest Common Stock Holdings as at Dec. 31, 1971 (By Market)

	Percent of Total Portfolio
International Business Machines Corporation	9.6%
Xerox Corporation	7.3%
Atlantic Richfield Company	5.3%
Eastman Kodak Company	3.6%
Ramada Inns, Inc.	3.6%

## Portfolio Review

The New York Market fell fairly steadily from the beginning of the quarter to late in November when the Dow Jones Industrial Average hit its 1971 low at 797.97. From there it staged a brisk advance and closed the year at 890.20, about 11.6% above the low.

The rally in December seemed broadly based and was accompanied by rising volume. Confidence seemed to be reviving even before the December 18 international monetary agreement, probably because the business figures and particularly corporation profits were encouraging. The announcement of the new currency arrangements and the removal of the restrictive U.S. measures further stimulated investor psychology, and was apparently what the market needed to continue its advance.

The outlook for the U.S. economy in 1972 is very promising. It seems possible that there could be an increase in real GNP of 6%, and a rise in corporation profits of possibly 12%. In view of this, stock prices should move up during the year, particularly if investor confidence remains at its present high level.

The general strategy is to have relatively low cash reserves and to keep strongly invested in the technology and consumer areas. In

light of the economic outlook some additions to the portfolio were also made in the capital goods sector during the quarter.

### Results for the Year

	1970 31 Dec.	1971 31 Dec.	Change
Dow Jones Industrials	838.92	890.20	+ 6.11%

International Equity Fund Per Unit	\$ 10.62	\$ 12.32	+16.01%
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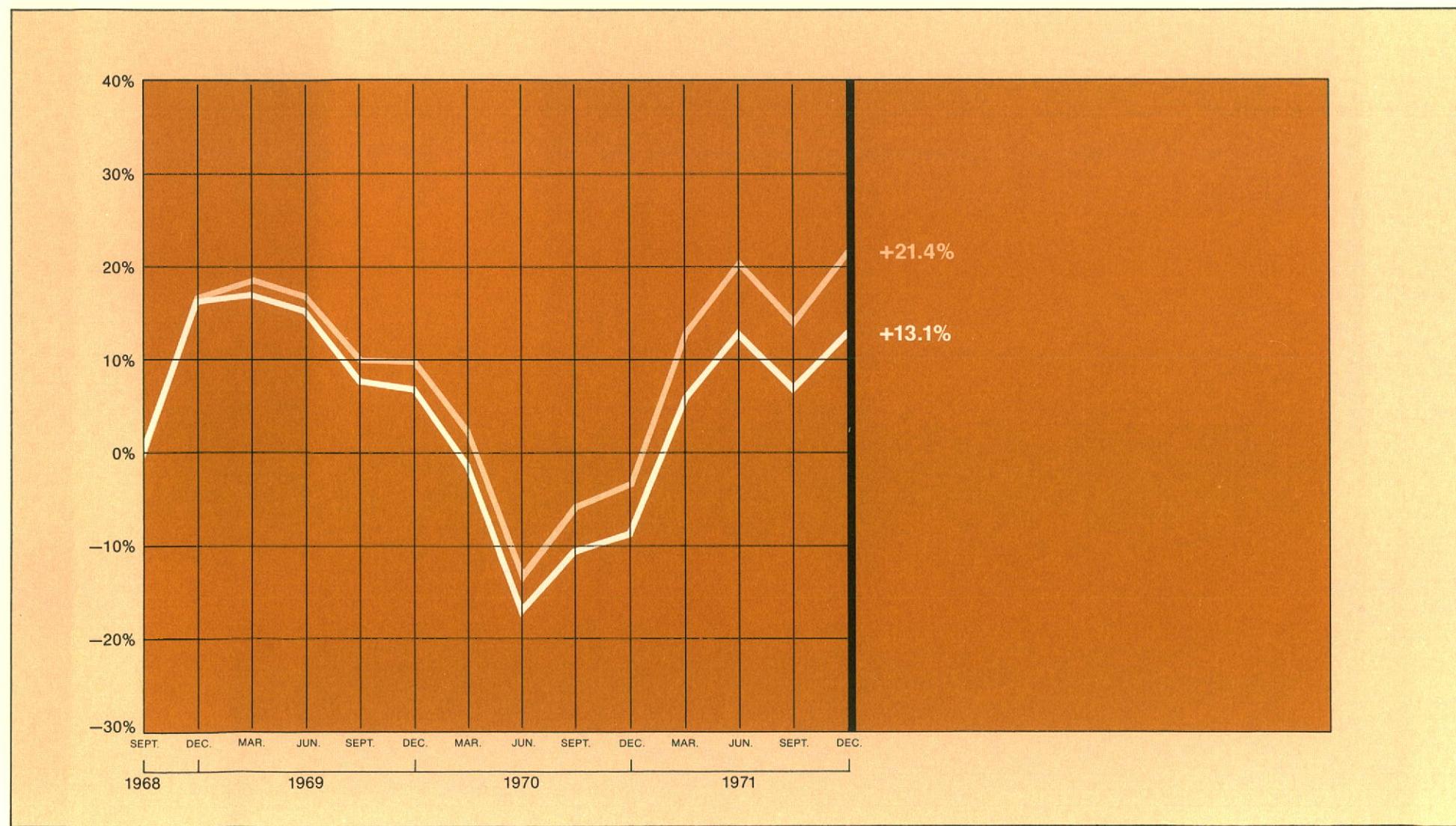
During the quarter, holdings of Combined Insurance Company of America and National Liberty Corporation were eliminated.

Positions were increased in Amerada Hess, Atlantic Richfield, Ford Motor Company, General Electric, Huyck Corporation, Sybron Corporation, American Hospital Supply Corporation, Avon Products, Citizens & Southern National Bank, Dayton-Hudson Corporation, Marcor, Ramada Inns, Eli Lilly & Company, I.B.M., Rank Organization, Texas Instruments and Xerox Corporation.

# Special Situations Fund

## Comparisons between

	GRAPH COLOUR	VALUE DEC. 31/71	VALUE SEPT. 30/71	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
<b>Special Situations Fund</b>	□	\$ 11.31	\$ 10.67	+6.0%	+13.1%
<b>Special Situations Fund (Incl. Income)</b>	■	\$ 12.14	\$ 11.40	+6.5%	+21.4%



## Special Situations Fund

## Investment Portfolio

# Unit Values of Diversified Investment Funds Since Inception



## Fixed Income Fund      Canadian Equity Fund      International Equity Fund      Special Situations Fund

	UNIT VALUE	INCOME UNIT	VALUE INCL. INC.									
<b>1966</b> Dec. 31	\$10.00		\$10.00	\$10.00		\$10.00	\$10.00		\$10.00			
<b>1967</b> Mar. 31	10.35	\$0.05208	10.50	11.02	\$0.05021	11.11	11.34	\$0.02533	11.42			
Jun. 30	9.93	.05252	10.24	11.45	.04113	11.61	11.55	.00842	11.67			
Sept. 30	9.64	.05036	10.10	12.25	.02689	12.51	12.60	.01648	12.79			
Dec. 31	9.52	.05266	10.14	12.65	.05017	13.02	13.28	.00224	13.54			
<b>1968</b> Mar. 31	9.31	.05192	10.08	11.70	.01729	12.09	11.70	.02570	12.01			
Jun. 30	9.27	.04776	10.20	13.82	.04689	14.41	13.01	.02239	13.44			
Sept. 30	9.40	.04420	10.51	15.80	.03288	16.57	13.05	.01084	13.54	\$10.00		\$10.00
Dec. 31	9.45	.05263	10.73	17.06	.04353	18.00	13.67	.02012	14.24	11.61	\$.01683	11.68
<b>1969</b> Mar. 31	9.52	.05092	11.00	17.43	.05697	18.56	12.43	.02346	13.02	11.70	.01313	11.82
Jun. 30	9.42	.05126	11.07	16.17	.06717	17.37	11.90	.02057	12.53	11.52	.03030	11.69
Sept. 30	9.37	.06597	11.23	16.39	.06749	17.79	11.62	.04522	12.37	10.75	.03697	10.99
Dec. 31	9.05	.06801	11.05	16.99	.05788	18.55	11.40	.04063	12.26	10.69	.02550	10.98
<b>1970</b> Mar. 31	9.26	.06384	11.48	15.54	.07502	17.10	10.72	.04731	11.55	9.86	.03361	10.21
Jun. 30	9.18	.06001	11.57	12.93	.05565	14.35	8.76	.02165	9.51	8.27	.03119	8.66
Sept. 30	9.30	.06288	11.91	13.82	.08154	15.52	9.83	.02885	10.74	8.93	.02786	9.41
Dec. 31	9.64	.06428	12.55	14.03	.04316	15.90	10.62	.01396	11.65	9.12	.02201	9.66
<b>1971</b> Mar. 31	9.82	.06591	13.00	15.03	.06103	17.15	11.84	.01831	13.05	10.59	.00940	11.25
Jun. 30	9.64	.06183	12.93	15.04	.05989	17.30	12.30	.01501	13.60	11.27	.03353	12.02
Sept. 30	9.90	.06381	13.48	14.59	.05216	16.89	11.79	.01494	13.08	10.67	.01397	11.40
Dec. 31	10.06	.06733	13.89	15.19	.05439	17.69	12.32	.01708	13.72	11.31	.03323	12.14



**INTERNATIONAL TRUST COMPANY**  
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