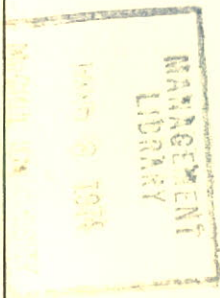


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INTERNATIONAL TRUST COMPANY

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Fourth
Quarter Report
Diversified
Investment Funds
October 1 to
December 31, 1973





The Diversified Investment Funds

The Diversified Investment Funds were established January 1, 1967 and are operated for the collective investment and reinvestment of non-taxable monies. The Funds are fully managed by International Trust Company and consist of four separate investment portfolios: the Canadian Equity Fund; the International Equity Fund; the Fixed Income Fund; and the Mortgage Fund.

Additions to, or withdrawals from, each Fund, or inter-Fund transactions, are effected on monthly valuation dates at net asset value. Income earned is distributed monthly.

This Report is concerned primarily with investment composition and performance.

Economic Review

It seems to be commonly agreed that 1973, in all respects, was quite a year. Certainly there was an almost super boom in the Canadian economy. The Gross National Product in real terms increased almost 7%, the largest gain of the Post World War II expansion and well above the long term average for that period of roughly 5%.

Inflation too, was at a hyper level, probably 7% in terms of Gross National Product prices, and perhaps 8½% on the Consumer Price Index. We have noted in these quarterly reviews that 1973 will be known as the year of inflation. What bothers us now is that 1974 might be similarly characterized since inflation is continuing at a high level as we move into the new year.

The combination of high real growth and rapid inflation produced a healthy increase of roughly 14% in total Gross National Product. This is also one of the biggest gains of the last 25 years, and is almost double the compound annual rate of growth the economy has experienced in that period of time. The value of the Canadian economy only moved through \$100 billion for the first time during 1972, and by the end of 1973 it was running close to \$120 billion.

Nor can the year be understood properly in isolation. It is really the third year of extraordinarily rapid and acceleration growth as the economy recovered from the 1969-1970 recession. Gross National Product was up over 9% in 1971, over 10% in 1972 and it looks as if it will be an increase of better than 14% in 1973.

It is small wonder that such years of powerful growth have produced a high rate of inflation. Consumer spending, fueled by rising incomes, and a high level of savings has created a demand all through the economy which has used up existing productive capacity and created shortage in raw materials and basic industrial goods.

Food prices, inordinately boosted by poor crops in different parts of the world have exaggerated the 1973 inflation, but the relief expected from this sector in 1974 may be offset by booming prices for oil and natural gas. The energy shortage will not help restrain inflation this year.

At the same time, higher prices and the fact their plants are running close to capacity, encourage businessmen to build new and additional plants. Some increase in capital spending was seen in 1973, and further increases seem likely in 1974 and 1975. The energy shortage might stretch out this capital building period, not only because fuel is in short supply, but also because companies will be concerned about the energy source to be used in the new facilities, and may wish to experiment with new technology.

Meanwhile most governments of the western world followed restrictive policies as 1973 progressed in order to slow down the rate of inflation. As a result most economists are forecasting a slowdown in 1974, and it is difficult to argue with this projection. The energy crisis is expected to cause an even lower rate of growth for Canada in 1974, and in the U.S. a recession is generally expected. Similar downturns are occurring in European countries and in Japan.

However, the somewhat morbid projections of impending disaster seem highly unlikely of realization. Much more probable in our view, is that 1974 will be a flat year for most countries, but for Canada, which has a good supply of raw materials and energy fuels, we are merely anticipating a somewhat slower rate of growth.

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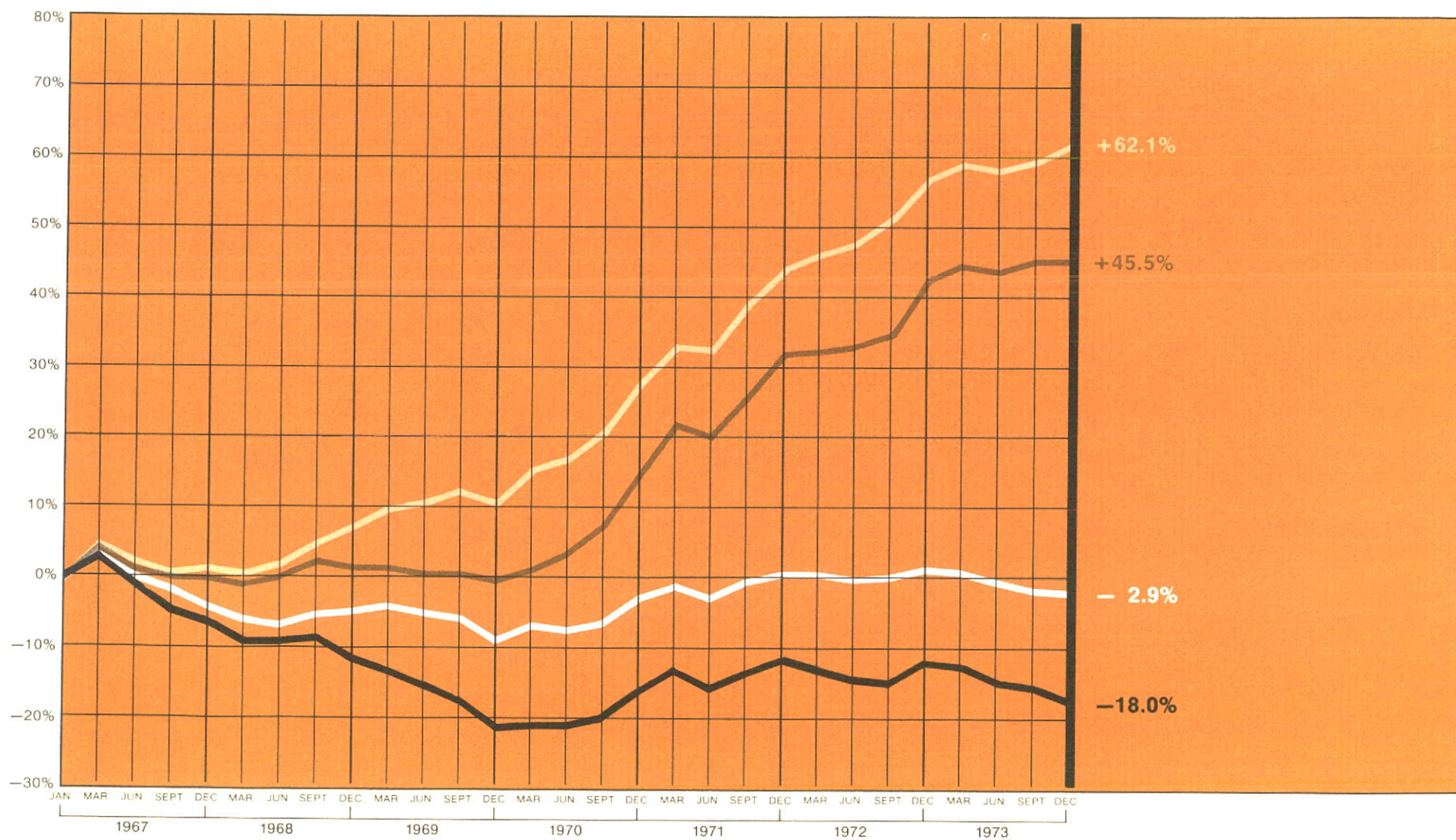
Fixed Income Fund

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/73	VALUE SEPT. 30/73	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Fixed Income Fund	□	\$ 9.71	\$ 9.77	-0.6%	- 2.9%
Fixed Income Fund (Incl. Income)	■	16.21	15.99	+ 1.4%	+ 62.1%
40-Bond Index	■	54.48	55.67	-2.1%	-18.0%
40-Bond Index (Incl. Income)	■	238.87	238.85	-	+ 45.5%

Average Yield to Maturity:

Sept. 30, 1973 8.19%

Dec. 31, 1973 8.64%



Fixed Income Fund

Investment Portfolio

Bonds/Convertible 86% Par Value

Market Value Dec. 31, 1973

\$200,000	Prov. of Alta. 8½% Apr. 15/90	
	Prepay Apr. 15/75	\$ 206,000
150,000	Man. Hydro 9% Apr. 1/90 Prepay Apr. 1/75	153,750
250,000	Prov. of Nova Scotia 8½% Aug. 1/94	252,062
225,000	Hydro Elec. Pwr. Comm. of Ont. 9% Apr. 1/94	235,125
250,000	Hydro Elec. Pwr. Comm. of Ont.	
	8½% Nov. 30/98	250,937
200,000	Prov. of Sask. 8¾% Dec. 1/90	206,500
400,000	Alum. Co. of Canada 9½% Jan. 2/91	412,000
300,000	Ashland Oil Can. Conv. 5% Jan. 15/93	270,000
600,000	BM-RT 6¼% Apr. 1/78 Cum. Wts.	577,800
500,000	Bank of Montreal	
	7% Apr. 1/78—7½% Apr. 1/92	472,500
400,000	Bank of Nova Scotia	
	6¼% Jul. 1/78—7% Jan. 1/92	376,000
375,000	Bank of Nova Scotia	
	7½% Jan. 1/88 Prepay Jul. 1/79	360,000
200,000	Bell Canada 8% May 1/77 Ext. 8¼% May 1/90	200,000
300,000	Bell Canada 9½% Aug. 14/90	312,000
400,000	Bell Canada 8½% Aug. 1/93	388,000
300,000	Beneficial Fin. Co. of Canada 9% Jan. 2/91	
	Prepay Jan. 2/76	300,000
500,000	Canadian Imperial Bank of Commerce	
	7¼% Dec. 15/92 Prepay Dec. 15/78	475,000
120,000	Consumers Gas Conv. 5½% Feb. 1/89	96,000
200,000	Distillers Corp.—Seagrams 7% Dec. 15/78	193,000
300,000	Dominion Foundries and Steel 9% Feb. 1/91	306,000
200,000	T. Eaton Acceptance 8¾% Jul. 15/74	
	Ext. Jul. 15/79 or Jul. 15/89	199,257
600,000	General Motors Accept. 9% Sept. 24/74	551,208
500,000	General Motors Accept. 7¾% Apr. 28/75	500,000
200,000	Great Plains Dev. Conv. 5% Feb. 1/93	164,000
150,000	Gulf Oil 8½% Dec. 1/89 Prepay Dec. 1/74	150,000
200,000	Gulf Oil 8½% Sept. 15/75	
	Ext. 8½% Sept. 15/90	201,000
200,000	HCR Realty Conv. 5½% Dec. 31/92	194,000
200,000	Hudson Bay Mining & Smelting 9% Jun. 15/91	202,000
250,000	Imperial Oil 8½% Aug. 15/89	
	Prepay Aug. 15/74	251,250

Bonds/Convertible 86% Par Value

Market Value Dec. 31, 1973

\$ 300,000	Interprovincial Pipe Line 9½% Dec. 1/90	\$ 309,000
300,000	John Labatt 9¼% Sept. 1/90	310,500
200,000	Maritime Tel. & Tel. 8¼% Jun. 15/77	
	Ext. Jun. 15/90	202,500
300,000	Molson Industries 8¼% Nov. 1/91	286,500
100,000	N.B. Tel. 9¼% Jun. 1/90 Prepay Jun. 1/75	102,500
200,000	Noranda Mines 9¼% Oct. 15/90	205,000
400,000	Pacific Petroleum Conv. 5% May 1/92	376,000
350,000	Royal Bank of Canada 7% Apr. 15/91	
	Prepay Apr. 15/77	334,250
100,000	Simpsons-Sears Acc. 9½% Feb. 1/90	
	Prepay Feb. 1/75	103,000
400,000	Steel Co. Canada 9¼% Nov. 1/90	412,000
200,000	TDRI Conv. 5½% Feb. 15/93	232,000
225,000	TransCanada Pipe 10% Jun. 20/90	236,250
400,000	TransCanada Pipe 9¼% Sept. 20/90	416,000
		<u>\$11,980,889</u>

Reserve 14%

Cash & Short-Term Notes \$ 2,025,576

Total Assets as at Market Dec. 31, 1973

\$14,006,465

Interest rates increased further during the last quarter of 1973. While the move in long term rates was small, there was a further dramatic increase in short term rates. At the end of September short term rates were in the 8½% area. By the end of the year they had risen to 10% and in some cases slightly above. This rise of 150 basis points plus compares with an increase of about 35 basis points in the long term market.

The Fixed Income Fund during this period declined 0.6% which compares favourably with the 40-Bond Index which was off 2.1%. Including income the Fund was up 1.4%. On the same basis the 40-Bond Index was flat.

The composition of the Fund was generally unchanged during this period. Reserves were maintained at the relatively high level of 14% and added to this there were also purchases made in the one year area, which during 1974 will become part of the reserve.

Looking back on the year as a whole, we find that the dramatic jump of over 5% in short term rates compares with the much smaller move in the long term area where in general there was approximately a ¾ of 1% increase in yield. In view of the poor inflation performance this relatively small increase in long term rates gives evidence of the fact that there was substantial money available for investment. The uncertainty in other securities markets probably helped to cushion the rise.

The outlook for 1974 is somewhat clouded by the fact that we will probably be faced with an inflation performance that will not improve, at least in the first half of the year. Along with this, an expected slowdown in the world economy may occur. While Canada may not be affected to the same extent, we will still be influenced by what happens in Europe and the United States.

What this will do for interest rates is difficult to project, however, we feel that short term rates will decline. We expect to see these rates at approximately 7% sometime during 1974, probably by mid year. Long term rates should prove more resistant to a decline due to both the inflation factor and the likelihood of substantial capital borrowing. In the early part of the year this should result in slightly higher long term rates. We expect to see yields in this area reach between 9% and 9¼%.

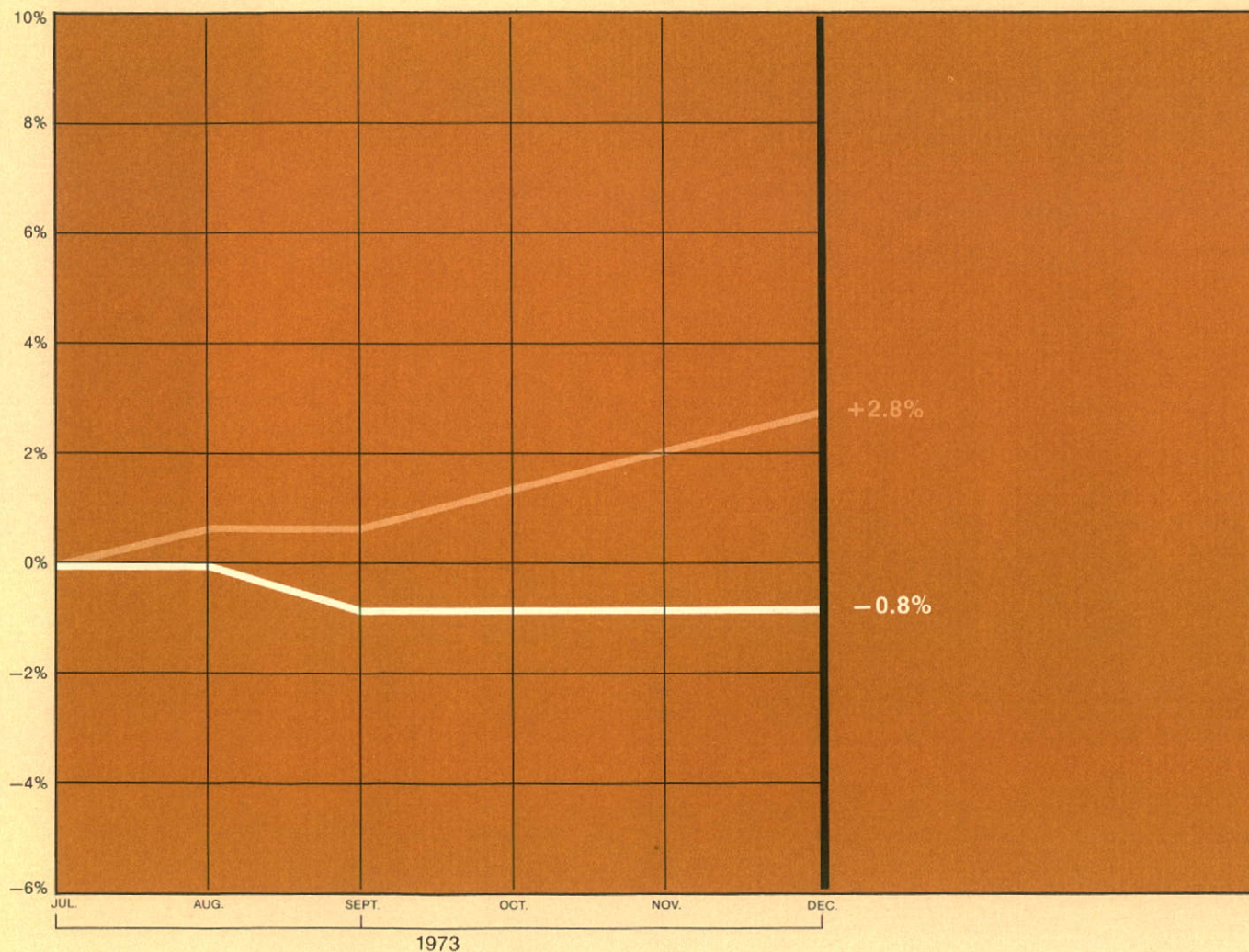
Entering 1974 the investment policy of the Fixed Income Fund is to maintain substantial reserves. These reserves will not be committed to the market until such time as interest rates move up to the levels mentioned above. Furthermore, we would expect that a larger percentage of our new funds would be directed to the mortgage area again this year as we feel a buildup in the percentage invested in mortgages represents a good investment strategy at this time. With this in mind, there will be two main economic factors to continually monitor and reassess. They are the general business conditions—especially capital spending and probably more importantly the inflation performance.

Portfolio Composition:

	Sept. 30, 1973	Dec. 31, 1973
Reserve	14%	14%
Canadas	0%	0%
Provincials	8%	9%
Corporates	67%	67%
Conv. Debs.	11%	10%
	<u>100%</u>	<u>100%</u>

Comparisons between

	GRAPH COLOUR	VALUE DEC. 31/73	VALUE SEPT. 30/73	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Mortgage Fund	□	\$ 9.92	\$ 9.92	0.0%	-0.8%
Mortgage Fund (Incl. Income)	■	\$10.28	\$10.07	+ 2.1%	+ 2.8%



The introduction of 5-year renegotiable NHA mortgages several years ago substantially improved mortgages as a form of investment for pension funds. Not only could the investor obtain an attractive yield on what is really a medium term instrument, but his ability to sell these at any time improved. As a result, International Trust's policy is to use mortgages as an important part of the fixed income content of the funds.

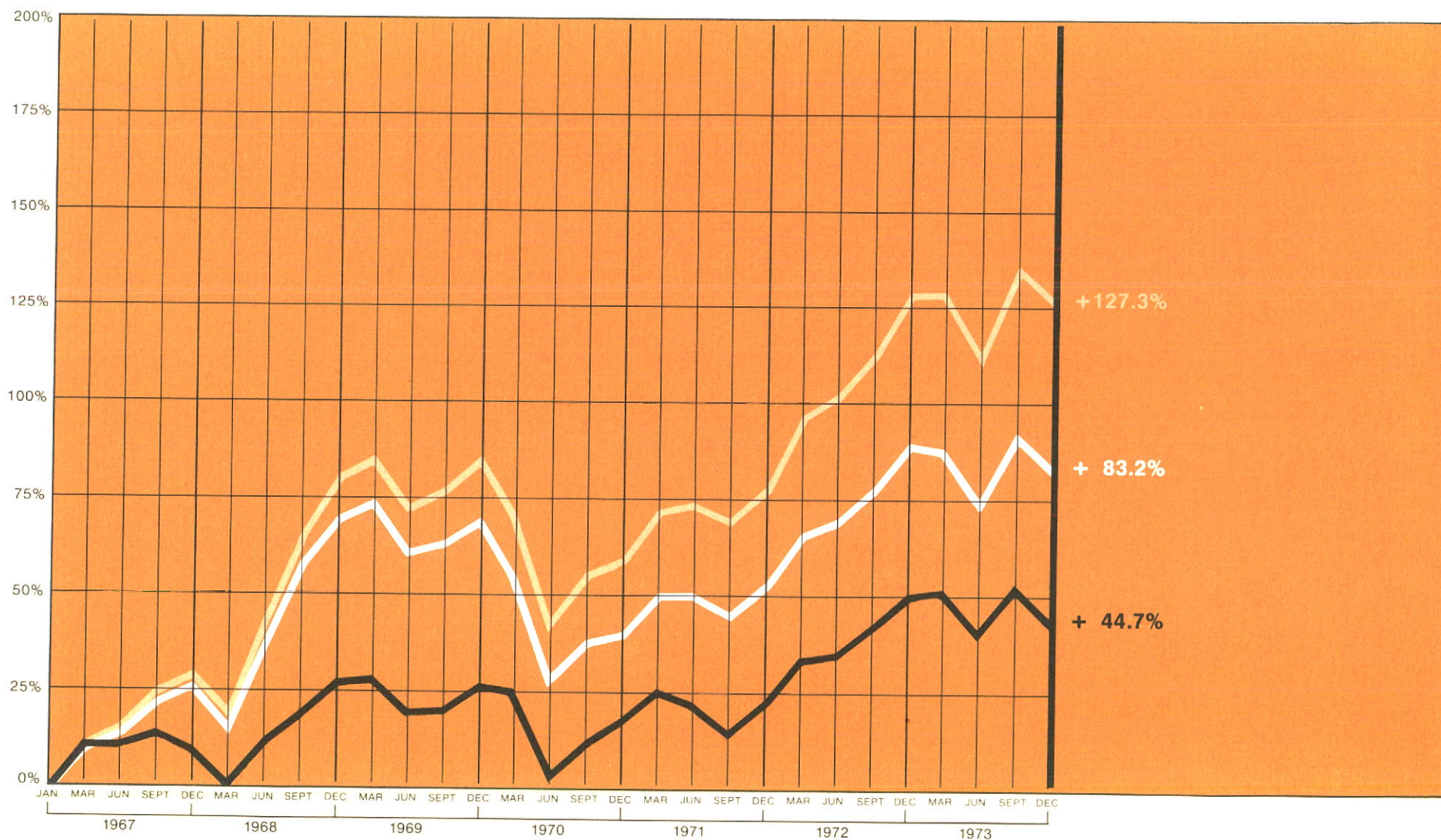
On July 31, 1973 the Mortgage Fund was initiated and first offered to our clients. Since inception the Fund's assets have grown to more than \$4,000,000 valued at market.

At the present time the Mortgage Fund's portfolio is composed entirely of mortgages insured under the National Housing Act (NHA). These are not only secured by the mortgaged property but also are insured by the federal government.

Looking back on 1973, we have witnessed a steady increase in mortgage rates in sympathy with the general trend of interest rates. There has been a strong demand for funds coupled with high inflation. Rates on mortgage funds committed for future delivery have recently stabilized at the $9\frac{1}{2}$ - $3\frac{1}{4}$ % level for NHA mortgages and will likely remain at this level into mid 1974. However, some easing of rates may occur in the latter part of the year as the level of economic activity eases somewhat from the past year's unsustainable pace. It is also anticipated that housing starts will be lower in 1974 and this should have the effect of slowing demand for mortgage funds.

Canadian Equity Fund

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/73	VALUE SEPT. 30/73	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Canadian Equity Fund	□	\$ 18.32	\$ 19.24	-4.8%	+ 83.2%
Canadian Equity Fund (Incl. Income)	■	22.73	23.64	-3.8	+ 127.3
T.S.E. Industrial Index	■	213.67	225.30	-5.2	+ 44.7



Canadian Equity Fund

Investment Portfolio

Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value Dec. 31/73	Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value Dec. 31/73
Banks—14.0%							
25,000	Bank of Nova Scotia	36½	\$ 912,500	20,000	Bethlehem Copper Corp.	15	\$ 300,000
49,000	Cdn. Imperial Bank of Commerce	28	1,372,000	9,500	Cominco Ltd.	34	323,000
30,000	Royal Bank of Canada	36½	1,095,000	18,000	Hudson Bay Mining & Smelting	26½	477,000
24,000	Toronto Dominion Bank	37¼	894,000	14,000	McIntyre Porcupine Mines	50¼	703,500
			\$ 4,273,500	17,500	Mattagami Lake Mines Ltd.	30½	533,750
Beverages—4.5%				7,500	Noranda Mines Ltd. Class A	50%	375,938
20,000	T. G. Bright & Co. Ltd. Class A	15	\$ 300,000	27,500	Placer Development	22%	622,187
16,000	Distillers Corp. Seagrams Ltd.	42¼	676,000	25,500	Rio Algom Mines	34¼	873,375
7,500	Hiram Walker Gooderham & Worts	53½	398,437	22,500	Sherritt-Gordon Mines Ltd.	13%	312,187
			\$ 1,374,437				\$ 6,090,937
Communications—9.0%				Office Equipment—5.7%			
23,000	Cdn. Cablesystems Ltd.	14¼	\$ 327,750	33,500	Moore Corporation	52%	\$ 1,762,938
21,500	Southam Press Ltd.	27½	591,250				
37,000	Standard Broadcasting Corp.	10%	374,625	Oil & Gas—16.1%			
49,000	Thomson Newspapers Ltd.	12½	612,500	15,000	Aquitaine Co. of Canada Ltd.	25%	\$ 380,625
40,500	Toronto Star Ltd. Class B	21	850,500	6,000	Bow Valley Industries Ltd.	27%	167,250
			\$ 2,756,625	15,000	Cdn. Superior Oil Ltd.	56¾	851,250
Construction & Material—1.4%				10,000	Gulf Oil Canada Ltd.	30%	308,750
25,000	Genstar Ltd.	16¾	\$ 418,750	10,000	Home Oil Co. Ltd. Class A	49¾	497,500
Forest Products—9.0%				15,000	Hudson Bay Oil & Gas Co.	43%	646,875
69,000	Abitibi Paper Co. Ltd.	13%	\$ 905,625	22,000	Husky Oil Ltd.	22	484,000
15,000	British Columbia Forest Products	19¾	296,250	20,000	Pacific Petroleum	30¼	605,000
32,500	Domtar Ltd.	22¾	739,375	8,000	Ranger Oil Canada Ltd.	33¼	266,000
25,000	MacMillan Bloedel Ltd.	32%	809,375	26,000	Shell Canada Ltd. A	18%	471,250
			\$ 2,750,625	15,000	Siebens Oil & Gas	16¼	243,750
Insurance—8.3%							\$ 4,922,250
13,000	Crown Life Insurance Co.	70	\$ 910,000	Real Estate & Hotels—0.9%			
12,000	Great West Life	61	732,000	36,000	Commonwealth Holiday Inns of Canada	7½	\$ 270,000
60,000	MICC Investments Ltd.	15	900,000				
			\$ 2,542,000	Steel—2.8%			
Merchandising—2.7%				16,000	Algoma Steel Corp. Ltd.	20%	\$ 326,000
4,000	Canadian Tire Corp. Class A	48¼	\$ 193,000	18,000	Steel Co. of Canada Ltd.	29¼	526,500
22,000	Simpsons-Sears Ltd. Class A	11¼	247,500				\$ 852,500
20,500	Woodward Stores Ltd. Class A	18¼	374,125	Trust & Loan—1.4%			
			\$ 814,625	14,000	Huron & Erie Mortgage	31¾	\$ 444,500
Mines & Metals—19.9%				Reserve—4.3%			
40,000	Alcan Aluminium Ltd.	39¼	\$ 1,570,000		Cash & Short Term Notes		\$ 1,332,929
Total Assets at Market, December 31, 1973							\$30,606,616

Portfolio Balance

	Dec. 31/72	Sept. 30/73	Dec. 31/73
Common Stocks & Equivalents	97.8%	94.5%	95.7%
Reserve	2.2	5.5	4.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Dec. 31/72	Sept. 30/73	Dec. 31/73
Consumer Products & Services	48.0%	41.8%	40.8%
Cyclical	26.3	31.8	33.0
Energy	14.3	15.4	16.1
Regulated	2.7	—	—
Technology	6.5	5.5	5.8
Reserve	2.2	5.5	4.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at December 31, 1973 (By Market)

	Percent of Total Portfolio
Moore Corporation Limited	5.8%
Alcan Aluminium Limited	5.1
Canadian Imperial Bank of Commerce	4.5
Royal Bank of Canada	3.6
Bank of Nova Scotia	3.0

The strong rise which started in the Canadian stock market in September continued into October and moved the Toronto Stock Exchange Industrial Index to a new all time high of 238.26. From that peak however, it declined precipitously through November and finally bottomed in December just above 200. There was a bit of a rally in the closing two weeks of the year.

Over the three months the Index declined 5.15% from 225.30 at 30 September to 213.67 at 31 December.

For the full year 1973, the T.S.E. Industrial Index declined 3.57%. Within the market there were some rather significant divergent trends.

The golds more than doubled in the year, industrial mines were up 23%, base metals 10%, paper and forest products 30%, and real estate 16%.

On the other side, merchandising, a normally stable group, was off 22%, oil refining was down 19%, pipelines were down 29% and communications were off 13%. Interestingly enough, oil refining and communications had been among the strongest groups in 1972.

The price earnings ratio of the Toronto Stock Exchange Industrial Index, based on the latest 12 months earnings, was 12.61 at the end of December 1973.

Price Earnings Ratio—T.S.E. Industrial Index

Dec. 31/72	Mar. 31/73	June 30/73	Sept. 30/73	Dec. 31/73
17.6	16.3	14.5	14.3	12.6

The price-earnings ratio is now well below the level it was at the bottom of the 1970 stock market decline.

The yield on the Index moved above 3% during the first half of 1973 and is likely to continue to rise as it is influenced by increased dividends.

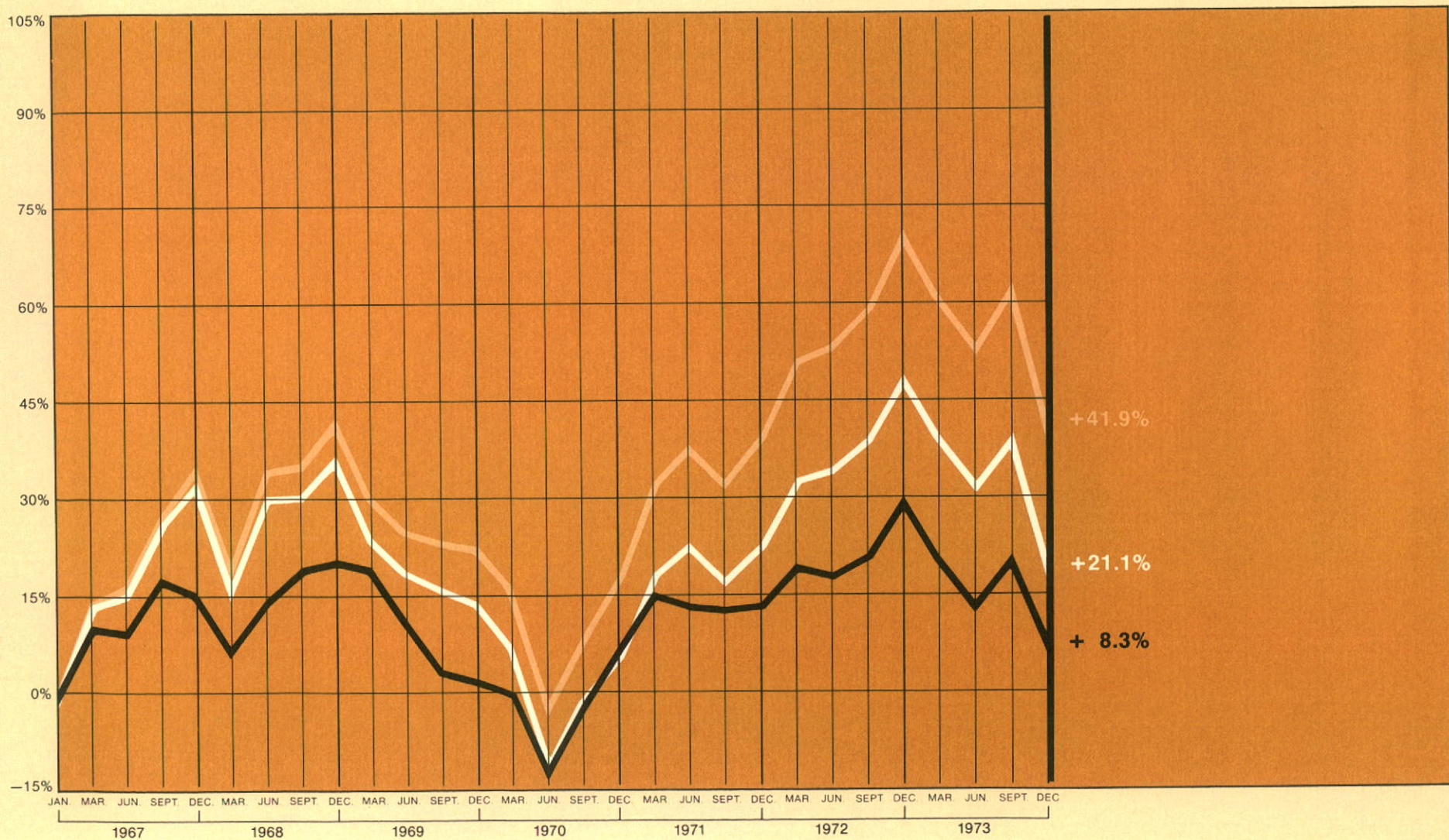
No significant changes were made in the portfolio during the quarter. No sales were made. Only one new stock, B.C. Forest Products, was added to the Fund. Existing positions in the following stocks were increased: Alcan Aluminium, Canadian Imperial Bank of Commerce, Domtar, Husky Oil, Rio Algom Mines, Thomson Newspapers and Toronto Star 'B'.

In terms of the broad economic categories, the Fund is now 40% invested in the consumer sector and 33% in the cyclical category. Generally speaking consumer stocks were reduced in 1973, and the cyclical group was increased.

The fund held only small cash reserves (4.5%) at 31 December 1973.

International Equity Fund

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/73	VALUE SEPT. 30/73	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
International Equity Fund	□	\$ 12.11	\$ 13.98	-13.4%	+ 21.1%
International Equity Fund (Incl. Income)	■	14.19	16.32	-13.1	+ 41.9
Dow Jones Industrial Average	■	850.86	947.10	-10.2	+ 8.3



Par value Shares	Convertible Securities or Common Stocks	Market Price (U.S.)	Market Value Dec. 31/73 (CDN.)	Par value Shares	Convertible Securities or Common Stocks	Market Price (U.S.)	Market Value Dec. 31/73 (CDN.)
Banks—13.4%				Office Equipment—18.7%			
15,000	Citizens & Southern National Bank, Georgia	29¾	\$ 438,774	3,000	Automatic Data Processing	54¼	\$ 162,066
11,000	First Chicago Corp.	70¾	770,874	6,000	Digital Equipment	101¾	608,683
5,164	First International Bank Shares	57¾	296,968	2,000	Honeywell	70¾	139,661
11,000	J. P. Morgan & Co. Inc.	69	755,812	5,918	I.B.M.	246¾	1,454,133
8,000	North Carolina National Bank	39½	314,673	10,000	Xerox Corporation	122¾	1,222,345
			\$ 2,577,101				\$ 3,586,888
Drugs—7.4%				Oils—2.8%			
4,000	American Home Products	40⅞	\$ 159,826	5,000	Atlantic Richfield Co.	108¾	\$ 541,466
8,675	Merck Inc.	80¾	697,564	Personal Care—1.9%			
8,000	Upjohn Company	71¾	571,589	4,000	Avon Products Inc.	63¾	\$ 253,929
			\$ 1,428,979	2,000	Chesebrough-Pond's	60¼	119,994
							\$ 373,923
Electrical Equipment—2.7%				Photography—3.4%			
8,200	General Electric Co.	63	\$ 514,430	5,625	Eastman Kodak	116	\$ 649,760
Electronics—8.6%				Retail Trade—8.3%			
13,200	A. M. P. Incorporated	38⅞	\$ 510,995	15,000	House of Fabrics	7½	\$ 112,028
2,000	Farinon Electric	29	57,756	15,000	S. S. Kresge Company	32¾	489,187
15,000	Perkin Elmer Corp.	33⅞	494,788	20,000	Marcor Inc.	20	398,320
20,000	Sony Corp.	29¼	582,543	5,000	J. C. Penny Company	71¾	357,243
			\$ 1,646,082	3,000	Sears-Roebuck	80¼	239,739
							\$ 1,596,517
Food & Beverages—2.4%				Service—3.5%			
3,700	Coca Cola Co.	126½	\$ 466,084	13,000	American Express	45	\$ 582,543
Hospital Supply—6.5%				1,000	A.R.A. Services Inc.	84½	84,145
7,000	Baxter Laboratories	48⅞	\$ 335,460				\$ 666,688
6,000	Johnson & Johnson	112¾	673,659	Utilities—3.7%			
5,000	Medtronic Inc.	49	243,971	8,000	Continental Telephone Corp.	18¼	\$ 145,387
			\$ 1,253,090	11,600	Southern California Edison	18½	213,699
Insurance—3.0%				10,000	Southern New England Telephone	35¾	352,264
10,000	Colonial Penn Group	57¾	\$ 571,340				\$ 711,350
Miscellaneous—7.7%				Reserve—6.0%			
7,000	Caterpillar Tractor	67	\$ 467,030	Cash & Short Term Notes			
15,000	Huyck Corp.	26½	395,831				\$ 1,140,544
1,500	Masco Corp.	44¾	66,843	Total Assets as at December 31, 1973			
7,000	Minnesota, Mining & Manufacturing Company	78	543,707				\$19,197,653
			\$ 1,473,411				

Portfolio Balance

	Dec. 31/72	Sept. 30/73	Dec. 31/73
Common Stock & Equivalents	99.2%	93.2%	94.0%
Reserve	0.8	6.8	6.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Dec. 31/72	Sept. 30/73	Dec. 31/73
Consumer Products Services	35.1%	47.7%	46.5%
Cyclical	9.9	6.4	7.7
Energy	2.4	2.2	2.8
Regulated	5.7	5.0	3.7
Technology	43.7	31.9	33.3
Reserve	3.2	6.8	6.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at Dec. 31/73 (By Market)

	Percent of Total Portfolio
International Business Machines Corp.	7.6%
Xerox Corp.	6.4
First Chicago Corp.	4.0
J. P. Morgan & Co. Inc.	3.9
Merck Corp.	3.6

The strength which appeared in the U.S. stock market in September continued in October, but prices broke sharply in November and the leading stock market indexes fell through their previous 1973 lows. There was a gentle recovery during December.

U.S. Stock Market—Performance of Major Indexes

	31 Dec. 1973	Fourth Quarter Change %	1973 Change
Dow Jones Industrials	850.86	-10.16	-16.58
Standard & Poor 425	109.14	-10.23	-17.24
Standard & Poor 500	97.55	-10.04	-17.37
N.Y.S.E. Composite	51.81	-11.45	-19.65

Corporate profits in the United States rose strongly during 1973, and estimated earnings for the major indexes moved to all time highs. As a result, price-earnings ratios continued to move down during the last quarter.

	Close 31 Dec.	Estimated Earnings	Price Earnings Ratio
Standard & Poor 425	109.14	\$ 8.55	13
Dow Jones Industrials	850.86	\$85.00	10

Historically these are very low ratios. They are well below the levels reached at the bottom of the 1970 stock market decline.

For many individual stocks of leading corporations, price-earnings ratios are even lower, and in some cases, half the level shown for these indexes.

During the fourth quarter, three stocks, Walt Disney Productions, Marriott Corporation and McDonald's Corporation were eliminated from the Fund, and the position in IBM, and Atlantic Richfield was reduced. One new stock Honeywell Inc., was purchased and additions were made to 14 others.

At the end of the year the five largest stocks comprised 25% of the Fund. International Business Machines was still the largest holding (7.6%) and was followed by Xerox Corporation (6.4%) in second place.

The other three in the top five are new to these positions. First Chicago Corporation, J. P. Morgan and Merck Inc. replaced Sony Corporation, American Express and Eastman Kodak which had been in the top five at 30 September 1973. The banking and financial group is important to the Fund with two banks now represented in the top five.

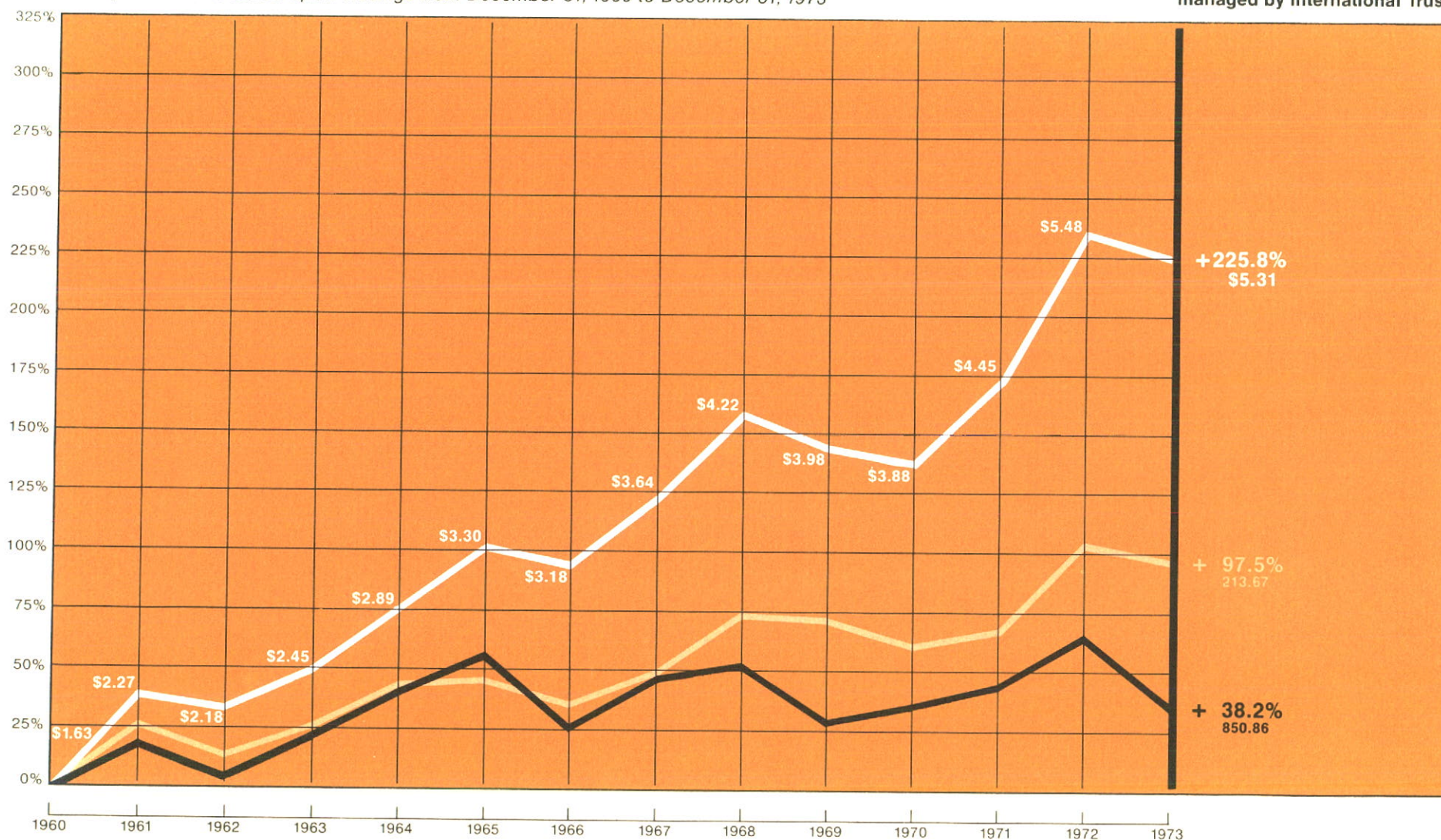
The cash position at the end of the year was 6.0% compared to 6.8% at 30 September 1973 and 3.2% at 31 December 1972.

Andreae Equity Investment Fund Limited

Comparisons between	GRAPH COLOUR	VALUE DEC. 31/73	VALUE DEC. 31/60	PERCENT CHANGE SINCE DEC. 31/60
Andreae Equity Fund (Excl. Div.)	□	\$ 5.31	\$ 1.63	+ 225.8%
T.S.E. Industrial Index	■	213.67	108.20	+ 97.5
Dow Jones Industrial Average	■	850.86	615.89	+ 38.2

These comparisons are based upon closings from December 31, 1960 to December 31, 1973

The Andreae Equity Investment Fund is an open-end mutual Fund managed by International Trust.



Unit Values of Diversified Investment Funds Since Inception

	Fixed Income Fund			Mortgage Fund			Canadian Equity Fund			International Equity Fund		
	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.
1966 Dec. 31	\$10.00		\$10.00				\$10.00		\$10.00	\$10.00		\$10.00
1967 Mar. 31	10.35	\$.15250	10.50				11.02	\$.08496	11.11	11.34	\$.07453	11.42
Jun. 30	9.93	.15802	10.24				11.45	.06572	11.61	11.55	.03725	11.67
Sept. 30	9.64	.15580	10.10				12.25	.08703	12.51	12.60	.05288	12.79
Dec. 31	9.52	.15734	10.14				12.65	.09396	13.02	13.28	.05561	13.54
1968 Mar. 31	9.31	.15230	10.08				11.70	.04903	12.09	11.70	.08460	12.01
Jun. 30	9.27	.15638	10.20				13.82	.11686	14.41	13.01	.08619	13.44
Sept. 30	9.40	.14994	10.51				15.80	.08629	16.57	13.05	.04973	13.54
Dec. 31	9.45	.14652	10.73				17.06	.11004	18.00	13.67	.05368	14.24
1969 Mar. 31	9.52	.16292	11.00				17.43	.15656	18.56	12.43	.06699	13.02
June 30	9.42	.16498	11.07				16.17	.15326	17.37	11.90	.06998	12.53
Sept. 30	9.37	.18507	11.23				16.39	.16343	17.79	11.62	.12530	12.37
Dec. 31	9.05	.20602	11.09				16.99	.11949	18.57	11.40	.12480	12.27
1970 Mar. 31	9.26	.17651	11.57				15.54	.15469	17.15	10.72	.12092	11.66
June 30	9.18	.18571	11.70				12.93	.13116	14.40	8.76	.11073	9.64
Sept. 30	9.30	.19003	12.10				13.82	.17910	15.60	9.83	.06254	10.89
Dec. 31	9.64	.19492	12.80				14.03	.13295	15.98	10.62	.04831	11.82
1971 Mar. 31	9.82	.19593	13.33				15.03	.12995	17.28	11.84	.05244	13.24
June 30	9.64	.18892	13.31				15.04	.12842	17.44	12.30	.04849	13.81
Sept. 30	9.90	.20070	13.96				14.59	.11095	17.05	11.79	.05142	13.30
Dec. 31	10.06	.19743	14.46				15.19	.10311	17.87	12.32	.05237	13.96
1972 Mar. 31	10.00	.18497	14.64				16.60	.11675	19.67	13.30	.04940	15.14
June 30	9.93	.18826	14.81				16.95	.11314	20.21	13.46	.04650	15.37
Sept. 30	9.97	.18887	15.16				17.78	.09474	21.32	13.92	.05572	15.96
Dec. 31	10.16	.18626	15.73				18.95	.12469	22.88	14.87	.04958	17.11
1973 Jan. 31	10.17	.06315	15.84				19.00	.02211	22.97	14.53	.01892	16.74
Feb. 28	10.15	.05573	15.90				18.80	.01716	22.74	14.03	.01841	16.18
Mar. 31	10.13	.06141	15.96				18.87	.05457	22.90	13.94	.02677	16.11
Apr. 30	10.06	.05851	15.95				18.19	.01414	22.09	13.14	.00912	15.20
May 31	9.86	.06679	15.74				17.26	.06377	21.03	13.20	.02077	15.30
Jun. 30	9.88	.05378	15.85				17.50	.04586	21.38	13.22	.02638	15.36
Jul. 31	9.84	.06280	15.89	10.00	—	10.00	18.80	.01636	22.99	14.03	.01469	16.30
Aug. 31	9.67	.06803	15.74	10.00	.06917	10.07	18.58	.05500	22.79	13.78	.02445	16.05
Sept. 30	9.77	.06182	15.99	9.92	.06989	10.07	19.24	.03803	23.64	13.98	.03060	16.32
Oct. 31	9.80	.06444	16.15	9.92	.07077	10.14	20.59	.02325	25.33	13.80	.01195	16.11
Nov. 30	9.82	.06438	16.28	9.92	.06743	10.21	18.37	.06399	22.68	12.14	.01775	14.20
Dec. 31	9.71	.06435	16.21	9.92	.07032	10.28	18.32	.08112	22.73	12.11	.02253	14.19

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