

4

**Fourth
Quarter Report
Diversified
Investment Funds
October 1 to
December 31, 1975**

HOWARD ROSS LIBRARY
DE MANAGEMENT

FEB 17 1976

McGILL UNIVERSITY

The Management Committee



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.

FROM LEFT TO RIGHT:
J. W. BENNETT
D. A. WILSON
A. F. STEVENSON
D. P. THOMAS
T. G. MULLIGAN

The Background For Investment

1975 — How Good Was Our Forecast

In our fourth quarter report for 1974, we had this to say about the coming year, "As we enter 1975 the economic outlook is both bad and good. It is bad because we are in a recession, the extent and depth of which are unknown. It is good because it seems likely we will be moving out of the recession by the end of the year, and in the meantime, it should have done its job of slowing down the rate of inflation.

"If we look out at the rest of the world we see that other countries have been experiencing a slowdown through 1974. As First National City Bank recently noted, international business is now somewhere near the midpoint of a prolonged recession — nothing so disastrous as a depression, but certainly the worst slump since World War II. A broad upturn in the overall production of the ten leading industrial nations is not likely until sometime late in 1975."

In the event, our expectations were fairly well borne out. In fact, the standard forecast for 1975 was really quite accurate in terms of direction if not in terms of degree. The economy probably declined in 1975 more than most people thought, but it did turn up about mid year, which had been widely anticipated.

Inflation did not abate as much as expected. Indeed, in Canada it stayed right up during the year and was only easing slightly at the close.

Corporate profits were down, as expected, but there were substantial variations among different industries. Some, like forest products, had a worse experience than expected while others, like banks, did a good deal better.

1975 Politics

The political environment generally improved through the year, at least until October when the Federal Government launched an anti-inflation program spearheaded by wage and price con-

trols. Investors found the unknown consequences of this program deeply disturbing. Unfortunately, we entered the new year very much in the dark as to the possible effects on business of the new program.

If investors were bewildered by wage and price controls, they were even more confused by the Prime Minister's Christmas messages in which he spoke of "a massive intervention into the decision-making power of the economic groups". What he means, and what effect it will have on specific businesses, is shrouded in mystery.

A Look Ahead — 1976

The annual report of the OECD has given us a capsule of changes in real GNP in the period 1974-1976.

	1974	1975	1976
	%	%	%
U.S.	- 2.1	- 3	+ 5.75
Japan	- 1.8	+ 1.25	+ 4.25
Germany	+ 0.4	- 3.75	+ 3.25
France	+ 3.9	- 2	+ 3
Britain	+ 0.1	- 2.25	0
Italy	+ 3.2	- 4.5	+ 1.5
Canada	+ 2.8	- 1	+ 4.25

This forecast for 1976 is somewhat more optimistic for the U.S. than our own, but the trend is similar.

Corporate profits are expected to be up 15%-20% in the U.S. in 1976, which is a very healthy growth, particularly in a period when inflation is declining. In Canada, an increase of 8%-10% in corporate profits is expected. This area is a little grey because of the anti-inflation program.

Objectives

In this environment, we believe we can achieve a total investment return i.e. capital gain plus income, of 15% from fixed income securities and of 20% from equities in 1976. We have taken this as a general objective for the year,

and we can measure our results against it in these quarterly reports, as we proceed through the year.

Major Market Influences in 1976

On the political front, the anti-inflation program, and whatever Mr. Trudeau means by his reference to "A new type of society" will deeply affect investors' attitudes during the year. The effect of all this may be more psychological than real in its impact on business.

In the United States, the double barrelled effects of the bicentennial year and the Presidential election should be very great. Most likely they will be positive for investors.

The growing public uneasiness over big government may influence political decisions and could bring more restraint than was evident in 1974 or 1975. This could give support to those central bankers who recognize the causes of inflation and are trying to slow money supply growth. A continuation of the policies of restraint would be beneficial for investment in all markets.

In Canada, the horrendous decline in the current account balance of payments will be watched closely. If this is not stopped in 1976 the country is in deep trouble, and we could witness some sharp moves in the value of the Canadian dollar, as well as artificial levels for interest rates. An improvement would be positive for securities markets.

Finally, the economic recovery begun in 1975, should continue through 1976 and into 1977. Investors will be greatly influenced by how it proceeds, and what effect it has through the year on the number one problem of our time, inflation.

CONTENTS

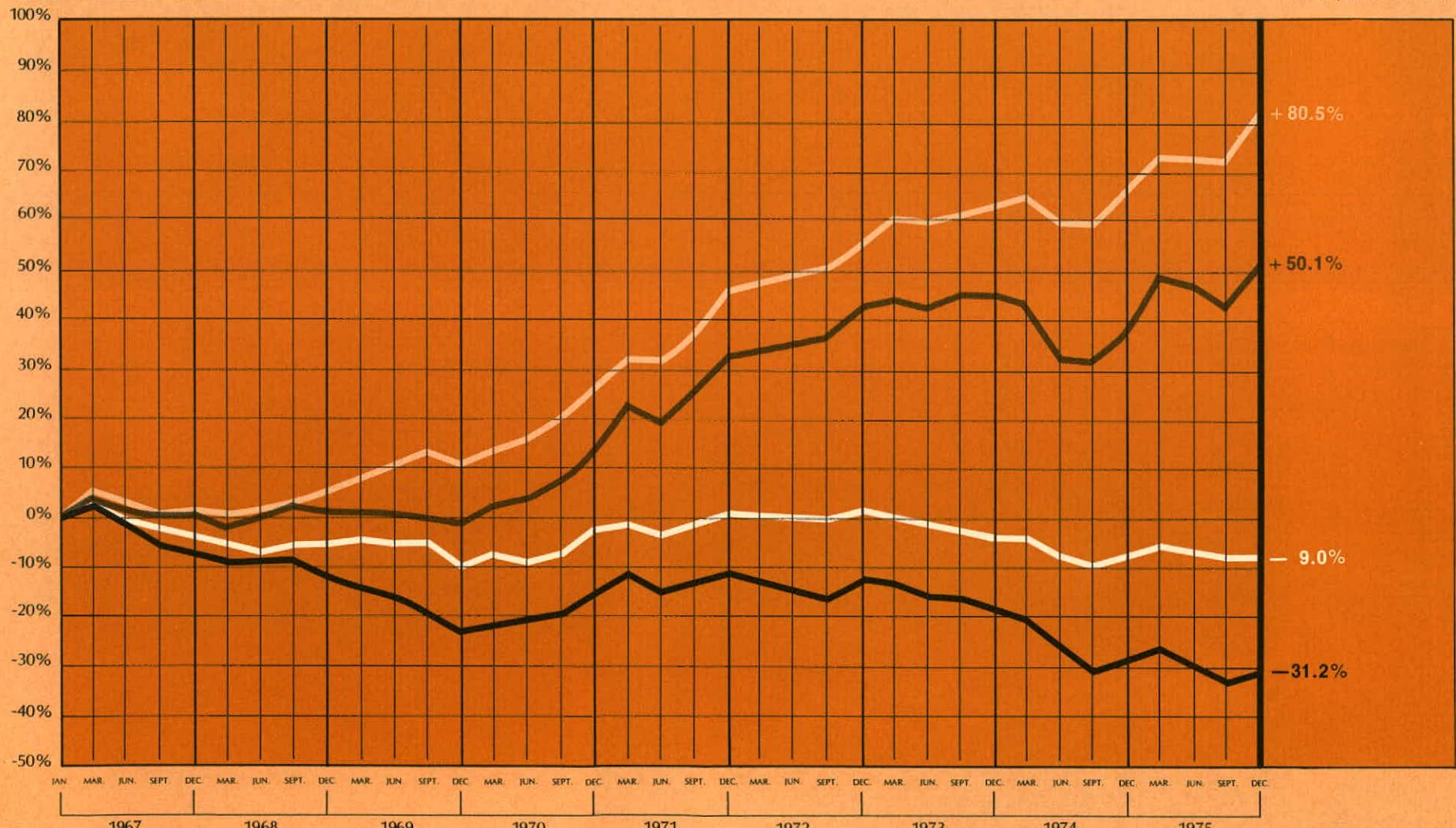
	PAGE
Fixed Income Fund	
Comparisons with 40 Bond Index	2
Investment Portfolio	3
Portfolio Analysis	4
Mortgage Fund	
Comparisons and Review	5
Canadian Equity Fund	
Comparisons with TSE Industrial Index	6
Investment Portfolio	7
Portfolio Analysis	8
International Equity Fund	
Comparisons with DJIA	9
Investment Portfolio	10
Portfolio Analysis	11
ITCO Investment Fund	
Comparisons with TSE Industrial Index and DJIA	12
Unit Values	13



Fixed Income Fund

Comparisons Between	GRAPH COLOUR	VALUE DEC. 31/75	VALUE SEPT. 30/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Fixed Income Fund	□	\$ 9.10	\$ 9.03	+0.8%	— 9.0%
Fixed Income Fund (Incl. Inc.)	□	\$ 18.05	\$ 17.54	+2.9%	+80.5%
McLeod Young Weir 40-Bond Index	■	45.73	44.60	+2.5%	—31.2%
McLeod Young Weir 40-Bond Index (Incl. Inc.)	■	246.36	233.79	+5.4%	+50.1%

Average Yield to Maturity:
 Sept. 30, 1975 10.23%
 Dec. 31, 1975 10.07%



Bonds/Convertible Bonds 92% Par Value

		Market Value Dec. 31, 1975
\$1,175,000	Govt. Canada 6-1/4% Apr. 1/80	\$ 1,083,350
500,000	Govt. Canada 4-1/2% Sept. 1/83	389,000
250,000	Govt. Canada 10% Oct. 1/95	252,188
250,000	Hydro Elec. Pwr. Comm. of Ont. 9-3/4% Aug. 15/81	253,125
325,000	Prov. of Quebec 8-5/8% Mar. 1/99	270,010
300,000	Prov. of Sask. 7-3/4% Feb. 17/82	272,730
250,000	Prov. of Sask. 8-1/4% Dec. 3/98	204,900
300,000	Abitibi Pulp & Paper 10-1/2% Mar. 1/95 Prepay Mar. 1/85	295,500
400,000	Alum. Co. of Canada 9-3/8% Jan. 2/91	354,000
300,000	Ashland Oil Can. Conv. 5% Jan. 15/93	195,000
600,000	BM-RT 6-1/4% Apr. 1/78 Cum. Wts.	572,850
200,000	BM-RT 9% Apr. 1/80	193,000
500,000	Bank of Montreal 7% Apr. 1/78 — 7-1/2% Apr. 1/92	473,750
400,000	Bank of Nova Scotia 6-3/4% Jul. 1/78 — 7% Jan. 1/92	376,000
375,000	Bank of Nova Scotia 7-1/2% Jan. 1/88 Prepay Jul. 1/79	352,500
250,000	Bell Canada 9-3/4% Jun. 3/79	250,000
300,000	Bell Canada 9-3/8% Aug. 14/90	274,500
400,000	Bell Canada 8-3/8% Aug. 1/93	328,000
500,000	Bell Canada 9-7/8% Apr. 1/99	466,550
200,000	B.C. Telephone 8-3/4% Jan. 15/81	190,280
250,000	B.C. Telephone 9-1/4% Apr. 15/98	215,000
400,000	Calgary Power Ltd. 11-1/8% Sept. 16/79	410,440
500,000	Canadian Imperial Bank of Commerce 7-1/4% Dec. 15/92 Prepay Dec. 15/78	470,800
300,000	CP Limited 11-1/4% Nov. 15/95	307,500
100,000	Consumers Gas 8-3/4% Aug. 15/94	84,000
300,000	Dominion Foundries and Steel 9% Feb. 1/91	261,000
250,000	Dominion Stores 9-1/2% Mar. 1/80	248,750
500,000	General Motors Accept. 8-5/8% Feb. 9/79	485,150
500,000	General Motors Accept. 9% Apr. 1/82	466,250
300,000	Hudson's Bay Company 9-3/4% May 1/79	297,750
200,000	Hudson Bay Mining & Smelting 9% Jun. 15/91	168,000
300,000	Interprovincial Pipe Line 9-3/8% Dec. 1/90	272,250
300,000	John Labatt 9-1/4% Sept. 1/90	267,000
200,000	John Labatt 9% Mar. 15/94	169,340
200,000	Maritime Tel. & Tel. 8-1/4% Jun. 15/77 Ext. Jun. 15/90	196,700
300,000	Molson Industries 8-1/4% Nov. 1/91	243,375

Bonds/Convertible Bonds 92% Par Value

	Market Value Dec. 31, 1975
100,000	Niagara Realty Corp. 10-3/8% Dec. 18/84
500,000	Noranda Mines 10-1/4% Mar. 1/77
200,000	Noranda Mines 9-1/4% Oct. 15/90
235,000	Olympia & York Dev. Ltd. 10-1/2% Oct. 31/79
350,000	Royal Bank of Canada 7% Apr. 15/91 Prepay Apr. 15/77
	339,500
350,000	Roynat Ltd. 9% Mar. 1/80
200,000	Seagram Co. Ltd. 7% Dec. 15/78
300,000	Seagram Co. Ltd. 9-1/2% Jun. 1/80
250,000	Simpsons-Sears Acc. 10-1/4% Aug. 15/79
400,000	Steel Co. Canada 9-1/4% Nov. 1/90
200,000	TDRI Conv. 5-1/2% Feb. 15/93
225,000	TransCanada Pipe 10% Jun. 20/90
400,000	TransCanada Pipe 9-3/4% Sept. 20/90
200,000	Union Carbide 10-3/4% Jun. 15/95
	\$15,379,548

Reserve 8%

Cash & Short-Term Notes	1,302,521
Total Assets at Market Dec. 31, 1975	\$16,682,069

The Fixed Income Fund gained 0.8% in the fourth quarter of 1975 compared with an increase of 2.5% in the McLeod, Young, Weir 40-Bond Index. Including income the Fund was up 2.9% versus an 5.4% increase in the Index.

During the last quarter of 1975 short and long term interest rates moved in opposite directions. Short term rates continued at the high levels experienced in the third quarter following the increase in the Bank Rate. While there were small fluctuations during the period, short term rates actually closed with an increase of about 0.50% above the level at September 30, 1975.

Long term rates declined in this period, the most notable being long term Government of Canada issues, where the levels were about 0.50% lower. The other sectors of the market — provincials and corporates — were slightly below third quarter levels.

In the long term market there were some swings in interest rate levels during the quarter, with a decided improvement in December. This took place at a time when the calendar of new issues was very light and there was a move to have money invested prior to year end. There was also some anticipation in advance of the normal January improvement in the market.

The introduction of wage and price guidelines in October had very little effect upon the level of interest rates. It was the hope at that time that it might be accompanied by some indication from the Federal Government that expenditures would be reduced. As we approached year end, there was an announcement that the rate of increase in government expenditures would be reduced. There was no initial reaction from the marketplace since the amount was not very large, and government expenditures will still increase 15-16% in the next fiscal year. There was also

the realization that Federal government financing to cover a major portion of the cash deficit for the fiscal year is still ahead of us.

On the positive side the good reception to the Canada Savings Bond issue will mean that a portion of the deficit financing will be taken away from the open market area. The amount of new money raised during the Canada Savings Bond campaign was substantially larger than originally anticipated.

Inflation still continues to be the major problem facing the debt markets. While we have had action by the government in the form of wage and price guidelines, we really do not anticipate that they alone will have a great effect upon inflation.

The most positive factor is monetary policy. The Bank of Canada, through the Governor, Mr. Bouey, has stated what the monetary policy will be. He has publicly announced the objectives regarding growth in money supply.

We believe that they mean what they say and, therefore, think that this will have a major impact on the rate of inflation, although we realize that the effect of actions by the Bank of Canada takes time before they are felt in the economy. The time lag may be longer than we would like, but if the current monetary policy is maintained as we would expect it to be for some time to come, we should see some positive effects on debt markets in the latter half of this year. Because we believe that

the Bank of Canada will follow a stringent policy, we do not look for much change in interest rates over the next few months.

We expect that there might be some slight easing in short term rates in the normal seasonal pattern early in the New Year. However, the Bank of Canada is unlikely to let rates move much away from their current levels. The long term market will be tested by an increased corporate calendar in January plus the likelihood of the announcement of large Federal Government financing, against the normal beginning of the year investment demand. It will also be affected by the direction of rates in the U.S. market, and by the ability of Canadians to borrow in the much expanded Euro-bond market. Taking all the factors into consideration, it is likely that the market should begin the year on a positive note.

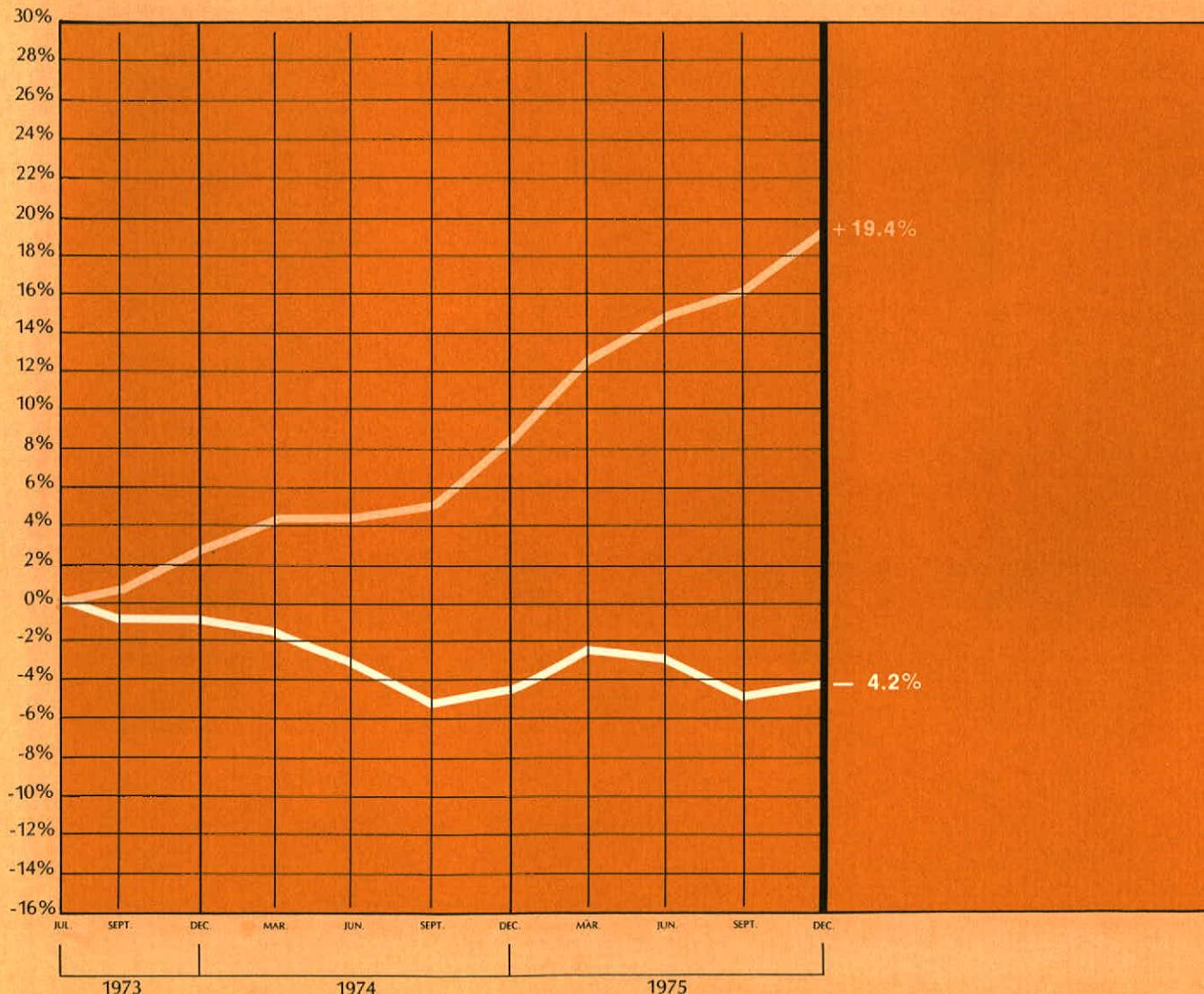
Looking ahead for the full year 1976 we feel that interest rates will be a shade lower at the end of the year than at the beginning. Short term rates will remain high through at least the first half of the year as the Bank of Canada pursues its current monetary policy. Later on, however, we could see a small decline in this area, possibly about 1%. In the long term markets, year end corporate levels of 10 1/4% to 11% could be reduced to near the 10 1/4% level in the latter part of the year. The mid term area, which is most important to us, would probably see declines of at least 100-125 basis points if the short and long term markets act as we expect.

The Fund continued to operate under a philosophy that has been followed during the course of the year. Commitments have been limited to the medium term area. Cash had been reduced somewhat and will likely go down further.

Portfolio Composition:

	Sept. 30, 1975	Dec. 31, 1975
Reserve	14%	6%
Canadas	7%	11%
Provincials	5%	6%
Corporates	71%	74%
Conv. Debs.	3%	3%
	<u>100%</u>	<u>100%</u>

Comparisons Between	GRAPH COLOUR	VALUE DEC. 31/75	VALUE SEPT. 30/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Mortgage Fund	□	\$ 9.58	\$ 9.53	+0.5%	— 4.2%
Mortgage Fund (Including Income)	□	\$11.94	\$11.60	+2.9%	+19.4%



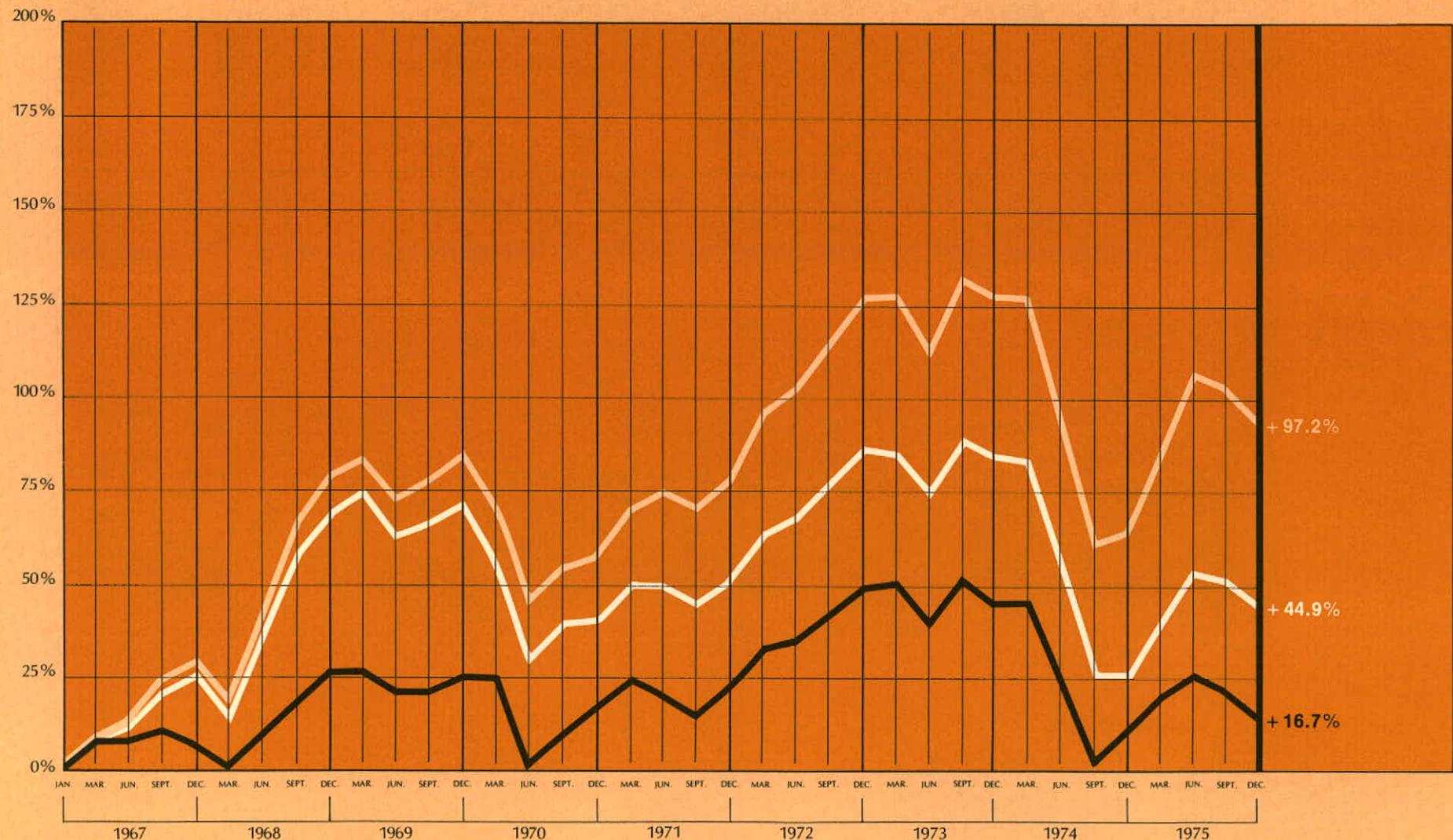
The unit value of the Mortgage Fund was \$9.58 as at December 31, 1975 which compares with a value of \$9.53 as of September 30, 1975 and represents an increase of 0.5%. Including income, the value of the Mortgage Fund units has increased from \$11.60 to \$11.94, a change of 2.9%.

Mortgage rates in the final quarter of 1975 remained close to the highs of the year. NHA rates for new money reached 12% in the fall and closed the year at 11.75%. Rates in the secondary market were a shade lower with trades taking place at 11% and 11.25%. It was evident early in the quarter that the demand for mortgage money at these high levels had declined. With the exception of subsidized situations, the demand for NHA funds certainly showed signs of weakening. There was some pickup in the last few weeks of the year after the decline of 1/4 of 1% became more general. However, the supply of mortgage funds, especially from the pension area, seems to be increasing and this should have a beneficial effect upon rates.

The outlook for mortgage interest rates is quite positive. We believe that they could move somewhat lower, particularly in the first quarter of 1976, that the supply of funds will be good, and that there will be competition to get the product. It is expected that this decline will occur in the housing area since certain investors plan to increase their amounts available to this sector of the mortgage market. We also anticipate a good supply of funds from the Registered Retirement Savings Plans and related vehicles. The policy of the Mortgage Fund has been and will remain, to be fully invested.

Canadian Equity Fund

Comparisons Between	GRAPH COLOUR	VALUE DEC. 31/75	VALUE SEPT. 30/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Canadian Equity Fund	■	\$ 14.49	\$ 15.04	-3.7%	+ 44.9%
Canadian Equity Fund (Incl. Inc.)	□	\$ 19.72	\$ 20.23	-2.5%	+ 97.2%
T.S.E. Industrial Index	■	172.31	177.18	-2.7%	+ 16.7%



Canadian Equity Fund

Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value December 31 / 75	Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value December 31 / 75
Banks — 16.3%							
23,544	Bank of Nova Scotia	40 5/8	\$ 956,475	12,270	McIntyre Mines	38 1/2	472,395
40,240	Canadian Imperial Bank of Commerce	25	1,006,000	29,000	Mattagami Lake Mines	14 5/8	424,125
25,980	Royal Bank of Canada	29 7/8	776,153	11,710	Noranda Mines Class A	29 1/8	341,054
20,272	Toronto-Dominion Bank	38 1/2	<u>780,472</u>	22,300	Placer Developments	19 1/8	426,488
			\$ 3,519,100	25,410	Rio Algom Mines	29 1/4	743,243
				23,230	Sherritt-Gordon Mines	5 1/2	127,765
							\$ 4,618,910
Beverages — 0.8%							
18,590	Bright, T. G. Class A	8 7/8	\$ 164,986	5,580	Bow Valley Industries	15 3/4	\$ 87,885
				11,990	Canadian Superior Oil	40 1/4	482,597
Communications — 3.5%							
37,920	Standard Broadcasting	7 1/2	\$ 284,400	13,380	Dome Petroleum	34 1/4	458,265
31,880	Toronto Star Class B	14 3/4	<u>\$ 470,230</u>	8,829	Gulf Oil Canada	27 1/2	242,797
			\$ 754,630	8,090	Home Oil Class A	27	218,430
Construction & Material — 1.9%							
21,190	Genstar	19	\$ 402,610	13,570	Hudson Bay Oil & Gas	33 1/2	454,595
				16,360	Husky Oil	17 3/4	290,390
				15,610	Pacific Petroleum	26	405,860
				19,520	Shell Canada Class A	14 5/8	285,480
				13,940	Siebens Oil	10 1/2	146,370
				11,150	Texaco Canada	29 3/4	331,712
							\$ 3,404,381
Forest Products — 9.3%							
54,090	Abitibi Paper	8 5/8	\$ 466,526	27,880	Pipelines — 3.3%		
23,230	British Columbia Forest Products	15 1/2	360,065	24,000	Interprovincial Pipeline	12	\$ 334,560
25,560	Domtar	19 1/2	498,420	5,500	TransCanada PipeLine	10 7/8	261,000
24,540	MacMillan Bloedel	17 7/8	438,653		Westcoast Transmission	22 1/4	122,375
18,030	Price Co.	13 1/4	<u>238,898</u>				\$ 717,935
			\$ 2,002,562	28,350	Real Estate — 0.4%		
					Commonwealth Holiday Inns	2 3/4	\$ 77,963
Insurance — 7.1%							
10,590	Crown Life \$1.00 P.V.	54	\$ 571,860	12,730	Steel — 5.3 %		
9,570	Great West Life	50	478,500	12,170	Algoma Steel Corp.	23 7/8	\$ 303,929
50,190	MICC	9 1/2	<u>476,805</u>	21,470	Dominion Foundries	22 5/8	275,346
			\$ 1,527,165		Steel Co. of Canada Cl. A	26 3/8	566,271
							\$ 1,145,546
Merchandising — 7.7%							
3,000	Canadian Tire Corp. A	46	\$ 138,000	13,940	Trust & Loan — 5.0%		
18,120	Dominion Stores	17	308,040	17,750	Canada Permanent Mortgage Corp.	16 3/8	\$ 228,267
47,880	Simpsons	7	335,160	23,230	Huron & Erie Mortgage	24 3/8	432,656
15,543	Simpsons-Sears Class A	10	155,430		I.A.C. Ltd.	18 3/8	426,851
18,120	Steinberg's Class A	17 7/8	323,895				\$ 1,087,774
20,260	Woodward Stores Class A	20	<u>405,200</u>	9,290	Utilities — 1.2%		
			\$ 1,665,725		Calgary Power Class A	28 1/8	\$ 261,281
Mines & Metals — 21.4%							
32,160	Alcan Aluminium	19 3/4	\$ 635,160	13,940	Reserve — 1.0%		
27,880	Bethlehem Copper	11 3/8	317,135		Cash and Short Term Notes		\$ 215,357
15,060	Cominco	34 1/2	519,570				
14,410	Hudson Bay Mining & Smelting	15 1/2	223,355				
15,240	International Nickel Co. Cl. A	25 1/2	388,620				\$ 21,565,925

Total Assets at Market, December 31, 1975

Portfolio Balance

	Dec. 31/74	Sept. 30/75	Dec. 31/75
Common Stocks & Equivalents	86.8%	95.5%	99.0%
Reserve	13.2	4.5	1.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Dec. 31/74	Sept. 30/75	Dec. 31/75
Consumer Products & Services	35.8%	39.4%	40.8%
Cyclical	38.0	39.1	37.9
Energy	10.6	14.5	15.8
Regulated	1.7	2.5	4.5
Technology	0.7	—	—
Reserve	13.2	4.5	1.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at December 31, 1975 (By Market)

	Percent of Total Portfolio
Canadian Imperial Bank of Commerce	4.7%
Bank of Nova Scotia	4.4
Toronto Dominion Bank	3.6
Royal Bank of Canada	3.6
Rio Algom Mines	3.4

The fourth quarter of 1975 provided yet another lackluster equity market performance in Canada. Despite a rally during November, the Toronto Stock Exchange Industrial Index ended the quarter down almost 3% at 172.37.

This meant the TSE Index was ahead on the full year of 1975 by about 10%, dramatically below the 38% recovery of the Dow Jones Industrials, or the 32% of the Standard & Poor 425 Industrials.

The different performance of Canadian and United States equities was a feature of markets through 1975, reflecting in part a different economic performance and outlook.

It may be, however, that uncertainty relating to government intervention in the economy has been an even more dominant influence on Canadian investors' behaviour. Certainly the market's initial response to the Thanksgiving Day message of wage and profit restraints was negative, with particular focus on the dividend freeze. Once that policy was modified, investors interest shifted to the likely impact of the profit controls on different sectors of the market.

Investors apparently concluded that neither regulated industries nor the oil and gas industry could be further jeopardized by the control program. In fact, utilities would benefit if controls worked, from a likely cooling off of interest rate escalation. Certainly, the best performance on the TSE in the fourth quarter was in those areas. Utilities and pipelines were ahead roughly 5%. Reflecting its own exemption from the controls, coupled with major exploration news in the Arctic, western oils were also up nearly 5% in the quarter, bringing the full year gain to about 73.1%.

On the other hand, despite extremely strong earnings performance, the chartered banks were off 8% in the quarter. Concern obviously developed over the vulnerability of this group to even tighter control, since they are so visible and profits were up sharply.

Investors must now not only sort out the differing impact of the control program itself, but must also focus on the Prime Minister's comments during a series of Christmas interviews. He apparently has grave doubts about the free market system, and apparently has some longer term ideas about government intervention in the economy. The struggle has now become much more visible and the outcome will have major repercussions on equity prices since they are more than just a symbol of the free market, but are dependent on it.

As noted elsewhere in this report, we are optimistic that basic economic fundamentals will result in modest economic growth and an improved inflation environment. This should provide a good framework for higher equity prices, particularly since, as shown below, the market continues to trade at a low level in relation to earnings.

Price Earnings Ratio T.S.E. Industrial Index

31 Dec. 1973	31 Dec. 1974	30 June 1975	31 Dec. 1975
12.6	6.6	8.4	8.19

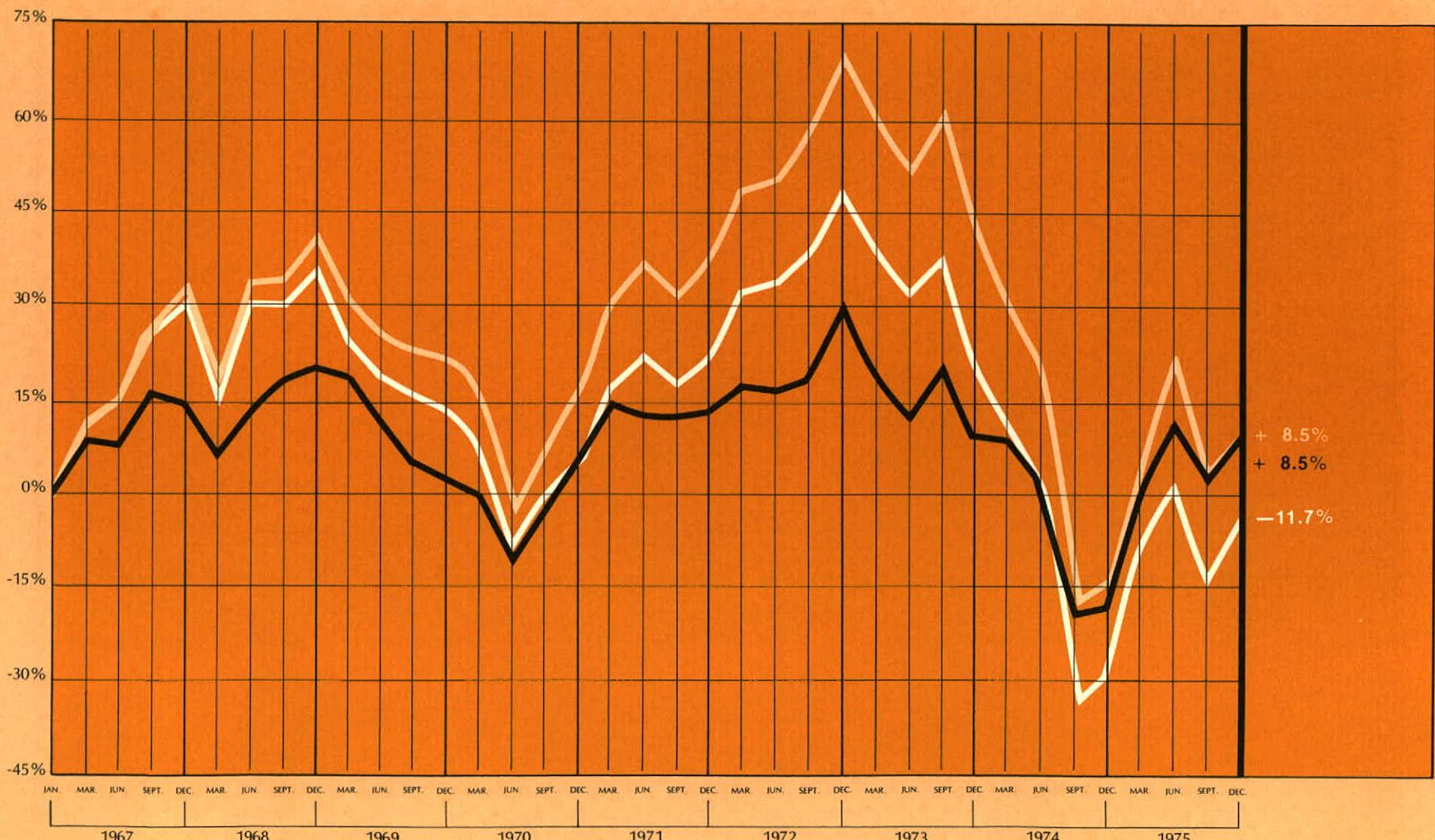
Dividend Yields

31 Dec. 1973	31 Dec. 1974	30 June 1975	31 Dec. 1975
3.6%	5.9%	5.0%	5.31%

During the fourth quarter, Westcoast Transmission and TransCanada PipeLines were added to the Fund. The Bank of Nova Scotia Rights (1 for 9 at \$36) were exercised.

International Equity Fund

Comparisons Between	GRAPH COLOUR	VALUE DEC. 31/75	VALUE SEPT. 30/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
International Equity Fund	■	\$ 8.83	\$ 8.42	+ 4.9%	-11.7%
International Equity Fund (Incl. Income)	□	\$ 10.85	\$ 10.29	+ 5.4%	+ 8.5%
Dow Jones Industrial Average	■	852.41	793.88	+ 7.4%	+ 8.5%



International Equity Fund

Investment Portfolio

Par Value Shares	Convertible Securities or Common Stocks	(U.S.) Market Price	(Cdn.) Market Value Dec. 31/75	Par Value Shares	Convertible Securities or Common Stocks	(U.S.) Market Price	(Cdn.) Market Value Dec. 31/75
Autos — 1.9%							
5,000	General Motors Corp.	57 5/8	\$ 292,850	5,000	Automatic Data Processing	54	\$ 274,428
Banks — 5.1%							
9,000	J. P. Morgan & Co.	53 1/2	\$ 489,397	5,000	Digital Equipment	136 7/8	695,599
30,000	North Carolina National Bank Corp.	9 3/4	<u>297,297</u>	4,500	International Business Machines	224 1/4	1,025,675
			\$ 786,694	12,000	Xerox Corp.	50 7/8	<u>620,512</u>
Drugs — 6.0%							
6,000	Lilly, Eli & Co.	51 3/4	\$ 315,592	3,000	Schlumberger	76	\$ 231,739
5,000	Merck Inc.	69 1/4	351,929				
5,000	Schering-Plough	52 5/8	<u>267,440</u>	10,000	Personal Care — 3.5%		
			\$ 934,961	3,000	Avon Products	34 7/8	\$ 354,470
					Chesebrough Ponds	59 7/8	<u>182,571</u>
Electronics — 13.6%							
18,000	AMP	26 1/2	\$ 484,823		Photography — 4.9%		
6,000	Hewlett-Packard	94 1/2	576,299	7,000	Eastman Kodak	106 1/8	\$ 755,058
22,000	Perkin-Elmer	20 3/8	455,601				
6,000	Texas Instruments	94 3/4	<u>577,823</u>				
			\$ 2,094,546	25,000	Retail Trade — 8.8%		
				10,000	S. S. Kresge Co.	33 1/2	\$ 851,235
3,700	Coca-Cola	82 1/4	\$ 309,316		J. C. Penney	50 1/8	<u>509,471</u>
10,000	McDonald's	58 3/8	<u>593,323</u>				
			\$ 902,639				
Hospital Supply — 6.1%							
12,000	Baxter Laboratories	39 5/8	\$ 483,298		Reserve — 14.6%		
5,000	Johnson & Johnson	89 3/4	<u>456,109</u>		Cash & Short Term Notes		\$ 2,252,853
			\$ 939,407				
Insurance — 2.0%							
2,000	General Reinsurance	153	\$ 311,018				
Miscellaneous — 9.3%							
10,000	Black & Decker	23 1/4	\$ 236,313				
5,000	Caterpillar Tractor	69 3/4	354,469				
30,000	Huyck	12 7/8	392,584				
6,000	Masco	47	286,625				
3,000	Minnesota Mining & Manufacturing	55 1/2	<u>169,231</u>				
			\$ 1,439,222				
Total Assets at Market, December 31, 1975							
							<u>\$15,454,948</u>

Portfolio Balance

	Dec. 31/74	Sept. 30/75	Dec. 31/75
Common Stock & Equivalents	89.1%	87.9%	85.4%
Reserve	10.9	12.1	14.6
	100.0%	100.0%	100.0%

Portfolio Composition

	Dec. 31/74	Sept. 30/75	Dec. 31/75
Consumer Products Division	44.1%	38.1%	35.7%
Cyclical	8.7	10.1	8.6
Energy	—	—	1.5
Regulated	—	—	—
Technology	36.3	39.7	39.6
Reserve	10.9	12.1	14.6
	100.0%	100.0%	100.0%

Largest Common Stock Holdings as at December 31, 1975 (By Market)

	Percent of Total Portfolio
IBM	6.6%
S. S. Kresge	5.5
Eastman Kodak	4.9
Digital Equipment	4.5
Xerox	4.0

Stock prices in the U.S. staged a good recovery in the fourth quarter, winning back much of the third quarter loss. The recovery approximated 7% for all of the major indexes, as shown in the table below. For the full year, the Dow Jones Industrials were up 38% and the Standard & Poor 425 Industrials, 32%.

Performance of Major Indices

	31 Dec. 1975	Fourth Quarter % Change	Twelve Months % Change
Dow Jones Industrial	852.41	7.37	38.32
Standard & Poor 425	100.87	7.37	31.92
Standard & Poor 500	90.19	7.52	31.55
N.Y.S.E. Composite	47.64	7.08	31.88

Economic forecasts call for a strong year in 1976, with real growth ahead by more than 5%. With inflation expected to slow even further and interest rates to ultimately reflect this, the environment for U.S. equities is positive.

New commitments in the fund during the fourth quarter reflect continuing expectation that earnings growth will again be a key determinant in stock prices. Emphasis continues on growth stocks, particularly with an improving quality of earnings as inflation impact on earnings is squeezed out. This has meant increased positions in consumer and technology stocks, notably in the drug, personal care, electronic and office equipment sectors of the portfolio. Automatic Data and Schlumberger were added as new positions in the quarter. The cash reserve at year end was 14.6%. The consumer products and services sector was 35.0% and the cyclical sector moved to 8.6%.

Price Earnings Ratios

	Index 31 Dec. 1975	Latest 12 Months Earnings	— Price Earnings Ratio —		
			31 Dec. 1974	30 June 1975	31 Dec. 1975
Standard & Poor 425	100.87	8.25	7.7	10.9	12.2
Dow Jones Industrial	852.41	75.44	6.6	8.9	11.3

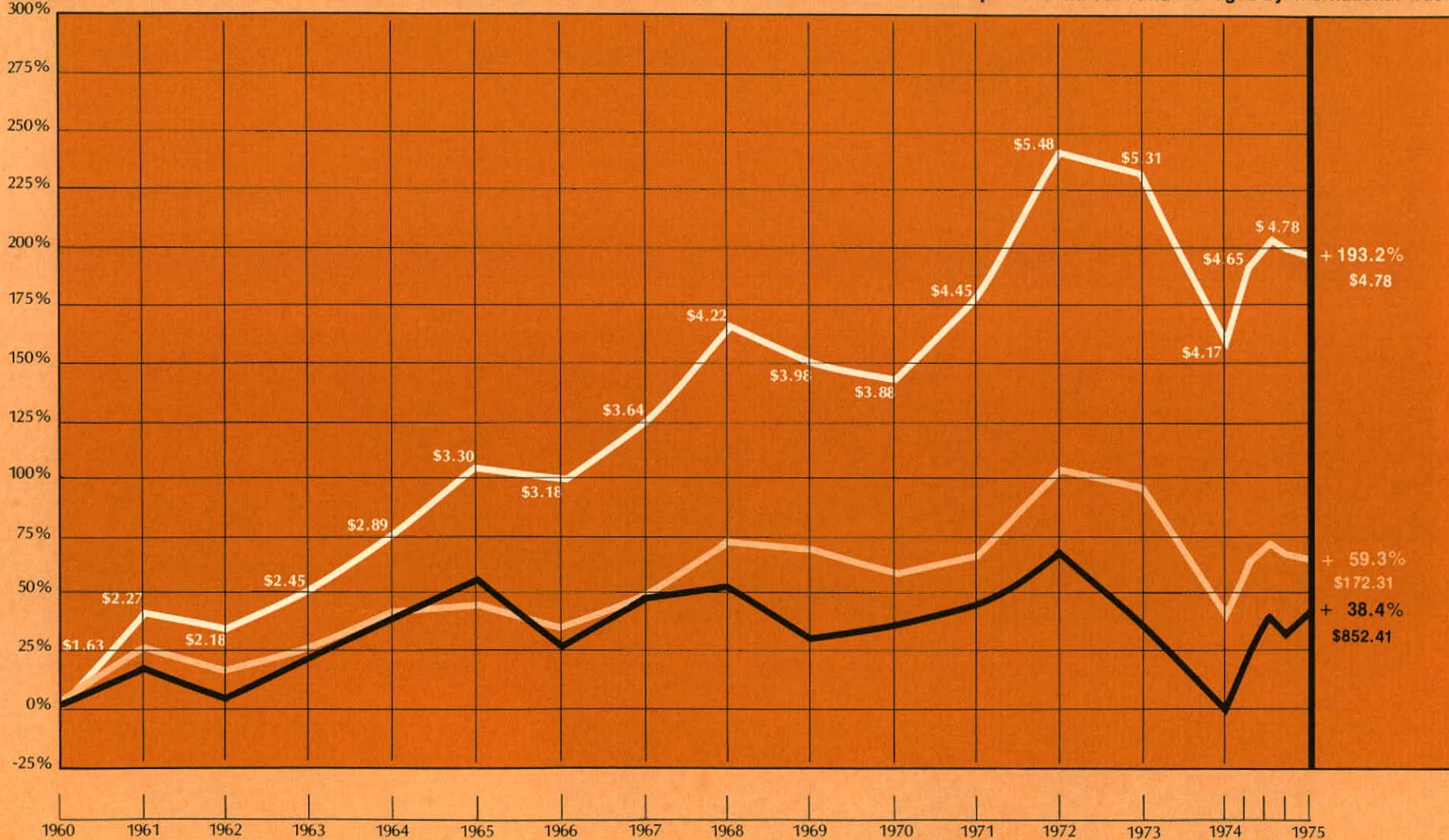
ITCO Investment Fund Limited

(formerly Andrae Equity Investment Fund Limited)

Comparisons Between	GRAPH COLOUR	VALUE DEC. 31/75	VALUE SEPT. 30/75	VALUE DEC. 31/60	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE DEC. 31/60
ITCO Investment Fund (Excl. Inc.)	□	\$ 4.78	\$ 4.70	\$ 1.63	+ 1.7%	+ 193.2%
TSE Industrial Index	□	172.31	177.18	108.20	-2.7%	+ 59.3%
Dow Jones Industrial Average	■	852.41	793.88	615.89	+ 7.4%	+ 38.4%

These comparisons are based upon changes from December 31, 1960 to December 31, 1975

The ITCO 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 Dec. 31	9.52	\$.15734	10.14				12.65	\$.09396	13.02	13.28	\$.05561	13.54
1968 Dec. 31	9.45	.14652	10.73				17.06	.11004	18.00	13.67	.05368	14.24
1969 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 Mar. 31	10.13	.18029	15.96				18.87	.09384	22.90	13.94	.06410	16.11
Jun. 30	9.88	.17908	15.85				17.50	.12377	21.38	13.22	.05627	15.36
Sept. 30	9.77	.19265	15.99	9.92	.13906	10.07	19.24	.10939	23.64	13.98	.06974	16.32
Dec. 31	9.71	.19317	16.21	9.92	.20852	10.28	18.32	.16836	22.73	12.11	.05223	14.19
1974 Mar. 31	9.61	.19337	16.36	9.86	.22438	10.45	18.24	.12509	22.77	11.14	.04991	13.11
June 30	9.07	.19501	15.77	9.69	.21141	10.49	15.18	.19720	19.19	10.22	.05406	12.10
Sept. 30	8.91	.20719	15.86	9.50	.23806	10.54	12.53	.16598	16.05	6.68	.05505	7.96
Dec. 31	9.13	.21338	16.64	9.57	.23663	10.89	12.54	.20532	16.32	7.10	.04961	8.51
1975 Jan. 31	9.44	.06286	17.32	9.71	.07171	11.12	14.44	.01504	18.81	8.14	.01170	9.78
Feb. 28	9.51	.06351	17.56	9.79	.06611	11.29	14.69	.08215	19.24	8.73	.01727	10.51
Mar. 31	9.46	.06569	17.60	9.79	.06996	11.37	14.46	.06294	19.05	9.07	.01831	10.94
April 30	9.27	.06569	17.37	9.80	.07049	11.46	14.85	.10987	19.59	9.72	.00898	11.74
May 31	9.26	.06757	17.47	9.74	.08304	11.49	15.16	.08395	20.11	10.04	.01584	12.15
June 30	9.26	.06641	17.59	9.72	.07008	11.55	15.73	.02969	20.90	10.33	.04644	12.57
July 31	9.13	.06721	17.47	9.63	.07634	11.54	15.79	.04441	21.04	9.26	.01429	11.26
Aug. 31	9.11	.07240	17.58	9.55	.07664	11.53	15.81	.08304	21.19	8.92	.02007	10.87
Sept. 30	9.03	.06199	17.54	9.53	.07605	11.60	15.04	.06418	20.23	8.42	.01634	10.29
Oct. 31	9.08	.06797	17.77	9.60	.07616	11.78	14.29	.02673	19.26	8.92	.01369	10.92
Nov. 30	9.07	.06568	17.87	9.57	.07630	11.84	14.92	.07105	20.21	9.06	.02095	11.11
Dec. 31	9.10	.06002	18.05	9.58	.07685	11.94	14.49	.06361	19.72	8.83	.02063	10.85

4



INTERNATIONAL TRUST COMPANY
AFFILIATED WITH
FIRST NATIONAL CITY BANK
TORONTO
101 RICHMOND STREET WEST
MONTREAL
625 PRESIDENT KENNEDY AVENUE