

**ISSUE 11**  
JUNE 2014

# Investor Report

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## **CONTENTS**

- 1 Global Economic Themes
- 3 Equity and Fixed Income Market  
Outlook and Strategy Q3 2014
- 4 Review of Fund Performance and  
Strategy
- 7 Glossary of Terms

**North  
American  
Fund**

**SAFETY ■ STRENGTH ■ STABILITY**



**UNIT TRUST**  
CORPORATION

UTC North American Fund Investor Report

An investor should consider a fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information can be found in the Fund's Prospectus. Obtain a Prospectus from our website or at any of our UTC Investment Centres and read carefully before investing.

# Q2 2014 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

## Global Economic Themes

- Global economic activity has been strengthening since 2013 though the recovery is “modest, labourious, (and) fragile” according to the International Monetary Fund’s (IMF) Managing Director, Christine Lagarde. Though global activity has picked up, the momentum has been “less robust than expected” as “potential growth is weaker [and] investment remains lackluster”. In its most recent World Economic Outlook Report, the IMF forecasts that global growth could rise from the 3 per cent experienced in 2013 to 3.4 per cent in 2014 and 4.0 per cent in 2015, led by advanced economies. Nonetheless, two major downside risks to global growth remain, namely, sub-trend growth in China and lingering geopolitical tensions.
- The recovery in advanced economies, which started to take hold in the last quarter of 2013, is becoming broader. Growth in advanced economies is expected to increase to about 2¼ per cent in 2014–15, an improvement of about 1 percentage point compared with 2013. Key drivers include fiscal easing, the presence of still highly accommodative monetary conditions and investors being less worried about debt sustainability. Growth will be strongest in the United States (U.S.) at about 2¾ per cent.
- U.S. first quarter GDP declined at an annual rate of 2.1 per cent (an improvement from a previous estimate which showed a 2.9 per cent decline), compared to the fourth quarter of 2013 when real GDP grew 2.6 per cent. This lower than expected performance level resulted primarily from the harsh winter conditions experienced early in the first quarter of 2014. The IMF believes the U.S. will be a leading driver of global economic growth in 2014, growing by 1.7 per cent due to the Federal Reserve continuation of its accommodative stance, and the improvements seen in the U.S. economy, aided by a stronger trade position.
- The Canadian economy is estimated to have grown 2.20 per cent in the second quarter of 2014 after advancing 1.2 per cent in the first quarter of 2014, the weakest growth since the fourth quarter of 2012 and a substantial slowdown from the 2.7 per cent growth seen in the fourth quarter of 2013. Canada’s GDP is expected to improve to 2.2 per cent in 2014 from 2013’s 2.0 per cent growth rate, due to stronger external demand and rising business investment.
- In the Euro area, GDP growth expanded 0.20 per cent in the first quarter of 2014 over the prior quarter, according to second estimates. In the fourth quarter of 2013, GDP grew by 0.30 per cent. Notwithstanding such, there are signs that a more lasting recovery is now taking place in the euro area though the recovery remains muted and unevenly spread across countries. Growth is projected to be positive at 1.2 per cent for 2014, driven by the core countries. Though the 18-member union is slowly coming out of recession, the European Commission in their quarterly report noted that “the strengthening of economic governance and the creation of the banking union are measures” which are necessary for long-term growth.

# Q2 2014 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

- Japan's economy grew 1.6 per cent in the January to March 2014 period from the previous quarter, revised up from an initial 1.5 per cent expansion due to faster growth in capital expenditure. This translates into annualised growth of 6.7 per cent, up from an initial reading of a 5.9 per cent rise.
- Potential growth in many emerging market economies appears to have lessened though it is anticipated that growth will be aided by stronger external demand from advanced economies. The IMF has indicated that overall, however, emerging market and developing economies continue to contribute more than two-thirds of global growth, with their growth being projected to increase from 4.7 per cent in 2013 to 4.9 per cent in 2014 and 5.3 per cent in 2015. China's economic growth picked up slightly in the second quarter, to 7.5 per cent from a year earlier, as a burst of government stimulus paid dividends. In China, growth is projected to be 7.5 per cent in 2014.

# Q2 2014 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

## Equity & Fixed Income Market Outlook & Strategy Q3 2014

- The 2014 outlook for US equities remains positive. After faltering in the earlier part of April, U.S. stocks continued their upward path and posted gains in the second quarter of the year with the S&P 500 Index rising 5.23 per cent during the quarter. This advance occurred in spite of the troubling environment, in particular Russia's annexation of Crimea; slowing growth and credit concerns in China; mixed U.S. economic data; and an eruption of sectarian violence in Iraq.
- Management expects stocks to be influenced by corporate earnings growth versus the expansion in price/earnings multiples seen last year. It is expected that corporate earnings growth will continue at a moderate pace through the rest of the year. It is the general consensus by analysts that valuations are reasonable from a historical perspective, that stock market performance should be more or less in line with the rate of earnings growth, and that the bull market that has been taking place over the past five years has further room to run.
- The U.S. economic data which weighed positively on markets during the quarter included the June's unemployment rate falling to 6.1 per cent from 6.3 per cent the prior month; U.S. consumer confidence increasing to its highest level in nearly 6½ years in June 2014 to 85.2 from 82.2 in May as households grew more optimistic about the labour market; and an improvement in the housing industry as mortgage rates have been levelling off and house price appreciation slowing; all signs that the U.S. economy has regained momentum.
- Arising out of its June 2014 policy-making meeting, the Federal Reserve signalled the end of one of 'the central bank's most aggressive efforts to stimulate the economy' as it reported that it planned to stop adding to its bond holdings in October. The Fed's action of reducing its asset purchases continues to be a sign of its confidence that the economy is gaining strength. The Fed, which started reducing its monthly purchases in January 2014, disclosed its plan 'to add a final \$100 billion to its holdings of Treasuries and mortgage-backed securities over the next four months, for a total of \$1.5 trillion'. Nonetheless, it appears that the Fed's officials remain guarded in their optimism about the economy as they have not yet determined when to start raising short-term interest rates for the first time since December 2008. It is the general consensus that the Fed will start raising interest rates next summer.
- The strategy through Q3 2014 will involve a reduction in the Fund's cash position through increasing its fixed income allocation while maintaining the Fund's current equity allocation which has already appreciated beyond the proposed 2014 strategic asset allocation. Management's tactical position for the quarter involves the acquisition of corporate bonds, not exceeding 5 per cent of fund size as per predefined selection criteria, with a focus of ensuring high quality, liquid positions with the ease of price discovery at short notice with a tenor not exceeding five years.

# NORTH AMERICAN FUND

## INVESTOR REPORT

### Review of Fund Performance and Strategy

- For the year-to-date period ended June 30 2014, the net portfolio return was 5.54 per cent. The fund's performance was positively impacted by its overweight positions in top performing sectors namely Information Technology and Materials; which outperformed the broad index with YTD returns of 8.02 per cent and 7.48 per cent respectively.
- The bond component return was 1.75 per cent over the period, while the benchmark (Barclays US Aggregate Government / Credit Index ) produced a return of 3.94 per cent over the same period. Fixed income assets continue to be impacted negatively in light of rising rates which have driven yields significantly lower. Hence Management's tactical decision to maintain an under-weight position in fixed income, with a shortened duration to manage the downside risk to this asset class, whilst investing in high-grade securities.
- Management still maintains that the Fund is well-positioned to perform in the short- to medium-term, in particular given the continuing lacklustre performance of the fixed income securities market and the prevailing strong case for stocks.

**UTC NORTH  
AMERICAN FUND**  
Performance Summary  
as at June 30, 2014

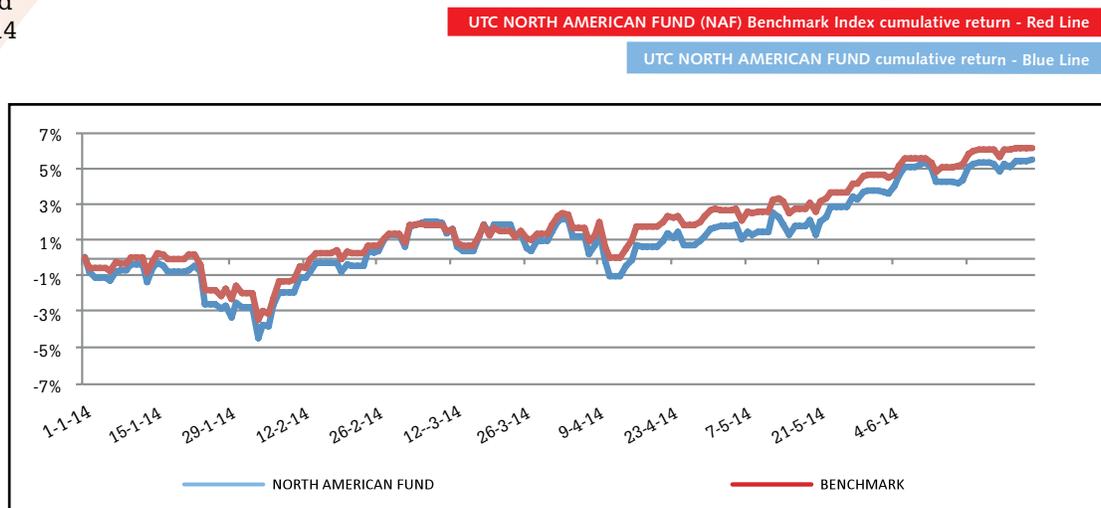
Cumulative Returns (%)			Annualised Returns (%)		
3-Month	Year to Date (YTD)	Since Inception	1 Year	3 Years	5 Years
4.00	5.54	106.54	13.83	6.57	8.18

Returns are average annualised total returns, except those for periods of less than one year, which are cumulative.

<sup>1</sup> The fixed income component's benchmark, the Barclays Capital US Aggregate Government/Credit Index, has a longer maturity profile than the Fund's fixed income component, extending beyond 25 years, with approximately 55 per cent of the portfolio in the 1 to 5 year time bucket, versus Management's 5-year focus. Furthermore, Management has sought to acquire securities with a credit rating of AA versus the index's credit quality ratings which goes further down the scale to the minimum of investment grade classification.

# NORTH AMERICAN FUND INVESTOR REPORT

**UTC NORTH AMERICAN FUND (NAF)**  
Benchmark Index  
and cumulative returns  
for the year-to-date  
period ended  
June 30, 2014



\* The UTC NORTH AMERICAN FUND (NAF) Benchmark comprises the S&P 500 Equity Index (70% weighting) and the Barclays Capital US Aggregate Government/Credit Bond Index (30% weighting)

**UTC NORTH AMERICAN FUND**  
**Top 10 Holdings**  
as at June 30, 2014

## Top 10 Holdings

**% of Portfolio  
Net Assets**

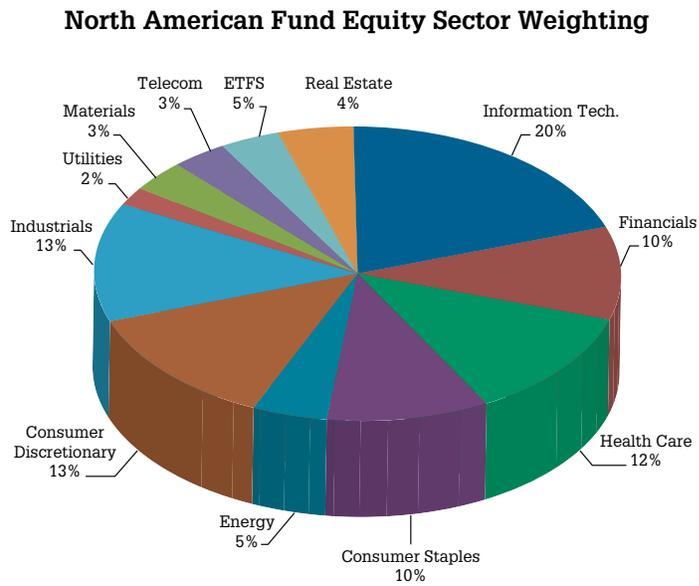
APPLE INC (AAPL)	6.83%
UNION PAC CORP (UNP)	4.48%
HUMANA INC (HUM)	4.39%
WELLS FARGO & CO (WFC)	3.57%
NOVARTIS A G (NVS)	3.03%
FASTENAL CO (FAST)	2.90%
3M CO (MMM)	2.78%
TJX COS INC (TJX)	2.73%
TRUSTEES OF PRINCETON UNIV	2.42%
TE CONNECTIVITY LTD (TEL)	2.35%

**Total Top 10 Holdings**

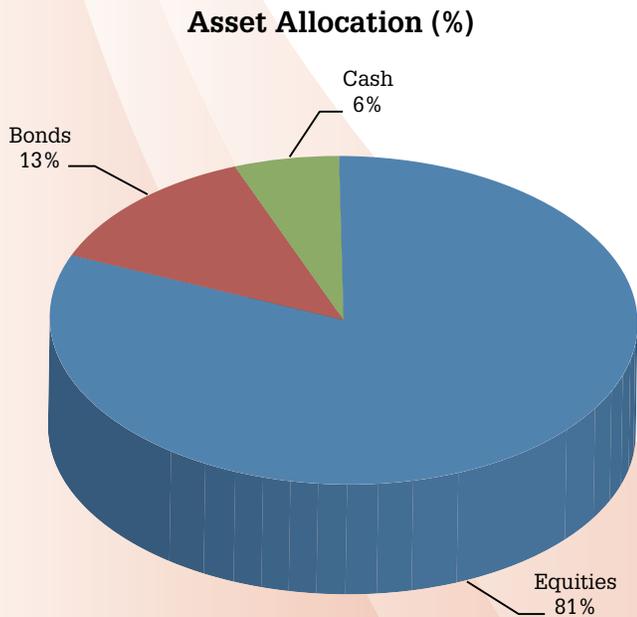
**35.49%**

# NORTH AMERICAN FUND INVESTOR REPORT

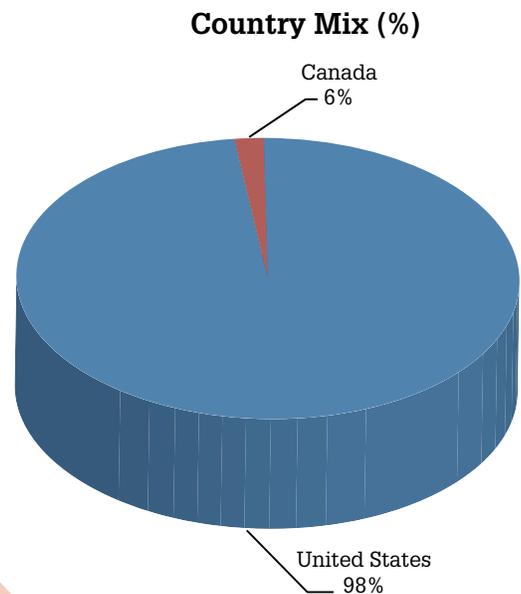
**UTC NORTH AMERICAN FUND**  
Equity Sector Mix  
as at June 30, 2014



**UTC NORTH AMERICAN FUND**  
Asset Allocation  
as at June 30, 2014



**UTC NORTH AMERICAN FUND**  
Country Mix  
as at June 30, 2014



# NORTH AMERICAN FUND

## INVESTOR REPORT

### Glossary of Terms

**Asset Allocation** – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institution's specific situation and goals.

**Benchmark** – A standard against which the performance of a security, mutual fund or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

**Commodity** – A physical substance, such as food, grains, and metals, which is interchangeable with another product of the same type, and which investors buy or sell, usually through futures contracts on an exchange. The price of the commodity is subject to supply and demand.

**Duration** – The measurement of how long, in years, it takes for the price of a bond to be repaid by its internal cash flows.

**Economy** – Encompasses everything related to production and consumption of goods and services in a particular geographic region.

**Economic Growth** – An increase in the level of production of goods and services by a country over a certain period of time. Economic growth is usually brought about by technological innovation and positive external forces.

**Economic Slowdown** – A decrease in economic growth, especially one that follows a period of robust growth.

**Equity or Stock** – Ownership interest in a corporation in the form of common stock or preferred stock.

**Equity or Stock Market** – General term for the organised trading of stocks through exchanges and over the counter.

**Fixed Income Security** – A security that pays a specific interest rate, such as a bond or money market instrument.

**Fixed Income Market** – Financial market where securities that yield fixed income (bonds, and treasury bills) are bought and sold.

**Gross Domestic Product (GDP)** – The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

**Inflation** - The rate at which the general level of prices for goods and services are rising, and, subsequently, purchasing power is falling.

**ISM Non-Manufacturing Index** – An index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the United States, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data.

**Headline Inflation** – The raw inflation figure as reported through the Consumer Price Index (CPI) that is released monthly by the Bureau of Labor Statistics. The CPI calculates the cost to purchase a fixed basket of goods as a way of determining how much inflation is occurring in the broad economy.

**Core Inflation** – A measure of inflation that excludes certain items such as food and energy prices, which face volatile price movements. Core inflation eliminates products that can have temporary price shocks because these shocks can diverge from the overall trend of inflation and give a false measure of inflation.

**Industrial Production** – This economic indicator measures the amount of output from the manufacturing, mining, electric and gas industries.

**Leading Economic Indicators** – Economic data, usually of macroeconomic scale, that is used by investors to interpret current or future investment possibilities and judge the overall health of an economy.

**Sources:** Investopedia.com, Investorwords.com, Business Dictionary.com, Thefreedictionary.com