

ISSUE 18  
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# Investor Report

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**North  
American  
Fund**

**SAFETY ■ STRENGTH ■ STABILITY**

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.



**UNIT TRUST**  
CORPORATION

# Q1 2016 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

## Global Economic Themes

- Since its January statement, there has been no significant change in the IMF's outlook for global growth in 2016. In its October 2015 update, the IMF projected global growth to be 3.4% in 2016 and 3.6% in 2017. Advanced economies continue to propel growth as emerging market territories continue to struggle with geopolitical issues, subdued commodity prices and worse than expected fiscal conditions.
- Latest economic data show that the US struggled for growth in the first quarter of this year. GDP is estimated to have been somewhere in the 0.6% - 1.0% region over Q1 2016, after growing 1.5% the year before. According to analysts, despite favourable gasoline prices, consumer spending has failed to increase in any significant way. Also in March, the unemployment rate ticked up slightly to 5% as labour market participation inched upwards. The IMF expects the US to grow by 2.6% this year.
- Canada had been struggling since the rapid fall in commodity prices. According to the IMF, the economy grew by 1.2% in 2015 and will grow 1.7% this year. However, early Q1 GDP figures for this year have been encouraging; as the economy recorded its fourth straight month of positive growth in January of 0.6%; fuelled by increases in the oil and gas, finance and retail sectors.
- The Euro Area is expected to have grown 0.3% over the first quarter on the backbone of positive manufacturing data. The Purchasing Managers' Index (PMI) rallied to 53.7 in March; up from 53.0 in February. In addition, the ECB slashed its benchmark interest rates and ramped up its asset purchase programme – remaining in an accommodative stance for Euro Area growth and inflation.
- China's GDP is forecasted to grow 6.7% for the first quarter of this year. China continues to suffer from internal economic challenges and is expected to be a major contributor to global stock market volatility in 2016.

# Q1 2016 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

## Equity & Fixed Income Market Outlook & Strategy Q2 2016

- The outlook for Q2 2016 is somewhat subdued, with many of the leading financial authorities, including the World Bank and the IMF, poised to clip projections for the rest of the year. For instance, in its March 2016 FOMC Meeting, Federal Reserve Board staffers expected GDP to increase “a little more slowly” in the first half of this year, compared to January, but “slightly faster” beyond that.
- Nonetheless, after declining for several years, the US labour force participation rate has surged sharply over the last six months – rising by 0.6 bps to 63.0%. This increase has permitted job growth to swell with little to no impact on the unemployment rate. During this period, the household survey’s measure of employment has increased by a multi-decade high of 364,000 per month, but the unemployment rate has remained unchanged at 5.0%.
- According to the US Bureau of Labour Statistics’ employment situation press release for March 2016, total nonfarm payroll employment rose by 215,000 in March, and as previously indicated, the unemployment rate was little changed at 5.0%. Employment increased in retail trade, construction, and health care. Job losses occurred in manufacturing and mining.
- The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.2 % in February 2016 according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.0% before seasonal adjustment - the food index increased 0.2% in February after being unchanged in January. The energy index fell 6.0 % in February, its third consecutive decline. The gasoline index was the primary factor in the decrease; it fell 13.0%. The index for all items less food and energy increased 0.3% in February, the same increase as in the prior month.
- On average for Q1 2016, profits at S&P 500 companies are down roughly 7.7%, buckling under pressure from a generally weak global economy. If the energy sector is excluded from the survey the S&P earnings decline estimate improves to minus 2.6%.
- Following the FOMC meeting in March 2016, the general consensus among analysts has been that policymakers would raise rates by a half point this year—or by two quarter-point increases. As of early April 2016, gold prices continued to rise in U.S. trading, as analysts continue to expect a dovish Federal Reserve and a weak dollar. Gold futures rose by 1.2% to \$1,258.50 a troy ounce or by 18.5% year on year as gold continues to be a haven for investors.
- For Q1 2016, the focus was on the purchase of direct bonds which more closely represent the fixed income benchmark of the Fund. Management expects this component to be closer to its 19% target by the end of the Q2 2016.
- The Equity component of the fund, at a portfolio size of US\$31.7M, continues to be managed externally by Goldman Sachs Asset Management. The Corporation will be undertaking a full review of the results of the external Investment Manager in July 2016.

# NORTH AMERICAN FUND INVESTOR REPORT

## Review of Fund Performance and Strategy

The Fund's overall year-to-date gross return is -1.21% to March 31st 2016. This was lower than its benchmark of 1.98% by 319bps. The assets managed by Goldman Sachs Asset Management (GSAM), which commenced on June 10th 2015, returned -2.23% YTD versus their benchmark return of 1.64% for the same period. Four of the top 10 holdings returned negative results YTD to March 2016 namely: Bank of America Corporation -19.55%, JP Morgan & Chase Co - 9.06% Wells Fargo & Co New - 5.69% and Exxon Mobil Corp, -11.17%.

The Fund benefitted from gains in the telecommunications sector, with AT&T Inc up 10.23%. Other Fund performers included Symantec Corp at 10.13%, Oracle Corp 10.01% and CBS Corp New 9.06%. Laggards in the fund for the Year to Date are Wal-Mart Stores Inc at

-29.78%, Union Pac Corp -20.86%, Bank of America Corp -19.55% and Mylan NV -17.86%. The Fund's fixed income component, managed internally, returned 2.25%, 122bps lower than its benchmark's return of 3.47%, and the rebalancing of the fixed income portfolio is expected to see the performance more aligned to the benchmark.

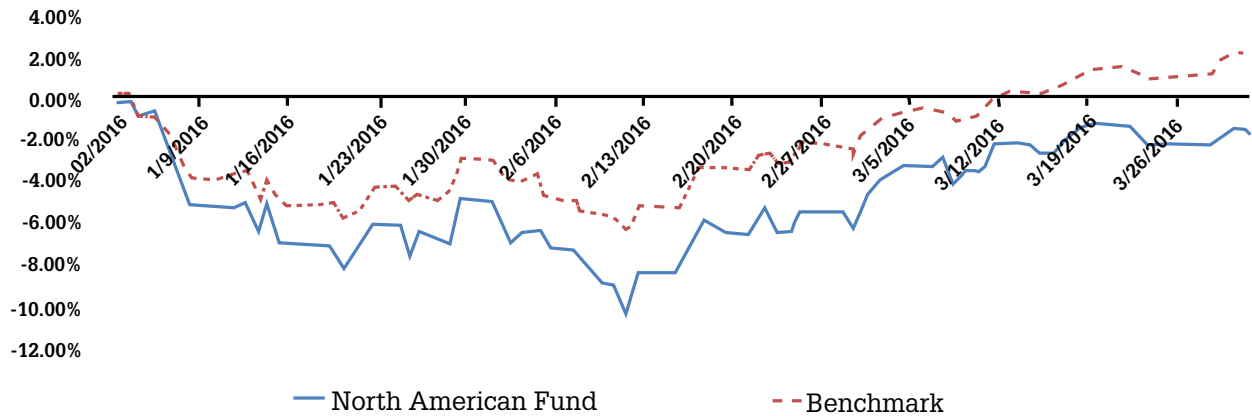
The NAF will maintain its current strategic asset allocation of 80% in equity securities and 19% in fixed income instruments. The International Equity Component of the Fund is now recovering from the sharp declines in January 2016 and the management team will continue look for opportunities in International Fixed Income via US Corporates and bond ETFs which provide broad market access.

# NORTH AMERICAN FUND INVESTOR REPORT

**UTC NORTH  
AMERICAN FUND**  
Performance Summary  
as at March 31st 2016

Cumulative Returns (%)			Annualised Returns (%)		
3-Month	Year to Date (YTD)	Since Inception	1 Year	3 Years	5 Years
-2.24	-1.21	5.80	-8.47	4.28	3.54

**UTC North American Fund's NAF Benchmark Index and UTC North American Fund cumulative returns for the year to date period ended March 31st 2016**



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

# NORTH AMERICAN FUND INVESTOR REPORT

## UTC NORTH AMERICAN FUND

### Top 10 Holdings

as at March 31st 2016

## Top 10 Holdings

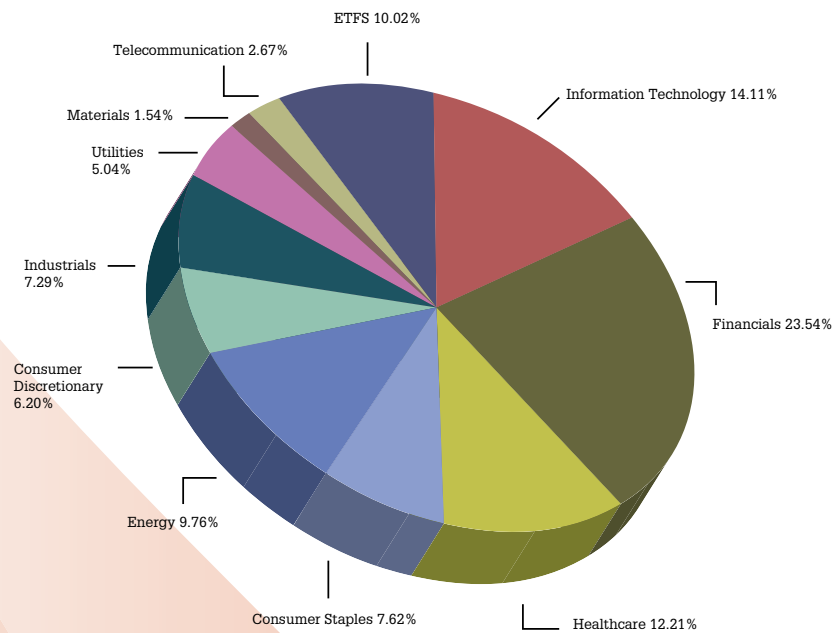
## % of Portfolio Net Assets

ISHARES TR GOV/CRED BD ETF	4.45%
GENERAL ELECTRIC CO	3.57%
BANK AMER CORP	3.53%
JPMORGAN CHASE & CO.	3.35%
WELLS FARGO & CO NEW	3.32%
PROCTER & GAMBLE CO	2.88%
ISHARES CORE US CREDIT BOND	2.68%
AT&T INC	2.53%
EXXON MOBIL CORP	2.40%
TRUSTEES OF PRINCETON UNIV	2.39%

## UTC North American Fund

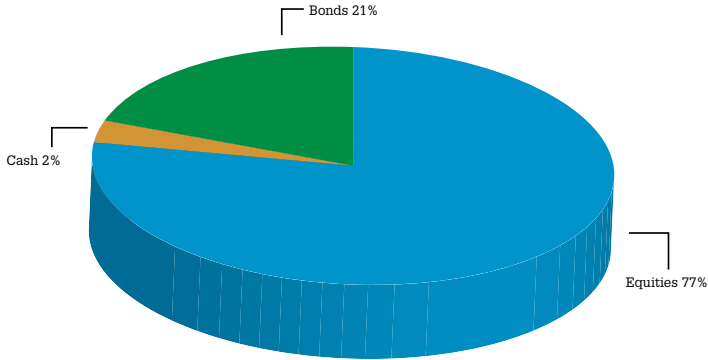
### Equity Sector Mix

as at March 31st 2016

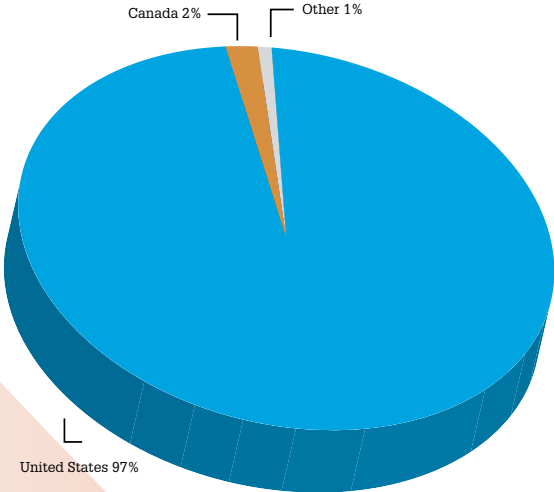


# NORTH AMERICAN FUND INVESTOR REPORT

**UTC North American Fund**  
**Asset Allocation**  
as at March 31st 2016



**UTC North American Fund**  
**Country Mix**  
as at March 31st 2016



## Glossary of Terms

**Asset Allocation** – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimise the risk/reward trade-off 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 indices 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 the 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 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 Labour 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