

ISSUE 21  
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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

# Q4 2016 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

## Global Economic Themes

- In October, the IMF projected that the global economy will grow by 3.1 percent in 2016 and 3.4 percent in 2017 reflecting a subdued outlook for advanced economies. Among the factors for this outlook, include the shortfall in private demand in advanced economies and the growing popularity of protectionism and inward-looking policies in the context of weak growth.
- The US economy continued to strengthen as the labour market showed improvement and economic activity had been expanding since June 2016. Given these realities, the US Federal Reserve increased interest rates in Q4 2016. For Q3 2016, US GDP grew by 3.5 percent, while the unemployment rate was 4.7 percent, and inflation was 1.7 percent.
- After contracting by 1.6 percent in Q2 2016, the Canadian economy grew by 3.5 percent in Q3 driven in part by stronger consumer spending. However, Q4 growth is expected to be more moderate. Going into 2017, the performance of the Canadian economy hinges on the stabilisation in price of the oil market, business confidence, monetary policy decisions, as well as the ongoing impact of stimulus measures in Canada and in the US.
- In the Euro Area, growth remained unchanged in Q3, and is expected to continue at a moderate pace in Q4 and in 2017 as the region continues to mitigate downside risks from the 'Brexit' vote.
- Chinese economic growth is likely to be between 6 percent and 7 percent for 2016. Indicators show economic activity being boosted by higher government spending, a housing rally, and high levels of bank credit. The People's Bank of China has indicated a growth target of 6.5 to 7.0 percent going forward.

# Q4 2016 ECONOMIC OVERVIEW & OUTLOOK

UTC North American Fund Investor Report

## Equity & Fixed Income Market Outlook & Strategy Q1 2017

- Global growth faces challenges and a marked level of uncertainty. New geopolitical factors such as general elections in several European countries as well as the upcoming inauguration of President-Elect Donald Trump in the US are weighing heavily, contributing significantly to an uncertain global context in 2017.
- Most recent surveys generated by Focus Economics in 2017 have estimated a 2.5% increase in global growth throughout 2016. These surveys further estimate a moderate improvement in 2017 to 2.9 percent which is expected to be a flat and continuous level for the next two years. Nonetheless, Q4 2016's pickup in global activity was hallmarked by the growth in China as well as a general improvement in industrial activity, with continuing expansion in the US.
- As at the close of Q4 2016, the US economy has illustrated the signs of a tight labour market which will likely lead to wage inflation and therefore create positive dynamics for consumer spending. Core inflation is generally seen as firm and if there is stabilisation in global energy prices, this is likely to push up headline inflation through Q1 2017. This intuition is borne out by the data as initial jobless claims, a proxy for layoffs across the US, rose less than expected in January 2017, which supported the tightening of the labour market. These claims are holding at an estimated 300,000 a week – which is associated with a healthy labour market.
- As at November 2016, US consumer prices were considered to be moderate but the aforementioned firming inflation pressures and increased rents would allow for further interest rate increases from the Federal Reserve in 2017. The December 15th 2016 release from the Labour Department outlined a 0.2 percent increase in the Consumer Price Index (CPI) as gasoline price increases slowed and food costs remained soft. This was a deceleration from the CPI increase of 0.4 percent in October 2016.
- Whereas 2016 was considered a surprising, but overall productive year for US Fixed Income, it is anticipated that fixed income opportunities will be relatively uncertain in 2017. The Fed raised interest rates in December 2016, which was largely seen as a vote of confidence in the economy and there are predictions of three further rate hikes for 2017. The new political administration in the US is a front-and-centre issue along with transitioning China and Europe. The spread in US corporate bonds tightened in Q4 2016 but was not significant enough to outpace the run-up in interest rates following the result of the November Presidential election. For Q1 2017, it is expected that US corporate spreads should tighten with modestly attractive spreads and muted risk of a US recession as well as investor demand which is being driven by non-US (i.e. European) quantitative easing programmes.
- For Q4 2016, all major equity categories posted gains particularly following the Presidential election. While all market signs are positive, the possibility of a strengthened US Dollar as well as higher interest rates could prove to squeeze profit margins as well as the gains from higher wage levels, which provides a more neutral outlook on US equities throughout 2017.

# NORTH AMERICAN FUND INVESTOR REPORT

## Review of Fund Performance and Strategy

For 2016, the Fund's Net Return was 7.80%. The benchmark of the Fund was 9.29%. There was significant asset appreciation in the final months of 2016, primarily due to the impact stemming from the US presidential election, which particularly benefited the financial sector where the Fund was well positioned.

The Fund benefited from large positions in Bank of America Corporation (which returned 31.31%), JP Morgan (which returned 30.68%) and Exxon Mobil Corp (which returned 15.79%). These positions collectively represented 9.51% of Fund Assets. The

Fund was negatively impacted by the underperformance of the fixed income assets, largely as a result of increasing interest rates.

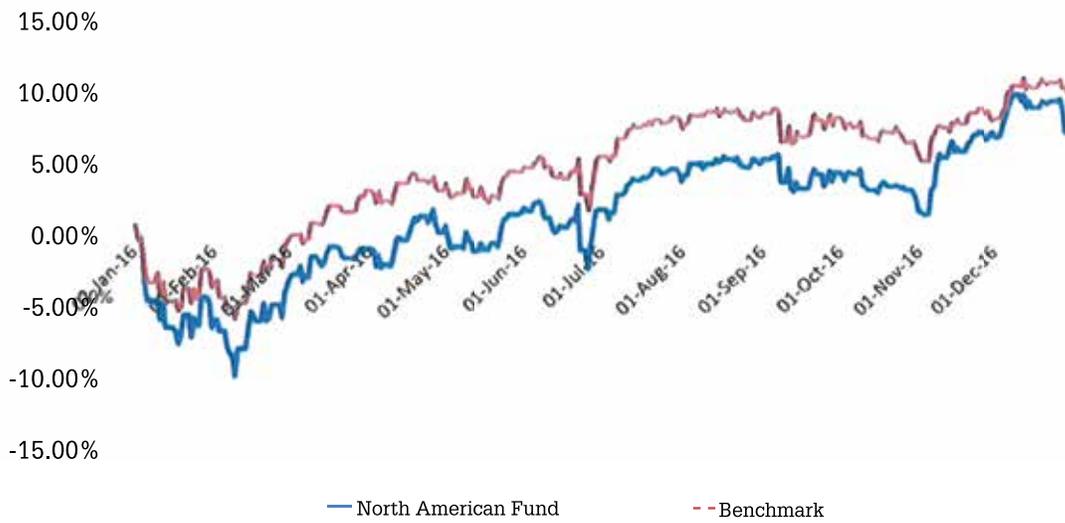
For the first quarter 2017, the NAF will maintain its strategic asset allocation of 80% in equity securities and 19% in fixed income instruments (with the remaining 1% held in cash for liquidity purposes). The Fund is expected to operate in an uncertain environment given geopolitical realities, uncertainty surrounding the Fed and monetary policy, and the transition to new leadership in the United States.

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

Annualised Returns (%)				
3-Month (Total Return)	Year to Date (YTD) (Total Return)	1 Year	3 Years	5 Years
3.95	7.80	7.80	4.76	6.92

# NORTH AMERICAN FUND INVESTOR REPORT

UTC North American Fund (NAF) Benchmark Index and UTC North American Fund cumulative returns for the year to date period ended December 31st 2016



\* The UTC NORTH AMERICAN FUND's Benchmark comprises the S&P 500 Equity Index (70% weighting)

# NORTH AMERICAN FUND INVESTOR REPORT

## UTC North American Fund

### Top 10 Holdings

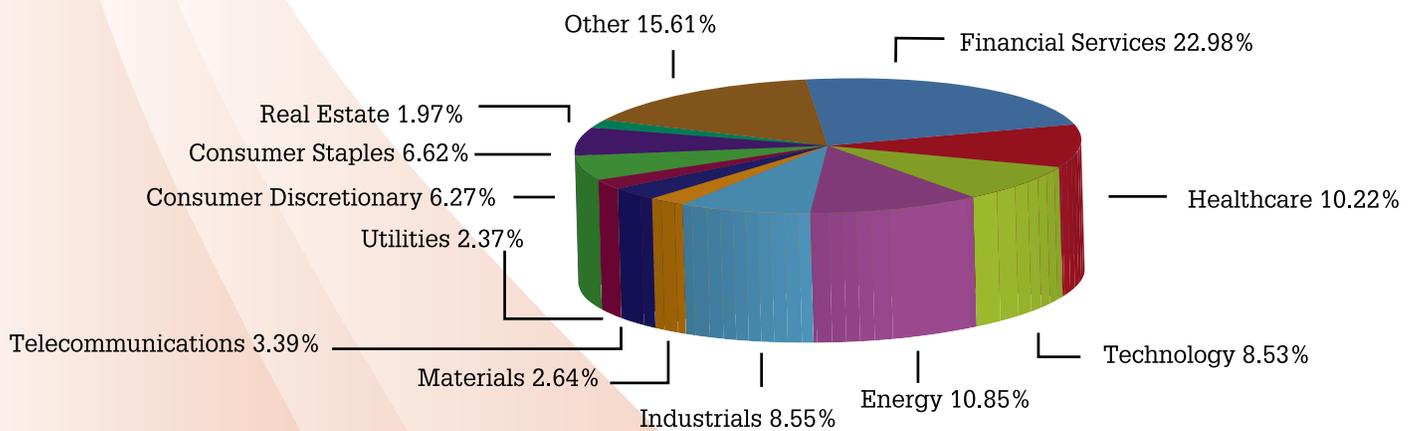
as at December 31st 2016

	% Fund Size	YTD Return
WELLS FARGO & CO NEW	4.42%	1.38%
BANK AMER CORP	4.17%	31.31%
ISHARES TR GOV/CRED BD ETF	3.86%	0.29%
GENERAL ELECTRIC CO	3.18%	1.44%
JPMORGAN CHASE & CO.	3.07%	30.68%
VERIZON COMMUNICATIONS INC	2.99%	15.49%
EXXON MOBIL CORP	2.27%	15.79%
CONOCOPHILLIPS	2.26%	7.39%
PFIZER INC	2.14%	0.62%
ISHARES TR IBOXX INV CP ETF	2.06%	2.78%

## UTC North American Fund

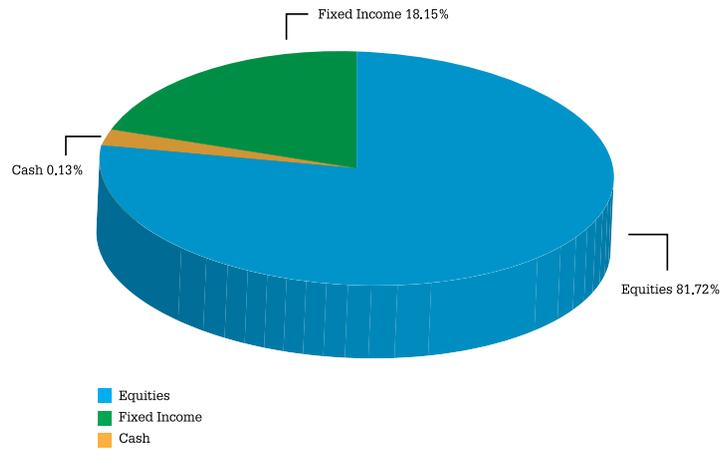
### Equity Sector Mix

as at December 31st 2016

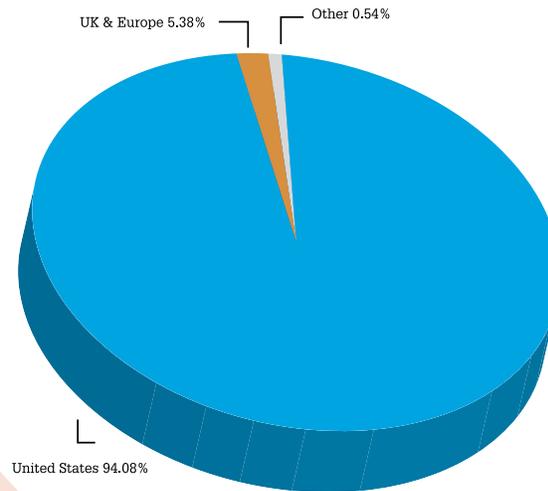


# NORTH AMERICAN FUND INVESTOR REPORT

## UTC North American Fund Asset Allocation as at December 31st 2016



## UTC North American Fund Country Mix as at December 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, or 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 is rising, and consequently, 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 US 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, BusinessDictionary.com, Thefreedictionary.com