

# Economic Investment Trust Limited



**SECOND QUARTER REPORT  
JUNE 30, 2018**



# *Economic Investment Trust Limited*

## THE PERIOD AT A GLANCE (Unaudited)

|   | As at June 30<br>2018 | As at Dec. 31<br>2017 |
|---|-----------------------|-----------------------|
| Net equity value per Common Share <sup>1</sup>    | \$ 152.12             | \$ 151.98             |
| Net assets <sup>2</sup>                           | \$ 854,216            | \$ 853,474            |
| Number of Common Shares outstanding at period end | 5,615,535             | 5,615,535             |

  

|   | Six months ended<br>June 30 |          |
|---|-----------------------------|----------|
|   | 2018                        | 2017     |
| Net investment income per Common Share <sup>1</sup> | \$ 1.24                     | \$ 1.12  |
| Dividends per Common Share                          |                             |          |
| Quarterly   | \$ 0.60                     | \$ 0.60  |
| Additional <sup>3</sup>                             | \$ 0.80                     | \$ 1.34  |
| Net income per Common Share                         | \$ 1.53                     | \$ 13.42 |
| Net investment income <sup>1,2</sup>                | \$ 6,960                    | \$ 6,298 |

<sup>1</sup> See Management's Discussion and Analysis for Use of Non-GAAP Measures.

<sup>2</sup> In thousands of Canadian dollars.

<sup>3</sup> This additional dividend represents the distribution of the previous fiscal year's net investment income, after payment of quarterly dividends.

The financial statements have been prepared under International Financial Reporting Standards ("IFRS").

### NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company's external auditors, PricewaterhouseCoopers LLP, have not performed a review of these interim financial statements of Economic Investment Trust Limited.

# *Economic Investment Trust Limited*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") of the unaudited interim condensed financial performance and financial condition of Economic Investment Trust Limited ("Economic" or the "Company") for the second quarter of 2018 should be read in conjunction with: the December 31, 2017 Annual Report, including the MD&A, the Company's audited annual financial statements and the notes and supplementary financial information; the Company's MD&A and unaudited interim condensed financial statements and notes for the previous quarter of 2018; and the unaudited interim condensed financial statements and notes contained in this report. These unaudited interim condensed financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Chartered Professional Accountants of Canada. IFRS constitutes Canadian generally accepted accounting principles ("GAAP"). The reporting currency for the Company is the Canadian dollar, and all amounts in the following discussion are in Canadian dollars.

This MD&A may contain certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this discussion will occur, or if they do, that any benefits may be derived from them.

### **Overview**

Economic is a closed-end investment corporation, the shares of which trade on the Toronto Stock Exchange under the symbol "EVT". Economic is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The Company has been a closed-end investment corporation since 1927 and has never bought back its Common Shares. The Common Shares have traded at a discount to their net asset value, ranging from a 40% discount to a 15% discount over the past 10 years. Management believes that shareholders who have invested in the Common Shares of the Company recognize that the Common Shares of the Company usually trade at a discount to their net asset value.

Closed-end investment corporations have the following benefits: they often allow investors the opportunity to purchase assets at a discounted price; they have management expense ratios which are generally much lower than those for actively-managed, open-ended funds; and the management of a closed-end investment corporation's portfolio is not impacted by shareholder subscription or redemption activities.

Economic has no plans to become an open-ended investment fund.

The Company owns, directly and indirectly, long-term investments in the common shares of some publicly-traded Canadian companies, and a managed global investment portfolio of common shares of publicly-traded global companies.

The long-term investments consist primarily of the publicly-traded common shares of E-L Financial Corporation Limited ("E-L Financial"), Algoma Central Corporation ("Algoma"), a shipping company, and The Bank of Nova Scotia. At June 30, 2018, E-L Financial represented 42.4% (December 31, 2017 – 41.6%) of total equity investments, Algoma 4.9% (December 31, 2017 – 5.3%) and The Bank of Nova Scotia 6.2% (December 31, 2017 – 6.6%). E-L Financial, Algoma and the Company are related parties. In management's view, these investments are consistent with the Company's investment strategy and contribute to achieving the investment objective. Further related party information is provided in Note 12 to the financial statements in the 2017 Annual Report and in the schedule of investment portfolio in this interim report beginning on page 14.

# *Economic Investment Trust Limited*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

E-L Financial operates as an investment and insurance holding company with two operating segments E-L Corporate and The Empire Life Insurance Company ("Empire Life"). E-L Corporate's operations include the oversight of investments in global equities held through direct and indirect holdings of common shares, investment funds, closed-end investment companies and private companies.

E-L Financial has a 52.0% (December 31, 2017 – 51.9%) interest in a closed-end investment corporation, United Corporations Limited ("United"), which is an investment vehicle for long-term growth through investments in common equities. In addition, E-L has a 36.7% interest in Algoma and a 24.0% interest in Economic. E-L Financial also owns 99.3% of Empire Life which underwrites life and health insurance policies and provides segregated funds, mutual funds and annuity products in Canada. Each of E-L Financial, Empire Life, United and Algoma are related parties and are reporting issuers which trade on the Toronto Stock Exchange and have profiles on SEDAR.

The balance of Economic's investment portfolio is managed by Burgundy Asset Management Ltd. ("Burgundy"), a global equity manager based in Toronto. Burgundy manages the portfolio using a long-term bottom-up investment philosophy, which is to purchase good companies with strong economics and management, whose shares are selling below Burgundy's estimate of intrinsic value. The portfolio, of approximately 40 - 60 publicly-traded companies, invests primarily in mid to large capitalization companies which are publicly traded. At June 30, 2018, 99.0% (December 31, 2017 – 96.7%) of the fair value of the global investment portfolio was made up of non-Canadian companies.

At both June 30, 2018 and December 31, 2017, approximately 54.6% of the investment portfolio was held in long-term investments and 45.4% was managed by Burgundy. Over time these percentages will vary based on the market value of the two portfolios and as a result of any purchases or sales of investments.

### **Investment Strategy**

The objective of the Company is to earn an above-average rate of return, primarily through long-term capital appreciation and dividend income. Short-term volatility is expected and tolerated. Management remains confident that the Company's investment strategy will reward shareholders over the long term.

The investment portfolio of the Company comprises a mix of Canadian and foreign investments. Net equity value and net investment income may vary significantly from period to period depending on the economic environment and market conditions.

### **Use of Non-GAAP Measures**

This MD&A contains references to "net equity value per Common Share" and "net investment income per Common Share". These terms do not have any standardized meanings in GAAP and therefore may not be comparable to similar measures presented by other companies. The Company believes that these measures provide information useful to our shareholders in evaluating the Company's financial results.

Net equity value per Common Share is used by investors and management as a comparison to the market price of its Common Shares to determine the discount or premium at which the Company's Common Shares are trading relative to the net equity value per Common Share.

Net investment income per Common Share is used by both investors and management to assess the approximate amount of dividends to be distributed on Common Shares.

# Economic Investment Trust Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Net equity value per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

|                                   | <b>June 30<br/>2018</b> | Dec. 31<br>2017   |
|-----------------------------------|-------------------------|-------------------|
| Net assets                        | <u>\$ 854,216</u>       | <u>\$ 853,474</u> |
| Common Shares outstanding         | <u>5,615,535</u>        | <u>5,615,535</u>  |
| Net equity value per Common Share | <u>\$ 152.12</u>        | <u>\$ 151.98</u>  |

Net investment income per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

|   | Three months ended<br>June 30 |                  | Six months ended<br>June 30 |                  |
|---|-------------------------------|------------------|-----------------------------|------------------|
|   | <b>2018</b>                   | 2017             | <b>2018</b>                 | 2017             |
| Net income  | <b>\$ 12,514</b>              | \$ 18,357        | <b>\$ 8,604</b>             | \$ 75,385        |
| Add (deduct):   |                               |                  |                             |                  |
| Fair value change in investments                                | <b>(9,727)</b>                | (17,393)         | <b>(1,754)</b>              | (79,619)         |
| Tax on fair value change in<br>investments                      | <b>1,162</b>                  | 2,305            | <b>106</b>                  | 10,550           |
| Net increase (decrease) in refundable<br>dividend taxes on hand | <b>4</b>                      | (1)              | <b>4</b>                    | (18)             |
| Net investment income <sup>1</sup>                              | <u><b>\$ 3,953</b></u>        | <u>\$ 3,268</u>  | <u><b>\$ 6,960</b></u>      | <u>\$ 6,298</u>  |
| Common Shares outstanding                                       | <u><b>5,615,535</b></u>       | <u>5,615,535</u> | <u><b>5,615,535</b></u>     | <u>5,615,535</u> |
| Net investment income per<br>Common Share <sup>1</sup>          | <u><b>\$ 0.70</b></u>         | <u>\$ 0.58</u>   | <u><b>\$ 1.24</b></u>       | <u>\$ 1.12</u>   |

<sup>1</sup> On an after-tax basis.

### Net Equity Value per Common Share

The Company's net equity value per Common Share decreased to \$152.12 at June 30, 2018 from \$150.19 at March 31, 2018.

With dividends reinvested at month-end net equity values, the Company's net equity value return was 1.5% in the second quarter of 2018, compared to a return of 2.2% during 2017.

Long-term investments had a pre-tax return of 1.2% in the second quarter of 2018 compared to a return of 3.1% in the second quarter of 2017. On a pre-tax basis, the shares of E-L Financial had a return of 1.6% during 2018 (2017 – 3.3%), the shares of Algoma had a return of 4.3% (2017 – 3.4%), and the shares of the Bank of Nova Scotia had a negative return of 5.2% (2017 – 1.2%).

The global investment portfolio had a pre-tax return, gross of fees, of 2.0% in the second quarter of 2018 versus a comparative return of 1.6% in the second quarter of 2017.

The Company's net equity value per Common Share increased to \$152.12 at June 30, 2018 from \$151.98 at December 31, 2017.

On a year-to-date basis, with dividends reinvested at month-end net equity values, the Company's net equity value return was 1.0% in 2018, compared to a return of 9.7% during 2017.

# Economic Investment Trust Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term investments had a pre-tax negative return of 0.4% for the six months ended June 30, 2018 compared to a positive return of 13.7% during 2017. On a pre-tax basis, the shares of E-L Financial had a return of 0.9% during 2018 (2017 – 15.9%), the shares of Algoma had a negative return of 6.4% (2017 – 7.0%), and the shares of the Bank of Nova Scotia had a negative return of 6.3% (2017 – 6.4%).

The global investment portfolio had a pre-tax return, gross of fees, of 3.0% for the six months ended June 30, 2018 compared to 6.8% during 2017.

As the Company is a taxable Canadian corporation, the Company's net equity value is net of a current income tax provision on net investment income and realized gains on investments, and net of a deferred income tax provision on its change in unrealized appreciation of investments.

In Canadian dollar terms, total returns (capital gains plus dividends), for Economic's net equity value and stock market indices, were as follows:

|                              | Three months ended<br>June 30 | Six months ended<br>June 30 |
|------------------------------|-------------------------------|-----------------------------|
|                              |                               |                             |
|                              |                               | (%)                         |
| Economic net equity value    | 1.5                           | 1.0                         |
| S&P/TSX Composite Index      | 6.8                           | 2.0                         |
| MSCI All Country World Index | 2.5                           | 4.2                         |
| S&P 500 Index                | 5.6                           | 7.7                         |

### Growth in Net Equity Value ("NAV")

Set out below is a table that shows annual growth in NAV in each of the past 10 fiscal years:

#### Annual growth in NAV\*

|      | NAV per Common Share | Annual Growth % |
|------|----------------------|-----------------|
| 2008 | \$ 73.50             | (34.7)          |
| 2009 | 86.24                | 18.2            |
| 2010 | 91.65                | 7.0             |
| 2011 | 74.81                | (17.8)          |
| 2012 | 83.98                | 13.9            |
| 2013 | 123.60               | 48.8            |
| 2014 | 122.43               | 4.5             |
| 2015 | 132.62               | 9.5             |
| 2016 | 138.26               | 5.4             |
| 2017 | 151.98               | 11.8            |

#### Compound annual growth\*

|                        |     |
|------------------------|-----|
| 2008 - 2017 - 10 years | 4.5 |
|------------------------|-----|

\*This chart was drawn from the individual annual reports and any NAV amounts have not been restated for any subsequent changes in accounting policies.

### Operating Results

#### Net income

The Company reported net income of \$12,514,000 in the second quarter of 2018 compared to net income of \$18,357,000 in the second quarter of 2017. On a year-to-date basis, the Company reported net income of \$8,604,000 compared to \$75,385,000 for the same period in the prior year. On a per Common Share basis, earnings per share decreased to \$2.23 in the second quarter of 2018 compared to \$3.26 for 2017. On a year-to-date basis, earnings per share decreased to \$1.53 compared to \$13.42 in 2017.

# *Economic Investment Trust Limited*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The fair value change in investments for the quarter was a gain of \$9,727,000 in 2018 compared to \$17,393,000 during 2017. On a year-to-date basis, the fair value change in investments was \$1,754,000 compared to \$79,619,000 during 2017.

The fair value change for long-term investments was a gain of \$4,038,000 in the second quarter of 2018 compared to \$13,271,000 during the same period in 2017. On a year-to-date basis, the fair value change for long-term investments was a loss of \$5,649,000 compared to a gain of \$56,926,000 during the same period during 2017. The Company's year-to-date long-term investment loss was comprised primarily of losses in The Bank of Nova Scotia of \$4,879,000 and Algoma of \$3,539,000 offset by a gain in E-L Financial of \$2,371,000.

The global investment portfolio had a fair value gain of \$5,689,000 in the second quarter of 2018 compared to a fair value gain of \$4,122,000 during 2017. On a year-to-date basis, the global investment portfolio had a fair value gain of \$7,403,000 compared to \$22,693,000 during 2017.

The 2018 year-to-date gain for the global investment portfolio included investment gains from North America of \$9,711,000 and Japan \$3,094,000 offset by investment losses from the United Kingdom of \$3,369,000 and Brazil \$2,290,000. The top three contributors to the investment performance included Microsoft Corporation, Sabre Corporation, and Informa plc. The largest detractors included British American Tobacco plc, Cielo S.A., and Philip Morris International Inc.

The Company's net realized gain, all of which relates to the global investment portfolio, was \$9,019,000 in the second quarter of 2018 compared to \$1,920,000 in 2017. On a year-to-date basis, the net realized gain was \$14,168,000 compared to \$8,155,000 during 2017. The largest year-to-date contributors for realized gains were Union Pacific Corporation, Cisco Systems, Inc., and Harris Corporation.

### *Net investment income*

The Company's net investment income in the second quarter of 2018 increased to \$3,953,000 compared to \$3,268,000 for the second quarter of 2017, an increase of 21.0%. On a year-to-date basis, net investment income increased to \$6,960,000 from \$6,298,000 for the same period in the prior year, an increase of 10.5%. On a per Common Share basis, net investment income for the quarter increased to \$0.70 in 2018 compared to \$0.58 in 2017 and on a year-to-date basis increased to \$1.24 compared to \$1.12 in 2017.

Foreign dividend income in the second quarter of 2018 increased by 20.2% to \$3,570,000 from \$2,971,000 in 2017 and on a year-to-date basis increased by 9.3% to \$6,222,000 from \$5,691,000 in 2017. Foreign dividend income is impacted by changes in the composition of the investment portfolio, variability in foreign exchange rates and dividend yields.

Canadian dividend income in the second quarter of 2018 increased to \$1,842,000 from \$1,703,000 in 2017 and on a year-to-date basis increased to \$3,596,000 from \$3,384,000 in 2017. The increase year over year for both periods resulted primarily due to an increase in dividends received from The Bank of Nova Scotia.

Expenses decreased by 1.3% during the quarter to \$884,000 from \$896,000 in 2017 and on a year-to-date basis increased by 4.8% to \$1,924,000 from \$1,836,000. The majority of the year-over-year increase relates to increased investment management fees as a result of an increase in the average market value of the global investment portfolio.



# Economic Investment Trust Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Quarterly Results

The following table summarizes various financial results on a quarterly basis for the most recent quarters (in thousands of dollars, except per share amounts):

|                                     | June 30<br>2018 | March 31<br>2018 | Dec. 31<br>2017 | Sept. 30<br>2017 | June 30<br>2017 | March 31<br>2017 | Dec. 31<br>2016 | Sept. 30<br>2016 |
|-------------------------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| Net investment income <sup>1</sup>  | \$ 3,953        | \$ 3,007         | \$ 2,892        | \$ 2,067         | \$ 3,268        | \$ 3,030         | \$ 2,522        | \$ 2,476         |
| Net income (loss)                   | \$ 12,514       | \$ (3,910)       | \$ 25,869       | \$ (9,917)       | \$ 18,357       | \$ 57,028        | \$ 22,409       | \$ 24,140        |
| Earnings (loss) per Common Share    | \$ 2.23         | \$ (0.70)        | \$ 4.60         | \$ (1.76)        | \$ 3.26         | \$ 10.16         | \$ 3.99         | \$ 4.30          |
| NAV per Common Share                | \$ 152.12       | \$ 150.19        | \$ 151.98       | \$ 147.68        | \$ 149.74       | \$ 146.77        | \$ 138.26       | \$ 134.42        |
| Quarterly NAV return % <sup>2</sup> | 1.5             | (0.5)            | 3.1             | (1.2)            | 2.2             | 7.3              | 3.0             | 3.3              |

<sup>1</sup> On an after-tax basis.

<sup>2</sup> Economic's NAV return includes reinvestment of dividends paid to Common shareholders.

Investment income is derived primarily from dividend income that is earned by the Company. While North American investments usually pay regular quarterly dividends, investments outside of North America often pay less frequently. In general, dividends earned on investments outside of North America peak in the second quarter of the year. There is no guarantee that the Company will receive dividend income on its investments at current dividend payout levels.

Overall returns are determined by the performance of the Company's long-term investments and the performance of the global investment portfolio and may fluctuate significantly as illustrated by the past eight quarters. The returns generated within each portfolio may also not correlate with benchmark returns.

### Share Data

At June 30, 2018, there are 5,615,535 Common Shares issued and outstanding and each share is entitled to one vote.

### Liquidity and Capital Resources

The Company's dividend policy is to distribute annual net investment income in the form of dividends. The distributions are composed of quarterly dividends together with an additional dividend representing the balance of net investment income for the previous fiscal year.

An additional dividend of \$0.80 per Common Share was paid in the first quarter of fiscal 2018 along with the \$0.30 quarterly dividend.

The Company's dividend policy is established by the Board of Directors at its discretion and is subject to change.

### Additional Information

Additional information relating to Economic, including the Company's Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

Economic's website, [www.evt.ca](http://www.evt.ca), also provides further information on the Company, including historical information on the net equity value per Common Share which is updated weekly.

August 7, 2018

# *Economic Investment Trust Limited*

## STATEMENTS OF FINANCIAL POSITION (Unaudited)

|   | June 30<br>2018   | December 31<br>2017 |
|---|-------------------|---------------------|
|   | (000's)           |                     |
| <b>ASSETS</b>                               |                   |                     |
| Cash and cash equivalents                   | \$ 3,088          | \$ 5,773            |
| Short-term investments                      | 36,077            | 23,373              |
| Investments (Note 4)                        | 892,212           | 902,692             |
| Receivable in respect of investments sold   | 727               | —                   |
| Dividends and interest receivable           | 1,698             | 968                 |
| Other assets                                | 527               | 320                 |
|   | <u>934,329</u>    | <u>933,126</u>      |
| <b>LIABILITIES</b>                          |                   |                     |
| Accrued expenses                            | 716               | 751                 |
| Payable in respect of investments purchased | 1,539             | —                   |
| Income taxes payable                        | 930               | 399                 |
| Deferred tax liabilities                    | 76,928            | 78,502              |
|   | <u>80,113</u>     | <u>79,652</u>       |
| Net assets                                  | <u>\$ 854,216</u> | <u>\$ 853,474</u>   |
| <b>SHAREHOLDERS' EQUITY</b>                 |                   |                     |
| Share capital                               | \$ 204,691        | \$ 204,691          |
| Share premium                               | 1,474             | 1,474               |
| Retained earnings                           | 648,051           | 647,309             |
| Total shareholders' equity                  | <u>\$ 854,216</u> | <u>\$ 853,474</u>   |

(See accompanying notes)

# *Economic Investment Trust Limited*

## STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

|  | Three months ended<br>June 30 |                  | Six months ended<br>June 30 |                  |
|--|-------------------------------|------------------|-----------------------------|------------------|
|  | 2018                          | 2017             | 2018                        | 2017             |
|  | (000's)                       |                  |                             |                  |
| <b>INCOME</b>  |                               |                  |                             |                  |
| Dividends  |                               |                  |                             |                  |
| Foreign  | \$ 3,570                      | \$ 2,971         | \$ 6,222                    | \$ 5,691         |
| Canadian   | 1,842                         | 1,703            | 3,596                       | 3,384            |
|  | <u>5,412</u>                  | <u>4,674</u>     | <u>9,818</u>                | <u>9,075</u>     |
| Interest and securities lending income                   | 186                           | 54               | 279                         | 109              |
| Fair value change in investments (Note 5)                | 9,727                         | 17,393           | 1,754                       | 79,619           |
|  | <u>15,325</u>                 | <u>22,121</u>    | <u>11,851</u>               | <u>88,803</u>    |
| <b>EXPENSES</b>  |                               |                  |                             |                  |
| Investment management and<br>administrative costs        | 739                           | 723              | 1,486                       | 1,411            |
| Office and miscellaneous                                 | 22                            | 42               | 195                         | 187              |
| Directors' remuneration                                  | 71                            | 75               | 143                         | 140              |
| Transfer, registrar and custody fees                     | 35                            | 40               | 69                          | 67               |
| Professional fees  | 17                            | 16               | 31                          | 31               |
|  | <u>884</u>                    | <u>896</u>       | <u>1,924</u>                | <u>1,836</u>     |
| <b>INCOME BEFORE INCOME<br/>TAXES</b>                    | <u>14,441</u>                 | <u>21,225</u>    | <u>9,927</u>                | <u>86,967</u>    |
| Provision for income taxes                               | 1,927                         | 2,868            | 1,323                       | 11,582           |
|  | <u>12,514</u>                 | <u>18,357</u>    | <u>8,604</u>                | <u>75,385</u>    |
| <b>NET INCOME</b>  | <u>\$ 12,514</u>              | <u>\$ 18,357</u> | <u>\$ 8,604</u>             | <u>\$ 75,385</u> |
| <b>EARNINGS PER COMMON<br/>SHARE - BASIC AND DILUTED</b> | <u>\$ 2.23</u>                | <u>\$ 3.26</u>   | <u>\$ 1.53</u>              | <u>\$ 13.42</u>  |

(See accompanying notes)

# Economic Investment Trust Limited

## STATEMENTS OF CHANGES IN EQUITY (Unaudited)

|                                  | Share<br>capital  | Share<br>premium | Retained<br>earnings | Total             |
|----------------------------------|-------------------|------------------|----------------------|-------------------|
|                                  | (000's)           |                  |                      |                   |
| <b>At January 1, 2018</b>        | <b>\$ 204,691</b> | <b>\$ 1,474</b>  | <b>\$ 647,309</b>    | <b>\$ 853,474</b> |
| <b>Net income for the period</b> | <b>—</b>          | <b>—</b>         | <b>8,604</b>         | <b>8,604</b>      |
| <b>Dividends</b>                 | <b>—</b>          | <b>—</b>         | <b>(7,862)</b>       | <b>(7,862)</b>    |
| <b>At June 30, 2018</b>          | <b>\$ 204,691</b> | <b>\$ 1,474</b>  | <b>\$ 648,051</b>    | <b>\$ 854,216</b> |
| At January 1, 2017               | \$ 204,691        | \$ 1,474         | \$ 570,235           | \$ 776,400        |
| Net income for the period        | —                 | —                | 75,385               | 75,385            |
| Dividends                        | —                 | —                | (10,894)             | (10,894)          |
| At June 30, 2017                 | \$ 204,691        | \$ 1,474         | \$ 634,726           | \$ 840,891        |

## STATEMENTS OF CASH FLOW (Unaudited)

|  | Six months<br>ended June 30 |                  |
|--|-----------------------------|------------------|
|  | 2018                        | 2017             |
|  | (000's)                     |                  |
| <b>Net inflow (outflow) of cash related to the following activities:</b> |                             |                  |
| <b>Operating</b>   |                             |                  |
| Net income   | \$ 8,604                    | \$ 75,385        |
| Adjustments for:   |                             |                  |
| Fair value change in investments   | (1,754)                     | (79,619)         |
| Net (purchases) sales of short-term investments                          | (12,704)                    | 3,094            |
| Purchases of investments   | (25,283)                    | (17,103)         |
| Proceeds from sale of investments  | 37,517                      | 26,006           |
| Dividends and interest receivable  | (729)                       | (394)            |
| Deferred taxes   | (1,574)                     | 9,554            |
| Net change in other assets and liabilities                               | 1,100                       | (1,240)          |
|  | <b>5,177</b>                | <b>15,683</b>    |
| <b>Financing</b>   |                             |                  |
| Dividends paid to shareholders   | (7,862)                     | (10,894)         |
| <b>Net increase (decrease) in cash and cash equivalents</b>              | <b>(2,685)</b>              | <b>4,789</b>     |
| Cash and cash equivalents at beginning of the period                     | 5,773                       | 12,941           |
| <b>Cash and cash equivalents at end of the period</b>                    | <b>\$ 3,088</b>             | <b>\$ 17,730</b> |
| Additional information for operating activities:                         |                             |                  |
| Interest received  | \$ 128                      | \$ 56            |
| Dividends received, net of withholding taxes                             | 8,344                       | 7,889            |
| Income taxes paid  | 1,728                       | 2,643            |

(See accompanying notes)

# *Economic Investment Trust Limited*

## **NOTES TO FINANCIAL STATEMENTS**

**(Unaudited)**

### **1. Description of Company and summary of operations**

Economic Investment Trust Limited (“Economic” or the “Company”) is a closed-end investment corporation. The head office, principal address and registered office of the Company is located at 165 University Avenue, Toronto, Ontario, M5H 3B8.

Economic trades on the Toronto Stock Exchange under the symbol EVT. Economic is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The interim condensed financial statements are presented in Canadian dollars which is the functional and presentation currency. These interim condensed financial statements were approved by the Company’s Board of Directors on August 7, 2018.

### **2. Basis of presentation**

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting as issued by the International Accounting Standards Board and follow the same accounting policies and methods as the most recent annual financial statements. These unaudited interim condensed financial statements do not include all of the disclosures required under International Financial Reporting Standards for annual financial statements and should be read in conjunction with the notes to the Company’s audited financial statements for the year ended December 31, 2017.

### **3. Critical accounting estimates and judgments**

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Company has made in preparing the financial statements:

#### *Classification and measurement of investments*

In classifying and measuring financial instruments held by the Company, the Company is required to make significant judgments about whether or not the business of the Company is to invest on a total return basis for the purpose of applying the fair value option for financial assets. The most significant judgment made includes the determination that the Company can apply the fair value option to its investments.

#### *Fair value of investments in private companies*

The fair value of investments in private companies is measured using the adjusted net asset method which estimates the fair value of the underlying assets and liabilities of the private companies. Refer to Note 5 in the Company’s audited financial statements for the year ended December 31, 2017 for further details.

#### *Deferred taxes*

Estimates and assumptions are used primarily in the determination of the Company’s deferred tax liabilities, as the income tax rates used in determining the liability are dependent on an assumption as to when a deferred tax liability is expected to be realized.

# Economic Investment Trust Limited

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### 4. Financial instruments

The Company adopted IFRS 9 "Financial Instruments" for the reporting period commencing January 1, 2018. IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities. The adoption of this IFRS has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments. The Company continues to classify its investments as fair value through profit or loss.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted unadjusted prices in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At June 30, 2018, the Company had \$753,091,000 (December 31, 2017 - \$758,516,000) of Level 1 and \$139,121,000 (December 31, 2017 - \$144,176,000) of Level 3 equity investments. During the six months ended June 30, 2018, there were no transfers between Level 1, 2 or 3 equity investments.

### 5. Fair value change in investments

The fair value change in investments is comprised as follows:

|                                   | Three months ended<br>June 30 |                  | Six months ended<br>June 30 |                  |
|-----------------------------------|-------------------------------|------------------|-----------------------------|------------------|
|                                   | 2018                          | 2017             | 2018                        | 2017             |
|                                   | (000's)                       |                  |                             |                  |
| Net realized gain                 | \$ 9,019                      | \$ 1,920         | \$ 14,168                   | \$ 8,155         |
| Change in unrealized appreciation | 708                           | 15,473           | (12,414)                    | 71,464           |
|                                   | <b>\$ 9,727</b>               | <b>\$ 17,393</b> | <b>\$ 1,754</b>             | <b>\$ 79,619</b> |

### 6. Related party information

The Company has investments in related parties (see Schedule of Investment Portfolio) with a fair value at June 30, 2018 of \$487,319,000 (December 31, 2017 - \$492,968,000) representing 54.6% (December 31, 2017 - 54.6%) of the total investments. Dividends from these companies for the three months ended June 30, 2018 amounted to \$1,812,000 (2017 - \$1,663,000). Dividends from these companies for the six months ended June 30, 2018 amounted to \$3,500,000 (2017 - \$3,304,000).

E-L Financial holds a 24.0% interest in the Company. Included in investment management and administrative costs are fees for administrative services paid to E-L Financial. These fees are calculated at 0.1% per annum of the fair value of the investments managed by the external investment manager and are paid monthly. The total fees for the three months ended June 30, 2018 amounted to \$123,000 (2017 - \$122,000) and \$249,000 (2017 - \$240,000) for the six months ended June 30, 2018.

The ultimate controlling party of the Company and of these related parties is The Honourable Henry N.R. Jackman together with a trust created in 1969 by his father, Henry R. Jackman.

# *Economic Investment Trust Limited*

## **NOTES TO FINANCIAL STATEMENTS (Unaudited)**

### **7. Subsequent event**

Common Share dividends of \$0.30 per Common Share were declared by the Board of Directors at its meeting on August 7, 2018, with a record and payable date of September 14, 2018 and September 28, 2018, respectively.

# *Economic Investment Trust Limited*

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT JUNE 30, 2018 (Unaudited)

| Number of<br>shares  |   | Cost           | Carrying<br>value | % of<br>Carrying<br>value |
|----------------------|---|----------------|-------------------|---------------------------|
|                      |   | (000's)        |                   |                           |
| <b>North America</b> |   |                |                   |                           |
| <b>Canada</b>        |   |                |                   |                           |
| 2,126,380            | Algoma Central Corporation <sup>1</sup> .....                   | \$ 2,974       | \$ 31,513         |                           |
| 386,206              | E-L Financial Corporation Limited <sup>1</sup> .....            | 26,116         | 316,685           |                           |
| 33,101               | Ecando Investments Limited                                      |                |                   |                           |
|                      | Classes A, B and common <sup>1, 2, 3,</sup> .....               | 4,139          | 61,862            |                           |
| 176,414              | The Fulcrum Investment Company<br>Limited <sup>2, 3</sup> ..... | 464            | 15,281            |                           |
| 216,900              | NVG Holdings Limited  |                |                   |                           |
|                      | Classes B, C, D, E and common <sup>1, 2, 4</sup> .....          | 2,115          | 48,459            |                           |
| 149,032              | Prairiesky Royalty Ltd. ....                                    | 3,300          | 3,867             |                           |
| 4,837                | TGV Holdings Limited Class B <sup>1, 2, 4, 5</sup> .....        | 318            | 13,519            |                           |
|                      |   | <u>39,426</u>  | <u>491,186</u>    | 55.0                      |
| <b>United States</b> |   |                |                   |                           |
| 182,424              | Allison Transmission Holdings Inc. ....                         | 6,293          | 9,726             |                           |
| 3,466                | Alphabet Inc. Class A.....                                      | 4,532          | 5,154             |                           |
| 96,820               | AmerisourceBergen Corporation .....                             | 7,426          | 10,871            |                           |
| 26,325               | Apple Inc. ....   | 2,721          | 6,417             |                           |
| 15,300               | AutoZone, Inc. ....   | 13,717         | 13,517            |                           |
| 200,170              | BB&T Corporation.....   | 7,280          | 13,295            |                           |
| 29,277               | Becton, Dickinson and Company.....                              | 2,803          | 9,236             |                           |
| 42,540               | Gentex Corporation .....  | 799            | 1,290             |                           |
| 32,725               | Harris Corporation .....  | 3,221          | 6,229             |                           |
| 80,290               | Johnson & Johnson .....   | 6,719          | 12,829            |                           |
| 22,120               | Kimberly-Clark Corporation .....                                | 3,259          | 3,068             |                           |
| 49,142               | McDonald's Corporation .....                                    | 5,573          | 10,139            |                           |
| 156,236              | Microsoft Corporation .....                                     | 6,422          | 20,287            |                           |
| 84,970               | Northern Trust Corporation .....                                | 5,294          | 11,512            |                           |
| 153,553              | Oracle Corporation .....  | 6,305          | 8,908             |                           |
| 57,825               | PepsiCo, Inc. ....  | 4,818          | 8,290             |                           |
| 87,728               | Philip Morris International Inc. ....                           | 8,374          | 9,327             |                           |
| 481,768              | Sabre Corporation .....   | 15,499         | 15,631            |                           |
| 48,486               | Texas Instruments Incorporated .....                            | 4,888          | 7,039             |                           |
| 34,920               | Union Pacific Corporation .....                                 | 3,208          | 6,515             |                           |
| 94,616               | United Technologies Corporation.....                            | 9,659          | 15,578            |                           |
| 180,877              | Walgreen Boots Alliance Inc. ....                               | 13,165         | 14,294            |                           |
|                      |   | <u>141,975</u> | <u>219,152</u>    | 24.6                      |
|                      | Total North America .....                                       | <u>181,401</u> | <u>710,338</u>    | 79.6                      |



# Economic Investment Trust Limited

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT JUNE 30, 2018 (Unaudited)

| Number of<br>shares |   | Cost              | Carrying<br>value | % of<br>Carrying<br>value |
|---------------------|---|-------------------|-------------------|---------------------------|
|                     |   | (000's)           |                   |                           |
|                     | <b>Europe, excluding United Kingdom</b> |                   |                   |                           |
| 100,238             | Brenntag AG .....                       | \$ 6,493          | \$ 7,367          |                           |
| 212,371             | Bureau Veritas S.A. ....                | 5,348             | 7,457             |                           |
| 101,445             | Colruyt S.A. ....                       | 5,456             | 7,615             |                           |
| 41,765              | Hannover Rueckversicherung SE.....      | 2,819             | 6,883             |                           |
| 70,707              | Heineken Holding N.V.....               | 3,635             | 8,917             |                           |
| 93,205              | Henkel AG & Co. KGaA.....               | 6,047             | 13,600            |                           |
| 63,911              | Nestle S.A. ....                        | 4,790             | 6,522             |                           |
| 128,941             | Novartis AG.....                        | 10,161            | 12,882            |                           |
| 158,082             | Publicis Groupe .....                   | 11,302            | 14,311            |                           |
| 22,287              | Roche Holding AG .....                  | 5,453             | 6,523             |                           |
|                     |   | <u>61,504</u>     | <u>92,077</u>     | 10.3                      |
|                     | <b>United Kingdom</b>                   |                   |                   |                           |
| 182,705             | British American Tobacco plc.....       | 10,454            | 12,146            |                           |
| 119,680             | Bunzl plc .....                         | 4,262             | 4,767             |                           |
| 140,901             | Imperial Brands plc .....               | 5,423             | 6,901             |                           |
| 412,374             | Informa plc .....                       | 3,522             | 5,977             |                           |
| 73,158              | Micro Focus International plc.....      | 2,434             | 1,681             |                           |
| 358,527             | Sage Group plc (The) .....              | 1,995             | 3,912             |                           |
| 151,071             | Unilever plc .....                      | 6,053             | 10,992            |                           |
|                     |   | <u>34,143</u>     | <u>46,376</u>     | 5.2                       |
|                     | <b>Japan)</b>                           |                   |                   |                           |
| 198,000             | Kakaku.com Inc. ....                    | 3,789             | 5,890             |                           |
| 73,300              | Kao Corporation.....                    | 2,527             | 7,364             |                           |
| 9,000               | Keyence Corporation .....               | 1,216             | 6,695             |                           |
| 153,000             | Komatsu Ltd.....                        | 3,654             | 5,763             |                           |
| 149,600             | Unicharm Corporation.....               | 3,353             | 5,929             |                           |
|                     |   | <u>14,539</u>     | <u>31,641</u>     | 3.6                       |
|                     | <b>Brazil</b>                           |                   |                   |                           |
| 1,262,112           | Cielo S.A. ....                         | 9,177             | 7,110             | 0.8                       |
|                     | <b>Cayman Islands</b>                   |                   |                   |                           |
| 3,987,000           | Want Want China Holdings Ltd. ....      | 4,709             | 4,670             | 0.5                       |
|                     | <b>Total investments</b> .....          | <u>\$ 305,473</u> | <u>\$ 892,212</u> | <u>100.0</u>              |

<sup>1</sup> These companies and Economic are related parties.

<sup>2</sup> Not listed on a stock exchange.

<sup>3</sup> The net assets of Ecando Investments Limited are invested primarily in shares of E-L Financial Corporation Limited.

<sup>4</sup> The net assets of NVG Holdings Limited and TGV Holdings Limited are invested primarily in the shares of The Bank of Nova Scotia.

<sup>5</sup> Investment in associate.

# *Economic Investment Trust Limited*

## **CORPORATE INFORMATION**

### **HEAD OFFICE**

Tenth Floor, 165 University Avenue, Toronto, Ontario, M5H 3B8  
Tel: 416-947-2578  
Fax: 416-362-2592

### **EXTERNAL INVESTMENT MANAGER**

Burgundy Asset Management Ltd., Toronto

### **AUDITOR**

PricewaterhouseCoopers LLP, Toronto

### **CUSTODIAN**

RBC Investor & Treasury Services

### **TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc.  
100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1  
Toll Free: 1-800-564-6253  
[www.computershare.com](http://www.computershare.com)

### **TORONTO STOCK EXCHANGE LISTING**

Common Shares, ticker symbol EVT

### **NET EQUITY VALUE**

The Company's net equity value per Common Share is published weekly on the Company's website.

### **REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS**

Please refer to the "Contact Us" section of our website if you have questions or concerns regarding accounting or auditing matters.

### **WEBSITE**

[www.evt.ca](http://www.evt.ca)



