

# Economic Investment Trust Limited



**THIRD QUARTER REPORT  
SEPTEMBER 30, 2017**



# *Economic Investment Trust Limited*

## THE PERIOD AT A GLANCE (Unaudited)

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|   | As at Sept. 30<br>2017 | As at Dec. 31<br>2016 |
|---|------------------------|-----------------------|
| Net equity value per Common Share <sup>1</sup>    | \$ 147.68              | \$ 138.26             |
| Net assets <sup>2</sup>                           | \$ 829,290             | \$ 776,400            |
| Number of Common Shares outstanding at period end | 5,615,535              | 5,615,535             |

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|   | Nine months ended<br>September 30 |          |
|---|-----------------------------------|----------|
|   | 2017                              | 2016     |
| Net investment income per Common Share <sup>1</sup> | \$ 1.49                           | \$ 1.49  |
| Dividends per Common Share                          |                                   |          |
| Quarterly   | \$ 0.90                           | \$ 0.45  |
| Additional <sup>3</sup>                             | \$ 1.34                           | \$ 0.85  |
| Net income per Common Share                         | \$ 11.66                          | \$ 3.10  |
| Net investment income <sup>2</sup>                  | \$ 8,365                          | \$ 8,383 |

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<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").

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### 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.

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# *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 third quarter of 2017 should be read in conjunction with: the December 31, 2016 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 quarters of 2017; 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. 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 September 30, 2017, E-L Financial represented 44.2% (December 31, 2016 – 41.0%) of total equity investments, Algoma 4.1% (December 31, 2016 – 4.4%) and The Bank of Nova Scotia 6.7% (December 31, 2016 – 6.7%). 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 2016 Annual Report and in the schedule of investment portfolio in this interim report beginning on page 14.

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.

# *Economic Investment Trust Limited*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

E-L Financial has a 51.9% (December 31, 2016 - 51.8%) 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 Financial has a 36.3% interest in Algoma and a 24.0% interest in Economic. E-L Financial also owns 99.2% 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 September 30, 2017, 96.3% (December 31, 2016 - 97.5%) of the fair value of the global investment portfolio was made up of non-Canadian companies.

At September 30, 2017, approximately 56.0% (December 31, 2016 - 53.2%) of the investment portfolio was held in long-term investments and 44.0% (2015 - 46.8%) 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.

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>Sept. 30<br/>2017</b> | Dec. 31<br>2016 |
|-----------------------------------|--------------------------|-----------------|
| Net assets                        | <b>\$ 829,290</b>        | \$ 776,400      |
| Common Shares outstanding         | <b>5,615,535</b>         | 5,615,535       |
| Net equity value per Common Share | <b>\$ 147.68</b>         | \$ 138.26       |

# Economic Investment Trust Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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>September 30 |           | Nine months ended<br>September 30 |           |
|---|------------------------------------|-----------|-----------------------------------|-----------|
|   | 2017                               | 2016      | 2017                              | 2016      |
| Net income (loss)   | \$ (9,917)                         | \$ 24,140 | \$ 65,468                         | \$ 17,428 |
| Add (deduct):   |                                    |           |                                   |           |
| Fair value change in investments                                | 13,921                             | (24,975)  | (65,698)                          | (10,535)  |
| Tax on fair value change in<br>investments                      | (1,845)                            | 3,309     | 8,705                             | 1,396     |
| Net (decrease) increase in refundable<br>dividend taxes on hand | (92)                               | 2         | (110)                             | 94        |
| Net investment income <sup>1</sup>                              | \$ 2,067                           | \$ 2,476  | \$ 8,365                          | \$ 8,383  |
| Common Shares outstanding                                       | 5,615,535                          | 5,615,535 | 5,615,535                         | 5,615,535 |
| Net investment income per<br>Common Share <sup>1</sup>          | \$ 0.37                            | \$ 0.44   | \$ 1.49                           | \$ 1.49   |

<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 \$147.68 at September 30, 2017 from \$149.74 at June 30, 2017.

With dividends reinvested at month-end net equity values, the Company's net equity value return was negative 1.2% in the third quarter of 2017, compared to a return of 3.3% during 2016.

Long-term investments had a 0.0% pre-tax return in the third quarter of 2017 compared to a return of 2.9% in the third quarter of 2016. On a pre-tax basis, the shares of E-L Financial had a return of 0.3% during 2017 (2016 – 1.6%), the shares of Algoma had a negative return of 6.0% (2016 – 3.7%), and the shares of the Bank of Nova Scotia had a return of 3.8% (2016 – 10.9%).

The global investment portfolio had a pre-tax return, gross of fees, of negative 2.6% in the third quarter of 2017 versus a comparative return of 4.3% in the third quarter of 2016. A strengthening Canadian dollar reduced the return on the global investment portfolio for the third quarter of 2017.

On a year-to-date basis, the Company's net equity value per Common Share increased to \$147.68 at September 30, 2017 from \$138.26 at December 31, 2016.

With dividends reinvested at month-end net equity values, the Company's net equity value return was 8.4% in 2017, compared to a return of 2.4% during 2016.

Long-term investments had a pre-tax return of 13.8% in 2017 compared to a return of 2.0% during 2016. On a pre-tax basis, the shares of E-L Financial had a return of 16.2% during 2017 (2016 – 0.6%), the shares of Algoma had a return of 0.7% (2016 – (15.6%)), and the shares of the Bank of Nova Scotia had a return of 10.3% (2016 – 28.0%).

The global investment portfolio had a pre-tax return, gross of fees, of 4.1% during 2017 versus a comparative return of 3.4% during 2016.

# Economic Investment Trust Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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>September 30 | Nine Months ended<br>September 30 |
|------------------------------|------------------------------------|-----------------------------------|
|                              | (%)                                |                                   |
| Economic net equity value    | (1.2)                              | 8.4                               |
| S&P/TSX Composite Index      | 3.7                                | 4.5                               |
| MSCI All Country World Index | 1.1                                | 8.8                               |
| S&P 500 Index                | 0.5                                | 6.2                               |

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

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

#### Annual growth in NAV\*

|      | NAV per Common Share | Annual Growth % |
|------|----------------------|-----------------|
| 2007 | \$ 113.22            | (6.9)           |
| 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             |

#### Compound annual growth\*

|                        |     |
|------------------------|-----|
| 2007 - 2016 - 10 years | 2.6 |
|------------------------|-----|

\*This chart was drawn from the individual annual reports and any NAV amounts prior to 2014 have not been restated for any subsequent changes in accounting policies.

## Operating Results

### Net income

The Company reported a net loss of \$9,917,000 in the third quarter of 2017 compared to net income of \$24,140,000 in the third quarter of 2016. On a year-to-date basis, the Company reported net income of \$65,468,000 compared to net income of \$17,428,000 for the same period in the prior year. On a per Common Share basis, earnings per share decreased to a net loss of \$1.76 in the third quarter of 2017 compared to net income of \$4.30 for 2016. On a year-to-date basis, earnings per share increased to \$11.66 compared to \$3.10 in 2016.

The fair value change in investments for the quarter was a loss of \$13,921,000 in 2017 compared to a gain of \$24,975,000 during 2016. On a year-to-date basis, the fair value change in investments was a gain of \$65,698,000 compared to \$10,535,000 during 2016.

The fair value change for long-term investments was a loss of \$1,131,000 in the third quarter of 2017 compared to a gain of \$10,257,000 during the same period in 2016. On a year-to-date basis, the fair value change for long-term investments was a gain of \$55,795,000 compared to \$3,613,000 during the same period during 2016. The Company's year-to-date long-term investment gain was comprised primarily of gains in E-L Financial of \$52,604,000 and The Bank of Nova Scotia of \$3,973,000 partly offset by a loss in Algoma of \$435,000.

# *Economic Investment Trust Limited*

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

The global investment portfolio had a fair value loss of \$12,790,000 in the third quarter of 2017 compared to a fair value gain of \$14,718,000 during 2016. On a year-to-date basis, the global investment portfolio had a fair value gain of \$9,903,000 compared to a fair value gain of \$6,922,000 during 2016.

The 2017 year-to-date gain for the global investment portfolio included investment gains from Europe of \$4,582,000, United Kingdom \$2,983,000 and Asia \$2,762,000. The main contributors to the year-to-date gains included Unilever plc and Keyence Corporation partially offset by negative performance from Sabre Corporation and AutoZone, Inc.

The Company's net realized gain, all of which relates to the global investment portfolio, was \$4,672,000 in the third quarter of 2017 compared to \$4,433,000 in 2016. On a year-to-date basis, the net realized gain was \$12,827,000 compared to \$25,483,000 during 2016. The largest year-to-date contributors for realized gains were BWX Technologies, Inc., Rockwell Collins, Inc., Apple Inc. and Equifax, Inc.

### *Net investment income*

The Company's net investment income in the third quarter of 2017 decreased to \$2,067,000 compared to \$2,476,000 for the third quarter of 2016, a decrease of 16.5%. On a year-to-date basis, net investment income decreased to \$8,365,000 from \$8,383,000 for the same period in the prior year. On a per Common Share basis, net investment income for the quarter was \$0.37 in 2017 compared to \$0.44 in 2016 and on a year-to-date basis remained at \$1.49 for both periods.

Foreign dividend income in the third quarter of 2017 increased by 2.9% to \$1,919,000 from \$1,865,000 in 2016 and on a year-to-date basis increased by 4.9% to \$7,610,000 from \$7,257,000 in 2016. The yield-to-market dividend return for the portfolio has remained consistent compared to the same periods in the prior year.

Canadian dividend income in the third quarter of 2017 decreased to \$1,260,000 from \$1,642,000 in 2016 and on a year-to-date basis decreased to \$4,644,000 from \$4,795,000 in 2016. The decrease in dividends is due to timing of accrued income.

Expenses increased by 13.3% during the quarter to \$871,000 from \$769,000 in 2016 and on a year-to-date basis increased by 9.8% to \$2,707,000 from \$2,466,000. 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):

|                                     | Sept. 30<br>2017 | June 30<br>2017 | March 31<br>2017 | Dec. 31<br>2016 | Sept. 30<br>2016 | June 30<br>2016 | March 31<br>2016 | Dec. 31<br>2015 |
|-------------------------------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Net investment income <sup>1</sup>  | \$ 2,067         | \$ 3,268        | \$ 3,030         | \$ 2,522        | \$ 2,476         | \$ 3,077        | \$ 2,830         | \$ 1,602        |
| Net income (loss)                   | \$ (9,917)       | \$ 18,357       | \$ 57,028        | \$ 22,409       | \$ 24,140        | \$ 19,763       | \$ (26,475)      | \$ 29,520       |
| Earnings (loss) per Common Share    | \$ (1.76)        | \$ 3.26         | \$ 10.16         | \$ 3.99         | \$ 4.30          | \$ 3.51         | \$ (4.71)        | \$ 5.26         |
| NAV per Common Share                | \$ 147.68        | \$ 149.74       | \$ 146.77        | \$ 138.26       | \$ 134.42        | \$ 130.27       | \$ 126.90        | \$ 132.62       |
| Quarterly NAV return % <sup>2</sup> | (1.2)            | 2.2             | 7.3              | 3.0             | 3.3              | 2.8             | (3.6)            | 4.1             |

<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 September 30, 2017, 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.

On February 8, 2017, the Board of Directors approved an increase in the quarterly dividends from \$0.15 to \$0.30 per Common Share, effective for the first quarter of 2017.

An additional dividend of \$1.34 per Common Share was paid in the first quarter of fiscal 2017 along with the \$0.30 quarterly dividend. This additional dividend represents the distribution of the prior year's net investment income, after payment of quarterly dividends.

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

# *Economic Investment Trust Limited*

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

### **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.



Duncan N.R. Jackman  
Chairman and President

November 2, 2017

# *Economic Investment Trust Limited*

## STATEMENTS OF NET ASSETS (Unaudited)

|   | September 30<br>2017 | December 31<br>2016 |
|---|----------------------|---------------------|
|   | (000's)              |                     |
| <b>ASSETS</b>                             |                      |                     |
| Cash and cash equivalents                 | \$ 8,343             | \$ 12,941           |
| Short-term investments                    | 12,938               | 9,580               |
| Investments (Note 4)                      | 881,527              | 823,312             |
| Receivable in respect of investments sold | 2,012                | —                   |
| Dividends and interest receivable         | 663                  | 810                 |
| Other assets                              | 300                  | 281                 |
|   | <u>905,783</u>       | <u>846,924</u>      |
| <b>LIABILITIES</b>                        |                      |                     |
| Accrued expenses                          | 718                  | 674                 |
| Income taxes payable                      | 359                  | 1,551               |
| Deferred tax liabilities                  | 75,416               | 68,299              |
|   | <u>76,493</u>        | <u>70,524</u>       |
| Net assets                                | <u>\$ 829,290</u>    | <u>\$ 776,400</u>   |
| <b>SHAREHOLDERS' EQUITY</b>               |                      |                     |
| Share capital                             | \$ 204,691           | \$ 204,691          |
| Share premium                             | 1,474                | 1,474               |
| Retained earnings                         | 623,125              | 570,235             |
| Total shareholders' equity                | <u>\$ 829,290</u>    | <u>\$ 776,400</u>   |

(See accompanying notes)

# *Economic Investment Trust Limited*

## STATEMENTS OF INCOME (LOSS) (Unaudited)

|   | Three months ended<br>September 30 |                  | Nine months ended<br>September 30 |                  |
|---|------------------------------------|------------------|-----------------------------------|------------------|
|   | 2017                               | 2016             | 2017                              | 2016             |
|   | (000's)                            |                  |                                   |                  |
| <b>INCOME</b>   |                                    |                  |                                   |                  |
| Dividends   |                                    |                  |                                   |                  |
| Foreign   | \$ 1,919                           | \$ 1,865         | \$ 7,610                          | \$ 7,257         |
| Canadian  | 1,260                              | 1,642            | 4,644                             | 4,795            |
|   | <u>3,179</u>                       | <u>3,507</u>     | <u>12,254</u>                     | <u>12,052</u>    |
| Interest and securities lending income                          | 53                                 | 43               | 162                               | 98               |
| Fair value change in investments (Note 5)                       | (13,921)                           | 24,975           | 65,698                            | 10,535           |
|   | <u>(10,689)</u>                    | <u>28,525</u>    | <u>78,114</u>                     | <u>22,685</u>    |
| <b>EXPENSES</b>   |                                    |                  |                                   |                  |
| Investment management and<br>administrative costs               | 730                                | 642              | 2,141                             | 1,934            |
| Office and miscellaneous  | 29                                 | 37               | 216                               | 187              |
| Directors' remuneration   | 64                                 | 47               | 204                               | 162              |
| Transfer, registrar and custody fees                            | 32                                 | 27               | 99                                | 110              |
| Professional fees   | 16                                 | 16               | 47                                | 73               |
|   | <u>871</u>                         | <u>769</u>       | <u>2,707</u>                      | <u>2,466</u>     |
| <b>INCOME (LOSS) BEFORE<br/>INCOME TAXES</b>                    | <u>(11,560)</u>                    | <u>27,756</u>    | <u>75,407</u>                     | <u>20,219</u>    |
| Provision for (recovery of) income taxes                        | (1,643)                            | 3,616            | 9,939                             | 2,791            |
| <b>NET INCOME (LOSS)</b>  | <u>\$ (9,917)</u>                  | <u>\$ 24,140</u> | <u>\$ 65,468</u>                  | <u>\$ 17,428</u> |
| <b>EARNINGS (LOSS) PER COMMON<br/>SHARE - BASIC AND DILUTED</b> | <u>\$ (1.76)</u>                   | <u>\$ 4.30</u>   | <u>\$ 11.66</u>                   | <u>\$ 3.10</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, 2017</b>        | <b>\$ 204,691</b> | <b>\$ 1,474</b>  | <b>\$ 570,235</b>    | <b>\$ 776,400</b> |
| <b>Net income for the period</b> | <b>—</b>          | <b>—</b>         | <b>65,468</b>        | <b>65,468</b>     |
| <b>Dividends</b>                 | <b>—</b>          | <b>—</b>         | <b>(12,578)</b>      | <b>(12,578)</b>   |
| <b>At September 30, 2017</b>     | <b>\$ 204,691</b> | <b>\$ 1,474</b>  | <b>\$ 623,125</b>    | <b>\$ 829,290</b> |
| At January 1, 2016               | \$ 204,691        | \$ 1,474         | \$ 538,541           | \$ 744,706        |
| Net income for the period        | —                 | —                | 17,428               | 17,428            |
| Dividends                        | —                 | —                | (7,300)              | (7,300)           |
| At September 30, 2016            | \$ 204,691        | \$ 1,474         | \$ 548,669           | \$ 754,834        |

## STATEMENTS OF CASH FLOW (Unaudited)

|  | Nine months<br>ended September 30 |                  |
|--|-----------------------------------|------------------|
|  | 2017                              | 2016             |
|  | (000's)                           |                  |
| <b>Net inflow (outflow) of cash related to the following activities:</b> |                                   |                  |
| <b>Operating</b>   |                                   |                  |
| Net income   | \$ 65,468                         | \$ 17,428        |
| Adjustments for:   |                                   |                  |
| Fair value change in investments   | (65,698)                          | (10,535)         |
| Net purchases of short-term investments                                  | (3,358)                           | —                |
| Purchases of investments   | (34,982)                          | (82,193)         |
| Proceeds from sale of investments  | 42,466                            | 80,006           |
| Dividends and interest receivable  | 147                               | (550)            |
| Deferred taxes   | 7,117                             | (82)             |
| Net change in other assets and liabilities                               | (3,180)                           | 3,289            |
|  | <b>7,980</b>                      | <b>7,363</b>     |
| <b>Financing</b>   |                                   |                  |
| Dividends paid to shareholders   | (12,578)                          | (7,300)          |
| <b>Net (decrease) increase in cash and cash equivalents</b>              | <b>(4,598)</b>                    | <b>63</b>        |
| Cash and cash equivalents at beginning of the period                     | 12,941                            | 23,141           |
| <b>Cash and cash equivalents at end of the period</b>                    | <b>\$ 8,343</b>                   | <b>\$ 23,204</b> |
| Additional information for operating activities:                         |                                   |                  |
| Interest received  | \$ 87                             | \$ 22            |
| Dividends received, net of withholding taxes                             | 11,517                            | 10,446           |
| Income taxes paid  | 3,177                             | 457              |
| Income tax refunds   | —                                 | 13               |

(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 November 2, 2017.

### **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, 2016.

### **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, 2016 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 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 September 30, 2017, the Company had \$739,965,000 (December 31, 2016 - \$693,451,000) of Level 1 and \$141,562,000 (December 31, 2016 - \$129,861,000) of Level 3 equity investments. Level 1 investments represented 83.9% (December 31, 2016 - 84.2%) and Level 3 investments represented 16.1% (December 31, 2016 - 15.8%) of the carrying value of investments. During the nine months ended September 30, 2017, 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>September 30 |           | Nine months ended<br>September 30 |           |
|-----------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
|                                   | 2017                               | 2016      | 2017                              | 2016      |
|                                   | (000's)                            |           |                                   |           |
| Net realized gain                 | \$ 4,672                           | \$ 4,433  | \$ 12,827                         | \$ 25,483 |
| Change in unrealized appreciation | (18,593)                           | 20,542    | 52,871                            | (14,948)  |
|                                   | \$ (13,921)                        | \$ 24,975 | \$ 65,698                         | \$ 10,535 |

### 6. Related party information

The Company has investments in related parties (see Schedule of Investment Portfolio) with a fair value at September 30, 2017 of \$494,021,000 (December 31, 2016 - \$438,226,000) representing 56.0% (December 31, 2016 - 53.2%) of the total investments. Dividends from these companies for the three months ended September 30, 2017 amounted to \$1,193,000 (2016 - \$1,602,000). Dividends from these companies for the nine months ended September 30, 2017 amounted to \$4,497,000 (2016 - \$4,695,000).

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 September 30, 2017 amounted to \$116,000 (2016 - \$110,000) and \$356,000 (2016 - \$327,000) for the nine months ended September 30, 2017.

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.

### 7. Subsequent event

Common Share dividends of \$0.30 per Common Share were declared by the Board of Directors at its meeting on November 2, 2017, with a record and payable date of December 15, 2017 and December 29, 2017, respectively.

# *Economic Investment Trust Limited*

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT SEPTEMBER 30, 2017 (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>2</sup> .....                                  | \$ 2,974       | \$ 25,729         |                           |
| 760,348             | Cenovus Energy Inc. ....   | 10,021         | 9,512             |                           |
| 386,206             | E-L Financial Corporation Limited <sup>2</sup> .....                           | 26,116         | 326,730           |                           |
| 33,101              | Ecando Investments Limited<br>Classes A, B and common <sup>2, 3, 5</sup> ..... | 4,139          | 61,916            |                           |
| 176,414             | The Fulcrum Investment Company<br>Limited <sup>2, 3</sup> .....                | 464            | 14,210            |                           |
| 216,900             | NVG Holdings Limited<br>Classes B, C, D, E and common <sup>1, 2, 3</sup> ..... | 2,115          | 51,162            |                           |
| 153,700             | Prairiesky Royalty Ltd. ....   | 3,403          | 4,908             |                           |
| 4,837               | TGV Holdings Limited Class B <sup>1, 2, 3, 4</sup> .....                       | 318            | 14,274            |                           |
|                     |  | <u>49,550</u>  | <u>508,441</u>    | 57.7                      |
|                     | <b>United States</b>   |                |                   |                           |
| 168,644             | Allison Transmission Holdings Inc. ....  | 5,544          | 7,899             |                           |
| 95,019              | AmerisourceBergen Corporation .....  | 7,228          | 9,813             |                           |
| 23,227              | Apple Inc. ....  | 2,116          | 4,468             |                           |
| 38,875              | AutoNation, Inc. ....  | 2,306          | 2,303             |                           |
| 14,215              | AutoZone, Inc. ....  | 12,782         | 10,557            |                           |
| 204,378             | BB&T Corporation .....   | 7,433          | 11,973            |                           |
| 29,277              | Becton, Dickinson and Company .....  | 2,803          | 7,160             |                           |
| 177,078             | Cisco Systems, Inc. ....   | 4,385          | 7,432             |                           |
| 30,940              | Equifax, Inc. ....   | 1,787          | 4,093             |                           |
| 42,540              | Gentex Corporation .....   | 799            | 1,051             |                           |
| 46,497              | Harris Corporation .....   | 4,576          | 7,641             |                           |
| 76,205              | Johnson & Johnson .....  | 6,063          | 12,364            |                           |
| 16,283              | Kimberly-Clark Corporation .....   | 2,489          | 2,391             |                           |
| 49,142              | McDonald's Corporation .....   | 5,573          | 9,609             |                           |
| 156,236             | Microsoft Corporation .....  | 6,422          | 14,524            |                           |
| 89,075              | Northern Trust Corporation .....   | 5,550          | 10,219            |                           |
| 122,812             | Oracle Corporation .....   | 4,473          | 7,411             |                           |
| 54,515              | PepsiCo, Inc. ....   | 4,397          | 7,581             |                           |
| 85,319              | Philip Morris International Inc. ....  | 8,120          | 11,820            |                           |
| 369,111             | Sabre Corporation .....  | 12,703         | 8,338             |                           |
| 48,486              | Texas Instruments Inc. ....  | 4,888          | 5,424             |                           |
| 102,064             | Union Pacific Corporation .....  | 9,376          | 14,772            |                           |
| 89,626              | United Technologies Corporation .....  | 8,877          | 12,984            |                           |
| 147,004             | Walgreen Boots Alliance Inc. ....  | 10,419         | 14,167            |                           |
|                     |  | <u>141,109</u> | <u>205,994</u>    | 23.3                      |
|                     | Total North America .....  | <u>190,659</u> | <u>714,435</u>    | 81.0                      |



# Economic Investment Trust Limited

## SCHEDULE OF INVESTMENT PORTFOLIO AS AT SEPTEMBER 30, 2017 (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          | \$ 6,988          |                           |
| 212,371             | Bureau Veritas S.A. ....                | 5,348             | 6,836             |                           |
| 102,291             | Colruyt S.A. ....                       | 5,496             | 6,535             |                           |
| 42,107              | Hannover Rueckversicherung SE.....      | 2,842             | 6,313             |                           |
| 72,068              | Heineken Holding N.V.....               | 3,705             | 8,446             |                           |
| 95,433              | Henkel AG & Co. KGaA.....               | 6,192             | 14,472            |                           |
| 63,911              | Nestle S.A. ....                        | 4,790             | 6,675             |                           |
| 122,884             | Novartis AG.....                        | 9,556             | 13,119            |                           |
| 154,334             | Publicis Groupe .....                   | 10,936            | 13,444            |                           |
| 21,707              | Roche Holding AG .....                  | 5,284             | 6,910             |                           |
|                     |   | <u>60,642</u>     | <u>89,738</u>     | 10.2                      |
|                     | <b>United Kingdom</b>                   |                   |                   |                           |
| 175,138             | British American Tobacco plc.....       | 9,854             | 13,678            |                           |
| 142,979             | Imperial Brands plc .....               | 5,503             | 7,610             |                           |
| 73,158              | Micro Focus International plc.....      | 2,434             | 2,919             |                           |
| 365,166             | Sage Group plc (The) .....              | 2,032             | 4,264             |                           |
| 358,839             | UBM plc .....                           | 4,020             | 4,094             |                           |
| 147,608             | Unilever plc .....                      | 5,806             | 10,657            |                           |
|                     |   | <u>29,649</u>     | <u>43,222</u>     | 4.9                       |
|                     | <b>Asia</b>                             |                   |                   |                           |
| 198,000             | Kakaku.com Inc. ....                    | 3,789             | 3,149             |                           |
| 74,400              | Kao Corporation.....                    | 2,565             | 5,462             |                           |
| 9,300               | Keyence Corporation .....               | 1,257             | 6,162             |                           |
| 155,100             | Komatsu Ltd.....                        | 3,704             | 5,506             |                           |
| 151,900             | Unicharm Corporation.....               | 3,404             | 4,340             |                           |
| 3,987,000           | Want Want China Holdings Ltd.....       | 4,709             | 3,497             |                           |
|                     |   | <u>19,428</u>     | <u>28,116</u>     | 3.2                       |
|                     | <b>Brazil</b>                           |                   |                   |                           |
| 694,512             | Cielo S.A. ....                         | 5,960             | 6,016             | 0.7                       |
|                     | <b>Total investments</b> .....          | <u>\$ 306,338</u> | <u>\$ 881,527</u> | <u>100.0</u>              |

<sup>1</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>2</sup> These companies and Economic are related parties.

<sup>3</sup> Not listed on a stock exchange.

<sup>4</sup> Investment in associate.

<sup>5</sup> The net assets of Ecando Investments Limited are invested primarily in shares of E-L Financial Corporation Limited.

# *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 Services Trust

### **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)



