

# **Economic Investment Trust Limited**



**SECOND QUARTER REPORT  
JUNE 30, 2003**

# *Economic Investment Trust Limited*

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

### **Operating Results**

#### *Net investment income*

The Company's net investment income in the second quarter of 2003 was \$1,944,000 compared to 2002 net investment income of \$2,168,000. On a year to date basis, the net investment income decreased to \$2,912,000 in 2003 from \$3,085,000 in 2002. On a per common share basis, net investment income for the quarter decreased to \$0.34 in 2003 from \$0.38 in 2002 and on a year to date basis to \$0.51 in 2003 from \$0.54 in 2002.

Foreign dividend income in the second quarter decreased to \$2,590,000 in 2003 from \$2,822,000 in 2002 and increased to \$3,629,000 in 2003 from \$3,287,000 in 2002 on a year to date basis. Canadian dividend income in the second quarter decreased to \$438,000 in 2003 from \$492,000 in 2002 and to \$941,000 in 2003 from \$1,140,000 in 2002 on a year to date basis. Interest income in the second quarter amounted to \$93,000 in 2003, compared to \$24,000 in 2002 and increased to \$142,000 in 2003 from \$111,000 on a year to date basis. The increase in interest income is attributable to the securities lending program initiated in the fall of 2002.

Operating expenses in the quarter amounted to \$304,000 (2002 - \$352,000) and to \$660,000 (2002 - \$658,000) on a year to date basis.

#### *Net gain (loss) on investments*

The Company's realized gain and change in unrealized appreciation of investments for the quarter ended June 30, 2003 was a net gain of \$42,721,000 compared with a net loss of \$4,439,000 in 2002. On a year to date basis, the Company earned a net gain of \$21,553,000 in 2003 compared to a net gain of \$3,560,000 in 2002. The performance of the investment portfolio reflects that most equity markets posted double digit returns (in local currency) in the current quarter. However, the return of the Company's investment portfolio was adversely effected by the strength of the Canadian dollar against most currencies. The increase in performance in 2002 was primarily a result of the increase in the value of the investment in E-L Financial Corporation Limited which was partially offset by a decline in the value of securities held in the U.S. communications sector.

The investment portfolio of the Company is comprised of a mix of high and low yielding global investments. Net investment income, net realized gain (loss) on investments, net change in unrealized appreciation of investments and net asset value per share will vary significantly from period to period depending on the investment mix which moves with the constantly changing economic environment.

### **Dividends**

Regular quarterly dividends were paid on our preferred shares. The year to date dividends out of net investment income on the common shares outstanding totalled \$0.30 per share in both 2002 and 2003.

### **Assets**

Total assets at June 30, 2003 are \$392,124,000 which is an increase of 9.4% from the total assets of \$358,455,000 at December 31, 2002. The cost of investments in foreign equities at June 30, 2003 was \$229,380,000, an increase from \$225,347,000 at December 31, 2002. The market value of foreign securities at June 30, 2003 was \$209,942,000 compared to \$204,934,000 at December 31, 2002. The cost of investments in Canadian equities increased in the first two quarters of 2003 to \$30,372,000 from \$26,444,000 at December 31, 2002. The market value of Canadian equities at June 30, 2003 was \$168,312,000 compared to \$149,514,000 at December 31, 2002.

# *Economic Investment Trust Limited*

## **Assets (continued)**

Overall, the Company's net equity value per share increased to \$65.22 at June 30, 2003 from \$61.12 at December 31, 2002. Based on reinvestment of distributions at month-end net equity values, the Company's value per share increased by 7.2% in the six months ended June 30, 2003. During the comparable period, the TSX 300 Total Return Index increased by 6.7% while the MSCI World Index (C\$) decreased by 4.7%.

## **Liquidity and Capital Resources**

Liquidity refers to the Company's ability to maintain a cash flow adequate to fund operations and capital investments on a timely and cost efficient basis. The objective of the Company is to earn an above average rate of return through long-term capital appreciation and dividend income. The investment portfolio will be principally invested in equities. 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's income from operations after payment of taxable dividends is used to fund operating costs as well as provide resources for additional investments.

August 6, 2003

Duncan N.R. Jackman  
Chairman of the Board

# *Economic Investment Trust Limited*

## **CONSOLIDATED BALANCE SHEET (Unaudited)**

	June 30 2003	December 31 2002
	(thousands of dollars)	
<b>Assets</b>		
Investments, at indicated market value (cost - \$259,752; December 31, 2002 - \$251,791) .....	\$ 377,759	\$ 351,303
Cash .....	9,294	3,601
Receivable in respect of investments sold .....	2,787	1,448
Accrued income on investments .....	511	747
Income taxes receivable .....	1,610	1,200
Other assets .....	163	156
	<u>392,124</u>	<u>358,455</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities .....	241	166
Payable in respect of investments purchased .....	6,808	392
Future income taxes on unrealized net capital gains .....	17,313	13,156
	<u>24,362</u>	<u>13,714</u>
Net assets, at indicated market value .....	<u>\$ 367,762</u>	<u>\$ 344,741</u>
<b>Shareholders' Equity</b>		
Capital stock .....	\$ 206,147	\$ 206,157
Contributed surplus .....	1,493	1,493
Unrealized appreciation of investments .....	100,685	85,025
Retained earnings .....	59,437	52,066
Total shareholders' equity .....	<u>\$ 367,762</u>	<u>\$ 344,741</u>

APPROVED BY THE BOARD:

DUNCAN N.R. JACKMAN      Director

J. CHRISTOPHER BARRON      Director

(See accompanying note)

# Economic Investment Trust Limited

## CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
	(thousands of dollars)			
<b>INVESTMENT INCOME</b>				
Dividends:				
Foreign .....	\$ 2,590	\$ 2,822	\$ 3,629	\$ 3,287
Canadian .....	438	492	941	1,140
	3,028	3,314	4,570	4,427
Interest .....	93	24	142	111
	3,121	3,338	4,712	4,538
Expenses:				
Operating .....	304	352	660	658
Income taxes .....	873	818	1,140	795
	1,177	1,170	1,800	1,453
<b>NET INVESTMENT INCOME .....</b>	<b>1,944</b>	<b>2,168</b>	<b>2,912</b>	<b>3,085</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>				
Net realized gain on investments .....	2,565	3,596	5,893	2,572
Net change in unrealized appreciation of investments .....	40,156	(8,035)	15,660	988
<b>NET GAIN (LOSS) ON INVESTMENTS .....</b>	<b>42,721</b>	<b>(4,439)</b>	<b>21,553</b>	<b>3,560</b>
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS .....</b>	<b>\$ 44,665</b>	<b>\$ (2,271)</b>	<b>\$ 24,465</b>	<b>\$ 6,645</b>

## CONSOLIDATED STATEMENTS OF REALIZED GAIN (Unaudited)

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
	(thousands of dollars)			
Proceeds on sales of investments .....	\$ 34,476	\$ 30,299	\$ 59,410	\$ 258,442
Cost of investments, beginning of period .....	259,011	257,360	251,791	260,018
Cost of investments purchased during the period .....	32,077	30,429	60,157	257,183
	291,088	287,789	311,948	517,201
Cost of investments, end of period .....	259,752	261,947	259,752	261,947
Cost of investments sold during the period .....	31,336	25,842	52,196	255,254
Realized gain on investments sold before taxes .....	3,140	4,457	7,214	3,188
Taxes on realized net taxable capital gains .....	575	861	1,321	616
<b>Net realized gain on investments .....</b>	<b>\$ 2,565</b>	<b>\$ 3,596</b>	<b>\$ 5,893</b>	<b>\$ 2,572</b>

(See accompanying note)

# *Economic Investment Trust Limited*

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (Unaudited)

	Three months ended June 30		Six months ended June 30	
	2003	2002	2003	2002
	(thousands of dollars)			
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS .....	\$ 44,665	\$ (2,271)	\$ 24,465	\$ 6,645
DISTRIBUTIONS TO SHAREHOLDERS				
Common shareholders				
From net investment income .....	(843)	(843)	(1,685)	(1,685)
Cash distributions to preferred shareholders .....	(18)	(19)	(36)	(38)
	(861)	(862)	(1,721)	(1,723)
CAPITAL SHARE TRANSACTIONS				
Purchase of preferred shares for cancellation .....	—	—	(10)	—
TAXATION CHANGES				
Net decrease in refundable dividend tax on hand .....	143	121	287	41
INCREASE (DECREASE) IN NET ASSETS .....	43,947	(3,012)	23,021	4,963
NET ASSETS, BEGINNING OF PERIOD .....	323,815	382,062	344,741	374,087
NET ASSETS, END OF PERIOD .....	\$ 367,762	\$ 379,050	\$ 367,762	\$ 379,050

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Unaudited)

	Six months ended June 30	
	2003	2002
	(thousands of dollars)	
RETAINED EARNINGS, BEGINNING OF PERIOD .....	\$ 52,066	\$ 57,755
Add:		
Net investment income .....	2,912	3,085
Net realized gain on investments .....	5,893	2,572
Refundable taxes recovered .....	574	574
	61,445	63,986
Deduct:		
Dividends from net investment income .....	1,721	1,723
Provision for refundable taxes .....	287	533
	2,008	2,256
RETAINED EARNINGS, END OF PERIOD .....	\$ 59,437	\$ 61,730

(See accompanying note)

# Economic Investment Trust Limited

## CONSOLIDATED STATEMENT OF INVESTMENTS AS AT JUNE 30, 2003 (Unaudited)

Number of shares or par value		Cost	Market value	% of Market
		(000's)		
<b>North America</b>				
<b>Canada</b>				
212,638	Algoma Central Corporation .....	\$ 2,973	\$ 9,516	
176,071	Bank of Nova Scotia .....	4,565	10,582	
326,567	E-L Financial Corporation Limited .....	6,790	85,397	
31,776	Ecando Investments Limited			
	Classes A, B and common .....	4,139	22,140	
176,414	The Fulcrum Investment Company Limited .....	464	6,661	
41,044	Magna Int'l Inc. Class A .....	4,294	3,724	
214,251	NVG Holdings Limited *			
	Classes B, C, D, E and common .....	2,115	19,773	
31,300	Petro-Canada .....	1,604	1,689	
54,200	Royal Bank of Canada .....	3,109	3,110	
4,765	TGV Holdings Limited Cl. B * .....	319	5,720	
		<u>30,372</u>	<u>168,312</u>	44.6
<b>United States</b>				
83,600	Altria Group, Inc. ....	6,961	5,161	
99,000	Bank of America Corporation .....	9,690	10,631	
58,100	Chubb Corporation .....	5,531	4,737	
87,400	ConocoPhillips .....	6,706	6,508	
76,500	Entergy Corporation .....	5,471	5,486	
247,100	Hewlett-Packard Company .....	6,907	7,151	
28,000	Lehman Brothers Holdings Inc. ....	2,583	2,529	
53,000	Metlife, Inc. ....	1,969	2,039	
110,300	Norfolk Southern Corp. ....	3,092	2,878	
91,000	Pfizer Inc. ....	5,738	4,223	
33,400	Pulte Homes Inc. ....	2,865	2,798	
651,000	Qwest Communications Int'l. ....	7,208	4,228	
38,800	Sempra Energy .....	1,519	1,504	
114,000	Travelers Property Casualty Corp. ....	2,488	2,463	
64,000	Valero Energy Corporation .....	3,389	3,159	
123,000	Washington Mutual Inc. ....	6,408	6,902	
47,000	Whirlpool Corporation .....	5,412	4,068	
20,000	XL Capital Ltd. Class A .....	2,448	2,256	
		<u>86,385</u>	<u>78,721</u>	20.8
	<b>Total North America</b>	<u>116,757</u>	<u>247,033</u>	65.4
<b>Latin America</b>				
76,151	Cemex SA .....	2,988	2,306	
159,900	Petroleo Brasileiro SA ADR .....	4,744	3,859	
		<u>7,732</u>	<u>6,165</u>	1.6

\* The net assets of NVG Holdings Limited and TGV Holdings Limited are invested primarily in the shares of The Bank of Nova Scotia.

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# Economic Investment Trust Limited

## CONSOLIDATED STATEMENT OF INVESTMENTS AS AT JUNE 30, 2003 (Continued) (Unaudited)

Number of shares or par value		Cost	Market value	% of Market
		(000's)		
<b>Europe, excluding United Kingdom</b>				
25,400	AMB Generali Holding AG .....	3,897	2,263	
224,500	Arcelor .....	4,590	3,552	
70,000	Assurance Generale de France .....	5,249	3,918	
47,500	Autoliv Inc. ....	1,573	1,737	
44,900	Aventis S.A. ....	3,155	3,357	
24,300	BNP Paribas SA .....	1,819	1,678	
86,700	Compagnie de Saint-Gobain .....	5,224	4,636	
81,200	DSM NV .....	5,060	4,652	
181,400	ENI S.P.A. ....	3,978	3,728	
102,309	Grupo Dragados SA .....	2,163	2,798	
30,312	HeidelbergCement AG .....	1,463	909	
135,900	Parmalat Finanziaria SPA .....	570	573	
87,000	PSA Peugeot Citroen .....	5,823	5,742	
17,600	Societe Generale .....	1,641	1,516	
120,800	Svenska Cellulosa AB .....	6,237	5,608	
110,770	Volkswagen AG .....	6,697	6,358	
		59,139	53,025	14.0
<b>United Kingdom</b>				
265,000	Aviva PLC .....	2,581	2,500	
89,100	Glaxosmithkline PLC. ....	2,455	2,443	
372,881	Intercontinental Hotels Group PLC .....	3,156	3,595	
87,981	Mitchells & Butlers PLC .....	445	461	
1,273,800	Royal & Sun Alliance Insurance Group .....	8,472	3,963	
807,900	Safeway PLC .....	5,890	4,665	
2,118,000	Vodafone Group PLC .....	5,328	5,627	
120,400	Whitbread PLC .....	1,620	1,832	
		29,947	25,086	6.6
<b>Asia</b>				
90,000	Canon Inc. ....	5,007	5,612	
7,500,000	China Petroleum & Chemical Corp. ....	2,351	2,444	
604,280	Compal Electronics Reg .....	5,330	5,501	
31,463	Emerging Markets Investor Fund .....	1,071	822	
88,000	Honda Motor Company Limited .....	5,696	4,531	
51,200	Kookmin Bank .....	2,077	2,097	
200,000	Nippon Meat Packers Inc. ....	2,493	2,566	
637,000	Nissan Motor Co. ....	6,937	8,275	
34,200	Posco .....	4,408	4,824	
32,300	Promise Co., Ltd. ....	1,457	1,641	
238,000	Shinhan Financial Group Co., Ltd. ....	3,040	3,371	
15,000	Singapore Airlines Ltd. ....	111	131	
38,500	Takefuji Corporation .....	3,772	2,714	
		43,750	44,529	11.8
<b>Australia</b>				
68,600	Qantas Airways Limited .....	195	204	0.1

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# *Economic Investment Trust Limited*

## CONSOLIDATED STATEMENT OF INVESTMENTS AS AT JUNE 30, 2003 (Continued) (Unaudited)

<u>Number of shares or par value</u>		<u>Cost</u>	<u>Market value</u>	<u>% of Market</u>
			(000's)	
	<b>South Africa</b>			
131,800	Sappi Limited .....	2,232	2,212	0.6
	<b>Total equities</b> .....	259,752	378,254	100.1
	<b>Forward Currency Contracts, net -</b>			
	<b>Schedule 1</b> .....	—	(495)	(0.1)
	<b>Total investments</b> .....	<u>\$ 259,752</u>	<u>\$ 377,759</u>	<u>100.0</u>

### Schedule 1 - Forward Currency Contracts, net

#### Forward contracts to sell foreign currencies for Canadian dollars:

<u>Par value (in millions)</u>	<u>Currency</u>	<u>Number of Contracts</u>	<u>Contract Rates</u>	<u>Settlement Date</u>	<u>Unrealized gain (loss)</u>
41.1	USD	2	1.3529 - 1.3590	Sept. 18, 2003	\$ (495)

All counterparties currently have an approved credit rating equivalent to A-1+.

# *Economic Investment Trust Limited*

## **NOTE TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

### **Summary of significant accounting policies**

#### Basis of presentation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods as the most recent 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, 2002.

# *Economic Investment Trust Limited*

## **CORPORATE INFORMATION**

### **Head Office**

10th Floor  
165 University Avenue  
Toronto, Ontario  
M5H 3B8  
Telephone: 416-947-2578  
Fax: 416-868-6199

### **Investment Manager**

Sanford C. Bernstein & Co., LLC, New York

### **Auditors**

PricewaterhouseCoopers LLP, Toronto

### **Transfer Agent and Registrar**

Computershare Investor Services Inc.  
100 University Avenue, 9th Floor  
Toronto, Ontario  
M5J 2Y1  
Telephone: 416-981-9633  
Toll Free: 1-800-564-6253

### **Stock Exchange Listings**

Common	EVT
Series A Preferred	EVT.PR.A

### **Net Asset Value**

The Company's Net Asset Value per share is published every Saturday in the Mutual fund section of the Globe and Mail (under "Fund Asset Values") and in the National Post (under "Closed End Funds").