

# Mutual Accumulating Fund

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January 9th, 1978.

## TO THE SHAREHOLDERS:

The performance of your Fund during the past quarter and over the past year has been as follows:

|   | Market Value<br>Dec. 31, 1977 | Percentage Change Since:<br>Sept. 30, 1977 | Dec. 31, 1976 |
|---|-------------------------------|--|---------------|
| MUTUAL ACCUMULATING FUND                        |                               |  |               |
| Net Asset Value Per Share                       | \$ 5.95                       | + 7.8%                                     | + 11.5%*      |
| Toronto Stock Exchange<br>"300" Composite Index | 1059.59                       | + 6.0%                                     | + 4.8%        |

\* Taking into account the income distribution of 20.192¢ per share, paid to shareholders of record January 19, 1977.

The net asset value of MUTUAL INCOME FUND as at December 31, 1977 was \$4.78 per share. A distribution of 5.67¢ per share was declared payable January 20, 1978 to shareholders of record December 30, 1977.

The latest three months saw the re-emergence of disparate relative performances of the equity markets in the United States and Canada. The Toronto Index rallied from late October to exceed its July high at year end, while the Dow Jones Index displayed a basically see-saw pattern, ending up showing little change, from the same date. During October, both markets declined in concert as concern over Canada's trade balance and weakening dollar put pressure on our equity prices; continued signs of tightening by the U.S. Federal Reserve, coupled with continued evidence of a faltering economic recovery, also sent prices lower in that country.

At the end of October, however, the markets began to diverge. While alarm over the U.S. trade deficit and higher short-term interest rates in the United States kept pressure on prices, the release of favourable third quarter earnings (up 15%), and signs of a stabilizing dollar, caused equity prices to cease declining and begin to firm in Canada in early November. Also, in this country, the long delayed March budget with its investment incentives for individuals and inventory allowances for corporations, finally began to move through the Parliamentary process aided by the "fiscal statement" from the new Finance Minister which added some modest sweeteners to the package. Most dramatic of all, however, in terms of its contribution

HOWARD  
DEPARTMENT  
MANAGEMENT

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JAN 28 1978



to this improved relative performance, was the resurgent oil and gas group. After a period of consolidation in October during the over-all market decline, the group began to advance strongly in November, each new surge anticipating the bi-monthly sales of land in the West Pembina area. As the month ended, some indication that short-term interest rates had peaked allowed the market to rally somewhat in the U.S., while in Canada the advance gained momentum.

In the final month of the year the divergence between markets continued, as the Canadian market accelerated its advance, helped by news of a good gain of 5% in real GNP in the third quarter after the second quarter decline. The U.S. market remained basically unchanged as familiar concerns about the trade deficit and Carter Administration vacillating were joined by worries about the fate of the Federal Reserve under a new chairman.

These U.S. problems, plus some worrisome news on the unemployment front, had their effects on Canadian stock prices but the underlying strength persisted, propelled once again by the oil and gas group. Here, rumours of drilling success in West Pembina were coupled with ever-increasing acreage sale prices, culminating in \$20,000/acre being paid near year end, close to a discovery well. This dramatic performance contrasted sharply with that of the metals group, where both Inco and Falconbridge plan massive lay-offs in the new year and where inventories of most metals world-wide are at record levels. On balance, however, these contrasting group performances translated into a fairly robust over-all advance of 6% in the three month period.

Over the past quarter, we made changes within the communications, financial services, metals and oil groups, added to the consumer products and merchandising groups, and reduced the forest products, utilities, and pipelines groups. These transactions resulted in a slight addition to cash reserves during the period.

The past year, after many vicissitudes, has been a fairly successful one for Canadian equity investors, particularly in selected industry areas. Your Fund has had worthwhile representation in some of these areas and we will endeavour to seek out similar opportunities in the year ahead.

We are enclosing a contribution form for the use of those of our shareholders who already have an MFMC Personal Retirement Plan. Payments made between January 1st and March 1st, 1978 may be claimed as contributions for the 1977 tax year or, alternatively, held over for the 1978 tax year.

If you are interested in setting up an MFMC Retirement Savings Plan, and taking advantage of the tax benefits available, please let us know and we will be happy to send you an application form.

On behalf of the Manager  
Yours sincerely,

J. F. Cole,  
C. R. Major,  
N. J. Short,  
H. E. Thompson.



MUTUAL ACCUMULATING FUND

PORTFOLIO VALUATION

AS AT DECEMBER 31, 1977

| <u>Par Value<br/>or<br/>Shares Held</u> | <u>Security</u>                   | <u>Market<br/>Price</u> | <u>Market Value<br/>Canadian \$</u> | <u>% of<br/>Assets</u> |
|---|-----------------------------------|-------------------------|-------------------------------------|------------------------|
|   | Cash, Accruals & Short Term Notes |                         | \$ 6,380,034                        | 29.5%                  |
|   | <u>Communications</u>             |                         |                                     |                        |
| 7,400                                   | Maclean-Hunter "A"                | \$ 13.00                | \$ 96,200                           |                        |
| 19,000                                  | Southam Press "A"                 | 23.00                   | 437,000                             |                        |
|   |                                   |                         | \$ 533,200                          | 2.5%                   |
|   | <u>Consumer Products</u>          |                         |                                     |                        |
| 25,125                                  | Imasco Ltd. "A"                   | \$ 30.50                | \$ 766,313                          |                        |
| 14,600                                  | Seagram Ltd.                      | 24.375                  | 355,875                             |                        |
|   |                                   |                         | \$ 1,122,188                        | 5.2%                   |
|   | <u>Financial Services</u>         |                         |                                     |                        |
| 51,100                                  | Bank of Nova Scotia               | \$ 19.50                | \$ 996,450                          |                        |
| 52,300                                  | Bank of Montreal                  | 18.00                   | 941,400                             |                        |
| 26,600                                  | Cdn. Imperial Bank of Commerce    | 25.125                  | 668,325                             |                        |
|   |                                   |                         | \$ 2,606,175                        | 12.1%                  |
|   | <u>Golds</u>                      |                         |                                     |                        |
| 6,500                                   | Dome Mines                        | \$ 70.25                | \$ 456,625                          |                        |
| 14,800                                  | Kerr Addison Mines "A"            | 13.125                  | 194,250                             |                        |
|   |                                   |                         | \$ 650,875                          | 3.0%                   |
|   | <u>Merchandising</u>              |                         |                                     |                        |
| 23,100                                  | Dylex Diversified Pfd. "A"        | \$ 8.00                 | \$ 184,800                          |                        |
| 28,700                                  | Hudson's Bay Company              | 18.50                   | 530,950                             |                        |
|   |                                   |                         | \$ 715,750                          | 3.3%                   |
|   | <u>Metals &amp; Minerals</u>      |                         |                                     |                        |
| 25,000                                  | Alcan Aluminium                   | \$ 28.75                | \$ 718,750                          |                        |
| 8,800                                   | Cominco Ltd.                      | 29.25                   | 257,400                             |                        |
| 11,600                                  | Inco Ltd. "A"                     | 18.875                  | 218,950                             |                        |
|   |                                   |                         | \$ 1,195,100                        | 5.5%                   |



| <u>Par Value<br/>or<br/>Shares Held</u> | <u>Security</u>                                  | <u>Market<br/>Price</u> | <u>Market Value<br/>Canadian \$</u> | <u>% of<br/>Assets</u> |
|---|--|-------------------------|-------------------------------------|------------------------|
|   | <u>Oil &amp; Gas</u>                             |                         |                                     |                        |
| 26,000                                  | BP Canada Ltd.                                   | \$ 17.625               | \$ 458,250                          |                        |
| 25,400                                  | Pacific Petroleum                                | 43.75                   | 1,111,250                           |                        |
| 28,200                                  | Shell Canada                                     | 17.75                   | 500,550                             |                        |
| 25,400                                  | Siebens Oil                                      | 26.00                   | 660,400                             |                        |
| 2,700                                   | Texaco Canada                                    | 40.00                   | <u>108,000</u>                      |                        |
|   |  |                         | \$ <u>2,838,450</u>                 | 13.1%                  |
|   | <u>Paper &amp; Forest Products</u>               |                         |                                     |                        |
| 20,300                                  | B.C. Forest Products                             | \$ 21.25                | \$ <u>431,375</u>                   | 2.0%                   |
|   | <u>Pipelines</u>                                 |                         |                                     |                        |
| \$28,000                                | Alberta Gas Trunk Line "A"<br>7.50% due 01/02/90 | \$165.116               | \$ 46,232                           |                        |
| 37,800                                  | TransCanada PipeLines                            | 15.25                   | <u>576,450</u>                      |                        |
|   |  |                         | \$ <u>622,682</u>                   | 2.9%                   |
|   | <u>Real Estate &amp; Construction</u>            |                         |                                     |                        |
| 25,725                                  | Nu-West Development "A"                          | \$ 12.00                | \$ <u>308,700</u>                   | 1.4%                   |
|   | <u>Transportation</u>                            |                         |                                     |                        |
| 56,500                                  | Canadian Pacific Ltd.                            | \$ 17.375               | \$ <u>981,688</u>                   | 4.5%                   |
|   | <u>Utilities</u>                                 |                         |                                     |                        |
| 11,500                                  | Bell Canada                                      | \$ 54.25                | \$ 623,875                          |                        |
| 12,375                                  | Calgary Power "A"                                | 37.00                   | <u>457,875</u>                      |                        |
|   |  |                         | \$ <u>1,081,750</u>                 | 5.0%                   |
|   | <u>Foreign</u>                                   |                         |                                     |                        |
| 334,985                                 | Guardian World Equity Fund                       | \$ 6.458                | \$ <u>2,163,332</u>                 | 10.0%                  |
|   | <u>TOTAL NET ASSETS</u>                          |                         | \$ <u>21,631,299</u>                | <u>100.0%</u>          |
|   | <u>SHARES OUTSTANDING</u>                        |                         | <u>3,638,541</u>                    |                        |
|   | <u>NET ASSET VALUE PER SHARE</u>                 |                         | \$ <u>5.95</u>                      |                        |