

# UNITED CORPORATIONS LIMITED



SECOND QUARTER REPORT

SEPTEMBER 30, 2018



# UNITED CORPORATIONS LIMITED

Incorporated under the Laws of Canada



## THE PERIOD AT A GLANCE (Unaudited)

	As at Sept. 30 2018	As at March 31 2018
Net equity value per Common Share <sup>1</sup>	\$ 143.15	\$ 138.40
Net assets <sup>2</sup>	\$ 1,753,304	\$ 1,695,470
Number of Common Shares outstanding at period end	12,194,193	12,194,193

	Six months ended September 30	
	2018	2017
Net investment income per Common Share <sup>1</sup>	\$ 1.36	\$ 1.26
Dividends per Common Share		
Quarterly	\$ 0.60	\$ 0.60
Additional <sup>3</sup>	\$ 0.78	\$ 1.12
Net income (loss) per Common Share	\$ 6.12	\$ (0.17)
Net investment income <sup>2</sup>	\$ 16,756	\$ 15,556

<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 annual distribution of the prior year's annual net investment income after payment of Preferred Share dividends and quarterly Common Share 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 United Corporations Limited.

# UNITED CORPORATIONS 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 United Corporations Limited ("United" or the "Company") for the second quarter of fiscal 2019 should be read in conjunction with: the March 31, 2018 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 fiscal 2019; 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 disclosure will occur, or if they do, that any benefits may be derived from them.

### The Company

United is a closed-end investment corporation that trades on the Toronto Stock Exchange. United 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 1929 and has never bought back its Common Shares. The Common Shares have historically traded at a discount to their net asset value, ranging from approximately 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.

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

The majority of the Company's investment portfolio is actively managed by Jarislowsky Fraser Limited ("Jarislowsky") and ValueInvest Asset Management S.A. ("ValueInvest"). Each of the managers has a global equity mandate. As of September 30, 2018, \$807,989,000 (March 31, 2018 - \$761,235,000) and \$853,879,000 (March 31, 2018 - \$825,610,000) of equity investments were managed by Jarislowsky and ValueInvest, respectively.

Jarislowsky is a global investment manager whose head office is in Montreal, Quebec, with offices in Toronto, Calgary, Vancouver, and New York. Jarislowsky selects investments using a long-term bottom-up investment philosophy, which is to purchase good companies with strong economics and management, whose shares are selling below Jarislowsky's estimate of intrinsic value. The portfolio normally consists of 45 - 75 investments and includes publicly traded equity securities of companies outside of Canada, with between 80% - 100% allocated to non-cyclical blue chip industry leaders with large capitalizations, and the balance allocated to cyclical smaller market capitalization companies. The target geographic mix expressed as a percentage of the portfolio are generally U.S. equities 30 - 70%; international equities 30 - 70%; and emerging markets 0 - 10%. During the first fiscal quarter, Scotiabank acquired Jarislowsky.

ValueInvest is a global investment manager whose head office is in the Grand Duchy of Luxembourg. ValueInvest provides portfolio advisory services to Canadian clients through Pier 21 Asset Management Inc., a registered portfolio manager based in Montreal, Quebec. ValueInvest's investment objective is to provide long-term growth primarily through capital appreciation, by investing in a portfolio of common stocks and equivalent securities of major companies around the world. The investment philosophy rests on its core conviction that long-term preservation and accumulation of wealth can best be achieved through a combination of attractive valuations and thorough assessment of the quality of the businesses. There is no target geographic mix for the portfolio. The portfolio normally consists of 30 - 80 companies. During the first fiscal quarter, ValueInvest was acquired by Macquarie Investment Management.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

On September 29, 2017, United allocated approximately \$100 million of its assets to emerging markets mandates, \$50 million invested in LSV Emerging Markets Small Cap Equity Fund, LP ("LSV") and \$50 million in Burgundy Emerging Markets Equity Fund ("Burgundy"). The LSV mandate is managed by LSV Asset Management, a value equity manager whose head office is in Chicago, Illinois. The Burgundy mandate is managed by Burgundy Asset Management Ltd., a fundamental value-driven investment manager whose head office is in Toronto. The risks of foreign investments are generally higher in emerging markets. As of September 30, 2018, the top 5 largest country exposures represented 67% of these emerging market mandates which includes China (27%), India (12%), South Korea (12%), Brazil (8%) and Taiwan (8%). As of September 30, 2018, \$48,538,000 (March 31, 2018 - \$55,266,000) and \$48,985,000 (2017 - \$53,109,000) of equity investments were managed by LSV and Burgundy, respectively. In addition, the Jarislowsky investment portfolio included two investments within emerging markets totaling \$17,743,000 (March 31, 2018 - \$17,618,000).

The Company also has a long-term investment in Algoma Central Corporation ("Algoma"), a public shipping company. Algoma is a related party and is a reporting issuer which trades on the Toronto Stock Exchange with a profile on SEDAR. The investment in Algoma is consistent with the Company's investment strategy and contributes to achieving the investment objective of the Company. Further related party information is provided in Note 11 to the financial statements in the March 31, 2018 Annual Report.

### 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 primarily foreign equities. 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. In order to determine its net equity value per Common Share, the Company deducts the cost of redemption of its Preferred Shares from its net assets.

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. In order to determine its net investment income per Common Share, the Company deducts the dividends paid and accrued on its Preferred Shares from net investment income.

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>September 30 2018</b>	March 31 2018
Net assets	<b>\$ 1,753,304</b>	\$ 1,695,470
Deduct:		
Cost of redemption		
First Preferred Shares	<b>1,567</b>	1,567
1959 and 1963 Series Second Preferred Shares	<b>6,180</b>	6,180
	<b>7,747</b>	7,747
Net equity value	<b>\$ 1,745,557</b>	\$ 1,687,723
Common Shares outstanding	<b>12,194,193</b>	12,194,193
Net equity value per Common Share	<b>\$ 143.15</b>	\$ 138.40

# UNITED CORPORATIONS 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 September 30		Six months ended September 30	
	2018	2017	2018	2017
Net income (loss)	\$ 25,494	\$ (22,652)	\$ 74,851	\$ (1,935)
Add (deduct):				
Fair value change in investments	(24,630)	30,654	(68,027)	20,162
Tax on fair value change in investments	3,177	(4,061)	8,838	(2,671)
Net investment income of a limited partnership <sup>1,2</sup>	512	—	1,094	—
Net investment income <sup>1</sup>	4,553	3,941	16,756	15,556
Deduct:				
Dividends paid and accrued on Preferred Shares	95	95	189	189
Net investment income, net of dividends paid and accrued on Preferred Shares <sup>1</sup>	\$ 4,458	\$ 3,846	\$ 16,567	\$ 15,367
Common Shares outstanding	12,194,193	12,194,193	12,194,193	12,194,193
Net investment income per Common Share <sup>1</sup>	\$ 0.37	\$ 0.32	\$ 1.36	\$ 1.26

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

<sup>2</sup> Represents allocation of dividends net of expenses.

### Net Equity Value per Common Share

The Company's net equity value per Common Share increased to \$143.15 at September 30, 2018 compared to \$141.36 at June 30, 2018 and \$138.40 at March 31, 2018.

With dividends reinvested at month-end net equity values, the Company's net equity value return for the quarter was 1.5% (2018 – (1.4%)) and 4.4% (2018 – nil) year to date.

Investments managed by ValueInvest had a pre-tax year-to-date total return of 5.0% (2018 – (1.5%)), whereas investments managed by Jarislowsky had a total return of 7.7% (2018 – 2.4%). Emerging markets mandates had a pre-tax year-to-date total return of negative 7.2% for Burgundy and negative 11.5% for LSV.

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 net 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 stock market indices, were as follows:

	Three months ended September 30		Six months ended September 30	
	(%)			
MSCI World Index	3.3		7.6	
S&P 500 Index	5.9		11.9	
S&P/TSX Composite Index	(0.6)		6.2	
MSCI Emerging Markets	(2.6)		(8.4)	

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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
		(%)
2009	\$ 54.81	(28.1)
2010	67.33	24.4
2011	71.82	7.9
2012	72.32	1.9
2013	82.03	15.7
2014	99.50	23.2
2015	117.86	20.2
2016	120.66	4.0
2017	132.32	11.6
2018	138.40	6.4

#### Compound annual growth\*

2009 - 2018 - 10 years	7.6
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\*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 net income for the second quarter of fiscal 2019 of \$25,494,000 compared to a net loss of \$22,652,000 in fiscal 2018. On a year-to-date basis, net income was \$74,851,000 compared to a net loss of \$1,935,000 in fiscal 2018. The net income per Common Share for the second quarter of fiscal 2019 was \$2.08 compared to a net loss of \$1.86 for fiscal 2018. On a year-to-date basis, net income per share was \$6.12 compared to a net loss \$0.17 per share in fiscal 2018.

The Company's fair value change in investments for the second quarter of fiscal 2019 was a gain of \$24,630,000 compared to a loss of \$30,654,000 for the same period in fiscal 2018. On a year-to-date basis, the fair value change in investments was a gain of \$68,027,000 compared to a loss of \$20,162,000 for the six months ended September 30, 2017. During the quarter, positive performance of \$56,458,000 in the U.S. was offset by negative investment performance of \$9,511,000 in the United Kingdom, \$7,281,000 in Emerging Markets, \$6,598,000 in Canada, \$5,240,000 in Europe, and \$2,174,000 in Japan. On a year-to-date basis, U.S. investments contributed \$93,150,000 offset by negative investment performance of \$13,180,000 in Emerging Markets, \$4,859,000 in Japan, \$4,713,000 in Canada and \$4,254,000 in Europe.

Significant contributors to the year-to-date investment performance included Microsoft Corporation, Pfizer Inc., and Merck & Co., Inc. with fair value investment gains of \$9,773,000, \$7,756,000, and \$7,659,000 respectively. Significant detractors to the year-to-date investment performance included LSV, Publicis Groupe, and Burgundy with fair value investment losses of \$6,382,000, \$5,541,000 and \$4,800,000 respectively.

The net realized gain was \$42,982,000 for the second quarter of fiscal 2019 compared to \$46,358,000 for the same period in the prior year. On a year-to-date basis, the net realized gain was \$79,817,000 compared to \$70,990,000 in fiscal 2018. The largest year-to-date contributors to the net realized gain in fiscal 2019 were from the sales of securities in the U.S. for a gain of \$44,896,000, Europe for \$16,993,000, Japan for \$7,931,000, United Kingdom for \$5,503,000 and Emerging Markets for \$4,514,000.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net investment income

The Company's net investment income in the second quarter of fiscal 2019 increased to \$4,553,000 compared to \$3,941,000 for the second quarter of fiscal 2018. On a year-to-date basis, net investment income increased to \$16,756,000 from \$15,556,000 for the same period in the prior year. On a per Common Share basis, net investment income for the quarter increased to \$0.37 in fiscal 2019 compared to \$0.32 in 2018 and on a year-to-date basis increased to \$1.36 in 2019 compared to \$1.26 in 2018.

Foreign dividend income in the second quarter increased to \$7,637,000 from \$6,892,000 for the same quarter in the prior year and on a year-to-date basis increased to \$25,386,000 from \$24,438,000 in fiscal 2018. Foreign dividend income is impacted by changes in the composition of the investment portfolio, variability in foreign exchange rates and dividend yields.

Net investment income includes \$512,000 (2018 - \$nil) for the quarter and \$1,094,000 (2018 - \$nil) on a year-to-date basis of net investment income of a limited partnership. This amount for accounting purposes is included in fair value change in investments in the statement of comprehensive income.

Canadian dividend income in the second quarter of fiscal 2019 increased to \$362,000 from \$290,000 for the same quarter in the prior year and on a year-to-date basis increased to \$725,000 from \$580,000 in fiscal 2018. The increase occurred as a result of dividend increases by Algoma.

Expenses during the quarter increased to \$2,652,000 in fiscal 2019 compared to \$2,113,000 for the same period in the prior year, and on a year-to-date basis increased to \$5,203,000 compared to \$4,452,000 in the prior year. The majority of the increase relates to higher investment management and administrative costs resulting from growth in the investment portfolio compared to the prior year. In addition, the management fees for the emerging markets mandates are relatively higher.

### Quarterly Results

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

	Sept. 30 2018	June 30 2018	March 31 2018	Dec. 31 2017	Sept. 30 2017	June 30 2017	March 31 2017	Dec. 31 2016
Investments	\$ 1,806,525	\$ 1,785,381	\$ 1,747,067	\$ 1,741,035	\$ 1,642,607	\$ 1,672,747	\$ 1,673,802	\$ 1,589,654
Net investment income <sup>1</sup>	\$ 4,553	\$ 12,203	\$ 5,315	\$ 3,631	\$ 3,941	\$ 11,615	\$ 5,196	\$ 3,699
Net income (loss)	\$ 25,494	\$ 49,357	\$ 5,828	\$ 98,944	\$ (22,652)	\$ 20,717	\$ 75,146	\$ 9,900
Per Common Share:								
Net investment income <sup>1</sup>	\$ 0.37	\$ 0.99	\$ 0.43	\$ 0.29	\$ 0.32	\$ 0.94	\$ 0.41	\$ 0.29
Net income (loss)	\$ 2.08	\$ 4.04	\$ 0.47	\$ 8.10	\$ (1.86)	\$ 1.69	\$ 6.15	\$ 0.80
NAV	\$ 143.15	\$ 141.36	\$ 138.40	\$ 138.23	\$ 130.43	\$ 132.59	\$ 132.32	\$ 126.67

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

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 first quarter of the fiscal year. From time to time, the Company receives additional one-time dividends arising from significant corporate transactions. 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 investment managers of the portfolio and may fluctuate significantly as illustrated by the past eight quarters. The returns generated by the investment managers may not correlate with benchmark returns.



# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Share Data

As at September 30, 2018, the following shares were issued and outstanding: 52,237 First Preferred Shares, 80,290 1959 Series Second Preferred Shares, 119,710 1963 Series Second Preferred Shares, and 12,194,193 Common Shares.

### Liquidity and Capital Resources

The Company's dividend policy is to distribute annual net investment income, after payment of Preferred Share dividends, in the form of Common Share dividends.

The Company pays quarterly dividends on its Common and Preferred Shares together with an additional Common Share dividend representing the balance of net investment income for the previous fiscal year. The quarterly dividend is \$0.30 per Common Share and \$0.375 per Preferred Share.

During the first fiscal quarter, the Company paid an additional cash dividend of \$0.78 (2018 - \$1.12) per Common Share representing the balance of net investment income for the previous fiscal year.

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 United, including the Company's Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

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

November 1, 2018

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF NET ASSETS (Unaudited)

	September 30 2018	March 31 2018
	(000's)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,943	\$ 19,161
Investments (Note 4)	1,806,525	1,747,067
Dividends and interest receivable	2,999	2,149
Other assets	3,735	3,474
	<b>1,825,202</b>	<b>1,771,851</b>
<b>LIABILITIES</b>		
Accrued expenses	1,322	1,330
Income taxes payable	595	3,331
Dividends payable	3,753	3,753
Deferred tax liabilities	66,228	67,967
	<b>71,898</b>	<b>76,381</b>
<b>NET ASSETS</b>	<b>\$ 1,753,304</b>	<b>\$ 1,695,470</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	\$ 541,000	\$ 541,000
Retained earnings	1,212,304	1,154,470
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 1,753,304</b>	<b>\$ 1,695,470</b>

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF OPERATIONS (Unaudited)

	Three months ended Sept. 30		Six months ended Sept. 30	
	2018	2017	2018	2017
	(000's)			
<b>INCOME</b>				
Dividends				
Foreign	\$ 7,637	\$ 6,892	\$ 25,386	\$ 24,438
Canadian	362	290	725	580
	<b>7,999</b>	7,182	<b>26,111</b>	25,018
Interest and securities lending income	290	279	547	482
Fair value change in investments (Note 5)	24,630	(30,654)	68,027	(20,162)
	<b>32,919</b>	(23,193)	<b>94,685</b>	5,338
<b>EXPENSES</b>				
Investment management and administrative costs	2,355	1,840	4,507	3,780
Transfer, registrar and custody fees	125	130	264	271
Directors' and officer's remuneration	114	89	228	190
Office and miscellaneous	38	39	163	177
Professional fees	20	15	41	34
	<b>2,652</b>	2,113	<b>5,203</b>	4,452
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>30,267</b>	(25,306)	<b>89,482</b>	886
Provision for (recovery of) income taxes	4,773	(2,654)	14,631	2,821
<b>NET INCOME (LOSS)</b>	<b>\$ 25,494</b>	\$ (22,652)	<b>\$ 74,851</b>	\$ (1,935)
<b>EARNINGS (LOSS) PER COMMON SHARE</b>				
<b>BASIC AND DILUTED</b>	<b>\$ 2.08</b>	\$ (1.86)	<b>\$ 6.12</b>	\$ (0.17)

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF CHANGES IN EQUITY (Unaudited)

	Share capital	Retained earnings	Total
		(000's)	
<b>At April 1, 2018</b>	<b>\$ 541,000</b>	<b>\$ 1,154,470</b>	<b>\$ 1,695,470</b>
Net income for the period	—	74,851	74,851
<b>Dividends</b>			
First Preferred Shares	—	(39)	(39)
Second Preferred Shares	—	(150)	(150)
Common Shares	—	(16,828)	(16,828)
<b>At September 30, 2018</b>	<b>\$ 541,000</b>	<b>\$ 1,212,304</b>	<b>\$ 1,753,304</b>
At April 1, 2017	\$ 541,000	\$ 1,080,302	\$ 1,621,302
Net loss for the period	—	(1,935)	(1,935)
<b>Dividends</b>			
First Preferred Shares	—	(39)	(39)
Second Preferred Shares	—	(150)	(150)
Common Shares	—	(20,974)	(20,974)
<b>At September 30, 2017</b>	<b>\$ 541,000</b>	<b>\$ 1,057,204</b>	<b>\$ 1,598,204</b>

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## STATEMENTS OF CASH FLOW (Unaudited)

Six months ended Sept. 30

	2018	2017
	(000's)	
<b>Net inflow (outflow) of cash related to the following activities:</b>		
<b>Operating</b>		
Net income (loss)	\$ 74,851	\$ (1,935)
Adjustments for:		
Fair value change in investments	(68,027)	20,162
Purchases of investments	(207,458)	(264,301)
Proceeds from sale of investments	216,027	275,334
Dividends and interest receivable	(850)	270
Deferred taxes	(1,739)	(12,158)
Net change in other assets and liabilities	(3,005)	(322)
	<b>9,799</b>	17,050
<b>Financing</b>		
Dividends paid to shareholders	(17,017)	(21,163)
<b>Net decrease in cash and cash equivalents</b>	<b>(7,218)</b>	<b>(4,113)</b>
Cash and cash equivalents at beginning of the period	19,161	17,938
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 11,943</b>	<b>\$ 13,825</b>
<b>Additional information for operating activities:</b>		
Interest received	\$ 143	\$ 78
Dividends received, net of withholding taxes	21,848	21,810
Income taxes paid	15,995	11,850

(See accompanying notes)

# UNITED CORPORATIONS LIMITED

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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

United Corporations Limited (“United” 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.

United trades on the Toronto Stock Exchange under the symbols UNC, UNC PR.A., UNC PR.B. and UNC PR.C. United 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 1, 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 March 31, 2018.

### 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.

#### *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.

### 4. Financial instruments

The Company adopted IFRS 9 “Financial Instruments” for the reporting period commencing April 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 September 30, 2018, the Company had \$1,709,002,000 (March 31, 2018 - \$1,638,692,000) of Level 1 and \$97,523,000 (March 31, 2018 - \$108,375,000) of Level 2 equity investments. There were no year-to-date transfers between Level 1, 2 or 3 equity investments.

# UNITED CORPORATIONS LIMITED

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

The Company's Level 2 equity investments are represented by units in the Burgundy Emerging Markets Equity Fund and the LSV Emerging Markets Small Cap Fund, LP. The Company has the right to redeem its units in these investments within a 30-to-90-day period depending on the investment. The fair value of these investments is based on the net asset values provided by the administrators.

### 5. Fair value change in investments

The fair value change in investments is comprised as follows:

	Three months ended September 30		Six months ended September 30	
	2018	2017	2018	2017
	(000's)			
Net realized gain	\$ 42,982	\$ 46,358	\$ 79,817	\$ 70,990
Change in unrealized appreciation	(18,352)	(77,012)	(11,790)	(91,152)
	\$ 24,630	\$ (30,654)	\$ 68,027	\$ (20,162)

### 6. Related party transactions

Included in the Company's Schedule of Investment Portfolio is Algoma Central Corporation ("Algoma"), a related party, with a fair value at September 30, 2018 of \$47,134,000 (March 31, 2018 - \$51,847,000). Dividend income from Algoma for the three months and six months ended September 30, 2018 amounted to \$362,000 (2018 - \$290,000) and \$725,000 (2018 - \$580,000), respectively.

E-L Financial holds a 52.0% 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 managers and are paid monthly. The total fees for the three months and six months ended September 30, 2018 amounted to \$598,000 (2018 - \$446,000) and \$1,052,000 (2018 - \$935,000), respectively.

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, and \$0.375 per Preferred Share for First Preferred Shares, Second Preferred Shares, 1959 Series and Second Preferred Shares, 1963 Series, were declared by the Board of Directors at its meeting on November 1, 2018, with a record and payable date of February 5, 2019 and February 15, 2019, respectively.

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

# UNITED CORPORATIONS LIMITED

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

Number of Shares/Units		Cost	Carrying value	% of Carrying value
		(000's)		
<b>United States</b>				
47,590	3M Co.....	\$ 4,896	\$ 12,981	
224,970	Abbott Laboratories .....	12,928	21,364	
7,694	Alphabet Inc. Class A.....	5,102	12,022	
15,869	Alphabet Inc. Class C.....	11,149	24,517	
61,710	Becton, Dickinson and Company.....	4,998	20,850	
73,610	Berkshire Hathaway Inc. Class B.....	15,258	20,402	
6,520	Booking Holdings Inc.....	15,737	16,745	
223,200	Clorox Company (The).....	26,304	43,458	
135,490	Colgate-Palmolive Company.....	7,496	11,742	
505,910	Comcast Corporation Class A.....	20,090	23,190	
685,100	ConAgra Brands, Inc.....	20,893	30,127	
51,420	Costco Wholesale Corp.....	10,256	15,634	
217,940	DaVita Inc.....	19,490	20,208	
82,240	EOG Resources, Inc.....	5,450	13,581	
191,860	Fiserv, Inc.....	3,601	20,460	
766,300	General Mills, Inc.....	38,839	42,576	
703,200	Hormel Foods Corporation.....	23,156	35,865	
120,922	Iqvia Holdings Inc.....	11,624	20,309	
113,940	JPMorgan Chase & Co.....	4,993	16,643	
324,700	Kimberly-Clark Corporation.....	34,483	47,766	
125,366	Lamb Weston Holdings, Inc.....	3,081	10,808	
75,170	MasterCard, Inc. Class A.....	9,491	21,662	
398,800	Merck & Co., Inc.....	27,396	36,623	
236,600	Microsoft Corporation .....	11,271	35,029	
197,300	Mondelez International Inc. Class A.....	8,841	10,972	
233,760	Noble Energy, Inc.....	10,393	9,438	
288,250	Oracle Corporation.....	11,536	19,239	
81,930	PepsiCo, Inc.....	5,788	11,857	
697,500	Pfizer Inc.....	24,516	39,791	
104,870	TJX Companies, Inc.....	9,556	15,207	
63,580	UnitedHealth Group Incorporated .....	11,191	21,896	
183,740	US Bancorp.....	5,528	12,561	
132,100	Verisk Analytics Inc. Class A.....	7,792	20,615	
195,420	Walgreen Boots Alliance Inc.....	11,077	18,442	
116,600	Waste Management Inc.....	6,455	13,639	
214,211	Wells Fargo & Company .....	11,422	14,575	
		<u>472,077</u>	<u>782,794</u>	43.3



# UNITED CORPORATIONS LIMITED

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

Number of Shares/Units		Cost	Carrying value	% of Carrying value
		(000's)		
<b>Europe, excluding United Kingdom</b>				
34,586	Adidas AG .....	\$ 5,337	\$ 10,909	
91,658	Anheuser-Busch Inbev SA ADR.....	10,336	10,390	
429,129	AXA .....	11,579	14,921	
960,582	Banco Santander Central Hispano S.A.....	8,646	6,255	
104,077	Bayer AG .....	11,468	11,923	
777,289	Davide Campari-Milano S.p.A.....	3,048	8,564	
453,879	Group Danone S.A.....	38,070	45,471	
109,852	Kerry Group plc.....	8,935	15,716	
1,283,816	Koninklijke Ahold Delhaize NV .....	21,632	38,084	
297,042	L'Air Liquide S.A.....	37,319	50,550	
33,431	LVMH Moet Hennessy Louis Vuitton SA.....	6,293	15,295	
391,506	Nestlé SA .....	29,291	42,428	
672,320	Nordea Bank AB.....	11,051	9,482	
343,712	Novo Nordisk A/S.....	19,709	20,881	
1,205,728	Orange S.A.....	20,884	24,874	
470,650	Publicis Groupe.....	40,216	36,392	
149,697	Roche Holding AG.....	45,188	47,139	
114,956	Schneider Electric S.A.....	9,090	11,966	
1,011,724	Securitas AB Class B .....	13,627	22,796	
75,921	Siemens AG .....	8,518	12,555	
44,260	Sika AG .....	8,134	8,377	
124,255	Sodexo S.A.....	17,815	17,047	
16,923	Swatch Group AG (The) .....	6,573	8,748	
169,940	Unilever NV .....	12,462	12,243	
		<u>405,221</u>	<u>503,006</u>	27.8
<b>Japan</b>				
152,200	Asahi Group Holdings Co.....	5,043	8,545	
47,600	Fanuc Corporation .....	8,249	11,623	
194,100	Kao Corporation .....	13,983	20,300	
946,800	KDDI Corporation.....	27,661	33,881	
20,736	Keyence Corporation .....	2,596	15,597	
242,300	Kirin Holdings Company, Limited .....	3,478	8,041	
202,700	Lawson Inc.....	17,663	15,990	
148,500	Makita Corporation.....	3,999	9,633	
382,900	Mitsubishi Tanabe Pharma Corporation.....	6,078	8,294	
87,700	Secom Co. Ltd. ....	5,151	9,260	
566,100	Seven & i Holdings Co., Ltd. ....	30,665	32,655	
61,300	Tsuruha Holdings Inc.....	9,106	9,776	
		<u>133,672</u>	<u>183,595</u>	10.2
<b>United Kingdom</b>				
426,900	Compass Group plc .....	12,496	12,290	
223,938	Diageo plc .....	7,416	10,275	
2,560	Diageo plc ADR.....	194	469	
5,935,886	G4S plc .....	23,900	24,241	
295,140	GlaxoSmithKline plc.....	7,483	7,654	
119,620	Intertek Group plc.....	9,159	10,077	
90,752	Jardine Lloyd Thompson Group plc.....	2,176	2,903	
143,561	Next plc .....	9,959	13,310	
471,740	Nielsen Holdings plc.....	21,858	16,891	
693,000	RELX plc .....	17,580	18,898	
266,100	Royal Dutch Shell plc.....	10,364	11,821	
2,738,410	Vodafone Group plc .....	11,521	7,602	
		<u>134,106</u>	<u>136,431</u>	7.6

# UNITED CORPORATIONS LIMITED

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

Number of Shares/Units		Cost	Carrying value	% of Carrying value
		(000's)		
	<b>Emerging Markets</b>			
34,840	Alibaba Group Holding Limited ADR .....	\$ 8,220	\$ 7,431	
1,975,947	Burgundy Emerging Markets Equity Fund .....	50,866	48,985	
205,505	LSV Emerging Markets Small Cap Equity Fund, LP .....	49,716	48,538	
192,900	Tencent Holdings Limited .....	11,896	10,312	
		<u>120,698</u>	<u>115,266</u>	6.4
	<b>Canada</b>			
3,625,680	Algora Central Corporation <sup>1</sup> .....	6,201	47,134	2.6
	<b>Australia</b>			
675,530	Amcor Limited .....	10,361	8,646	
283,849	Australia and New Zealand Banking Group Limited .....	7,669	7,484	
		<u>18,030</u>	<u>16,130</u>	0.9
	<b>Hong Kong</b>			
1,235,700	AIA Group Limited .....	10,118	14,286	0.8
	<b>Singapore</b>			
319,100	DBS Group Holdings Limited .....	7,823	7,883	0.4
	<b>Total Investments</b> .....	<u>\$1,307,946</u>	<u>\$1,806,525</u>	<u>100.0</u>

<sup>1</sup> This company and United are related parties.

# UNITED CORPORATIONS LIMITED

## CORPORATE INFORMATION

### HEAD OFFICE

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

### EXTERNAL INVESTMENT MANAGERS

Burgundy Asset Management Ltd., Toronto  
Jarislowsky Fraser Limited, Toronto  
LSV Asset Management, Chicago  
ValueInvest Asset Management S.A., Luxembourg

### 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 LISTINGS

	<u>Ticker Symbol</u>
Common	UNC
First Preferred	UNC.PR.A
Second Preferred, 1959 Series	UNC.PR.B
Second Preferred, 1963 Series	UNC.PR.C

### NET EQUITY VALUE

The Company's Net Equity Value per Common Share is published on the Company's website.

### REPORTING PROCEDURE FOR ACCOUNTING AND AUDITING MATTERS

If you have a complaint regarding accounting, internal controls or auditing matters or a concern regarding questionable accounting or auditing matters, you should submit your written complaint or concern to:

Mr. Michael J. White  
Chairman of the Audit Committee  
United Corporations Limited  
165 University Avenue, 10th Floor  
Toronto, Ontario  
M5H 3B8  
Email: [michaeljwhite@sympatico.ca](mailto:michaeljwhite@sympatico.ca)  
Phone: 416-505-2677

You may submit your complaint or concern anonymously. Your submission will be kept confidential and will be treated in accordance with the Company's policy for reporting accounting or auditing matters.

### WEBSITE

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

