

# 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 third quarter of fiscal 2017 should be read in conjunction with: the March 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 fiscal 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 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 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.

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 December 31, 2016, \$733,153,000 (March 31, 2016 - \$678,642,000) and \$812,086,000 (March 31, 2016 - \$796,173,000) 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 ranges expressed as a percentage of the portfolio are generally U.S. equities 30 - 70%; international equities 30 - 70%; and emerging markets 0 - 10%.

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.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016 Annual Report and in the schedule of investment portfolio in this interim report beginning on page 14.

### 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 generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies. Canadian GAAP is IFRS for these financial statements. 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 on its Preferred 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>December 31 2016</b>	March 31 2016
Net assets	<b>\$ 1,552,443</b>	\$ 1,479,121
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>\$ 1,544,696</b>	\$ 1,471,374
Common Shares outstanding	<b>12,194,193</b>	12,194,193
Net equity value per Common Share	<b>\$ 126.67</b>	\$ 120.66

# 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 December 31		Nine months ended December 31	
	2016	2015	2016	2015
Net income	\$ 9,900	\$ 120,478	\$ 97,140	\$ 117,197
Add (deduct):				
Fair value change in investments	(7,149)	(133,769)	(90,375)	(110,304)
Tax on fair value change in investments	948	17,724	11,975	14,615
Net investment income <sup>(1)</sup>	3,699	4,433	18,740	21,508
Deduct:				
Dividends paid on Preferred Shares	95	95	284	284
Net investment income, net of dividends paid on Preferred Shares <sup>(1)</sup>	\$ 3,604	\$ 4,338	\$ 18,456	\$ 21,224
Common Shares outstanding	12,194,193	12,194,193	12,194,193	12,194,193
Net investment income per Common Share <sup>(1)</sup>	\$ 0.29	\$ 0.36	\$ 1.51	\$ 1.74

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

### Net Equity Value per Common Share

The Company's net equity value per Common Share increased to \$126.67 at December 31, 2016 compared to \$126.07 at September 30, 2016 and \$120.66 at March 31, 2016. With dividends reinvested at month-end net equity values, the net equity value return for the quarter was 0.6% (2016 – 8.5%) and 6.6% (2016 – 8.3%) year to date.

Investments managed by ValueInvest presented a pre-tax year-to-date total return of 4.9% (2016 – 15.7%), whereas investments managed by Jarislowsky had a total return of 11.8% (2016 – 5.8%).

As the Company is a taxable Canadian corporation, the Company's net equity value is net of a provision for income taxes 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 United's net equity value and stock market indices, were as follows:

	Three months ended December 31	Nine months ended December 31
	(%)	
United net equity value	0.6	6.6
MSCI World Index	4.4	12.2
S&P 500 Index	6.3	14.4
S&P/TSX Composite Index	4.5	15.8

# 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\*

	<u>NAV per Common Share</u>	<u>Annual Growth</u>
		(%)
2007	\$ 86.03	13.7
2008	77.18	(9.4)
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

#### Compound annual growth\*

2007 - 2016 - 10 years	6.1
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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 third quarter of fiscal 2017 of \$9,900,000 compared to \$120,478,000 in fiscal 2016. On a year-to-date basis, net income was \$97,140,000 compared to \$117,197,000 in fiscal 2016. Net income per Common Share for the third quarter of fiscal 2017 decreased to \$0.80 compared to \$9.87 for fiscal 2016. On a year-to-date basis net income per share was \$7.94 compared to \$9.59 per share in fiscal 2016.

The Company's fair value change in investments for the third quarter of fiscal 2017 was \$7,149,000 compared to \$133,769,000 for the same period in fiscal 2016. For the third quarter, North American investments contributed \$33,792,000 to the investment performance offset in part by investment losses of \$13,148,000 in Asian investments and \$12,125,000 in European investments. On a year-to-date basis the fair value change in investments was \$90,375,000 compared to \$110,304,000 for the nine months ended December 31, 2015. For the nine months ended December 31, 2016, U.S. and Asian investments contributed 74% (\$66,455,000) and 15% (\$13,134,000) respectively, of the fair value investment gain.

The significant contributors to the fiscal 2017 year-to-date investment performance included Computer Sciences Corporation, JPMorgan Chase & Co., and Waste Management Inc., with fair value investment gains of \$6,626,000, \$6,584,000 and \$6,133,000 respectively. The largest detractors were Hormel Foods Corporation, Kimberly Clark Corporation, and Orange S.A. with fair value investment losses of \$5,423,000, \$5,315,000 and \$2,952,000 respectively.

The net realized gain was \$9,628,000 for the third quarter of fiscal 2017 compared to \$11,955,000 for the same period in the prior year. On a year-to-date basis, the net realized gain was \$45,280,000 compared to a net realized gain of \$61,547,000 in fiscal 2016. The largest year-to-date contributors to the net realized gain in fiscal 2017 were the sales of Adidas AG, Koninklijke Ahold Delhaize NV, and FamilyMart Co., Ltd. partly offset by a net realized loss in Standard Chartered plc.

# UNITED CORPORATIONS LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Net investment income

The Company's net investment income in the third quarter of fiscal 2017 decreased to \$3,699,000 compared to \$4,433,000 for the third quarter of fiscal 2016. On a year-to-date basis, net investment income decreased to \$18,740,000 from \$21,508,000 for the same period in the prior year. On a per Common Share basis, net investment income for the quarter decreased to \$0.29 in 2017 compared to \$0.36 in 2016 and on a year-to-date basis decreased to \$1.51 in 2017 compared to \$1.74 in 2016.

Foreign dividend income in the third quarter decreased to \$6,655,000 from \$8,254,000 for the same quarter in the prior year and on year-to-date basis decreased to \$30,018,000 from \$34,359,000 in fiscal 2016. The decrease in the third quarter year over year is mainly attributed to a special cash dividend of \$1,369,000 received in the prior fiscal year from the merger of Computer Sciences Corporation and CSRA Inc. The decrease in the year-to-date foreign dividend income is also attributed to a special cash dividend of \$3,161,000 received in the prior fiscal year from Kraft Foods Group, Inc. prior to its merger with H.J. Heinz Holding Corporation.

Expenses during the quarter increased to \$2,063,000 in fiscal 2017 compared to \$1,939,000 for the same period in the prior year, and on a year-to-date basis increased to \$6,285,000 compared to \$5,833,000 in the prior year. The majority of the increase relates primarily to an increase in investment management and administrative costs resulting from a higher investment portfolio compared to the prior year. Office and miscellaneous expenses year to date include additional stock exchange filing fees.

### 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):

	Dec. 31 2016	Sept. 30 2016	June 30 2016	March 31 2016	Dec. 31 2015	Sept. 30 2015	June 30 2015	March 31 2015
Investments	\$ 1,589,654	\$ 1,582,130	\$ 1,525,816	\$ 1,519,665	\$ 1,590,388	\$ 1,454,582	\$ 1,451,038	\$ 1,481,971
Net investment income <sup>(1)</sup>	\$ 3,699	\$ 3,897	\$ 11,144	\$ 4,837	\$ 4,433	\$ 6,076	\$ 10,999	\$ 4,616
Net income (loss)	\$ 9,900	\$ 57,675	\$ 29,565	\$ (60,699)	\$ 120,478	\$ 13,398	\$ (16,679)	\$ 152,813
Per Common Share:								
Net investment income <sup>(1)</sup>	\$ 0.29	\$ 0.31	\$ 0.91	\$ 0.39	\$ 0.36	\$ 0.49	\$ 0.89	\$ 0.37
Net income (loss)	\$ 0.80	\$ 4.72	\$ 2.42	\$ (4.99)	\$ 9.87	\$ 1.10	\$ (1.38)	\$ 12.52
NAV	\$ 126.67	\$ 126.07	\$ 121.55	\$ 120.66	\$ 125.85	\$ 116.18	\$ 115.28	\$ 117.86

<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 December 31, 2016, 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. During the fiscal year the Company paid a quarterly dividend of \$0.20 per Common Share and \$0.375 per Preferred Share.

During the first fiscal quarter, the Company paid an additional cash dividend of \$1.33 (2016 - \$1.00) per Common Share representing the balance of net investment income for the previous fiscal year.

On February 7, 2017, the Board of Directors approved an increase in the quarterly dividends from \$0.20 to \$0.30 per Common Share, effective for the first quarter of fiscal 2018.

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.



Duncan N.R. Jackman  
Chairman and President

February 7, 2017