

# ANNUAL REPORT

# 96



# FIRST PREMIUM

## Mulvihill Capital Management Inc.

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# MESSAGE TO UNITHOLDERS

**F**irst Premium Income Trust was launched in June 1996 to provide investors with an attractive alternative to fixed income vehicles. This product enjoyed an enthusiastic response from investors and the Trust has performed extremely well.

A summary of the Trust investments as well as its financial statements are included in this annual report.

The Canadian equity markets moved higher throughout 1996

although they became much more volatile in the last half of the year. Favorable price performance and increased price volatility both have had positive effects on the performance of First Premium Income Trust.

We would like to take this opportunity to thank investors for their overwhelming support in 1996 and we look forward to a mutually beneficial relationship in 1997.

John P. Mulvihill  
*President & CEO*  
Mulvihill Capital Management

S. Wayne Finch  
*Vice President*  
Mulvihill Capital Management

## CONTENTS

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First Premium Income Trust - Investment Highlights	2
Distribution Reinvestment Plan	4
Auditors' Report	5
Financial Statements	6
Notes to the Financial Statements	12
Mulvihill Capital Management	14





# DISTRIBUTION REINVESTMENT PLAN

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First Premium Income Trust is proud to offer investors the opportunity to enroll in a Distribution Reinvestment Plan. The Plan allows investors to conveniently acquire additional Units of the Trust by re-investing their cash distributions. Purchases are generally made through the Trust at a cost which is less than the current trading price on The Toronto Stock Exchange. There is no charge to the participant for enrollment to the Plan.

If you are a registered unitholder please complete an enrollment form and send it to the Plan Agent - Montreal Trust Company of Canada, 151 Front Street West, 8th Floor, Toronto, Ontario, M5J 2N1.

If you are the owner of units in an account with a broker, trust company or bank, you may direct them to enroll your units in the Plan.



# FIRST PREMIUM INCOME TRUST

## INVESTMENT OBJECTIVES

The Trust's investment objectives are to provide unitholders of the Trust with a stable stream of quarterly distributions of at least \$0.50 (\$2.00 annually) per unit while returning at a minimum the original issue price of the units to unitholders upon termination of the Trust.

## INVESTMENT STRATEGY

The Trust intends to achieve its investment objectives by investing its net assets in a diversified portfolio consisting primarily of common shares issued by major Canadian issuers that pay regular dividends at an annualized rate which is at least 125% of the indicated annual dividend yield for TSE 300 Composite Index.

To generate additional returns above the dividend income generated by the portfolio, the Trust will write covered call options in respect of all or part of the securities in the Portfolio.

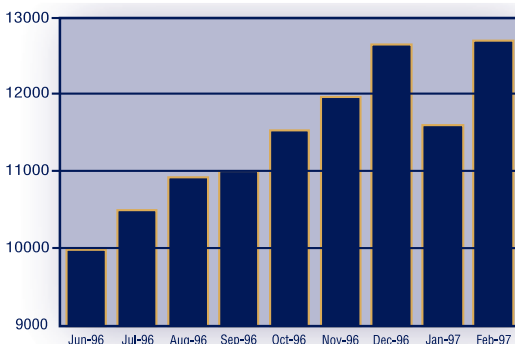
## TEN LARGEST HOLDINGS

- BCE INC.
- BRASCAN LTD.
- NATIONAL BANK
- TRANSCANADA PIPELINES
- MACMILLAN BLOEDEL
- TELUS CORPORATION
- DOFASCO
- BANK OF MONTREAL
- NOVA CORP.
- TRILON FINANCIAL

## DISTRIBUTION HISTORY

Date	Amount	Type
Sept. 30	\$0.50	Regular
Dec. 31	\$0.50	Regular
Dec. 31	\$0.50	Special

## VALUE OF \$10,000 INVESTED





# FIRST PREMIUM INCOME TRUST

## STATEMENT OF NET ASSETS

As at December 31, 1996

<b>Assets</b>	<b>1996</b>
Investments at market value (average cost - \$120,508,141)	\$ 133,657,160
Short-term notes (average cost - \$34,301,331)	34,409,590
Cash	29,795
Dividends receivable	686,323
Due from brokers - investments sold	929,600
	<b>169,712,468</b>

### **Liabilities**

Accrued liabilities 242,112


**Net assets, represented by unitholders' equity** \$ 169,470,356

Number of units outstanding (Note 4) 6,600,294

Net asset value per unit \$ 25.6762

On behalf of the Trustee,  
The Royal Trust Company

  
\_\_\_\_\_  
Trustee

  
\_\_\_\_\_  
Trustee

*(see accompanying notes to financial statements)*

units which may be issued is unlimited. The units of the Trust are fully paid when issued and are not transferable. Following are the unit transactions during the period:

	Period ended December 31, 1996
Units outstanding, beginning of period	–
Units Issued for cash	6,600,001
Units issued on reinvestment of distribution from net income	<u>293</u>
Units outstanding, end of period	<u>6,600,294</u>

## 5. Expenses

The Trust is responsible for all ongoing Trustee, Manager, legal, accounting and audit fees as well as all other expenses incurred by the Trustee and the Manager in the ordinary course of business relating to the Trust's formation, organization, management and operation. The manager's fee is fixed at 0.1% (per annum) of the Net Asset Value of the Trust (plus applicable taxes) and is calculated on the month end valuation date. In addition, the fee paid to Mulvihill Capital Management Inc. (the "Investment Manager") is fixed at 1.15% (per annum) of the Net Asset Value of the Trust (plus applicable taxes) and is calculated on the month end valuation date.

	Period ended December 31, 1996
Expenses	\$ 1,221,725
Expenses as a percent of average net assets	1.21%*

Average net assets are calculated to be the average of the net assets determined at each valuation date of the Trust (\* annualized).

## 6. Distributions

The Trust Agreement provides that net income and net capital gains realized by the Trust be distributed to unitholders not less frequently than once in each calendar year. Unitholders have the option of receiving distributions in cash, or in the form of additional units by way of automatic reinvestment.

	Period ended December 31, 1996
<i>Distribution per unit:</i>	
From net investment income	\$ 0.3367
From net realized gain on sale of investments	0.8539
Non-taxable distribution	<u>0.3094</u>
	<u>\$ 1.5000</u>

The non-taxable distribution received by the unitholders reduces the adjusted cost base of the unit for tax purposes.

## 7. Income Taxes

The Trust qualifies as a "unit trust" under the Income Tax Act (Canada). As the net income and net capital gains of the Trust are either paid or payable to unitholders in each calendar year, no income tax is paid or payable by the Trust. Such income is taxable in the hands of the unitholders.



# FIRST PREMIUM INCOME TRUST

## STATEMENT OF CHANGES IN NET ASSETS

For the period ended December 31, 1996

	<b>1996</b>
	<b>(Note 1)</b>
Net assets, beginning of period	\$ -
<b>Unit transactions</b>	
Proceeds from units issued	155,927,772
Total results from financial operations	<u>23,442,879</u>
<b>Distributions to unitholders (Note 6)</b>	
From net investment income	(2,220,638)
From realized net gain on sale of investments	<u>(7,679,657)</u>
	<u><b>(9,900,295)</b></u>
<b>Increase in net assets for the period and net assets, end of period</b>	<u><b>\$ 169,470,356</b></u>

*(see accompanying notes to financial statements)*

## SCHEDULE OF INVESTMENTS (cont'd)

Par Value/ Number of Shares		Average Cost	Market Value	% of Total
<b>Industrial Products</b>				
294,300	Dofasco Incorporated	\$ 6,170,124	\$ 7,622,370	
196,500	Moore Corporation Limited	4,995,513	5,580,600	
600,000	Nova Corporation	7,244,001	7,290,000	
		<u>18,409,638</u>	<u>20,492,970</u>	15.33
<b>Pipelines</b>				
400,000	Transcanada Pipelines Limited	8,793,501	9,600,000	
150,000	Westcoast Energy Inc.	3,185,932	3,442,500	
		<u>11,979,433</u>	<u>13,042,500</u>	9.75
<b>Utilities</b>				
221,200	BCE Inc.	12,188,123	14,444,360	
400,000	Telus Corporation	7,608,895	7,960,000	
100,000	Transalta Corporation	1,654,000	1,725,000	
		<u>21,451,018</u>	<u>24,129,360</u>	18.05
<b>Financial Services</b>				
170,700	Bank of Montreal	5,746,008	7,442,520	
750,000	National Bank of Canada	9,148,386	10,387,500	
110,000	The Toronto-Dominion Bank	3,336,474	3,872,000	
935,300	Tilon Financial Corporation Class A	5,472,454	6,453,570	
		<u>23,703,322</u>	<u>28,155,590</u>	21.07
<b>Covered Calls</b>				
(70,700)	Bank of Montreal	(33,936)	(618,625)	(0.46)
<b>Total Common Equities and Covered Calls</b>				
		<u>\$ 120,508,141</u>	<u>\$ 133,657,160</u>	<u>100.00</u>







# FIRST PREMIUM INCOME TRUST

## SCHEDULE OF INVESTMENTS

Par Value/ Number of Shares		Average Cost	Market Value	% of Total
<b>Short-Term Notes</b>				
18,715,000	Government of Canada Treasury Bills March 3, 1997	\$ 18,587,219	\$ 18,627,002	
7,335,000	Government of Canada Treasury Bills January 16, 1997	7,284,391	7,326,322	
8,060,000	Government of Canada Treasury Bills January 23, 1997	8,021,500	8,047,072	
410,000	Government of Canada Treasury Bills January 30, 1997	408,221	409,194	
	<b>Total Short-term notes</b>	<b>\$ 34,301,331</b>	<b>\$ 34,409,590</b>	<b>100.00</b>
<b>Common Equities and Covered Calls</b>				
<b>Conglomerates</b>				
400,000	Brascan Limited Class A	\$ 10,152,701	\$ 12,200,000	
120,000	Power Corporation of Canada SVS	2,859,978	3,300,000	
		<b>13,012,679</b>	<b>15,500,000</b>	<b>11.60</b>
<b>Metals and Minerals</b>				
204,300	Noranda Inc.	<b>5,626,699</b>	<b>6,241,365</b>	<b>4.67</b>
<b>Oil and Gas</b>				
30,000	Imperial Oil Limited	<b>1,740,961</b>	<b>1,935,000</b>	<b>1.45</b>
<b>Paper and Forest Products</b>				
500,000	MacMillan Bloedel Limited	9,614,702	8,975,000	
500,000	Noranda Forest Products Inc.	4,895,001	4,650,000	
		<b>14,509,703</b>	<b>13,625,000</b>	<b>10.19</b>
<b>Consumer Products</b>				
140,000	Imasco Limited	3,988,202	4,704,000	
300,000	Molson Companies Limited Class A	6,120,422	6,450,000	
		<b>10,108,624</b>	<b>11,154,000</b>	<b>8.35</b>

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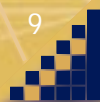
## STATEMENT OF GAIN ON SALE OF INVESTMENTS

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For the period ended December 31, 1996

<b>Income</b>	<b>1996</b>
	<b>(Note 1)</b>
<b>Proceeds from sale of investments</b>	<b>\$ 3,202,604,486</b>
<b>Cost of investments sold</b>	
Cost of investments, beginning of period	-
Cost of investments purchased	3,349,734,301
	3,349,734,301
Cost of investments, end of period	(154,809,472)
	<b>3,194,924,829</b>
<b>Gain on sale of investments</b>	<b>\$ 7,679,657</b>

*(see accompanying notes to financial statements)*





# FIRST PREMIUM INCOME TRUST

As at December 31, 1996

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Establishment of the Fund

First Premium Income Trust (the "Trust") is an investment trust established under the laws of the Province of Ontario by a Trust Agreement between The Royal Trust Company (the "Trustee") and Mulvihill Fund Services Inc. (the "Manager") dated June 21, 1996. The Trust began operations on June 25, 1996. The Trust will terminate on January 1, 2004 unless the unitholders determine to continue the Trust by a two-thirds majority vote at a meeting called for this purpose.

### 2. Investment Objectives of the Fund

The Trust's investment objectives are to provide unitholders with a stable stream of quarterly distributions of at least \$0.50 per unit (\$2 per annum) and to maximize the likelihood of returning the original issue price of the units (\$25 per unit) upon termination of the Trust.

### 3. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting principles. The following is a summary of significant accounting policies;

#### *Valuation of Investments*

Securities are valued at market value, which is determined by the closing sale price on the recognized stock exchange on which the securities are listed or principally traded. If no sale has taken place on that day valuation will be at the last

published sale price if this is between the last recorded bid price (the price someone is willing to pay) and the last recorded asked price (the price at which someone is willing to sell). If the last published sale price is not between the bid and the asked price, the bid or the asked price is used, whichever is nearer the last published sale price.

Short-term notes are valued using the bid price. Options are valued at market values as reported on recognized exchanges.

#### *Investment transactions and income*

Investment transactions are accounted for on a trade date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded daily as it is earned. Realized gains and losses on the sale of investments and unrealized appreciation or depreciation of investments are determined on an average cost basis. Option fees paid and received are deferred and are recognized in the statement of net income when options are exercised, expire or are closed out.

### 4. Unitholders' Equity

Each unitholder in the Trust acquires units, which represent an undivided interest in the net assets of the Trust. All units are of the same class with equal rights and privileges. Each unit is entitled to one vote at any meeting of unitholders and to equal participation in any distributions made by the Trust. Fractional units are not entitled to voting privileges. Each unit is redeemable at the option of the unitholder in accordance with the Trust Agreement and the number of

## STATEMENT OF FINANCIAL OPERATIONS

For the period ended December 31, 1996

<b>Income</b>	<b>1996</b>
	<b>(Note 1)</b>
Dividends	\$ 2,908,716
Interest	818,953
	<u>3,727,669</u>
<b>Expenses (Note 5)</b>	
Custodian fees	90,263
Management fees	1,057,441
Goods and Services Tax	74,021
	<u>1,221,725</u>
<b>Net investment income</b>	<u>2,505,944</u>
Gain on sale of investments	7,679,657
Unrealized appreciation of investments	13,257,278
Net gain on investments	<u>20,936,935</u>
Total results from financial operations	<u>\$ 23,442,879</u>
Net investment income per unit	\$ 0.3847
Net gain on investments per unit	<u>3.2139</u>
Total results of financial operations per unit (based on the weighted average number of units outstanding during the period of 6,514,412)	<u>\$ 3.5986</u>

*(see accompanying notes to financial statements)*





# MULVIHILL CAPITAL MANAGEMENT INC.

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Mulvihill Capital Management Inc. is a leading Canadian investment counsellor responsible for the care of institutional and personal assets. The company manages corporate, pension, insurance, endowment, trust and mutual funds under a wide variety of investment mandates. Founded in 1985 as CT Investment Counsel Inc., the investment arm of Canada Trust, the company emerged in 1995 as an independent company operated by a cohesive team of senior managers and owners who have been together for more than a decade. The company's scale and independent structure allow them to provide clients with a uniquely customized approach to asset management.

First Premium Income Trust is managed by Mulvihill Capital's structured finance group. This area of the company concentrates exclusively on creating and managing products tailored to meet very specific investment objectives. Assets are generally managed to meet specific absolute return levels rather than taking on the additional risk of targeting relative returns. This methodology allows the company to make investment decisions that meet the client's needs rather than to make investments to rival the competition.

Mulvihill Capital's personal asset management division, Mulvihill Wealth Management, offers a comprehensive specialized approach tailored to client's personal strategies. This not only relieves the client's burden of day-to-day investment decisions but also provides financial peace of mind for today and tomorrow. The company's personalized service and customized reporting assure that its powerful team of professionals is always working toward your current objectives and that you are fully aware of the progress you are making.

Mulvihill's reputation has been built on its ability to provide customized portfolios that meet the stated needs of its clients. The First Premium investments are prime examples of that customized approach to asset management.

# AUDITORS' REPORT

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To the Unitholders of the  
First Premium Income Trust

We have audited the statement of net assets and the schedule of investments of the Trust as at December 31, 1996, and the related statements of financial operations, changes in net assets and gain on sale of investments for the period then ended. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trustee, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position and the investments of the Trust as at December 31, 1996, and its results of operations, changes in net assets and gain on sale of investments for the period then ended in accordance with generally accepted accounting principles.

Signed,

*Deloitte + Touche*

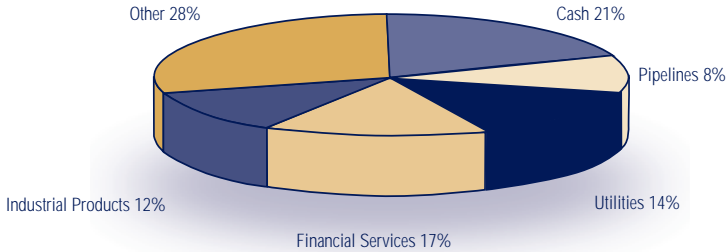
Chartered Accountants

Toronto, Ontario  
March 6, 1997



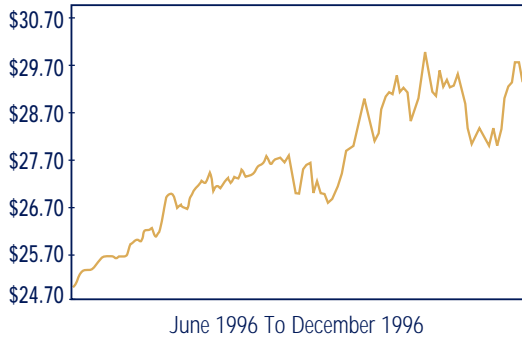
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## ASSET MIX



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## TRADING HISTORY



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## COMMENTARY

As of December 31, 1996, the net assets of the Trust were \$169,470,356, an 8% increase from inception on June 28, 1996.

Distributions to unitholders amounted to \$9.9 million or \$1.50 per Trust unit, representing a 12% annualized yield on the initial issue price of \$25.00. The trading price of the Trust units rose from the initial \$25 issue price to close the year at \$29.40. The net return to unitholders for the six months since issue, assuming dividends reinvested, was an impressive 23.6%.

Canadian equity markets remained strong during 1996 buoyed by low interest rates, strong export demand, and an improving domestic economy. The Trust's focus on high quality, high dividend paying shares proved beneficial to unitholders in 1996 as valuation levels for these issues moved steadily higher. The Trust's conservative strategy of enhancing income by way of covered call writing will also reduce the downside risk in the event of a market correction. We believe that the Trust is uniquely positioned to continue to provide investors with a steady stream of income while growing the assets of the Trust.

# FIRST PREMIUM

MANAGED BY



**MULVIHILL**

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