



# Canadian World Fund Limited

A Closed-End Fund

Diversified  
in Global Stocks

1998 Annual Report

## **IN SUPPORT OF THE ARTS**

We proudly recognize one of the country's premier dance companies, the National Ballet of Canada. Shown on the cover are Martine Lamy and Johan Persson in *Washington Square*. Photo by Lydia Pawelak.

# Corporate Profile

*Canadian World Fund Limited presents one of few opportunities in the Canadian stock market for investors to buy directly into global markets and generally at a low price relative to value. Established in 1994, the Fund is diversified in global equities, seeking companies with special growth prospects.*

*Emphasis is given increasingly to a bottom-up style selection process by the Manager, MMA Investment Managers Limited, investment managers since 1956. Concentration on attractive holdings rather than asset allocation by regional and country weighting is this Fund's strategy.*

*The Fund attempts to avoid pronounced weighting in sectors of extreme volatility, as shown in the following annual report.*

*Canadian World Fund Limited common shares are listed on the Toronto Stock Exchange under the symbol CWF and on the Winnipeg Stock Exchange.*

*Net asset value per share is calculated at the close of business every Thursday, and is published at the weekend in the financial press in Canada and the United States.*

All percentages in this Report are calculated from unrounded amounts.

# Letter to the Shareholders

**DEAR SHAREHOLDER,** *Canadian World Fund continues as one of few international equity funds available on Canadian stock exchanges. As a global investor, the Corporation had to cope with an extremely difficult year in 1998. Starting with the early Asian market decline which continued from the fall of 1997 and carried over into a grim Russian situation, a great level of uncertainty pervaded in all but the so-called 'developed' markets. Positive returns were virtually nil in the whole of Latin America.*

## RETURN

Net Asset Value per share (NAV) at December 31, 1998 was \$5.95 compared to \$6.24 at year end 1997, a moderate decline of 4.6%. For comparative purposes and expressed in Canadian dollars, Morgan Stanley reported a return of -22.4% for their Emerging Market Index and a gain of 28.4% for their All Country World Index which is heavily weighted to the U.S., a market that provided a return of 26.7% in 1998 as expressed by the S&P 500. Benchmarks are difficult to apply to CWF as none are strictly similar.

## TRADING

CWF's shares continued to trade actively for a small cap situation.

The shareholder profile is private and institutional, both domestic and foreign based. The shares traded between a high of \$5.25 and a low of \$3.00 compared with \$5.70 and \$4.00 in 1997 and closed the year at \$4.30. The closing discount to NAV was 27.7% compared with an even higher 34.3% at \$4.10 the previous year. The somewhat static value at year end was understandable in light of disaffection for Asian, Russian and Latin American investments.

The substantial discount to NAV and the preservation of capital within the fund in an extremely poor performance year continues to provide attraction and opportunity to astute investors. Exposure is primarily in high profile quality companies with a long portfolio holding period to assist return.



E. Louise Morgan  
Chairman

The stock is listed on the Toronto (symbol CWF) and Winnipeg stock exchanges.

## COMMENTARY

Last year was the seventh in a row of economic expansion in the U.S. while Asia and Latin America struggled with currency, economic and social problems. The Russian economy crashed due to its unpaid debt burden and the International Monetary Fund was kept busy trying to revive struggling economies. Currency volatility spread through all emerging economic regions and the U.S. dollar surged as the reserve currency and desired store of value for the world.

**Not since 1993 have we experienced a year of significant growth for emerging economies and equities markets. Since that year, the Morgan Stanley Emerging Markets Index has had a five-year cumulative loss of 36.0%. The only positive return year was 1996 which provided investors with 4.3% growth.**

While CWF has weathered these storms quite well, it is apparent that seeking infrequent strong returns from emerging markets has been a challenging quest. As a result, the Manager embarked on a different approach with a view to improving performance, downplaying even further regional or country specific investment. The Fund became even more company specific, seeking top ranking companies, sometimes in chosen industries, with strong managements



and niche market presence. This is also the course so far for 1999 and has led to a significant reduction in exposure to emerging markets from close to 58% at the beginning of the year to approximately 17% at year end. Portfolio exposure in the established markets of Europe and the U.S. rose to close to 80% and individual holdings have declined from over 60 to approximately 40 with further reduction likely. This will allow greater exposure per company and less performance dilution by many small holdings. We will continue to consider all markets for early recognition of investment opportunities which will arise.



Michael A. Smedley  
President

**THE BOARD**

The Board of Directors, at their meeting held on February 10, 1999, appointed Vanessa L. Morgan, B.Comm (Hons), CFA to the Board. Ms. Morgan is the daughter of E. Louise Morgan, Chairman of the Corporation. She is a member of the Board of Directors of Third Canadian General Investment Trust Limited and Canadian General Investments, Limited.

At the same meeting, the Board unanimously approved the enactment of amendments to the Corporation's By-law in order to provide for the appointment and duties of a Vice-Chairman of the Board. The Board appointed Vanessa L. Morgan to act as Vice-Chairman of the Board.

A resolution confirming or rejecting the required amend-

ments to the By-law of the Corporation will be voted on by the shareholders at the Annual and Special meeting of the Corporation to be held on April 6, 1999.

Mr. Paul S. Devlin who has most of the responsibility for the day-to-day management of the portfolio as a vice-president of the Manager, has stepped down from the Corporation's Board to address the balance of management representation. He is appointed Senior Vice-President of the Corporation.

**THE MANAGER**

The Directors wish to record their appreciation to the staff of MMA Investment Managers Limited for

their dedication in an ongoing challenging investment environment.

Ongoing efforts to promote and expand awareness of the Corporation, and the closed-end sector in general, continue with participation as a founding member of the new Closed-End Fund Association (CEFA) in North America (website: [www.cefa.com](http://www.cefa.com)).

E. Louise Morgan,  
Chairman  
February 10, 1999

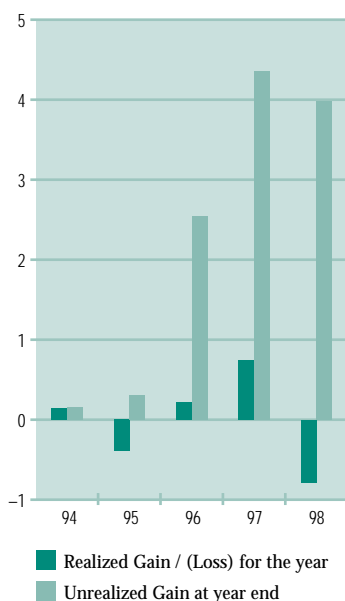
Michael A. Smedley,  
President  
February 10, 1999

# Management Discussion and Analysis

## NET REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS

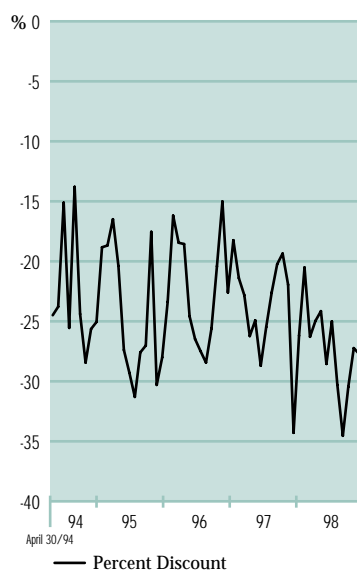
Years 1994-1998

(\$ Millions)



## DISCOUNT TO NAV

Years 1994-1998 (month-end values)



## OPERATING RESULTS

1998 was a year in which protection of assets rather than growth became more relevant, the only realistic alternative to volatile swings in emerging markets.

- The 1998 net assets of CWF decreased under severe global market pressures by 4.6% to \$24,420,000 from \$25,607,000 at the end of 1997 or on a share basis, \$5.95 compared to \$6.24. Although negative, CWF outperformed many emerging market global funds.
- Unrealized gain on investments, net of deferred income taxes decreased by \$378,000 to \$3,977,000 at December 31, 1998 from \$4,355,000 at the end of 1997.
- The realized loss on disposition of investments after recovery of related income taxes was \$785,000 compared to a net realized gain of \$746,000 in 1997 as we sold non-performing assets in crisis regions and focussed investment attention on more attractive opportunities in Western Europe.

The net loss for 1998 was \$24,000 or \$0.01 per share compared with net income of \$12,000 or \$0.00 per share for the previous year.

- Dividend income of \$482,000 was down from \$522,000 in 1997. The fund continued to focus on growth and secondarily on income which provided a portfolio yield of 1.8%, high for a global fund and of some assistance in the unstable markets of 1998.
- Total income declined slightly to \$521,000 from \$535,000 in 1997 or 2.6%.
- Total expenses were up 10.3% to \$567,000 from \$514,000 in 1997. Management fees increased to \$428,000 from \$381,000, as a result of an increase in fees to 1.5% from 1.0% effective July 1, 1998.
- CWF's management expense ratio (MER) which is the ratio of total expenses to average net assets was 2.3% in 1998 compared to 2.0% in 1997. As with the management fee, the MER continues to be lower than that for most international funds.

## INVESTMENT STRATEGY

The primary work of the Manager is individual equity selection in companies with strong long-term growth prospects, quality management and niche product capabilities.

- In 1998, the number of equity investments was reduced by approximately one third to 38 from 59 positions to raise the performance objective.
- Beginning in the fourth quarter of 1997 and accelerating during 1998, holdings were reduced in emerging markets in view of a growing focus on more established markets. Portfolio weighting in emerging markets at year end was approximately 18%, down significantly from 58% at the end of 1997. Fragile currencies, questionable economic policies in some cases, and political difficulties heightened international concern and social unrest in many of the emerging market countries, and resulted in very poor security returns. The Canadian mutual funds industry reports indicate an average performance loss in 1998 of over 25% for emerging market funds, compared with the moderate loss of a more generalist fund such as CWF.

## DISCOUNT

The discount to net assets of CWF share price fluctuated between 12.9% and 38.1% and closed the year at 27.7%, high for a closed-end fund in any market, and pricing the assets at a low cost in the market.

## CURRENCY RISK

Currency hedging is not currently used by CWF's manager. The Corporation is primarily exposed to the U.S. dollar, sterling and now the euro. The cost of hedging is high and over time could inhibit a fund's rate of return.

## COMMENTARY

Over the past five years the emerging markets have fallen 36% with a positive return only once, at 4.3% in 1996. A small number of markets recovered a portion of their 1997 and early 1998 loss but the focus remained on the emerging market group as a whole as Russia went from bad to worse. Malaysia and Indonesia suffered economic and social strife. Brazil, the largest economy in Latin America struggled to defend its currency with limited success through high interest rates and this affected all other Latin markets.

The established and emerging markets reported distinctly different results for 1998.

- The U.S. market put in another strong year, the seventh year in a row of economic expansion. The Dow Jones Industrial Average was up 16.1%, the Standard and Poors 500 Index 26.7% and the NASDAQ Composite Index, led by internet stocks was up 39.6%. Some concern exists with regard to overvaluation and the breadth of markets as the top 15% of names in the indices provided virtually all of the return.
- The euro was introduced as a currency for 11 European nations and 1999 will be an interesting year as to whether investors consider it a reserve currency comparable to the U.S. dollar. Approximately 35% of CWF's portfolio is exposed to euro countries at year end 1998.
- Latin American markets again slowed their pace of growth as currencies weakened and high interest rates slowed economic expansion.
- Former Eastern Bloc countries struggled as well with currency concerns but the most damaged was Russia where debt defaults and a lack of political leadership, combined with some social disarray, left the country in worse shape at the end of the year than at the beginning.

## YEAR 2000

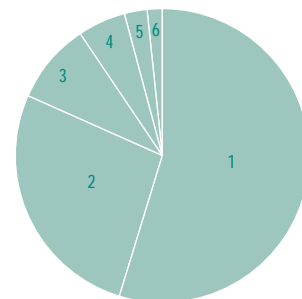
The Year 2000 Issue refers to the possibility that on January 1, 2000 some computer systems may function improperly because they use two digits to identify the year, rather than four.

The Manager has initiated its Year 2000 program with the objective of ensuring that its important computer systems relied on by the Corporation will continue to operate before and after December 31, 1999. The Manager's critical software, including accounting and investment programs, is currently being updated to be Year 2000 compliant with a scheduled July 1999 completion date. The Corporation initiated a vendor compliance project in 1998 with the goal of becoming Year 2000 compliant by September 30, 1999.

CWF is not aware of any investee company not taking appropriate steps to mitigate their risk to the Year 2000 Issue. The financial condition of investee companies may be affected by systems failures, remediation costs, and overall economic uncertainties.

## GEOGRAPHIC WEIGHTING OF INVESTMENT PORTFOLIO

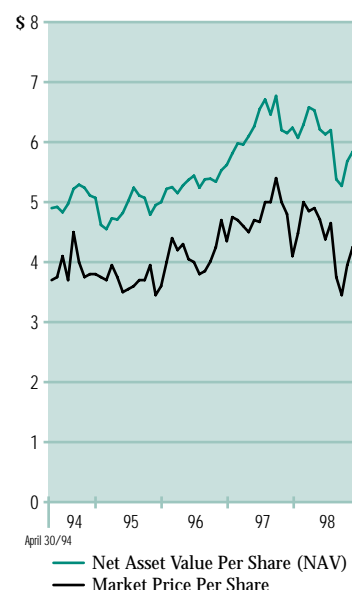
December 31, 1998



	% at Market
1 Europe	54.9
2 North America	26.9
3 Latin America	9.0
4 Africa	5.2
5 Former Eastern Bloc	2.5
6 Asia	1.5

## COMPARISON OF MARKET PRICE TO NAV

Years 1994-1998 (month-end values)



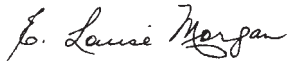
# Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by management and approved by the Board of Directors of the Corporation. Management is responsible for the information and representations contained in these financial statements and other sections of this Annual Report.

The Corporation maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies which management believes are appropriate for the Corporation, are described in note 1 to the financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee comprised of non-management Directors is appointed by the Board. The Audit Committee reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited financial statements for publication.

PricewaterhouseCoopers LLP, the Corporation's external auditors who are appointed by the shareholders, audited the financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report is set out below.



E. Louise Morgan  
Chairman  
February 10, 1999



Michael A. Smedley  
President  
February 10, 1999

## Auditors' Report

### TO THE SHAREHOLDERS OF CANADIAN WORLD FUND LIMITED

We have audited the statements of assets and liabilities of Canadian World Fund Limited as at December 31, 1998 and 1997, and the statement of investments as at December 31, 1998 and the statements of income and expenses, retained earnings (deficit), unrealized gain on investments, changes in net assets and net realized gain (loss) on investments for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those 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 management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997, its investments as at December 31, 1998 and the results of its operations and the changes in its net assets for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada  
January 22, 1999



Chartered Accountants

# Statements of Assets and Liabilities

As at December 31	1998	1997
	(000's)	
<b>ASSETS</b>		
Investments	\$ 25,245	\$ 27,385
Cash	451	642
Accrued dividends	25	45
Income taxes recoverable	593	-
<b>Total Assets</b>	<b>26,314</b>	<b>28,072</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	39	28
Income taxes payable	-	310
	<b>39</b>	<b>338</b>
Deferred income taxes	1,855	2,127
<b>Total Liabilities</b>	<b>1,894</b>	<b>2,465</b>
<b>Net Assets</b>	<b>\$ 24,420</b>	<b>\$ 25,607</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 2)	\$ 20,507	\$ 20,507
Unrealized gain on investments	3,977	4,355
Retained earnings (deficit)	(64)	745
	<b>\$ 24,420</b>	<b>\$ 25,607</b>

Approved on behalf of the Board:



Director



Director

## Statements of Income and Expenses

Years ended December 31	1998	1997
	(000's)	
<b>INCOME</b>		
Dividends	\$ 482	\$ 522
Interest	39	13
<b>Total Income</b>	<b>521</b>	<b>535</b>
<b>EXPENSES</b>		
Management fees (note 3)	428	381
Directors' fees	25	24
Regulatory and transfer agent fees	31	25
Miscellaneous	83	84
<b>Total Expenses</b>	<b>567</b>	<b>514</b>
Income (loss) before income taxes	(46)	21
Income tax provision (recovery)	(22)	9
<b>Net income (loss) for year</b>	<b>\$ (24)</b>	<b>\$ 12</b>
<b>Net income (loss) per share</b>	<b>\$ (0.01)</b>	<b>\$ 0.00</b>

## Statements of Retained Earnings (Deficit)

Years ended December 31	1998	1997
	(000's)	
<b>Retained earnings (deficit), beginning of year</b>	<b>\$ 745</b>	<b>\$ (13)</b>
Add:		
Net income (loss) for year	(24)	12
Net realized gain (loss) on investments	(785)	746
<b>Retained earnings (deficit), end of year</b>	<b>\$ (64)</b>	<b>\$ 745</b>

## Statements of Unrealized Gain on Investments

Years ended December 31	1998	1997
		(000's)
<b>Unrealized gain on investments, beginning of year</b>	<b>\$ 4,355</b>	\$ 2,543
Increase (decrease) during year	(567)	2,724
Decrease (increase) in provision for deferred income taxes	189	(912)
<b>Unrealized gain on investments, end of year</b>	<b>\$ 3,977</b>	\$ 4,355

## Statements of Changes in Net Assets

Years ended December 31	1998	1997
		(000's)
<b>Net assets, beginning of year</b>	<b>\$ 25,607</b>	\$ 23,037
Add:		
Net income (loss) for year	(24)	12
Realized gain (loss) on disposition of investments	(785)	746
Increase (decrease) in unrealized gain on investments	(378)	1,812
Increase (decrease) in net assets	(1,187)	2,570
<b>Net assets, end of year</b>	<b>\$ 24,420</b>	\$ 25,607
<b>Net asset value per share</b>	<b>\$ 5.95</b>	\$ 6.24

## Statements of Net Realized Gain (Loss) on Investments

Years ended December 31	1998	1997
		(000's)
Proceeds from disposition of investments	\$ 15,991	\$ 7,431
Investments at cost, beginning of year	20,841	19,920
Investments purchased during the year	15,597	7,162
Investments at cost, end of year	(19,268)	(20,841)
Cost of investments disposed of during the year	17,170	6,241
Realized gain (loss) on disposition of investments before income taxes (recovery)	(1,179)	1,190
Income taxes (recovery) on realized net taxable capital gains (allowable capital losses) (note 4)	(394)	444
<b>Net realized gain (loss) on disposition of investments</b>	<b>\$ (785)</b>	<b>\$ 746</b>

# Statement of Investments

December 31, 1998

NUMBER OF SHARES OR PAR VALUE	PERCENTAGE OF TOTAL MARKET VALUE		PERCENTAGE OF TOTAL MARKET VALUE	NUMBER OF SHARES OR PAR VALUE	PERCENTAGE OF TOTAL MARKET VALUE		PERCENTAGE OF TOTAL MARKET VALUE
	COST	MARKET VALUE			COST	MARKET VALUE	
	(000s)				(000s)		
<b>AFRICA</b>				<b>FORMER EASTERN BLOC</b>			
<b>- Ghana</b>				<b>- Russia</b>			
12,000	Ashanti Goldfields Company Limited GDS 144A	\$ 345 \$ 172	0.7	1	LUKoil Holding RDC 144A	\$ 266 \$ 153	
				100	Moscow Telephone	202	8
				20,928	Mosenergo ADR	417	56
				34	Norilsk Nickel Reg S RDC	210	21
102,684	ABSA Group Limited	392 745		20,000	RAO Gazprom Reg S ADS	501	259
15,000	The South African Breweries Limited	464 386		100,000	Rostelecom	211	104
		856 1,131	4.5	3	Rostelecom RDC 144A	143 31	
						1,950 632	2.5
<b>Total Africa</b>				<b>Total Former Eastern Bloc</b>			
		1,201 1,304	5.2			1,950 632	2.5
<b>ASIA</b>				<b>LATIN AMERICA</b>			
<b>- Hong Kong</b>				<b>- Argentina</b>			
10,094	HSBC Holdings PLC	285 385	1.5	15,000	Transportadora de Gas del Sur S.A. ADR	240 232	0.9
<b>Total Asia</b>				<b>--Brazil</b>			
		285 385	1.5	9,000	Telecomunicacoes Brasileiras S.A. HOLDERS (Telebras)	665 1,001	4.0
<b>EUROPE</b>				<b>- Mexico</b>			
<b>- Belgium</b>				<b>- Peru</b>			
5,500	Delhaize "Le Lion" S.A.*	760 745	2.9	25,000	Southern Peru Copper Corporation+	481 361	1.4
<b>- Denmark</b>				<b>Total Latin America</b>			
6,000	Copenhagen Airport	394 1,143	4.5			1,880 2,262	9.0
<b>- France</b>				<b>NORTH AMERICA</b>			
7,150	France Telecom S.A.+	413 870	3.5	<b>- United States</b>			
<b>- Germany</b>				<b>- United States</b>			
9,000	Apcoa Parking AG	916 1,000		10,000	Computer Associates International, Inc.	649 652	
6,000	Siemens AG	418 598		15,000	Corrections Corporation of America	597 404	
		1,334 1,598	6.3	12,000	Enron Corporation+	930 1,048	
<b>- Italy</b>				<b>20,000</b>			
200,000	Telecom Italia Mobile SPA	387 2,260		Infinity Broadcasting Corporation A*			
40,000	Telecom Italia SPA	370 521		15,000	PepsiCo, Inc.	811 940	
		757 2,781	11.0	15,000	Rite Aid Corporation*	821 1,138	
<b>- Spain</b>				<b>7,000</b>			
10,000	Endesa, S.A.	249 406		SCI Systems, Inc.			
6,000	Telefonica de Espana, S.A. ADR	366 1,243		10,000	Tellabs, Inc.	981 1,049	
		615 1,649	6.5	2,000	theglobe.com, inc.*	214 101	
<b>- United Kingdom</b>				<b>Total North America</b>			
50,000	Cable & Wireless PLC	904 940				6,183 6,789	26.9
150,000	Centrica PLC	374 462		<b>Total Investments</b>			
30,000	National Express Group PLC*	815 852		<b>- December 31, 1998</b>			
70,000	National Power PLC	555 923				\$19,268 \$25,245	100.0
100,000	Thomson Travel Group PLC	412 420		<b>Total Investments</b>			
60,000	Vodafone Group PLC+	436 1,490		<b>- December 31, 1997</b>			
		3,496 5,087	20.2			\$20,841 \$27,385	
<b>Total Europe</b>							
		7,769 13,873	54.9				

Changes from September 30, 1998:

\* New Holdings

+ Increased Holdings

# Notes to Financial Statements

December 31, 1998

## 1. SIGNIFICANT ACCOUNTING POLICIES

### a) Valuation of investments

Market values of securities are based on closing market quotations.

### b) Investment transactions

Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions are calculated on an average cost basis.

### c) Dividend and interest income

Dividend income is recorded on the ex-dividend date and interest income is recognized as earned.

### d) Foreign exchange

Assets and liabilities denoted in foreign currencies are translated into Canadian dollars at year-end rates. Income, expenses and purchases and sales of investments are calculated at the exchange rates prevailing on the dates of the transactions.

### e) Deferred income taxes

Deferred income taxes are recorded for income taxes on taxable unrealized gains. Such gains are determined as the difference between the market value of investments and the adjusted cost base for income tax purposes.

## 2. CAPITAL STOCK

The Company is authorized to issue unlimited preferred shares issuable in series and unlimited common shares. At December 31, 1998 and 1997, there are 4,101,350 common shares issued and outstanding.

## 3. RELATED PARTY INFORMATION

Management fees are paid monthly to MMA Investment Managers Limited, a corporation under common control with the Company, for services received in connection with the management of the Company's financial accounts and investment portfolio. Management fees are calculated quarterly. Effective July 1, 1997, the independent members of the Board of Directors of the Company approved an amendment to the Management Agreement to increase the management fees to 1.50% from 1.00% of net asset value without deduction for tax liabilities.

## 4. TAXATION

The Company, as a public corporation, is subject to income taxes on its income and realized gain on investments at the rates of approximately 45% and 33%, respectively. In 1997, the provision for taxes on the realized gain on disposition of investments was greater than the statutory rate primarily as a result of the Company not being able to utilize foreign withholding taxes as an income tax credit.

## 5. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of investees, suppliers or other third parties, will be fully resolved.

## Investment Portfolio Ten Largest Investments

December 31, 1998

Company	Cost (\$000's)	Market Value (\$000's)	% of Total Investment Portfolio
<p><b>Telecom Italia Mobile SPA</b></p> <p>TIM is the cellular telephone subsidiary of Telecom Italia which is Italy's national telephone company. Cellular usage in Italy has been the strongest for growth of all European nations and usage continues at a high level. The stock rose strongly again in 1998.</p>	387	2,260	9.0
<p><b>Vodafone Group PLC</b></p> <p>Vodafone has grown exponentially and is now the largest wireless carrier in the U.K. Vodafone continues to record the highest growth in new customers and was particularly successful in December of 1998. The stock has more than tripled over the past two years.</p>	436	1,490	5.9
<p><b>Telefonica de Espana, S.A.</b></p> <p>Telefonica is Spain's national telephone company and is one of the country's largest companies in all categories. Telefonica has wide and various interests in the Canary Islands, North Africa, Argentina, Chile, Brazil and Peru. The stock has been an excellent performer.</p>	366	1,243	4.9
<p><b>Copenhagen Airport</b></p> <p>Copenhagen Airport was the first commercial airport in Europe and was privatized by the Danish government several years ago. The company has excellent management and is the most efficient and profitable of the European air terminals.</p>	394	1,143	4.5
<p><b>Rite Aid Corporation</b></p> <p>Rite Aid is one of the largest drug chains in the U.S. with close to 4,000 stores in over 30 states. The company continues to expand aggressively into related industries. Expansion has been the key to market-share gains and the company will open 500 new stores this year while closing older less productive outlets. Demographics augur well for Rite Aid's future.</p>	821	1,138	4.5
<p><b>Tellabs, Inc.</b></p> <p>Tellabs designs, manufactures, markets and services voice and data equipment. Customers include cellphone companies, interexchange carriers, governments and businesses for their managed digital activities and network access systems.</p>	981	1,049	4.2

## Investment Portfolio Ten Largest Investments (continued)

December 31, 1998

Company	Cost (\$000's)	Market Value (\$000's)	% of Total Investment Portfolio
<p><b>Enron Corporation</b></p> <p>Enron is one of the world's largest integrated natural gas and electricity companies. The company's varied business mix from exploration through production supports long-term earnings growth. Any improvement in commodity energy prices would provide a major boost to this stock.</p>	930	1,048	4.2
<p><b>Telecomunicacoes Brasileiras S.A.</b></p> <p>This company is normally called Telebras and is the largest company on the Brazilian stock exchanges. It is the national telecommunications company which the government partially sold off this year. Both wire-line and wireless companies were auctioned off and the government received close to U.S. \$19 billion although it only expected to receive U.S. \$12 billion for its interest. It is one of the most attractive telecom companies on a valuation basis worldwide. Any improvement in Brazil's currency problems will lead to higher prices.</p>	665	1,001	4.0
<p><b>Apcoa Parking AG</b></p> <p>Apcoa is the holding company of a European group of companies which manages and operates car parking facilities in Germany, the U.K., Austria, France, Italy, the Netherlands and the U.S. It is also involved in the management and supervision of on-street parking for local authorities. The company is also involved in toll road collection. It is the market leader in the U.K. Apcoa has been growing historically at 15% per annum.</p>	916	1,000	4.0
<p><b>Cable &amp; Wireless PLC</b></p> <p>Cable and Wireless has been active on a global basis for over 120 years having brought telecommunications to colonies and protectorates from Jamaica to Hong Kong. It is one of the top 20 companies in the U.K. with a presence in over 70 countries serving over 17 million people and has over 70,000 employees. The company concentrates its efforts in Asia/Pacific, Europe, and USA/Caribbean. Its style is to influence or control the markets it serves. Cable and Wireless is beginning to concentrate on its wireless business where it now has 6 million mobile customers worldwide.</p>	904	940	3.7
<b>TOTAL</b>	6,800	12,312	48.9

# Focus on Investments

## THE EURO

The European Monetary Union (EMU) is the outgrowth of 50 years of post-war attempts to unify Europe into a single cohesive economic force. The EMU will use the euro as its currency which could presage the most significant financial change since the 1920s when the British pound was the global currency of reserve. The EMU is a unique experiment historically and is coming together after 20 years of diligent work. Economic and monetary union will complete the process began at Maastricht in 1991 and the formal start of the euro began on January 1, 1999. While many issues have been resolved, there are still some outstanding ones. Three difficulties facing ongoing attention are the operation of monetary policy, the role of fiscal (taxation) policy, and the responses to unemployment, currently at the 10% plus level.

Initially, the EMU commences with eleven members. These are: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

The currencies of these member states will be known as "legacy currencies" or National Currency Units (NCUs). At January 1, 1999, they became sub denominations of the euro and ceased to be currencies in their own right.

As 1999 goes forward, there will be changes to the trading and settlement calendars within Europe. Euro cash settlement can take place on any day during which TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system) is open. As the U.K. has not yet indicated a desire to join the EMU and as London is the largest European market, the London Stock Exchange will continue to provide price information in sterling. However, it will accommodate a conversion to euro pricing on a company by company basis taking certain factors into account. Some countries did not qualify under Maastricht Treaty agreements with regard to inflation etc., but Greece is on course to join the EMU in 2001, provided they meet the inflation target.

All has gone well into early 1999 and more countries will no doubt become members in time. The administrative



Paul S. Devlin  
*Senior Vice-President*

hurdles including the heavy German influence are being addressed. Inflation and unemployment remain problems as well as the absence of the U.K. which would lend the euro greater strength.

The bigger concern going forward, however, is which of the world's three major currencies will gain prominence over the next decade as the reserve currency globally. The advent of the euro provides a direct challenge to the U.S. dollar and its current primacy and to the Japanese yen which has fallen on hard times.

The U.S. dollar is currently the world's reserve currency even though it is not convertible into gold and even though the United States continues to run trade and current account deficits. The U.S. is the world's largest net debtor and its weak trade balance provides a current account deficit of close to U.S. \$300 billion currently. The U.S. consumer continues to spend more than 100 per cent of their annual income. An ongoing robust economy permits this sustainability as a reserve currency.

What may change this is that Europe, as an economic region, has a current account surplus with the rest of the world. In addition, it is a net creditor to the rest of the world and in fact is the biggest purchaser of U.S. security assets. Also the euro debt markets could be the largest and most liquid in the world when conversion to the euro is completed in 2001.

Japan has slid into a deflation recession since markets there peaked in 1989. However, Japan does run a trade surplus continually and holds net external assets of well over U.S. \$1 trillion.

In summary, if the world decides that the U.S. economic expansion is near an end and foreign interest in the U.S. securities markets dwindle, the likelihood of the U.S. dollar being replaced as a reserve currency increases. Currently the euro, despite its own set of problems in its member countries, would appear to have the least risk exposure to any meltdown and is potentially the least overvalued of the three contenders. As of December 31, 1998, approximately 35% of Canadian World Fund was exposed to the euro.

# Board of Directors

**E. LOUISE MORGAN** is Chairman of the Corporation. She is President and controlling shareholder of the Manager, MMA Investment Managers Limited and Chairman and a director of Canadian General Investments, Limited and Third Canadian General Investment Trust Limited. She is also President of The Catherine and Maxwell Meighen Foundation and a member of the Board of Directors and member of the Executive Committee of the Canadian Opera Company.

**MICHAEL A. SMEDLEY** is President of the Corporation. He is Executive Vice-President and Chief Executive Officer of the Manager, MMA Investment Managers Limited which he joined in 1987. In 1988 he became the manager of the portfolios of both Canadian General Investments, Limited ("CGI") and Third Canadian General Investment Trust Limited ("Third Canadian"), and in 1994 he became the manager of the Corporation's portfolio upon its establishment. He is President and a director of CGI and Third Canadian. He is also a director of the City of London Investment Group PLC and other companies outside of the MMA group. His investment career started in Canada in 1969 and since that time he has spent over 20 years with Canadian and U.S. investment firms in Canada, Hong Kong and London. He has also worked for 18 years in journalism and public relations in the United Kingdom, South Africa, Zambia, Kenya, Tanzania, Canada, Malaysia and Singapore.

**CARL S. HUTMAN**, appointed January 31, 1994 has long experience in the venture capital and investment banking sectors. He was a founding general partner in 1980 of Investech, L.P. in New York, a venture capital partnership investing in emerging growth companies, a position he held until 1992. Since 1996 he has been managing director of Fundamental Management Corporation, an investment management firm. He is currently a director of Quest Education Corporation, Anlyn Advisers Inc., Canadian General Investments, Limited, Third Canadian General Investment Trust Limited and Harris Trust/Bank of Montreal, Florida.

**VANESSA L. MORGAN**, appointed to the Board February 10, 1999 is Vice-Chairman of the Corporation. A Chartered Financial Analyst, she is currently Secretary-Treasurer of Denbridge Capital Corporation, a growth-oriented management company, with subsidiaries in the digital electronics, mining and bio-technology industries. She is a director of Canadian General Investments, Limited, Third Canadian General Investment Trust Limited and of The Catherine and Maxwell Meighen Foundation.

**ROBERT SMITH**, appointed January 31, 1994 is President of Newmark Capital Limited, a private investment and consulting company. He was Chairman and President of Talcorp Limited, a TSE listed investment management and holding company from 1971 to 1989, Chief Executive Officer of First Hungary Fund Limited from 1990 to 1992 and was Chairman of Becet International, the sole cellular telephone operating company in Kazakhstan from 1994 to 1998. He continues to serve on a number of boards including Rogers Cantel Mobile Communications Inc. and CSK Auto Corporation.

# Corporate Information

## BOARD OF DIRECTORS

Carl S. Hutman  
E. Louise Morgan  
Vanessa L. Morgan  
Michael A. Smedley  
Robert Smith

## AUDIT COMMITTEE

Carl S. Hutman  
Vanessa L. Morgan  
Robert Smith

## OFFICERS

E. Louise Morgan  
*Chairman*  
Vanessa L. Morgan  
*Vice-Chairman*  
Michael A. Smedley  
*President*  
Paul S. Devlin  
*Senior Vice-President*  
Colin Smith  
*Secretary-Treasurer*  
Frank Fuernkranz, M.B.A., C.A.  
*Assistant-Treasurer*

## OFFICE OF THE COMPANY

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## AUDITORS

PricewaterhouseCoopers LLP  
Toronto

## BANKERS

Bank of Montreal  
Toronto

## SOLICITORS

Blake, Cassels & Graydon  
Toronto

## REGISTRAR AND TRANSFER AGENT

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Fax: (416) 981-9800  
e-mail: [mmamail@montrealtrust.com](mailto:mmamail@montrealtrust.com)

To change your address, eliminate multiple mailings or for other shareholder account inquiries, please contact Montreal Trust at the above address.

## PUBLICATION

The Corporation prices its portfolio on a weekly basis, and its resultant net asset value per share is released and published in various media in Canada and the United States.

The Corporation will provide a list of its weekly top 10 portfolio holdings (priced at market), together with current discount and market return information to any interested party upon request.

## STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange  
Trading Symbol: CWF  
The Winnipeg Stock Exchange  
*The Corporation is a member of the Closed-End Fund Association ('CEFA') in North America.*

## ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Canadian World Fund Limited will be held at 10:00 a.m. (Toronto time) Tuesday, April 6, 1999 in Room 205D, Metro Toronto Convention Centre, 255 Front Street West, North Building, Toronto, Ontario M5V 2W6.

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