

Fund Manager

Northern Trust Global Investments is the Fund manager.

Objective

To replicate the return and risk characteristics of the MSCI EAFE® Index with a maximum weighting in Japan of 25%.

Overview

MSCI EAFE is an acronym for the Morgan Stanley Capital International Index of stocks in Europe, Asia and the Far East. It is a capitalization-weighted index that measures the performance of a large number of stocks in those regions. Composed of 925 companies in 20 countries, the MSCI EAFE Index is the most widely followed measure of the International equity markets. The UTC International Equity Index Fund attempts to replicate the performance of the MSCI Index except it will restrict its allocation to Japanese stocks to no more than 25% of the Fund. In this way, the International Equity Fund offers investors an opportunity to diversify their portfolios by participating in the potentially high returns of stock markets in Europe, Asia and the Pacific Rim while holding no more than 25% Japanese stocks and holding no stocks in companies from emerging market countries. The value of the investment in the Fund may fluctuate so that when redeemed, the value may be higher or lower than the amount originally invested by the investor.

Benefits of Index Funds

Index funds are an excellent tool in serving as building blocks in the assembly of a diversified portfolio. While the objective of an index fund is to as closely as possible match the return of the index rather than outperforming it, index funds offer a number of significant advantages over actively managed funds. Some of these include overall lower fund expenses, as management costs and transaction costs are typically far lower than for active funds. Index funds can often be more diversified than active funds by holding a greater number of stocks than actively managed funds and by keeping stock representation widely distributed across all major economic sectors of the index. An index fund manager does not move in and out of investments in an attempt to time the market. As a result, an index fund is always invested and fully participates in market upswings and downturns.

Investment Process

Our objective is to create a portfolio that replicates the return and risk characteristics of the MSCI EAFE Index

(maximum 25% Japan) while keeping transaction costs associated with the trading of the securities as low as possible. This is done through the use of a model-driven optimization technique to select those stocks that are the least expensive to trade when generating trade lists. As part of this process, the resulting trade list is combined with the aggregate portfolio's holdings and tightly risk controlled to ensure that the resulting portfolio closely matches the country representation, beta, risk and industry profile of the MSCI EAFE Index (maximum 25% Japan).

The benefit of this approach is efficiency: a portfolio constructed in this manner should be cheaper to transact than a 'full replication,' whereby all of the securities may be owned in the portfolio in the exact weight of the index. Our portfolio will generally hold all stocks of the MSCI EAFE Index, however at slightly lower weights than the index for some securities. This allows us to minimize the purchase of those stocks with the highest trading costs and thus increase the portfolio's potential for a higher net return relative to the index.

Rebalancing

A portfolio rebalance is a process in which the fund buys and sells securities to more closely match the characteristics of the index. A fund needs to be rebalanced from time to time to reduce its cash balances and to follow changes made by the index's publisher to the list of stocks that make up the index. A rebalancing allows the fund to become more closely aligned with the index and is an important step in tightly tracking the index. The portfolio will be rebalanced when any of the following events occur:

1. Changes are made to the MSCI EAFE Index.
2. Cash reserves approach significant levels in the portfolio.
3. Three months have elapsed since the last rebalancing date.

Use of Futures

A client portfolio typically will maintain positions in stock index futures from various countries to invest cash in the portfolio, thereby maintaining full market exposure. Depending on the relative price of the futures contracts and the index, we will unwind the futures position and purchase stocks very soon after contributions are received, or we will maintain the futures positions until an exchange can be enacted at favorable relative prices.

(continued on next page)

United Technologies Corporation Savings Plans

International Equity Fund: Overview *(continued)*

Fund Facts

Benchmark: MSCI EAFE® limited to 25% Japanese stocks

Valuation Frequency: Daily

Fee Schedule

Investment management fees for the International Equity Index Fund are calculated by the investment manager using the fee schedule shown below. The fee depends upon the total amount invested in the Fund by all of the participants in the UTC Savings Plan. Fee rates are expressed in basis points. A 10 basis point fee equals one-tenth of one percent (0.10%), or \$1.00 per year for each \$1,000 invested in the Fund.

<u>UTC Savings Plan Balance in the International Equity Fund</u>	<u>Fee Rate in basis points</u>
First \$5 million	28.0
Next \$5 million	24.0
Next \$15 million	20.0
Next \$25 million	16.0
Next \$50 million	12.0
Next \$100 million	8.0
Over \$200 million	8.0

Investments in the Fund are not deposits or obligations of, or guaranteed by Northern Trust or any of its affiliates, and are not insured by the Federal Deposit Insurance Corporation or any other agency of the US government. The Fund is subject to investment risks, including possible loss of the principal amount invested. The value of the investment in the Fund may fluctuate so that when redeemed, the value may be higher or lower than the amount originally invested by the investor. Opinions expressed are our current opinions only, and are subject to change.

NOTE: Northern Trust Investments, Inc. has managed this Fund since 01/31/03.