

United Technologies Corporation Savings Plans

MidCap Index Fund: Overview



Fund Manager

Northern Trust Global Investments is the Fund manager.

Objective

To replicate the return and risk characteristics of the S&P MidCap 400® Index.

Overview

S&P MidCap 400 Index is a market-capitalization-weighted index of 400 medium-sized companies, ranging in size from \$80 million to \$12.9 billion, with a weighted average capitalization of \$4.5 billion. The S&P selects the stocks based on market value, industry and liquidity parameters. The S&P MidCap 400 Index is unique in that all other popular US indices are based on either large- or small-cap stocks, or they are broadly based to include a combination of large, medium and small stocks. The MidCap Index Fund provides an attractive complement to many largecap or small-cap strategies, filling a gap often missed by both active and passive managers. 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 S&P MidCap 400 Index 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 beta, risk and industry profile of the index.

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. Our portfolio will generally hold a subset of the S&P MidCap 400 Index stocks, thereby allowing 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.

Use of Futures

S&P 500 and S&P MidCap 400 Index futures contracts are typically used to equitize cash held 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 in the portfolio 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.

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. Cash reserves approach significant levels in the portfolio.
2. Changes are made to the S&P MidCap 400 Index.
3. 30 days have elapsed since the last rebalancing date.

Fund Facts

Inception: November 1991

Benchmark: S&P MidCap 400® Index

Valuation Frequency: Daily

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Fee Schedule

Investment management fees for the MidCap 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 MidCap Index Fund</u>	<u>Fee Rate in basis points</u>
First \$50 million	10.0
Next \$50 million	5.0
Next \$100 million	3.0
Over \$200 million	2.0

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.