2009

Nunavut Trust | ᓄᓇᕗᑦ ᐸᐸᑦᑎᕖᖓᑦ | Nunavut Katikhoivia

Created on April 23, 1990 by deed of trust to manage on behalf of the beneficiaries, capital transfers paid to the Inuit of Nunavut as laid out in the Nunavut Land Claims Agreement signed by the Inuit of Nunavut and the Government of Canada.

ᐱᒋᐊᖅᑎᑕᐅᓚᖅᓯᒪᓪᓗᑎᒃ ᐊᐃᐱᕆ 23, 1990-ᖑᑎᓪᓗᒍ ᑎᒍᒥᐊᖅᑎᖅᑭᒍᖅᑎᑕᐅᕙᒥᒃ ᐊᐅᓚᑦᓯᔨᐅᓂᕐᒧᑦ ᐱᔾᔪᑎᒋᓗᓂᔾᔪᒃ ᐃᓚᒋᔭᐅᖃᑕᐅᔪᑦ ᓄᓇᓕᓐᓂᕐᒥ ᐊᖏᕈᑎᓂᑦ, ᑭᓇᐅᔭᖅᑯᑎᓕ ᒪᖑᔪᓂᒃᓗ ᖃᐃᑕᐅᔪᓂᒃ ᐊᑭᓕᐅᑕᐅᓯᒪᔪᑎᒃ ᓄᓇᕗᒻᒥ ᐃᓄᖕᓄᑦ ᓯᕗᓪᓗ ᓇᓗᓇᐃᔭᖅᑕᐅᓯᒪᖕᒪᑕ ᓄᓇᕗᒻᒥ ᓄᓇᓕᓐᓂᕐᒧᑦ ᐊᖏᕈᑎᓂ ᐊᑎᓕᐅᖅᑕᐅᓯᒪᓕᓚᐅᖅᑐᓂᑦ ᓄᓇᕗᒻᒥ ᐃᓄᖕᓄᑦ ᐊᒻᒪᓗ ᑲᓇᑕᐅᑉ ᒐᕙᒪᒃᑯᖏᓐᓄᑦ.

Hanahimayut April 23mi, 1990mi angigutainut tutkuktuiyit munagilutik kitkanit Ilaukiatauyut, kinauyait nuutitikataktut akilikataktut Inunut Nunavumi angikhimayut Nunavumi Nunataagutit Angigutaanut atikhimayut Inuit Nunavumi ovalo Kavamatkut Kanatami.

Table of Contents | ᐃᒨᑦ | Iuiiia

Financial Highlights 1

Message from the Trustees 2

Audited Financial Statements.......................29

ᑮᓇᐅᔭᓕᕆᓂᕐᒥ ᖃᓄᐃᓕᖓᓂᐅᔪᑦ
Kinauyaligiyit Havakhimayait........................12

ᑎᒍᒥᐊᖅᑎᐅᔪᑦ ᐅᖃᐅᓯᒃᓴᖏᑦ
Tutkuktuiyit Tuhaktiyumayait.........................14

ᓄᓇᕗᑦ ᑮᓇᐅᔭᖏᓂᒃ ᐸᐸᑦᓯᔨᑦ
Kinauyanut Tuhaktakhak 38

Message from the Trustees

Our last two years have been quite stressful as we tried to protect our capital through the worst market declines and consumer fears since the Great Depression of 1929. At its peak, the S&P TSX index was trading at 15,078 and by March 2009, it was trading at 7,566. Historically, there have been periods of economic growth followed by recessions. In most western economies, consumer spending represents a major part of the overall level of economic activity. In the USA for example, consumer spending typically represents 70% of total activity in that economy. One of the economic tools used by governments is the establishment of interest rates. When interest rates are low consumers buy houses, bigger houses, cottages, boats, vacations and similar luxury goods on credit. Their debt levels become very high, in some cases unsustainably high when property values securing these loans fall and the lenders demand loan renegotiation at higher interest rates to compensate them for the higher risk. In short, consumers may not be able to afford to pay the monthly interest costs on their loans plus their maxed out credit cards. They may be forced to sell their big homes to raise cash. And by mid 2008 this was the case and the housing bubble popped causing the credit market crisis and the major stock market declines. Consumers that had invested their savings in stocks as a way of planning for their retirement saw their hard earned savings seriously eroded.

During periods of recession, consumers spend less by not purchasing big ticket or non essential goods, jobs are lost, family incomes fall. As a result, companies sell fewer products, are forced to sell products at lower prices, cut their operating costs to minimal levels and even cut their production of goods. The profits earned by companies fall and as a result the price of their stock on the open market also falls. To attempt to stabilize the economy, governments have been increasing their levels of participation in the economy through massive programs of spending to fill this shortfall until the economy starts growing again. When economies begin growing, company sales tend to grow creating increasing profit levels that in turn cause stock prices to rise. And when stock prices rise, investors earn their return.

But are we there yet? Have we completed the fall and are we now on a smooth upward curve towards economic recovery? The answer is clearly no. Governments have built up their own debt levels to record amounts and they will have to eventually withdraw these stimulus programs and/or raise taxes to pay for all that spending. When government debt is high, the cost of servicing that debt is also high. Market participants may begin to fear that a government will be unable to pay the interest on monies they borrow to cover their spending. A government's credit rating may be reduced, and investors in government debt may demand higher investment returns to compensate for this higher risk when debt that is maturing is due to be refinanced. Governments of some weaker economies have been forced to implement significant, unpopular cuts to social programs in order to reduce their cash flow needs.

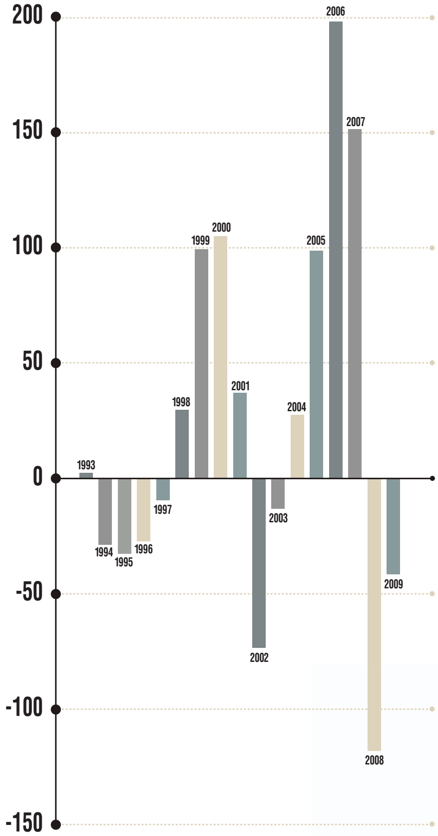
If we look ahead, it would appear that governments will try to keep interest rates at the current historically low levels to keep their debt servicing costs down. That means that investors will not be able to make adequate returns on fixed income products. For the next several years, consumers are likely to use any surplus cash to rebuild their savings and/or to pay down outstanding debt. When and how governments will cut back on the current stimulus spending is unknown. As a result we can expect to see markets moving sideways for perhaps a lengthy period of time. While no one knows how long these conditions will last, we could easily be experiencing flat markets for an extended period of time.

So what did the Trust do during all this market chaos? As always, we stuck to our long term approach and avoided any quick decisions based on short term market events. We continued to utilize external investment managers, carefully selected and monitored by an Investment Advisory Committee comprised of external

Market Value Reserve

(in millions of dollars)

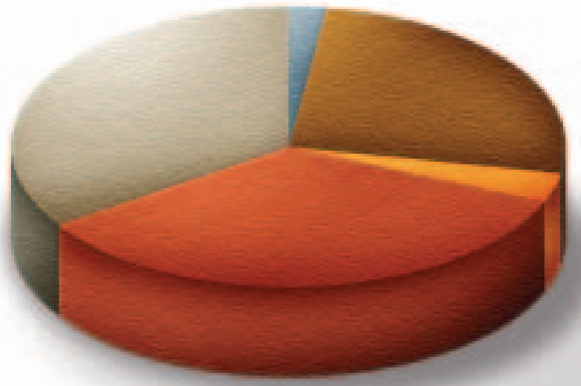
$-41,231,393



advisors active in the investment arena. The staff of the Trust continued to manage the portfolio according to our long term asset allocation strategy and policy targets previously established through careful research. At the end of 2009, the market value of the Trust's invested assets plus cash holdings totaled $1,111 million, up 11% from $1,001 million at the end of 2008. The tough conditions of the markets over the last two years have seen a serious erosion of our market value reserve. By the end of 2008 we had eliminated our entire surplus and were sitting at a value of negative $123,403,346. However by the end of the 2009 year we had recovered $82,171,953 of this negative surplus to end the year at negative $41,231,393.

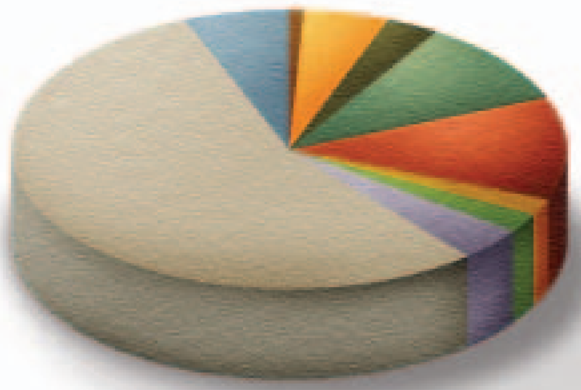
The invested assets of the portfolio are diversified in many ways to try to minimize the risks inherent in the investment markets: in effect not putting all our eggs in one basket. The portfolio is divided up by asset classes (fixed income, Canadian equity, foreign equity), investment styles (value vs growth), market capitalization (large cap vs small cap) and external investment manager.

Portfolio by Asset Class



- **2.4%** – Cash and Equivalents
- **25.6%** – Canadian Bonds
- **3.4%** – Enhanced Bond Strategy
- **34.4%** – Canadian Equity
- **34.2%** – Foreign Equity

Stocks by Industry Group



- **5%** – Consumer Products and Merchandising
- **3%** – Pipelines, Utilities and Environmental Services
- **10%** – Resources
- **12%** – Financial Services and Conglomerates
- **2%** – Industrial Products and Communications
- **2%** – Transport and Environmental Services
- **4%** – Communication and Media
- **55%** – Foreign Stocks
- **6%** – Pooled Funds
- **1%** – Other

Bonds by Issuer

- **1.6%** – Foreign
- **4.7%** – Canada and Guaranteeds
- **42.6%** – Provincial and Guaranteeds
- **2.5%** – Municipal
- **48.6%** – Corporate

Portfolio by Investment Manager

- **3.4%** – TD Asset Management
- **11.7%** – Brandes Investment Partners
- **14.0%** – Walter Scott & Partners
- **1.9%** – Indexed US Equity
- **5.0%** – Wentworth, Hauser & Violich
- **2.6%** – Wedge
- **12.3%** – Doherty and Associates
- **11.6%** – Jarislowsky Fraser
- **11.0%** – Letko Brosseau
- **26.5%** – Indexed Bond

Over the 12 months ended December 31, 2009, the trust's investment return was 16.5%. We measure the performance of each asset class and external investment manager for the fund against a passive market index benchmark as well as a peer universe. The Trust annual return compared favorably (31st percentile ranking) to the returns earned by funds included in the RBC Dexia Endowment and Foundation Universe.

Realized revenues generated from interest, dividends and pooled fund distributions totaled $38.8 million in 2009. But economic conditions have reduced the rates being offered to investors on the cash component of our portfolio return (essentially interest from fixed income products and dividends from stocks). This means that to generate the amount of cash required on a quarterly basis to fund the beneficiary company distributions we must also sell assets earlier than perhaps the time when they can reach their true value. We are forced, therefore, to leave some potential return on the table as they say if interest and dividend rates continue to stay low.

2010 will see the Trust make strategic moves into alternate asset classes that do not generally move in the same direction or at the same time and magnitude as the broad stock markets. Our plan is to invest in units of several limited partnerships that will buy real estate and infrastructure type assets. We can thus, reduce our exposure to the swings of the stock markets and perhaps earn a more stable return with regular, monthly cash flows forming part of that return. This means that the Trust will realize some actual cash income while it

Annual TWRR

	2009	2008	2007	2006	2005	2004
Actual	16.5%	-17.58%	0.28%	12.32%	11.21%	10.65%
Benchmark	17.86%	-18.27%	-0.58%	13.31%	11.26%	9.72%
Median	14.98%	-14.27%	0.51%	12.6%	10.63%	9.29%

Cumulative TWRR

	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Actual	16.5%	-1.25%	3.76%	4.18%
Benchmark	17.86%	-1.26%	3.7%	2.7%
Median	14.98%	-0.22%	4.24%	5.08%

waits to sell the assets at more favorable prices. This cash flow will make it easier for the Trust to fund its operating costs and beneficiary distributions without having to be forced to sell liquid assets at inopportune times. These future investments are illiquid assets, meaning the Trust will be unable to sell the holdings for a period of 10-13 years after initial investment, hence the importance of the regular cash distributions. Eventually a total of 5% of the Trust portfolio will be invested in real estate investment vehicles and another 5% will be invested in infrastructure investment vehicles. Both of these asset classes are being invested in through qualified experts in their respective fields. At the time of writing, approximately $52.5 million of commitments have been made in these asset classes, however, the investment vehicles will take up to 3 years to call this cash from the Trust and invest the funds in actual assets.

Looking ahead and assuming that markets will be in a directionless trading range for the next few years, beneficiary organizations should not expect to see any increase in the current level of funding. In this respect we are not alone. Many pension funds have reported that they do not have sufficient funds to meet their future employee obligations. Accordingly they will have to seek more cash inflows from their pension participants, both employer and employee, or cut back the previously promised benefit levels. The Trust, in 2010, will be reassessing the probability of continuing to be able to fund at the 4% level, given the poor market strength of the last few years, through the use of expert consultants in the field. If directionless markets continue for an extended period of time, it is entirely possible the Trust may have to reduce the current, ambitious 4% level of funding paid out.

"We believe we are well positioned to meet what our future holds."

We must always remember that we are long term investors, we unhappily ride the swings of the short term markets, we prefer slow stable returns to huge returns one year and huge losses the next year, but we do not panic, we do our research, we hold our well thought out and researched position and we will continue to invest for the long term. While we expect the recovery to take longer than many more optimistic investors, we believe we are well positioned to meet what our future holds and as such we appreciate your confidence in Nunavut Trust and its trustees. We are always happy to discuss any concerns or fears you may feel as the markets stumble through these difficult times and to share our confidence that in time things will return to a more reasonable state of affairs. It may be a less lucrative state of affairs than during the boom of the pre-2007 years, the world may have changed a bit, given all it has undergone over the last two years, and for this reason many refer to the future as being A New Normal. We have all seen the world around us changing, growing, improving and so too has Nunavut Trust. As trustees we have decided to embrace electronic means of information distribution wherever we can. By doing so we hope to reduce unnecessary paper usage and waste, and thereby reduce the impact our operations have on the environment in our own small way. We encourage you to access and read our website at **www.nunavuttrust.ca** where more extensive information will be found. As we work toward developing a robust website you can expect to find educational material suitable for classroom use in Nunavut, background documents on the history of Nunavut Trust and many more concepts are being evaluated. All this will of course take time, but in the end we believe strongly that it will be a valuable tool for our beneficiaries to learn about Nunavut Trust.

"Thank you
for your time and
your interest in
Nunavut Trust"

NUNAVUT TRUST
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