



NUNAVUT TRUST

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NUNAVUT KATIKHOIVIA

2011













## Table of Contents | **ᐱᓗᑦᑦ** | **luliii**

Financial Highlights .....	2
Message from the Trustees.....	4
The Year in Review.....	12
Looking Ahead .....	22
<b>ᓄᐱᑦᐱᓗᑦᑦ ᐱᓗᑦᑦᑦᑦᑦᐱᓗᑦᑦ</b> Kinauyaligiyyit havakhimayait.....	28
<b>ᐱᓗᑦᑦᑦᐱᓗᑦᑦ ᐱᓗᑦᑦᑦᐱᓗᑦᑦ</b> Tigumiaqatigiiktuni Tuhaqtittidjuta .....	30
<b>ᐱᓗᑦᑦᑦᐱᓗᑦᑦᑦᐱᓗᑦᑦᑦᐱᓗᑦᑦ</b> Una Ukiumi Qimilruuqtauninga .....	42
<b>ᐱᓗᑦᑦᑦᐱᓗᑦᑦᑦᐱᓗᑦᑦ</b> Hivumuuqpallianiq .....	56



# 2011 Financial Highlights

**Invested Assets and  
Accrued Dividends**  
*(Market value)*



**\$1,080,844,713**

*(2010 \$1,137,219,128)*

**\$57,287,860**

*(2010 \$32,523,421)*



**Distributions to  
Beneficiaries for  
the year**





**Investment  
Return  
for the year**

▼  
**-1.80%**

(2010 8.38%)

**Outstanding Capital  
Loans to Beneficiaries**  
*(at year end)*

▼  
**\$88,953,980**

(2010 \$109,980,580)

**4.12%**

▲  
(2010 4.09%)

**10 Year  
Cumulative  
Investment  
Return**





## Message from the Trustees



“It is likely that we will see continued low interest rates, directionless equity markets and high day-to-day volatility for several more years.”

**P**olitics, macroeconomics and a natural disaster created another wild ride for investors in 2011. Once again a global financial crisis evolved, this time focused on Europe but contagious around the world as a result of the connections between banking systems around the globe. The US economy was weak, while the emerging markets saw a slowdown in their growth. News reports, both positive and negative, created large shifts in markets as investors reacted by trying to take risk out of their portfolios. The result was a year of frequent, large, daily swings in market prices that often had very little to do with a company's fundamental characteristics. World markets, as measured by the MSCI World Index, produced a 2011 return of -3.2%.

It is not just recent years that have been tough on investors. In fact, the last 10 years have been a difficult period as the return produced in developed markets has been virtually flat. There have been two other points in time when 10 year returns were similar to the returns of the last 10 years. The Great Depression and the war saw returns flat line in the 1940's. We also saw a period of flat returns in the mid 1970's caused by expanding government deficits and

rampant inflation. The good news is that after both these periods, equity returns rebounded producing annualized returns in the subsequent decade of about 10% per annum.

Last year we expected governments to keep interest rates low to keep their debt servicing costs down and that would mean that investors would not be able to make adequate returns on fixed income products. We also expected that consumers would use any surplus cash to pay down outstanding loans rather than spending on new purchases and that would result in low levels of economic growth, flat market returns and exceptionally high volatility. All these things happened in 2011. What we didn't expect was that the weaker countries in the European Common Market would be unable to meet their austerity targets as a result of excessive social program spending. These countries asked for additional bailout funding but took very small steps to address their real problems.

At the end of 2010, bond yields were at historic lows with the 1-year bond yielding 0.98% and the 30 year bond yielding 3.55%. What was surprising was that in 2011 bond





“The real long term rate of return must be greater than the rate of spending to protect the capital of the fund.”

yields went even lower. When yields go down, bond values go up so bond investors did very well and the DEX Bond Universe Index produced a 1 Year return of 9.6%. Since Nunavut Trust’s investment portfolio was roughly 75% equities and 25% bonds, it should be no surprise to learn that the Trust’s 2011 return was -1.8%. Over 10 years the Trust has earned 4.12%. As you know, the Trust has agreed to attempt to pay the beneficiary companies 4% of the market value of the assets. With a longer term return of only 4.12% the Trust is not making enough to cover this payout ratio plus operating costs much less grow the capital of the fund. If these market conditions persist for a sustained period of time then we will have

to re-evaluate the equation. You can either make more money, which entails taking on substantially more risk, or you can cut back on spending. A careful blend of the two approaches is what we hope to achieve going forward because the real long term rate of return must be greater than the rate of spending to protect the capital of the fund. When we erode the capital we lose not just the capital but the income we could have earned on that capital.

Looking ahead to 2012 and beyond, we note that very little progress has been made to address the economic problems in Europe, the United States and Canada. As a result, it is likely that we will see continued low interest rates,





directionless equity markets and high day-to-day volatility for several more years. We would also not be surprised to see rising inflation.

While the last few years have been difficult, we have continued to provide the beneficiary organizations with their operating budgets. We must thank all of the parties that receive funding via the Nunavut Trust for their commitment to doing what they can to minimize the expenses that are paid out of Trust income during this period of low investment returns. It is a great comfort to us to know that we have, in our separate venues, worked together while faced with very difficult market conditions.

Markets mirror human nature and as a result disciplined attention has to be paid to our long term plan. This is the only way we can ride the waves while continuing to stay on course towards our objective. We must always remember that we are long term investors and we will continue to invest for the long term and avoid short term reactions to short term issues.

While we expect the recovery to take longer than many, more optimistic investors, we believe we have a strategy that will allow us to meet our goals and objectives. Thank you to all those who have provided us with advice and guidance and to the beneficiaries for their confidence and faith in us.





*Archie  
Ingnakak*

*David  
Toolooktook*

*Malachi  
Arreak*

*Qikiqtani Trustee*

*Kivalliq Trustee*

*Qikiqtani Trustee*





*Dorothy  
Gibbons*

*Kivalliq Trustee  
& Vice Chairperson*



*Jack  
Kupeuna*


*Kitikmeot Trustee*



*Bill  
Lyall*

*Kitikmeot Trustee  
& Chairperson*





“We must always remember  
that we are long term investors  
and we will continue to invest  
for the long term.”








# The Year in Review







“In a balance sheet recession, there is no economic growth.”

**G**iven all the turmoil, both political and economic, that unfolded throughout 2011 and that affected the markets, it is not surprising that the Trust was unable to meet its objective of earning inflation plus 5% in 2011. Interest rates were at historically low levels at the start of the year (1-year 2.5%, 30 year 3.7%) and we experienced a downward drift of rates to year end (1-year 0.9%, 30 year 1.4%). Equity markets were very volatile and weakened throughout the year.

In Canadian markets the S&P/TSX index started the year at 13,434 and ended the year at 11,841. World markets dropped less than half this amount while US markets fared a bit better with the S&P 500 index starting the year at 1257.64 and ending virtually unchanged one year later at 1257.60. The Trust had a 2011 return of -1.8% and a 10 year return of 4.12%. While historical performance of other investment plans is interesting to observe, we do not compare our performance to those of other plans. Each plan is made up of its own liabilities, investment beliefs, risk tolerances and future funding requirements. Where one plan chooses to have a minimum of 50% of bonds in their portfolio another plan may have a limit of 15%. Their returns, therefore, are not always comparable to ours. We do compare our results to our benchmark: market index returns weighted by policy asset mix targets.



### Annual TWRR

	2011	2010	2009	2008	2007
Actual	-1.80%	8.38%	16.5%	-17.58%	0.28%
Benchmark	-0.06%	11.67%	17.86%	-18.27%	-0.58%

### Cumulative TWRR

	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Actual	-1.80%	7.45%	0.50%	4.12%
Benchmark	-0.06%	9.57%	1.45%	4.07%

With the Canadian S&P/TSX market index producing a 2011 investment return of -8.7% and the DEX index (bond markets) surprising everyone with a 2011 return of +8.4% it is not surprising to see the Trust's investment return in 2011 at -1.8%. The Trust holds a lower percentage of bonds and a higher percentage of equity than many other endowments and pension funds.

We have a 10% allocation in our benchmark to alternative investments in North American real estate and global infrastructure. An investor commits to a limited partnership for a specified size of investment and then over a period of 3 to 5 years the partnership calls upon that commitment as it signs on to the various projects that will be funded out of the partnership capital. We are in the middle of this investment phase and will continue to not be fully invested for a few more years. The benchmark assumes that the full 10% allocation has been fully invested. In time, our returns will start to reflect the impact of being invested in these alternative asset classes.

The recession of 2008/2009 was no ordinary recession. This one was called a balance sheet recession and it differed from the usual type because during this type of recession consumers and companies minimize their debts rather than maximize their profits. The traditional government solution to ending a recession, stimulating the economy by expanding monetary policy and thereby increasing demand, doesn't work very well under these circumstances. Lowering interest rates does not encourage individuals and companies to borrow the cheap money to invest or increase spending. In a balance sheet recession, there is no economic growth. The conditions of the last three years have certainly kept restraints on the growth of Trust assets, we ended the year with total assets of \$1.081 billion (2010 - \$1.137 billion).





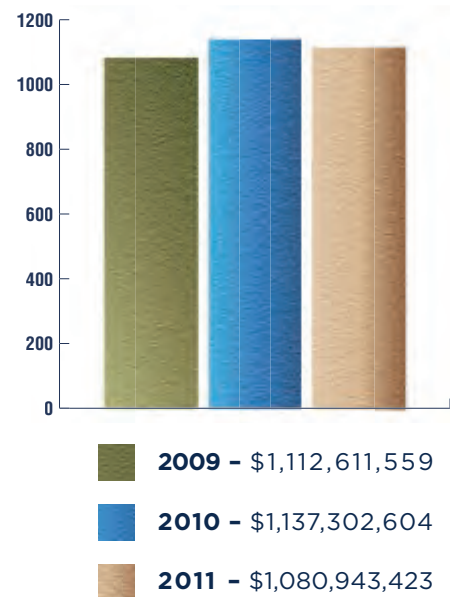


In a recent paper entitled “Growth in a Time of Debt” (Carmen M. Reinhart & Kenneth S. Rogoff, 2010) data points were analyzed from 44 countries over 200 years. The results of the analysis showed that when governments increase their debt to more than 90% of their GDP, GDP growth decreases while unemployment increases and stays high for more than 5 years on average. This is exactly the environment that we have been experiencing for the last few years.

Financial reporting matters absorbed some significant staff resources in 2011 as the Trust adopted the new International Financial Reporting Standards (IFRS) that changed the Generally Accepted Accounting Principles that had been used by organizations such as ours for many years. The new rules are complex and require substantially more information be presented in the Notes to the Financial Statements. The key difference for the Trust is that invested assets, which were historically recorded in the financial statements at the prices that were paid to acquire the assets, must, under IFRS, now be recorded on the Statement of Financial Position

(formerly called the Balance Sheet) at their fair market values. The year by year market value changes become a line item on the Statement of Comprehensive Income (formerly called the Income Statement) thereby affecting the net income of the Trust. So if the Trust paid \$100 to buy a stock at the start of year 1 and at the end of year 1 the market value of that stock was \$95, under the old rules the Invested Assets would show as \$100. Nothing would show on the Income Statement. Under the new rules the Invested Assets would show as \$95 and a \$5 loss would show on the new Statement of Comprehensive Income. So in this case the

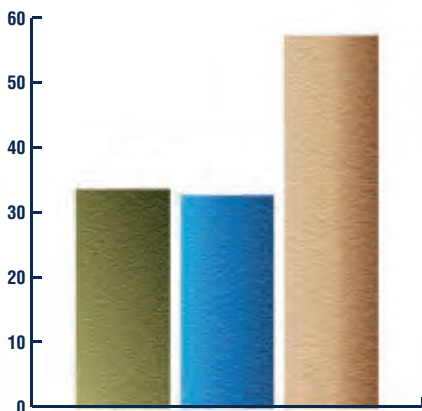
### TRUST ASSETS (at market)





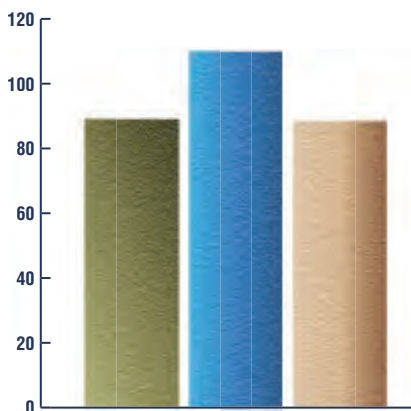


### DISTRIBUTION TO BENEFICIARIES



- **2009** - \$33,670,744
- **2010** - \$32,523,421
- **2011** - \$57,287,860

### OUTSTANDING CAPITAL LOANS TO BENEFICIARIES



- **2009** - \$88,469,834
- **2010** - \$109,980,580
- **2011** - \$88,953,980

Trust's income for year 1 would reflect a paper loss rather than a realized loss. Without a sale of the stock, that loss means little to the calculation of the taxable income available to distribute to our beneficiaries. In fact, the very first day of year 2 that stock could be valued at \$110 and this would put a \$15 profit as part of the Trust's income for year 2. Essentially, while being much more detailed these financial statements will now reflect greater swings in net income from one year to the next. Beneficiary organizations should remember that the distribution of income out of the Trust is based on tax rules, not accounting rules, and tax rules are based on gains or losses that come out of a real sale of an asset, not changes in market prices.

The Income Tax Act in Canada requires that every 21 years from the date of the creation of the trust, all trusts must recognize what is called a "deemed disposition" in their income on their tax returns for that year. The difference between



## “The Trust takes a conservative focus and utilizes strategies that protect assets when markets are falling”

the purchase cost of the assets held on that 21<sup>st</sup> anniversary and their fair market value on that date must be calculated and reflected as a gain or loss on the income statement. It is not a real gain or loss of money, a trust does not have to sell 100% of its portfolio and then buy it back on the open market. This is another unrealized income line that will be part of the difference between accounting and taxation and therefore the income of the trust and its distribution to its beneficiaries. For Nunavut Trust this event occurred on April 23, 2011. While the bottom figure on our Statement of Comprehensive Income was a loss of \$20,079,480, the taxable income of the Trust that was distributed in 2011 amounted to positive \$57,287,860. The rules dictated that the Trust pay out income that it never made. The excess distribution over the agreed upon payout ratio of 4%, \$21,026,600, was used to pay down some of the outstanding NTI capital loan. Combined beneficiary capital loans at year end were \$88.9 million (2010 \$109.9 million).

A well-constructed portfolio focuses on a combination of two factors: capital appreciation (allows for the growth of assets) and capital preservation (avoids loss of asset value). You grow your assets as a result of interest and dividend income and the rising prices of your securities. Conversely, you avoid losing money with some portion of your portfolio invested in fixed income where it is usually reasonably certain that if you held the bond to maturity you would get back the principal amount of the bond regardless of the market values at that time. A balance of the two approaches that best suits the unique needs of an investor is the objective of asset allocation. The Trust takes a conservative focus and utilizes strategies that protect

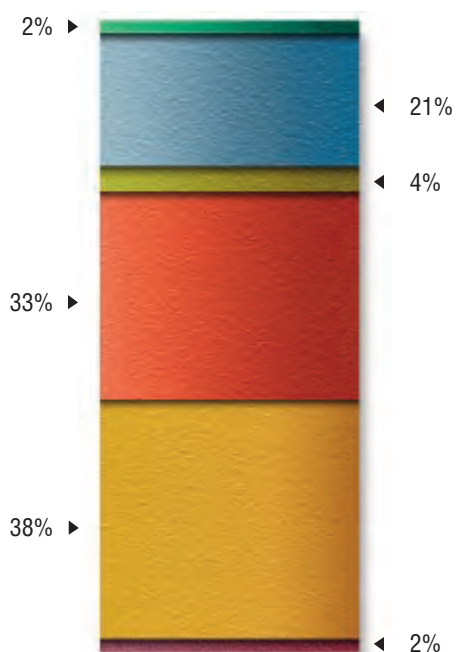
assets when markets are falling while seeking reasonable appreciation. Accordingly, when markets are strong the Trust may not match the benchmark performance but should lose less value when markets are weak.

Within each of these two areas you then need to diversify across a range of strategies and styles. The Trust has its portfolio segregated by asset class and by investment manager and the actual holdings in each asset class and held by each investment manager must be within plus or minus 2% of their target share of the total portfolio. This range is currently under review and will likely change for 2012.



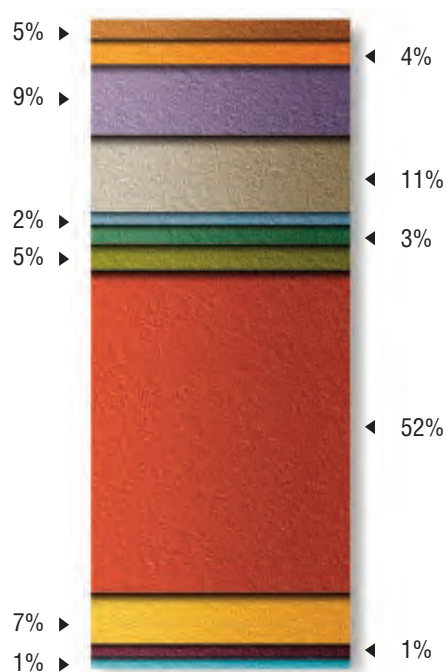


The following charts show the diversification of Trust assets:



### Portfolio by Asset Class

- 2% – Cash and cash equivalents
- 21% – Canadian Bonds
- 4% – Enhanced Bond Strategy
- 33% – Canadian Equity
- 38% – Foreign Equity
- 2% – Alternative Investments



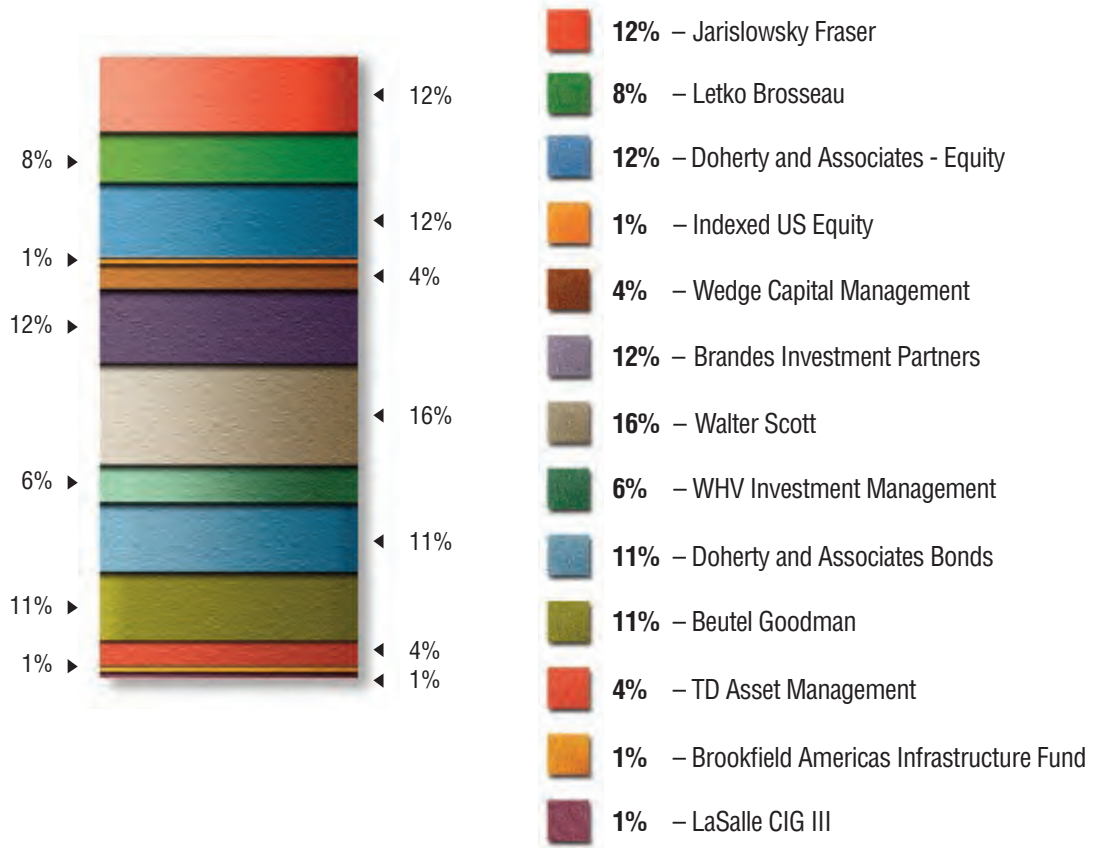
### Stocks by Industry Group

- 5% – Consumer Products and Merchandising
- 4% – Pipelines, Utilities and Environmental Services
- 9% – Resources
- 11% – Financial Services and Conglomerates
- 2% – Industrial Products
- 3% – Transport and Environmental Services
- 5% – Communication and Media
- 52% – Foreign Stocks
- 7% – Pooled Funds
- 1% – Other
- 1% – Real estate and construction

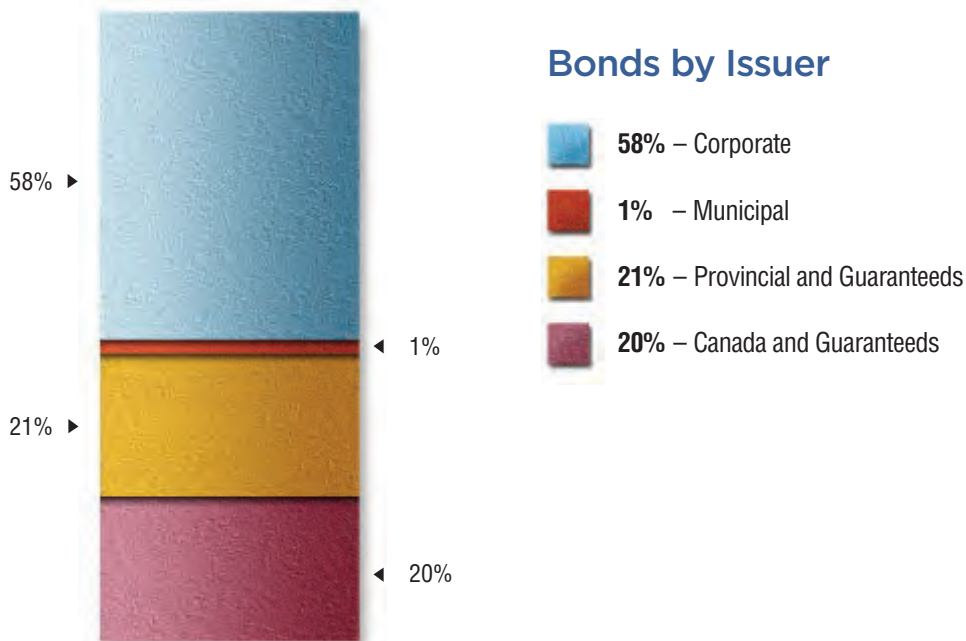




## Portfolio by Investment Manager



## Bonds by Issuer









“Over the next few years, we will see the commitments the Trust has made to real estate and infrastructure funds converted to actual investment properties and projects.”





# Looking Ahead





All the signs around the world make us see ourselves in the coming year or two as a boat with windless sails, bobbing up and down with the swells, waiting for the winds to start moving us forward. In Europe, some modest austerity measures have been taken but Greece is still increasing its debt and Spain looks like it will be seeking banking sector bail outs soon. In the United States of America, there are signs that very modest grow is occurring but unemployment remains stubbornly above 7%. In Canada, the Governor of the Bank of Canada has indicated that he doesn't expect to see interest rates rise before 2014. It would appear, therefore, that we will continue to see more of the same: low interest rates, volatile equity markets and little, if any, valuation growth.

Over the next few years, we will see the commitments the Trust has made to real estate and infrastructure funds converted to actual investment properties and projects. Construction and development of these projects is continuing within each of these funds and while these alternative investments are not yet generating sufficient income to cover the fund management fees, they are approaching the breakeven point.

Very few investors believed back in 2009 that interest rates would remain at historic lows for as long as they have. We positioned the portfolio to limit the impact when interest rates rise by reducing our allocation to bonds. While we have not seen the impact of inflation in the "core inflation" rate, the "headline inflation" rate that includes food and fuel has shown inflationary results. Once interest rates begin to rise and the core inflation rate rises, we believe the trust







## “With caution and patience we should be able to see our way through these difficult times”

portfolio will be well positioned to benefit from these influences. Our portfolio will continue to reflect a higher allocation to equity and alternative investments vis a vis fixed income securities because we do not see bonds providing the Trust with sufficient return, after adjusting for inflation, to meet our dual goals of maintaining the real value of the assets and maintaining a strong, stable level of financial support to our beneficiary organizations.

In the short term, we expect single digit returns that may well be lower than our objective of producing a return of inflation plus 5% and this may result in the Trust portfolio being unable to produce high enough returns to fund the beneficiary organizations at current funding levels out of our income alone. The trust policy has been to allow beneficiary organizations to borrow capital on a temporary basis when investment income is less than the agreed upon funding

level of 4% as long as such “dipping” into the capital does not compromise the ability of the Trust to meet its obligations in the future. We hope someday to return to an environment when investment income exceeds the 4% funding level and excess return above the funding level can be used to repay the outstanding debt. Careful monitoring of market expectations and the level of the outstanding loan balance will be required in the coming years to determine if the Trust can continue to afford to maintain the current spending rate. Over the long term an investment fund intended to last forever cannot spend more than it brings in.

While we expect rough seas over the next few years, please remember that the Trust is a long term investor and with caution and patience we should be able to see our way through the difficult times.



















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**-1.80%**

(2010 8.38%)

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**\$88,953,980**

(2010 \$109,980,580)

**4.12%**

(2010 4.09%)



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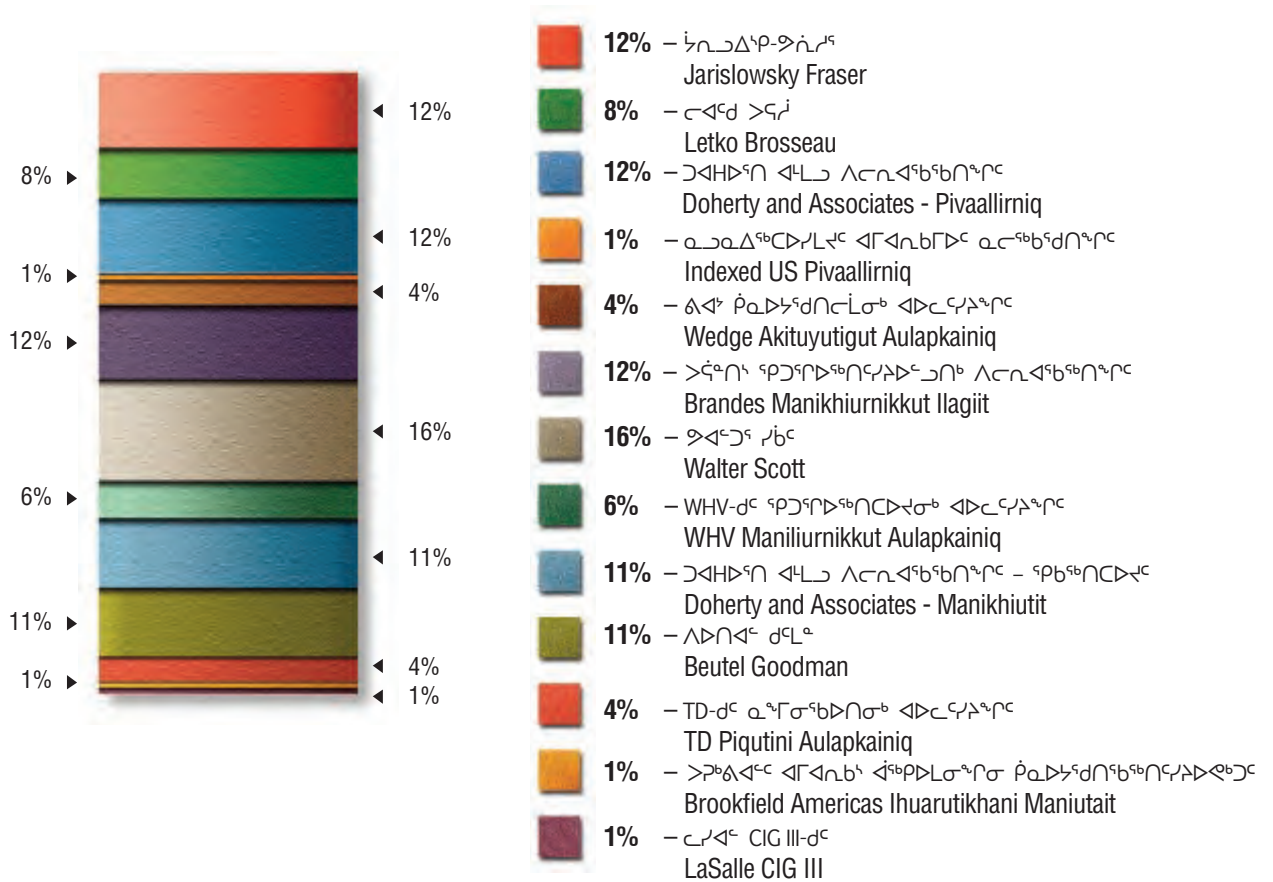




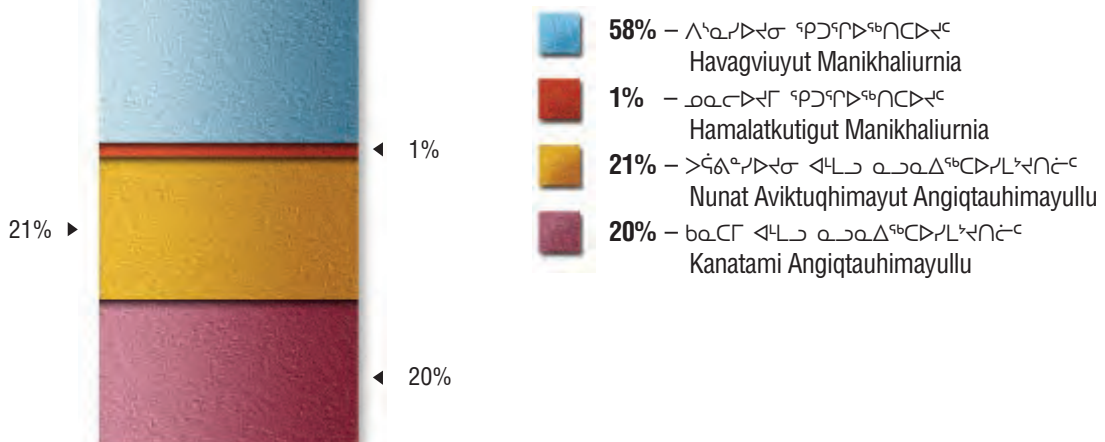




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