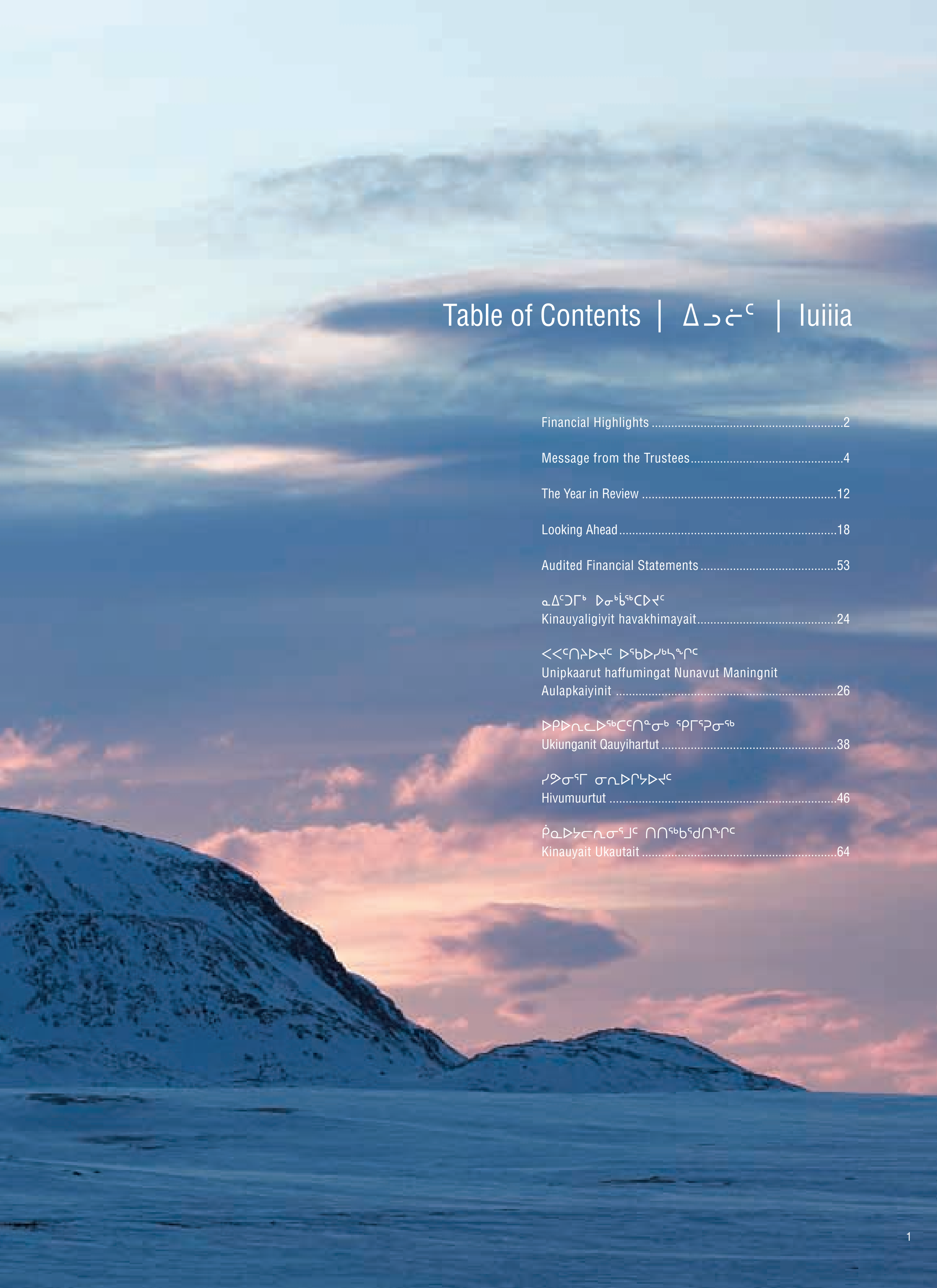
NUNAVUT TRUST ᓄᓇᕗᑦ ᐸᐸᑦᑎᕙᖓᑦ NUNAVUT KATIKHOIVIA 2010

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.

ᐱᒋᐊᖅᑎᑕᐅᓚᖅᓯᒫᓗᑎᒃ ᐊᐃᐱᕆ 23, 1990-ᖑᑎᓪᓗᒍ ᑎᒍᒥᐊᖅᑎᕐᑭᒍᖅᑎᑕᐅᒐᒥᒃ ᐊᐅᓚᑦᓯᔾᔨᐅᓂᕐᒧᑦ ᐱᔾᔪᑎᒋᓗᓂᔾᔪᒃ ᐃᓚᒋᔭᐅᖃᑕᐅᔪᑦ ᓄᓇᓕᓐᓂᕐᒥ ᐊᖏᕈᑎᓂᑦ, ᑭᓇᐅᔭᖁᑎᓕ ᒪᖑᔪᓂᒃᓗ ᖃᐃᑕᐅᔪᓂᒃ ᐊᑭᓕᐅᑕᐅᓯᒫᓗᑎᒃ ᓄᓇᕗᒻᒥ ᐃᓄᖏᖕᓄᑦ ᓱᕐᓗ ᓇᓗᓇᐃᔭᖅᑕᐅᓯᒪᖕᒪᑕ ᓄᓇᕗᒻᒥ ᓄᓇᓕᓐᓂᕐᒧᑦ ᐊᖏᕈᑎᓂ ᐊᑎᓕᐅᖅᑕᐅᓯᒪᓕᓚᐅᖅᑐᓂᑦ ᓄᓇᕗᒻᒥ ᐃᓄᖏᖕᓂᑦ ᐊᒻᒪᓗ ᑲᓇᑕᐅᑉ ᒐᕙᒪᒃᑯᖏᖕᓂᑦ.

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



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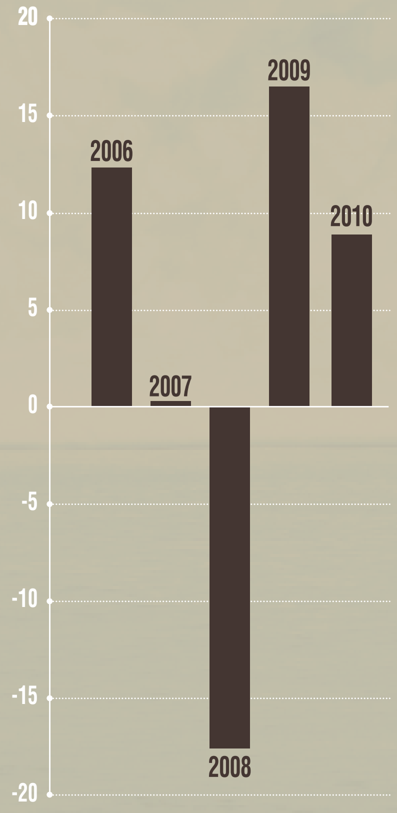
2010 FINANCIAL HIGHLIGHTS

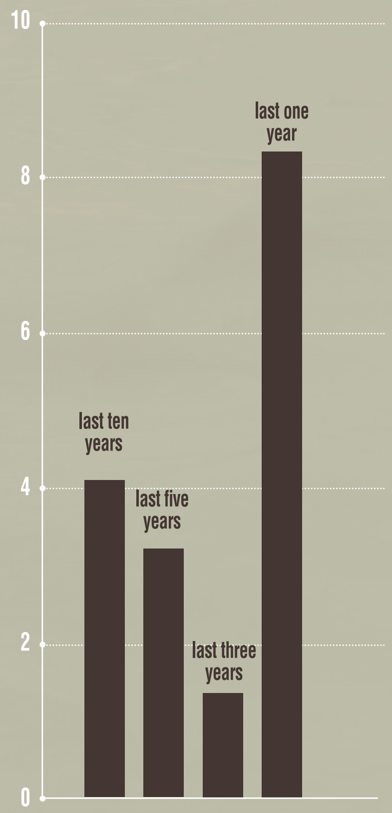
Investment Performance
(%)

8.38%



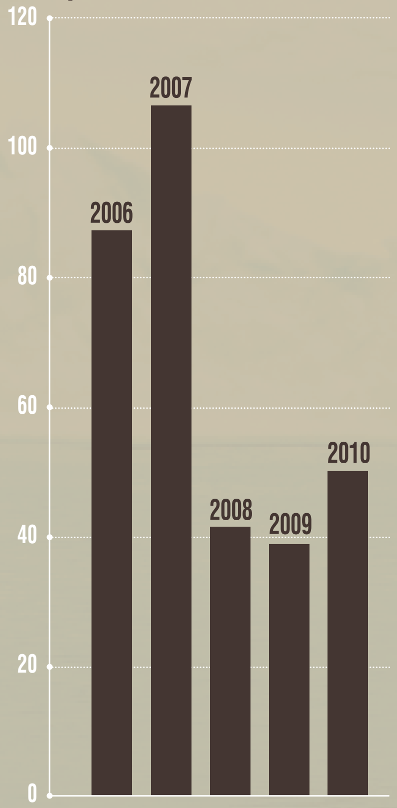
Cumulative Returns
(%)

8.38%



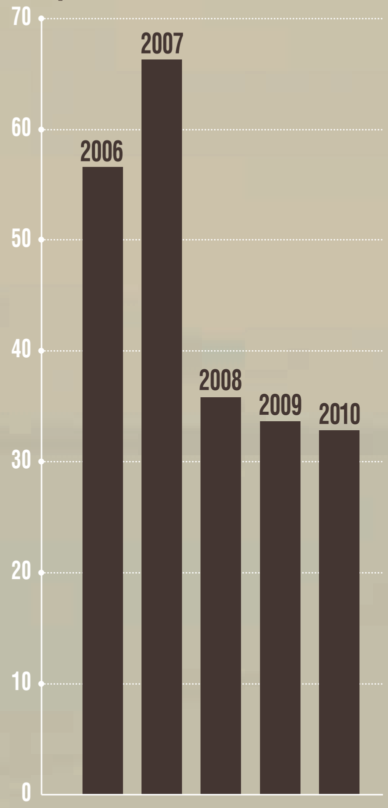
Investment Income
(in millions of dollars)

$49,283,447



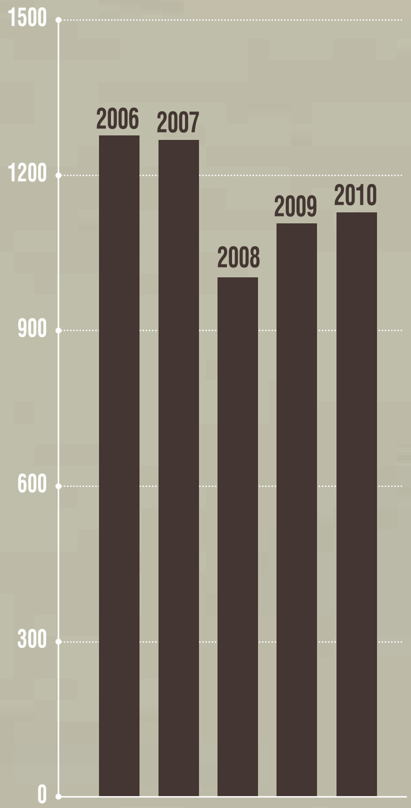
Distributions to Beneficiaries
(in millions of dollars)

$32,523,421



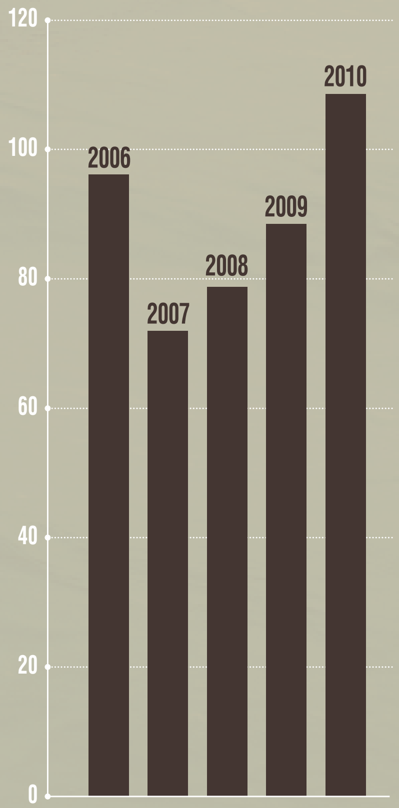
Invested Assets and Accrued Income
(Market value)

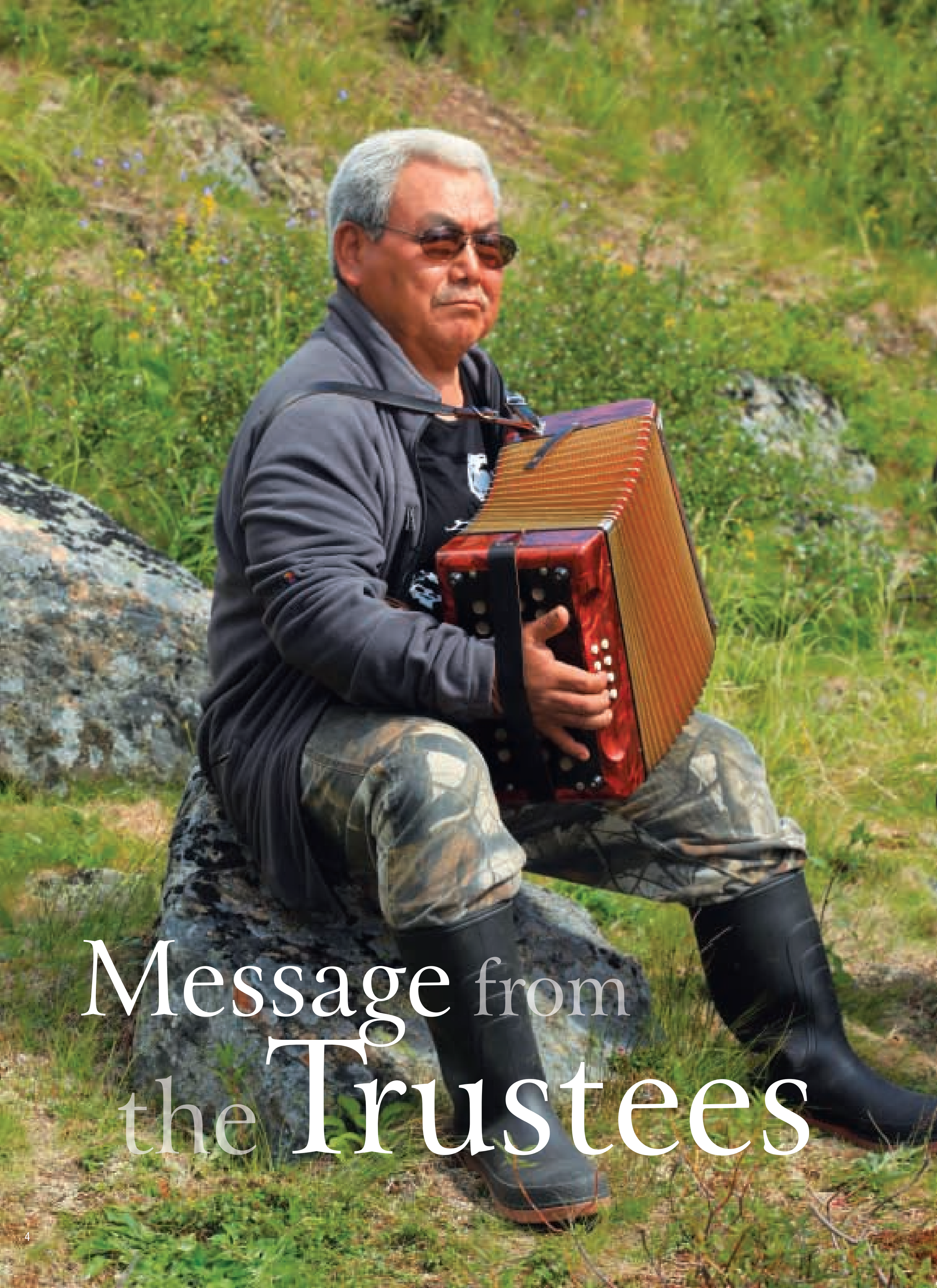
$1,145,464,654



Outstanding Capital Loans to Beneficiaries *(Market value)*

$109,980,580





Message from the Trustees

“As a result we can expect to see markets moving sideways for perhaps a lengthy period of time.”

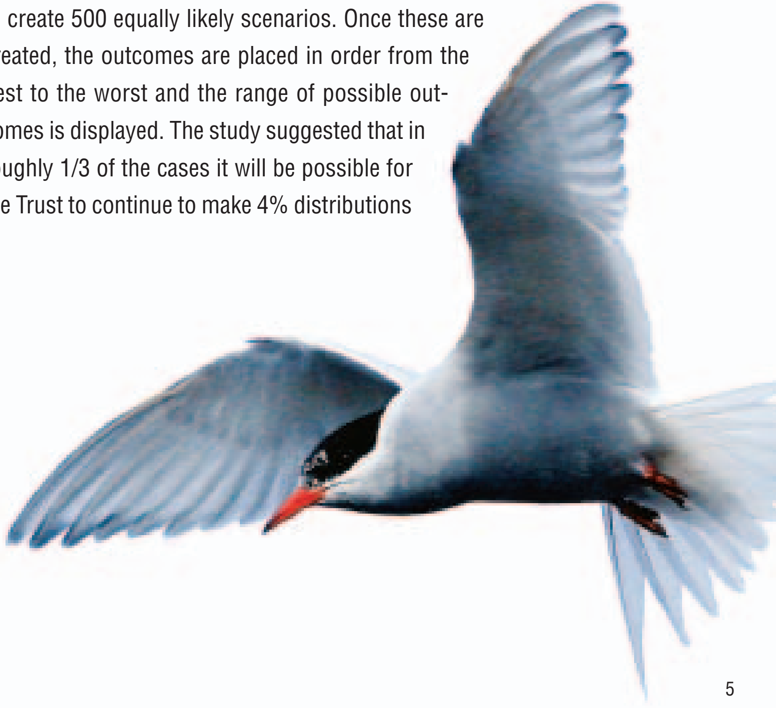
The stressful times have certainly kept their hold on us throughout yet another year. While trying to maintain our long term focus we have attempted to learn as much as we can from these unusual events and incorporate this knowledge in our planning for the future. The next few years are not expected to be any easier.

Last year, we commented on how recessions follow periods of strong economic growth and we indicated that we did not believe we were on the road to recovery just yet. We still believe there is much more work to be done to clean up world economies and as a result markets will continue to show weakness for some time still. During 2010 governments continued to boost their own economies by providing economic support through fiscal stimulus programs and consumers tried to make ends meet and if possible improve the condition of their personal balance sheets. This additional government spending was to stop in 2011 leaving us to ask two questions: “what will happen when the government stimulus programs end and will the economies be strong enough to grow on their own?”

One way of gauging the relative health of an economy is to look at the “Misery Index” that was proposed by Arthur Oken in the 1970’s. The Misery Index is determined by adding the unemployment rate to the inflation rate. If we look back 5-years to the pre-crisis period, the misery index was about 7.5. During the financial crash, the misery index increased, peaking at 10.5. In March 2011, the misery index dropped to 9.4, an improvement over the peak level but still well above the pre-crisis level. Clearly, world economies are not recovering quickly and this will limit an investor’s return potential.

Throughout 2011 and possibly well into 2012 we expect governments to keep interest rates low and we do not expect to see rising inflation pressures. As a result, like all other endowments and pension funds we will struggle to make ends meet with seriously lower investment returns.

With investment returns expected to be lower than historical averages for some time to come we felt it appropriate to revisit our long range projections and assess our ability to achieve our objectives. In late 2010 an asset allocation study using current expectations for investment returns for each asset class was completed. Given the current weak economic recovery, high levels of government debt and higher unemployment levels it was not surprising that the study’s outlook for long term investment returns was lower than the last time an asset allocation study was completed. As Nunavut Trust is a taxable entity and as it is a closed fund with no new contributions, we structured the study to closely mimic the cash flows that come from each type of asset class. The asset allocation study used computer simulations to create 500 equally likely scenarios. Once these are created, the outcomes are placed in order from the best to the worst and the range of possible outcomes is displayed. The study suggested that in roughly 1/3 of the cases it will be possible for the Trust to continue to make 4% distributions



to the beneficiary organizations and preserve the real buying power of the Trust capital. In 2/3 of the cases, however, the Trust will not be able continue to distribute at the 4% level without eroding the real buying power of the Trust capital. These are not odds we are comfortable with. Each piece of our portfolio and the way the pieces weave together need to be assessed for their contributions to our chance of succeeding. We must carefully watch the progress of our fund as the world economies struggle to recover and we must be ready to take action should it be in the best interests of the future generations of Inuit to reduce the level of the annual payment to beneficiary organizations.

In past years, we've talked about the outstanding loans owed to us by Nunavut Tunngavik Incorporated and the opportunity cost, or revenues not able to be earned because of the reduced asset balance. In 2010, the Trust earned an 8.4% rate of return and would have earned an additional $5.6 million had the loan not existed. If we go back to 1993 and calculate the cumulative amount of income that would have been earned had there been no outstanding loan, the Trust would have earned an additional $119.0 million and that amount will grow as long as there is an outstanding loan balance. Beneficiary organizations should do their best to control spending and, if possible, use any excess distributions from the Trust's yearly income to reduce the outstanding loan balance. Loan repayments increase the asset balance upon which we can earn investment income which in turn increases the amount of the yearly income distribution to beneficiaries. Currently $110 million has been loaned to beneficiary organizations.

Asset allocation studies done in 2008 and again in 2010 provided evidence that certain alternative asset classes would help improve the probability of us achieving our objectives. Two new asset classes, real estate and infrastructure, were added to the portfolio during 2010. These asset classes are different from our traditional investments because once a commitment is made, it takes on average 3-years to become fully invested and

"While trying to maintain our long term focus we have attempted to learn as much as we can from these unusual events and incorporate this knowledge in our planning for the future."

these investments cannot be sold easily. We have added these asset classes because they provide a good, steady stream of cash that will help fund our yearly expenditures. In addition, these alternate assets do not move in the same direction or at the same time as the public stock markets so they provide a balance to the publicly traded portion of our portfolio.

Nunavut Trust has experienced many different ups and downs in the world markets over the past 17 years but we have always remained true to our belief that we can better protect the settlement fund by avoiding short term reactions to market conditions. We are long term investors, we have a long term plan and we utilize external professional investment management firms to help us achieve our objectives. We pay attention to the amount of the market downturn our investment managers' capture because we would rather give up some return when the markets are booming in order to not lose as much as the markets when they are diving.

Jack Kupeuna
Kitikmeot Trustee

Malachi Arreak
Qikiqtani Trustee

Archie Angnakak
Qikiqtani Trustee

Dorothy Gibbons

Kivalliq Trustee and Vice Chairperson

Bill Lyall

Kitikmeot Trustee and Chairperson

David Toolooktook

Kivalliq Trustee

The Year in Review

"At the end of the 2010 year the market value of Trust assets was $1.145 billion."

Looking back at 2010 we recall that some analysts referred to 2009 as the "Year of Survival" as world economies and central bankers worked hard to repair the damage done to financial markets and to nudge their economies toward growth again. These same analysts called 2010 the "Year of Doubt" as investors wondered if the recovery that occurred in 2009 could be sustained as we faced the European sovereign debt problems and saw economic indicators in the USA trending downward. As a result, we were not surprised to learn that markets moved sideways with high volatility during the first three quarters of 2010. It was only in the last two months of the year that market sentiment turned positive and market indices showed gains.

At the end of the 2010 year the market value of Trust assets was $1.145 billion. The Trust produced a total investment return for the year of 8.4%. The asset allocation study done in 2008 had predicted high single digit returns for 2009 and onwards with a 2010 projection of 8.3%. The realized revenues earned during 2010 amounted to $49.2 million, an increase from 2009 revenues of 26.9%. Most of this increase was because the net trading activity for the 2010 year resulted in net gains from sales of securities in comparison to the net losses of the prior year. Expenses incurred in the year can be separated into two groups. Controllable expenses are independent of the movement in the stock markets and represent only 6.6% of our total expenses for 2010. The non-controllable expenses are directly tied to the market movements and the market prices for our invested assets. Professional fees are the single largest component of the non-controllable expenses and these are based on negotiated contracts with each of our external investment managers whereby they earn fees as a percentage of the market value of the assets they manage on our behalf. As a large portion of our portfolio is held in currencies of other countries around the world and as we do not control the swings of those foreign currencies, we must ride the swings of global currency markets and in some years we make money by being invested outside Canada and in some years we will lose money when the transactions are converted back to Canadian dollars. The strength of the Canadian dollar during 2010 relative to other world currencies reduced the investment returns earned in global markets when converted to Canadian dollars.

In 2010, the Trust advanced $54.0 million to beneficiary organizations through a combination of beneficiary loans and year end income distribution. $21.5 million had to be added to the beneficiary loan balance for two reasons. First, the income distribution for the year was less than the approved payout rate of 4% of the five year moving average of the market value of Trust assets. Second, the January 2011 advance to Nunavut Tunngavik Incorporated was sent out just prior to the end of the year resulting in 5 advances rather than the usual 4 in a given year. As a result, the capital loans to beneficiaries at December 31, 2010 had a balance totaling $110 million.

The Trust's investment policy consists of a portfolio made up of publicly traded securities (stocks and bonds) and units in limited partnerships. The publicly traded assets are managed by a group of external, professional investment managers, each with a different style and a different mandate to apply to a specific portion of our overall portfolio. The overall mix of these managers and the allocation of the portfolio to each asset class is a result of research, discussion and observation by the Investment Advisory Committee who then makes recommendations to the trustees for their approval and inclusion in the Trust's overall Investment Policy. The Investment Advisory Committee is a group of external individuals with experience in fund and investment management.

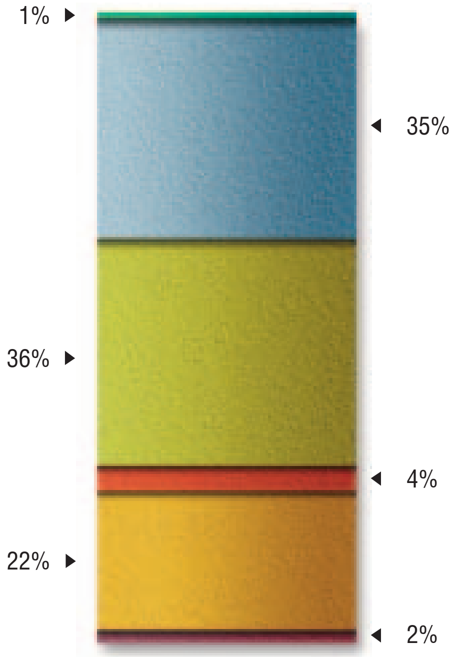
Annual TWRR

	2010	2009	2008	2007	2006
Actual	8.38%	16.5%	-17.58%	0.28%	12.32%
Benchmark	11.67%	17.86%	-18.27%	-0.58%	13.31%

Cumulative TWRR

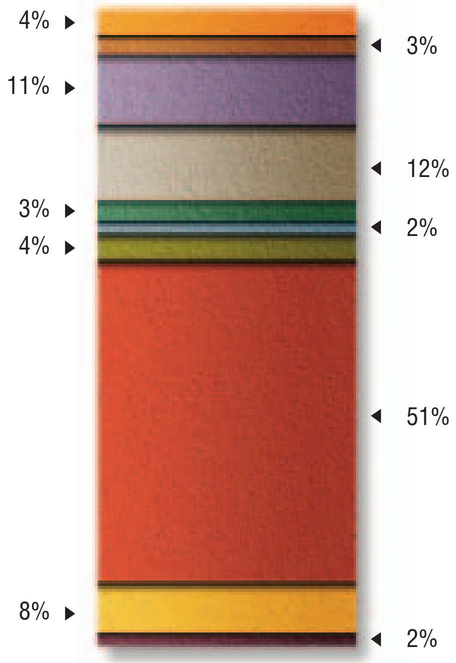
	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Actual	8.38%	1.34%	3.23%	4.09%
Benchmark	11.67%	2.32%	3.78%	3.53%

The following charts show the diversification of Trust assets:



Portfolio by Asset Class

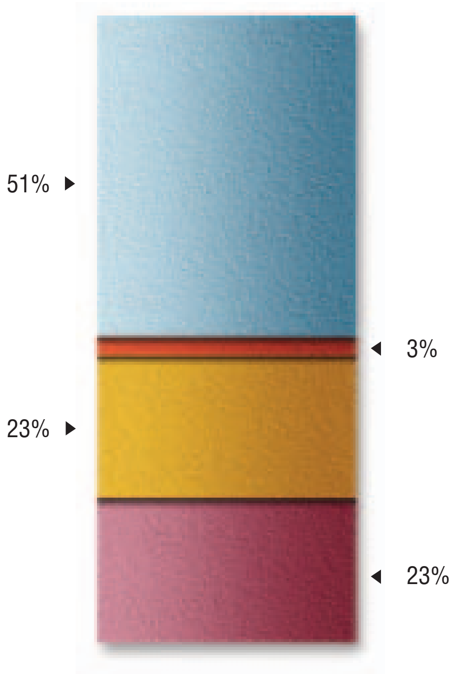
- **1%** – Alternative Investments
- **35%** – Foreign Equity
- **36%** – Canadian Equity
- **4%** – Enhanced Bond Strategy
- **22%** – Canadian Bonds
- **2%** – Cash and Equivalents



Stocks by Industry Group

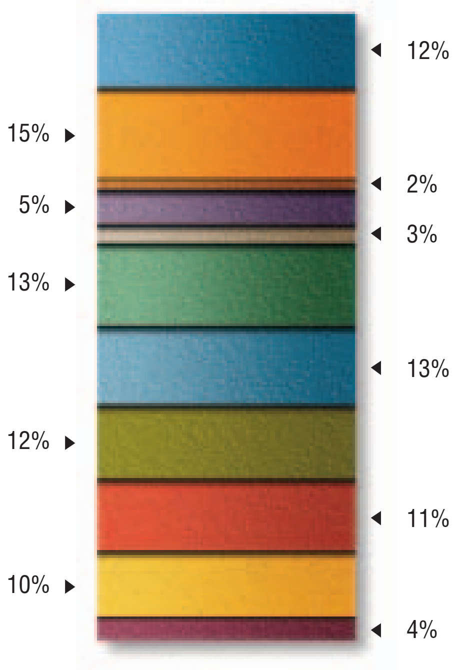
- **4%** – Consumer Products and Merchandising
- **3%** – Pipelines, Utilities and Environmental Services
- **11%** – Resources
- **12%** – Financial Services and Conglomerates
- **3%** – Industrial Products and Communications
- **2%** – Transport and Environmental Services
- **4%** – Communication and Media
- **51%** – Foreign Stocks
- **8%** – Pooled Funds
- **2%** – Other

The following charts show the diversification of Trust assets:



Bonds by Issuer

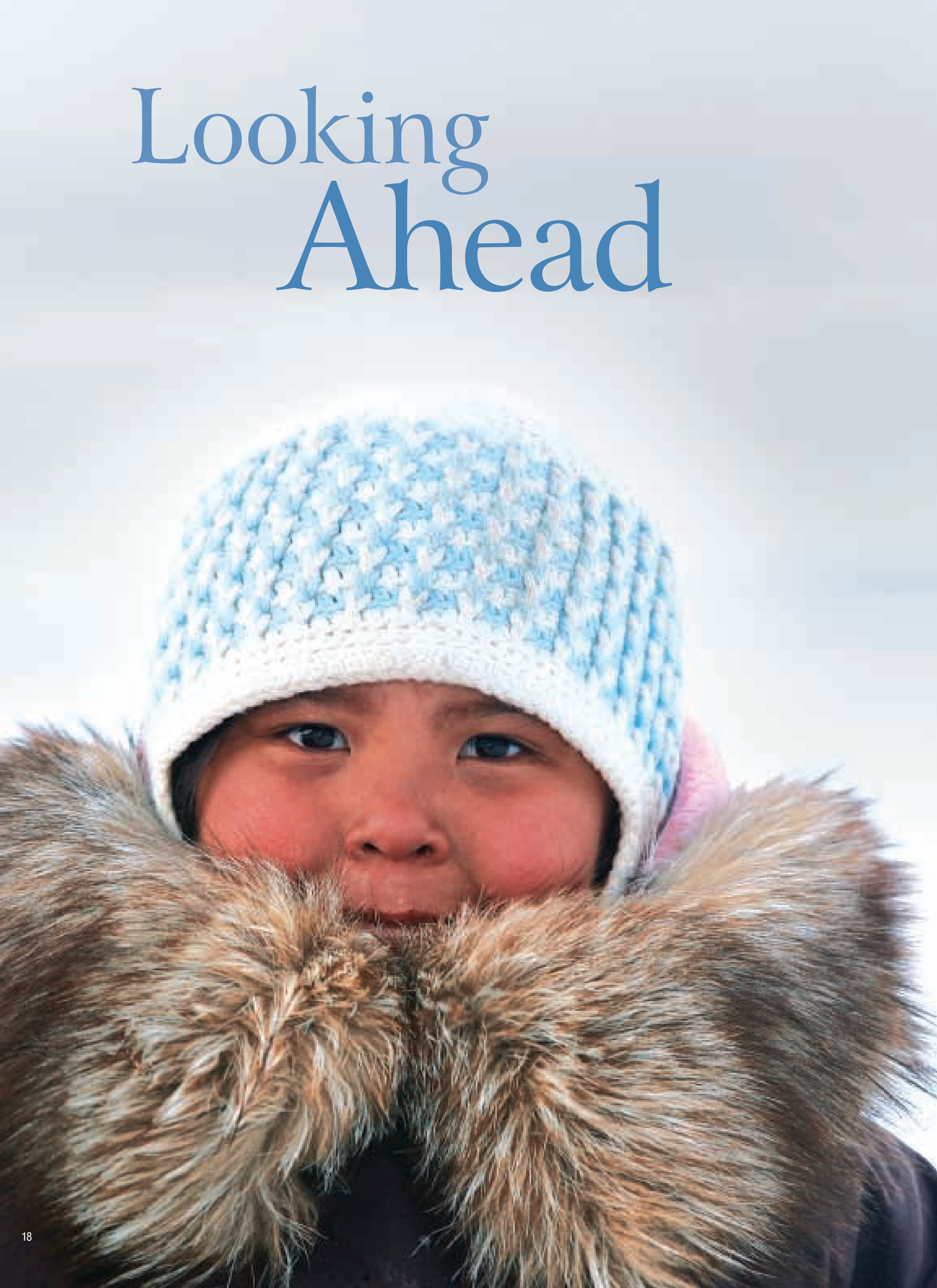
- **51%** – Corporate
- **3%** – Municipal
- **23%** – Provincial and Guaranteeds
- **23%** – Canada and Guaranteeds



Portfolio by Investment Manager

- **12%** – Brandes Investment Partners
- **15%** – Walter Scott & Partners
- **2%** – Indexed US Equity
- **5%** – Wentworth, Hauser & Violich
- **3%** – Wedge
- **13%** – Doherty and Associates
- **13%** – Jarislowsky Fraser
- **12%** – Letko Brosseau
- **11%** – Doherty and Associates Bonds
- **10%** – Beutel Bonds
- **4%** – TD Asset Management

Looking Ahead



"We are carefully monitoring the investment world around us, our mandate and our investment policies."

As we look ahead, we believe 2011 will be another "Year of Doubt". While the global economy seems to have recovered from the credit crisis, and, as surprising as it may seem, markets are currently 70% to 90% above their March 2009 lows, there are serious challenges to be addressed around the world. The European sovereign debt crisis and the impact of governments running large deficits represent the biggest near term concerns. It would also appear that inflationary pressures are building in emerging markets.

The Trust has made commitments to invest in three real estate and infrastructure funds. In the infrastructure area, the limited partnership in which we have invested has made a number of funding requests and it appears that the partnership is on track to become fully funded on schedule. In the real estate investment, however, the limited partnership is finding it difficult to purchase assets at reasonable prices because the publicly traded REIT funds have experienced significant cash inflows and they are bidding up prices in order to invest their cash balances quickly. All of the limited partners have agreed that they would rather extend the investment period by 18 months than to force cash into assets where the return will be considerably lower than originally planned by the partnership. As a result, it will take longer for the Trust to become fully invested at its policy allocation weight.

During 2010, we experienced an unusual situation that saw equities and bonds both make gains. This reflected the fact that economic conditions were looking better (benefiting stocks), but growth-limiting challenges remained (benefiting bonds) and this was considerably confusing to investors. Normally, the Trust will do an investment policy review every four or five years, the last one occurring in 2008.

The 2008 review was based on June 2008 data, which was before the start of the unprecedented market decline of 2008 and subsequent, remarkable recovery of 2009. Forecasts of the anticipated economic assumptions have changed since 2008 including lower rates of inflation, lower bond yields and lower equity market returns. Accordingly, the Trust decided to undertake another investment policy review in late 2010. As Nunavut Trust is a taxable entity and as it is a closed fund with no new contributions, we structured the study to closely mimic the cash flows that come from each type of asset class, particularly the new alternative assets. The asset allocation study, used computer simulations to create 500 equally likely scenarios.

Once these are created, the outcomes are placed in order from the best to the worst and the range of possible outcomes is displayed. The study suggested that in roughly 1/3 of the cases it will be possible for the Trust to continue to make 4% distributions to the beneficiary organizations and preserve the real buying power of the Trust capital. In 2/3 of the cases, however, the Trust will not be able to continue to distribute at the 4% level without eroding the real buying power of the Trust capital, thus breaching its mandate.

What all of this means to the Trust is that we are likely to experience lower (single digit) investment returns for the next few years and perhaps for an extended period. Many pension plans are finding that they have unfunded liabilities and they may not be able to meet their current pension obligations without making substantial changes to their status quo. Should these lower than average investment returns persist, the Trust, just like the pension funds, may find it necessary to reduce the level of annual distributions to beneficiary organizations from the current 4% level if we are to continue to preserve the real buying power of Trust assets.

We are carefully monitoring the investment world around us, our mandate and our investment policies. Through research and cooperation with funds in similar circumstances we are learning how best to protect our Trust assets in this new world without hitting too many bumps along the way. Challenging times are definitely ahead but we are confident that we are positioned carefully to weather the ride.

"Challenging times are definitely ahead but we are confident that we are positioned carefully to weather the ride."

NUNAVUT TRUST
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NUNAVUT
KATIKHOIVIA

Suite 1415
50 O'Connor Street
Ottawa, Ontario
K1P 6L2
www.nunavuttrust.ca

TRUST CUSTODIAN
ᑎᒍᒥᐊᖅᑎᐅᔪᖅ
TUTKUKTUIYIT
MUNAGIYIIT
TIGUHIMAYUT

RBC Dexia
Investor Services
155 Wellington Street West
P.O. Box 7500, Station A
Toronto, Ontario
M5V 3L3

AUDITORS
KPMG LLP
ᑭᓇᐅᔭᓕᕆᔾᔪᑎᓂᒃ
ᖃᐅᔨᓴᖅᑎᓪᒪᓃᑦ
KPMG LLP
KINAUYALIGIYIT
IHIVGIUKTIT
KPMG LLP

Suite 2000
160 Elgin Street
Ottawa, Ontario
K2P 2P8

INVESTMENT
ADVISORY
COMMITTEE
ᑭᓇᐅᔭᓂᒃ
ᕿᑐᕐᕆᐅᖅᑎᑦᓯᖅᑕᑦᑕᕐᓂᕐᒥ
ᑲᑎᒪᔨᕋᓛᓂᔭᐅᔪᑦ
TUTKUKTUIYIT
IKAYUKTIT
KATIMAYIGALAAT

Roger Chiniara
Arthur Donner
Robert Rabinovitch
Bonita Then
Andrew Campbell

Annual Report Design by
Earthlore Communications
Photography by
Lee Narraway
Maya Visnyei

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ᐅᖃᓕᒫᒐᓕᖕᔪᐊᓂᒃ ᐋᖅᑭᒃᓱᐃᔨᐅᔪᑦ
Earthlore Communications
ᐊᔾᔨᓕᐅᖅᑕᖏᑦ Lee Narraway
Maya Visnyei

Ukiuk Tamaat Tuhaktakhait
hanahimayait Earthlore
Communications

Piksaliukhimayait
Lee Narraway
Maya Visnyei


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