

Yuulu?i?ath Settlement Trust

Annual Report

December 31, 2012

Prepared March 13, 2013

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Contents

| | Page |
|------------------------------|------|
| Preface | 1 |
| What is a Trust? | 1 |
| What is the Trust Agreement? | 2 |
| Creation of the Trust | 2 |
| Purpose of the Trust | 2 |
| Trustees | 3 |
| 2012 Objectives | 3 |
| 2012 Activities | 4 |
| Investment Performance | 6 |
| Financial Activities | 7 |
| Audited Financial Statements | 8 |

PREFACE

This annual report has been prepared by the trustees of the Yuułuᑭiᑭᑭᑭᑭ Settlement Trust to inform the citizens of the Yuułuᑭiᑭᑭᑭᑭ First Nation of the activities and results of the operations of the trust for the year ended December 31, 2012.

WHAT IS A TRUST?

A trust is a relationship created to hold title to property for the benefit of the beneficiaries. There are three parties involved in the creation of a trust:

Settlor – This is the person who sets up or creates the trust. The Yuułuᑭiᑭᑭᑭᑭ First Nation selected Eric Russcher, Mayor of Ucluelet at the time, as the settlor of the trust. The role of the settlor is complete once the trust is created.

Trustees – The trustees control the trust and are responsible for managing the trust in accordance with the terms of the trust agreement and common law related to trusts. Yuułuᑭiᑭᑭᑭᑭ First Nation has appointed five trustees.

Beneficiaries – These are the persons or entities intended to benefit from the trust. The beneficiaries of the trust are the Yuułuᑭiᑭᑭᑭᑭ First Nation and any charity that directly or indirectly benefits Yuułuᑭiᑭᑭᑭᑭ citizens.

WHAT IS THE TRUST AGREEMENT?

The trust agreement is the document that creates the trust and sets out the terms and conditions of the operation of the trust. The trust agreement sets out:

- the purpose of the trust,
- the duties, powers, responsibilities, appointment and removal of trustees,
- the beneficiaries,
- how trust assets are to be managed,
- how trust assets are to be distributed to beneficiaries, and
- termination or wind-up of the trust.

CREATION OF THE TRUST

The trust was created by the government of the Yuułuᑭiᑭᑭᑭ First Nation as part of the preparations for the implementation of the treaty which came into effect on April 1, 2011. The trust agreement was finalized and executed as of March 15, 2011.

PURPOSE OF THE TRUST

The purpose of the trust is to receive and invest contributions of eligible treaty payments from the Yuułuᑭiᑭᑭ First Nation. The Yuułuᑭiᑭᑭ First Nation may contribute to the trust all or part of capital transfer and resource revenue sharing amounts paid under the treaty.

Amounts contributed to the trust are to be held, protected and nurtured for the benefit of the trust beneficiaries. Trust funds, including the original contributions and income earned from investment of contributions, are intended to be used for community benefits based on priorities determined by the Yuułuᑭiᑭᑭ First Nation government.

TRUSTEES

The trust agreement provides that the Yuułuᑭiᑭᑭᑭᑭ First Nation has the authority to appoint and remove trustees. The trustees appointed by the Nation are:

Michelle Corfield

Larry Baird

Cathy Rothwell

Spencer Touchie

Gordon Taylor Jr.

The trustees are obligated to carry out their duties as provided in the trust agreement and to ensure that the purposes for which the trust was created are being met.

2012 OBJECTIVES

The primary objectives established by the trustees for the second year of operations were:

- Prepare and make available to Yuułuᑭiᑭᑭᑭᑭ citizens a copy of the trust's audited financial statements and annual report for the fiscal period ending December 31, 2011,
- Monitor the performance of Leith Wheeler Investment Counsel Ltd. (Leith Wheeler), the firm responsible for managing the trust's investment portfolio,
- Conduct an annual review of the investment policy which sets out the framework within which Leith Wheeler manages the trust's investment portfolio in order to meet the objectives of the trust and its beneficiaries,

- Implement administrative policies and procedures to ensure trust financial and administrative activities are conducted professionally and properly documented, and
- Obtain liability insurance to cover trustees in the performance of their duties.

The objectives for the second year have been accomplished. The trustees will continue to look for opportunities to refine and improve operations.

2012 ACTIVITIES

Monitoring of the Investment Manager

The trustees monitor Leith Wheeler's performance in managing the investment portfolio. At a minimum monitoring includes:

- Reviewing monthly summary portfolio statements provided by Leith Wheeler,
- Reviewing, at a trustee meeting, detailed quarterly reports provided by Leith Wheeler,
- Having Leith Wheeler attend at least one trustee meeting to review performance and discuss economic forecasts, and
- Meeting with Leith Wheeler annually to review the investment policy statement to determine if any changes are required to meet the trust's objectives.

Annual Review of the Investment Policy

The purpose of the investment policy statement is to:

- Describe the long-term investment objectives for the trust funds,

- Describe the discretion and limits within which the investment manager must operate, including asset allocation and risk tolerance,
- Set the performance objectives for the investment manager, and
- Establish benchmarks and the process for monitoring investment performance.

The trustees met with Leith Wheeler on November 5, 2012 to review the investment policy statement and determine if any changes are required to meet the trust's objectives. Leith Wheeler provided the trustees with information describing current and projected national and international market conditions and expected investment returns. Expected returns in the short-term (up to four years) are estimated to be approximately 1% less than the target returns in the investment policy statement. As the target returns in the investment policy statement are long-term (ten years or more) the trustees determined no change was required in the investment policy statement at this time. The next review of the investment policy statement is expected to be in the fall of 2013.

Trustee Meetings

The trustees conducted business at nine meetings during 2012. Minutes of trustee meetings are posted in a public area of the administrative offices of the Yuułu?if?ath First Nation.

Trust Funds

During 2012 the trust received contributions of capital transfers and resource revenue sharing funds from the Nation of \$3,279,642. In the same period the trust distributed \$938,327 to the Nation for a treaty negotiation loan repayment and budgeted community benefits. With the exception of cash required for the trust's operating expenses the balance

of the funds held by the trust have been transferred to the trust's investment portfolio managed by Leith Wheeler.

INVESTMENT PERFORMANCE

The investment portfolio being managed by Leith Wheeler is designed to protect and grow the capital of the trust over the long-term and to produce a reasonable annual income.

The investment policy adopted by the trust recognizes that the capital value of the trust will move up and down in the short-term. The trustees monitor the investment portfolio on a monthly basis. Short-term fluctuations in the value of the portfolio are noted however the performance of the investment manager will be judged based on the long-term results.

The following comment has been provided by Andrew Hoffman, Vice President, Leith Wheeler:

In thinking back on 2012, many people would not have been surprised if stock markets struggled over the course of the year. Challenges concerning the European sovereign debt crisis, a slowing Chinese economy and the U.S. fiscal cliff seemed to dominate headlines. However, against this backdrop, stock markets actually had a strong year while bonds also provided solid returns. For the full year, both the U.S. and International equity markets provided double-digit returns. Although the Canadian equity market had a more modest return of 7.2%, your Canadian portfolio performed very well and also generated double-digit returns.

Your portfolio is invested to grow over time at a pace that is several percentage points greater than inflation to allow for spending that does not impact future generations while protecting against large negative

returns. To achieve this goal in a low interest rate environment, your portfolio is invested in approximately two thirds equities, to provide longer term growth opportunities, and one third bonds, to reduce the effects of unforeseen bad years in the stock market and also provide income to meet any shorter term cash flow needs of the Trust. Since the trust was invested in April of 2011 we are happy to report the Trust has grown at an annual rate of 4.7% per year.

As we begin a new year, the current interest rate environment reflects the low-growth expectations of the broader marketplace. We believe current stock market valuations already reflect this sluggish growth outlook, and any improvement in overall economic sentiment should provide a boost for investors. We remain optimistic about the long term outlook for stocks and believe patient investors will continue to benefit from owning good businesses over time.

FINANCIAL ACTIVITIES

Significant financial results from the audited financial statements of the trust for the period ended December 31, 2012 are:

| | |
|--------------------------------------|---------------------|
| Cost of investment portfolio | \$ 5,904,409 |
| Add: unrealized gain in market value | <u>129,597</u> |
| Market value at December 31, 2012 | \$ <u>6,034,006</u> |
| | |
| Investment income and gains on sales | \$ 192,982 |
| Operating expenses | <u>45,957</u> |
| Excess of revenue over expenses | \$ <u>147,025</u> |

AUDITED FINANCIAL STATEMENTS

Attached to this report are the trust's audited financial statements for the period ended December 31, 2012.