

Yuulu?i?ath Settlement Trust

Annual Report

December 31, 2017

Prepared March 6th, 2018

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PREFACE

This annual report has been prepared by the trustees of the Yuułuᑭᑦᐱᑦᐱᑦᐱᑦ Settlement Trust to inform the citizens of the Yuułuᑭᑦᐱᑦᐱᑦᐱᑦ First Nation of the activities and results of the operations of the Trust for the year ended December 31, 2017.

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 a trust. The Yuułuᑭᑦᐱᑦᐱᑦᐱᑦ 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 a 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. Yuułuᑭᑦᐱᑦᐱᑦᐱᑦ 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 Yuułuᑭᑦᐱᑦᐱᑦᐱᑦ First Nation and any charity that directly or indirectly benefits Yuułuᑭᑦᐱᑦᐱᑦᐱᑦ 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 Yuułuᑦiᑦᑭᑦᑭᑦ 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 Yuułuᑦiᑦᑭᑦᑭᑦ First Nation. The Yuułuᑦiᑦᑭᑦᑭᑦ 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 Yuułuᑦiᑦᑭᑦᑭᑦ First Nation government.

TRUSTEES

The trust agreement provides that the Yuułuᑭᑭᑭᑭ 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.

2017 OBJECTIVES

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

- Prepare and make available to Yuułuᑭᑭᑭᑭ citizens a copy of the Trust's audited financial statements and annual report for the fiscal period ending December 31, 2017,
- Monitor the performance of Leith Wheeler Investment Counsel Ltd. (Leith Wheeler), the firm currently responsible for managing the Trust's investment portfolio,
- Participate in professional development specific to the duties and responsibilities of the trustees, as needed,
- Implement administrative policies and procedures to ensure trust financial and administrative activities are conducted professionally and properly documented.

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

2017 ACTIVITIES

Monitoring of the Investment Manager

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

- Reviewing, at a trustee meeting, detailed quarterly reports provided by Leith Wheeler, and
- Having Leith Wheeler attend at least one trustee meeting a year to review performance and discuss economic forecasts.

Trustee Meetings

The trustees conducted business at seven meetings during 2017. Minutes of trustee meetings are posted in a public area of the administrative offices of the Yuułu?iŋ?ath First Nation.

Trust Funds

During 2017 the Trust received contributions of capital transfers from the Nation of \$2,144,177. In the same period the Trust did not distribute any funds to the Nation. With the exception of cash required for the Trust's operating expenses and the loan mentioned below the balance of the funds held by the Trust have been transferred to the Trust's investment portfolio managed by Leith Wheeler.

During 2015 the Trust entered in to a loan agreement with the Nation to advance \$350,000 a year for 5 years to the Nation (a total of \$1,750,000).

The purpose of the loan is for the Nation to make debt payments to the Nation's commercial bank for the construction of the new community building. The loan is subject to interest at prescribed rates which is currently 1%. Repayment is to be determined June of 2020.

During 2017 a third loan advance of \$350,000 was made to the Nation.

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 quarterly 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.

Attached is a summary report from Andrew Hoffman of Leith Wheeler.

Dear Trustees of the Ucluelet First Nation – Settlement Trust,

The fourth quarter of 2017 rounded out what was a very strong year for investment performance across most asset classes.

Equity market returns were solid, particularly in the United States where expectations of late-cycle stimulus (in the form of tax cuts) provided a boost to valuations into year-end and drove the market 7.2% higher (in Canadian dollars) over the fourth quarter and 13.8% for the year. These returns also were delivered with limited market volatility; in fact, 2017 marked the first year since the early 1980s where S&P 500 returns were

positive in every calendar month. While your US equity portfolio has performed well during the year, it has lagged a strong market due to lack of exposure to the expensive “FANG” (Facebook, Amazon, Netflix, and Google) stocks.

Canadian equity markets had a similarly strong quarter and year, rising 4.5% and 9.1% respectively, on the back of rising corporate earnings and better than expected GDP growth. And international markets didn’t miss the party, with the MSCI EAFE Index rising 4.8% and 16.8% for the quarter and year, respectively. Both of these portfolios outperformed their respective benchmarks over each period, thanks to strong returns from portfolio holdings such as BRP in Canada, and Samsung Electronics, internationally.

Meanwhile, bond markets were also well behaved with fears of capital losses from rising bond yields (“when interest rates go up, bond prices go down”) proving to be misplaced. The bigger story for bond markets – particularly in the fourth quarter – was the decline in long bond yields, despite rising short-term yields. Credit markets, including both investment-grade and high yield, were relatively calm with spreads tightening only marginally during the quarter, further augmenting returns.

This Goldilocks scenario has emerged from the ongoing strength (and longevity) of the current period of economic expansion, combined with and supported by ongoing global monetary stimulus. Although recent focus has been on policy tightening in the United States and Canada, this has to be considered alongside ongoing monetary stimulus in the rest of the world, particularly in Japan and Europe where their respective central banks continue to hold short-term real interest rates below zero through monetary operations and ongoing asset purchases. In addition, a weakening in the Canadian dollar and a recovery in commodity prices both worked to add heat to the porridge for Canadian investors.

Our outlook for 2018 remains constructive, as fiscal stimulus combined with easy global monetary conditions continues to provide a tailwind to growth and investment returns. However, we are mindful of recent outsized investment returns and rising valuations in many asset classes, prompting us to adopt a more conservative view in portfolio allocations heading into the New Year.

Andrew Hoffman, CFA | Vice President, Portfolio Manager

Leith Wheeler Investment Counsel Ltd.

FINANCIAL ACTIVITIES

Significant financial results from the audited financial statements of the Trust for the period ended December 31, 2017 are:

Cost of investment portfolio	\$ 19,4807,88
Add: unrealized gain in market value	1,706,502
Market value at December 31, 2017	\$ <u>21,187,290</u>
Investment income and gains on sales	\$ 847,416
Less: Operating expenses	113,878
Excess of revenue over expenses	\$ <u>733,537</u>

Note the stated income does not include the increase in unrealized gains.

The Trust's audited financial statements for the period ended December 31, 2017 are available to citizens on request. The statements show comparative figures for 2016.