

Yuulu?i?ath Settlement Trust

Annual Report

December 31, 2014

Prepared March 06, 2015

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PREFACE

This annual report has been prepared by the trustees of the Yuułu?i?ath Settlement Trust to inform the citizens of the Yuułu?i?ath First Nation of the activities and results of the operations of the Trust for the year ended December 31, 2014.

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 Yuułu?i?ath 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. Yuułu?i?ath 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 Yuułu?i?ath First Nation and any charity that directly or indirectly benefits Yuułu?i?ath 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 Yuułu?i?ath 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.

2014 OBJECTIVES

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

- Prepare and make available to Yuułu?i?ath citizens a copy of the Trust's audited financial statements and annual report for the fiscal period ending December 31, 2014,
- Monitor the performance of Leith Wheeler Investment Counsel Ltd. (Leith Wheeler), the firm 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 third year have been accomplished. The trustees will continue to look for opportunities to refine and improve operations.

2014 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, and
- Having Leith Wheeler attend at least one trustee meeting to review performance and discuss economic forecasts.

Trustee Meetings

The trustees conducted business at seven meetings during 2014. Minutes of trustee meetings are posted in a public area of the administrative offices of the Yuułu?i?ath First Nation.

Trust Funds

During 2014 the Trust received contributions of capital transfers and resource revenue sharing funds from the Nation of \$3,286,713. In the same period the Trust distributed \$1,510,174 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 report has been provided by Andrew Hoffman, Vice President, Leith Wheeler to the trustees. It may be of interest to citizens.

FINANCIAL ACTIVITIES

Significant financial results from the audited financial statements of the Trust for the period ended December 31, 2014 are:

Cost of investment portfolio	\$ 11,028,089
Add: unrealized gain in market value	<u>1,240,517</u>
Market value at December 31, 2014	\$ <u>12,268,606</u>
Investment income and gains on sales	\$ 682,200
Operating expenses	<u>80,829</u>
Excess of revenue over expenses	\$ <u>601,371</u>

AUDITED FINANCIAL STATEMENTS

Attached to this report are the Trust's audited financial statements for the period ended December 31, 2014.

Dear Trustees of the Ucluelet First Nation – Settlement Trust,

The fourth quarter of 2014 delivered mixed returns for investors. While, the U.S. market increased, the Canadian and International markets declined when measured in Canadian dollars. Bond prices moved higher as interest rates continued to trend lower. Overall, with a return of 9.8%, the portfolio delivered another year of strong absolute investment performance. However, these returns were delivered in an environment of rising market volatility across almost all asset classes.

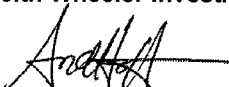
The main theme that drove markets in late 2014 was divergent economic growth profiles, particularly when contrasting the U.S. to the rest of the world. Europe and Emerging markets continue to struggle with slowing growth and declining inflation, compared to the U.S., where economic growth and the labour market continue to improve. Divergent economic growth has led to different policy responses from central banks around the globe. Europe, Japan, China and others have all taken steps to stimulate growth, including interest rate cuts and asset purchases. By contrast, the U.S. Federal Reserve has ended its asset purchase program and paved the way for interest rates to rise in mid-2015.

The impact of inconsistent central bank policies can be seen in currency markets. The U.S. dollar has appreciated almost 10% in the past six months, which was a large contributor to U.S. equity performance in 2014. Combined with slower global growth, the strengthening of the U.S. dollar also put downward pressure on commodity prices, which are largely denominated in U.S. dollars. Raw industrial commodities, base metals and agricultural products all experienced declining prices over the second half of 2014. Most remarkable was the decline in oil prices, which fell by almost 50% since mid-2014. The Canadian market was hurt in the fourth quarter by its significant exposure to both the Energy and Materials sectors. While your portfolio was light in these sectors, this was offset by the share price declines of several resource stocks. International stocks outperformed Canada in the quarter, but still lagged the U.S. market for the year. The biggest surprise in terms of performance came from your bond portfolio. Bonds increased in value due to lower global interest rates and reduced inflation expectations resulting from falling oil prices and weaker global demand. As bond prices move in the opposite direction to interest rates, bonds performed very well in this environment.

Looking forward, we expect to continue to feel the aftershocks from the dramatic decline in energy prices throughout 2015. Reduced financing and capital expenditures for energy companies will highlight the importance of owning quality businesses with strong financial positions, a key criteria in our investment selection process. For North American consumers, the impact of lower energy prices is a net positive. The major theme in bond markets in 2015 will be the pace and timing of interest rate increases by the Federal Reserve. We continue to expect an initial increase in interest rates in mid-2015. However, our view is that the Federal Reserve will be patient and will take their time in increasing rates going forward.

The second half of 2014 saw significant volatility across commodity, currency, interest rate and stock markets. Unfortunately, we see this heightened volatility persisting over the course of the next year. The positive news is that this type of environment creates opportunities for long term investors. During the recent market weakness in December, we were able to add to some quality companies at attractive prices. Going forward, we will continue to use our bottom-up value approach to uncover these opportunities in your portfolio.

Yours truly,
Leith Wheeler Investment Counsel Ltd.


Andrew Hoffman, CFA
Vice President, Portfolio Manager