



James Bay Settlement Trust

Annual Report

December 31, 2012

Prepared March 20, 2013

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PREFACE

The trust was created as part of the compensation for a specific land claims settlement with Canada and British Columbia regarding the lands on which the British Columbia Provincial legislature is situated. The purpose of the trust is to preserve and grow the trust capital for the benefit of future generations while providing income for the annual requirements of the Esquimalt Nation.

The annual report has been prepared by the trustees of the James Bay Settlement Trust to inform the members of the Esquimalt Nation of the activities and results of the operations of the trust for the year ended December 31, 2012.

TRUSTEES

The trust agreement, as approved by the membership of the Esquimalt Nation in a referendum, appointed four trustees. The appointed trustees are:

Andrew Thomas	Nation Trustee
Barbara Lecoy	Nation Trustee
Edward Thomas	Nation Trustee
Dan Legg	Administrative Trustee

2012 OBJECTIVES

The primary objectives established by the trustees for 2012 (the fifth year of operations) were:

- ❖ Monitor the invested trust funds to ensure that the fund provides income to the Nation for community benefits, achieves growth for future generations and is sheltered from inflation,
- ❖ Monitor the activities of the investment manager to insure compliance with the investment policies,
- ❖ Ensure that the Nation receives regular payments of the income earned on the trust investments to help fund programs and services, and
- ❖ Make a one-time only distribution of \$2,000 plus interest to each member of the Nation who was alive as at March 28, 2007 when the member reaches the age of 19 years.

2012 ACTIVITIES

2012 has been a quiet year for the trust. The trustees have monitored the performance of the Investment Manager as the value of the trust investments have recovered from the global recession in 2008.

Other than monitoring the performance of the Investment Manager the primary activities of the Trustees for the year have been routine administrative functions such as preparation of annual audited statements, filing of the trust income tax return, paying the distribution to members when they reach 19 years of age and transfer of investment income earned by the trust to the Esquimalt Nation for community benefits.

INVESTMENT PERFORMANCE

The investment portfolio being managed by Beutel Goodman is designed to protect and grow the capital of the trust over the long-term and to produce a reasonable annual income. The investment portfolio is also designed to produce a consistent annual income regardless of the expected fluctuations in the value of the trust fund investments.

The investment policy adopted by the trust recognizes that the capital value of the trust will move up and down in the short-term. Following the 2008 recession the value of investment portfolio has improved steadily from 2009 to 2012. The trustees remain confident that the trust capital will grow as expected over the long-term.

The following comment has been provided by Steve Smith, Vice President of Beutel Goodman, the Investment Manager for the trust:

Although 2012 came to a close amid continued uncertainty, most “developed” equity markets produced solid double digit total returns, assisted by Europe stepping back from the brink one more time. Given the uncertain economic environment, it is perhaps not a surprise that the commodity dominated Canadian stock market, with a 7.2% total return, proved to be somewhat of a laggard.

Expectations were quite optimistic at the beginning of the year and, in fact, the TSX Composite reached its high for 2012 way back in early March. However, the realization that economic growth in North America was more of a marathon than a sprint, the Greek debt crisis, fiscal challenges in many economies including 7% bond yields in Italy and Spain, continued slowing of a number of important emerging market economies and the growing proximity of the US “fiscal cliff”, all acted to drag down investor expectations by the end of the March quarter.

Renewed concern over the European “situation” was behind a sell-off of essentially all the world’s stock markets during April and May. Unfortunately, unlike in 2010 and 2011, when the strength of emerging market economies made up for much of the slack in North American economic growth, slowing growth in many emerging market economies in the summer of 2012 weighed much more

heavily on the commodity dominated equity markets (i.e., Australia and Canada) during the second half of the year.

As a result, for the second consecutive year, the performance of the US equity market handily outpaced the returns of the TSX Composite, as the TSX failed to keep pace with the US equity market during the last six months of 2012. Canadian bonds returned just under 4% and it appears that bond yields will remain low for an extended period.

The James Bay Settlement Trust portfolio posted a positive return of 8.95% for 2012. Performance for the Trust portfolio for both the year and since inception has exceeded the performance of the underlying benchmark. The portfolio continues to perform well and remains structured to provide annual income for the needs of today and to provide for future growth.

FINANCIAL ACTIVITIES

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

	Dec 31, 2012	Dec 31, 2011
Book value of investment portfolio	\$ 10,109,397	\$ 10,009,731
Unrealized gain (loss) in market value	23,231	(382,497)
Market value at December 31, 2012	10,132,628	9,627,234
Net investment income	371,538	260,130
Distributions to members (age 19)	16,492	11,068
Distributions to Esquimalt Nation	\$ 380,263	\$ 266,406

AUDITED FINANCIAL STATEMENTS

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