

Financial Statements of

NUNAVUT TRUST

And Independent Auditors' Report thereon

Year ended December 31, 2020



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Telephone 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Trustees of Nunavut Trust

Opinion

We have audited the financial statements of Nunavut Trust (the Trust), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

July 6, 2021

NUNAVUT TRUST

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Operating cash	\$ 712,622	\$ 396,766
Invested assets (notes 4, 5 and 8)	1,895,687,910	1,873,755,460
	<u>\$ 1,896,400,532</u>	<u>\$ 1,874,152,226</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities (note 5(d))	\$ 1,498,295	\$ 1,632,002
Excess distribution payable (note 7)	–	45,119,378
Net assets	1,894,902,237	1,827,400,846
Commitments (note 6)		
	<u>\$ 1,896,400,532</u>	<u>\$ 1,874,152,226</u>

The accompanying notes are an integral part of these financial statements.

NUNAVUT TRUST

Statement of Comprehensive Income

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Investment income (note 9)	\$ 145,741,147	\$ 193,996,597
Portfolio management expenses (note 10)	9,648,309	9,979,858
Investment income, net of portfolio management expenses	136,092,838	184,016,739
Administrative expenses	598,805	848,258
Increase in net assets	\$ 135,494,033	\$ 183,168,481

The accompanying notes are an integral part of these financial statements.

NUNAVUT TRUST

Statement of Changes in Net Assets

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Balance, beginning of year	\$ 1,827,400,846	\$ 1,722,948,520
Increase in net assets	135,494,033	183,168,481
Net distributions to beneficiaries (note 7)	(113,112,020)	(60,872,297)
Decrease (increase) in excess distribution payable (note 7)	45,119,378	(17,843,858)
Balance, end of year	\$ 1,894,902,237	\$ 1,827,400,846

The accompanying notes are an integral part of these financial statements.

NUNAVUT TRUST

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Cash flows from operating activities:		
Interest received	\$ 8,186,504	\$ 8,168,870
Dividends received	16,046,482	19,812,668
Distributions from alternative investments	24,444,887	22,673,139
Proceeds from sale of investments	424,486,857	345,862,732
Purchases of investments	(357,744,631)	(327,311,875)
Operating expenses paid	(10,380,821)	(11,040,066)
	105,039,278	58,165,468
Cash flows from financing activities:		
Net distributions to beneficiaries	(113,112,020)	(60,872,297)
Decrease in cash and cash equivalents	(8,072,742)	(2,706,829)
Cash and cash equivalents, beginning of year	46,682,756	49,086,069
Foreign exchange impact on cash and cash equivalents	1,433,246	303,516
Cash and cash equivalents, end of year	\$ 40,043,260	\$ 46,682,756
Cash and cash equivalents at the end of the period are comprised of:		
Operating cash	\$ 712,622	\$ 396,766
Investment cash	39,330,638	46,285,990
Total cash and cash equivalents	\$ 40,043,260	\$ 46,682,756

The Trust considers cash and cash equivalents to be highly liquid investments.

The accompanying notes are an integral part of these financial statements.

NUNAVUT TRUST

Notes to Financial Statements

Year ended December 31, 2020

1. Reporting entity:

Nunavut Trust (the "Trust") is domiciled in Canada and was created on April 23, 1990 by deed of trust. The address of the Trust's registered office is 50 O'Connor Street, Suite 1415, Ottawa, Ontario, Canada, K1P 6L2. The Trust, on behalf of its beneficiaries, received the capital transfers paid to the Inuit of the Nunavut Settlement Area pursuant to the Agreement between the Inuit of the Nunavut Settlement Area and Her Majesty the Queen in right of Canada between 1993 and 2007. The Trust's mandate is to invest the capital transfers to protect them from the effects of inflation and to provide income to its beneficiaries.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were authorized for issue by the Board of Trustees on July 6, 2021.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except financial instruments at fair value through profit or loss which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

(d) Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Significant estimates are used primarily in the valuation of real estate, infrastructure, private debt investments, farmland and timberland held through limited partnerships. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Further information about the assumptions made in measuring fair values is included in notes 4 (b) and (c).

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Notes to Financial Statements, page 2

Year ended December 31, 2020

3. Significant accounting policies:

(a) Financial instruments:

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. The Trust initially recognizes financial assets and financial liabilities at FVTPL on the date on which the Trust becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognized on the date on which they are originated. Upon initial recognition, all financial assets are classified based on the business model for managing the financial assets and the contractual terms of the cash flows, as (i) fair value through profit or loss, (ii) fair value through other comprehensive income, or (iii) amortised cost. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss or (ii) amortised cost.

Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a settlement-date basis. Transaction costs for financial assets and financial liabilities classified as amortised cost are capitalized. Transaction costs for financial assets at fair value through profit or loss are recognized as expenses in profit or loss as incurred.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows on the financial asset are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Trust derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Trust has a legal right to offset the amounts and intends either to settle them on a net basis or realise the asset and settle the liability simultaneously.

The Trust has the following financial instruments:

(i) Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is an equity investment that is not designated as fair value through other comprehensive income, or is a non-equity investment that's business model leads to it being classified as fair value through profit or loss, or has contractual cash flows that are not solely principal and interest. The Trust classifies its invested assets at fair value through profit or loss as the Trust manages and evaluates its investments on a fair value basis. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend or interest income, are recognised in profit or loss.

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Notes to Financial Statements, page 3

Year ended December 31, 2020

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Financial assets at fair value through profit or loss (continued):

Financial assets at fair value through profit or loss consist of cash and cash equivalents, investments and investments on loan. Cash and cash equivalents comprise cash balances and treasury bills with maturities of three months or less. Investments consist of bonds and stocks held by the custodian and managed by the Trust's various fund managers, investments in pooled funds, and investments in alternatives. The investments in alternatives are held through limited partnerships. Investments on loan consist of bonds, stocks, and treasury bills that the custodian has loaned to reputable brokers/dealers in return for a fee (note 8).

(ii) Financial liabilities at amortised cost:

Financial liabilities at amortised cost are liabilities not classified as held for trading, or are not designated at fair value through profit or loss on initial recognition. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

(b) Foreign currency transactions:

Transactions in foreign currencies are translated to Canadian dollars which is the Trust's presentation and functional currency, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at period end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of the Trust are recognized in profit or loss.

(c) Revenue:

Revenue consists primarily of investment income, which is reported on an accrual basis. Investment income includes interest income, dividends, net realized gain or loss on sales of investments, foreign exchange gains or losses, changes in fair market value of investments, and distributions from pooled fund and alternative investments. Interest income is recognized as it accrues in profit or loss. Dividend income is recognized in profit or loss on the date that the Trust's right to receive payment is established which, in the case of quoted securities, is the ex-dividend date. Net gain or loss on sales of investments include the difference between proceeds received on investment sales and the investment acquisition cost. Foreign exchange gains are the result of investments held in global portfolios impacted by exchange rates when dividends and interest are received. Distributions from pooled fund and alternative investments include the Trust's proportionate share of interest, dividends and realized gains.

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Notes to Financial Statements, page 4

Year ended December 31, 2020

4. Invested assets:

(a) Investments:

Investments are comprised of the following:

	2020	2019
Investment cash	\$ 39,330,638	\$ 46,285,990
Stocks (separately managed accounts)	727,556,993	760,179,974
Stocks (pooled funds)	248,326,813	212,013,363
Fixed income (separately managed accounts)	108,014,612	104,406,812
Fixed income (pooled funds)	158,480,707	165,523,748
Alternative Investments	611,608,334	581,919,482
Accrued income	2,369,813	3,426,091
Investments	\$ 1,895,687,910	\$ 1,873,755,460

The Trust's Statement of Investment Policies and Procedures, as approved by the Trustees annually, outlines the Trust's investment strategy and approach to attempt to achieve target returns while prudently diversifying the portfolio in an attempt to reduce risk of loss. Investments are diversified by asset class, sector, geography, and currency, with portions of capital allocated to different external discretionary low-correlated investment managers who use varying investment styles and approaches in selecting underlying investment securities. The multi-manager strategy allows the Trust to invest in a broad range of investments which are less likely to move in the same direction as the general market at the same time. The investment policies manage the risks and returns of the investments over the long term and accept that there will be short-term volatility in investment returns.

(b) Determination of fair values:

(i) Investments in equity instruments:

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted close-of-market prices at the measurement date.

(ii) Investments in fixed income instruments:

Fixed income securities quoted in an active market are valued at quoted closing market prices. Where a quoted year-end price in an active market is not available, an estimated value is calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.

(ii) Investments in pooled funds:

The fair value of financial assets in pooled funds is determined from the unit values supplied by the pooled fund managers, which represent the Trust's proportionate share of underlying net assets at fair values determined using quoted market prices, or alternative valuation methods where quoted market prices are not available.

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Year ended December 31, 2020

4. Invested assets (continued):

(b) Determination of fair values (continued):

(iii) Investments in alternative investment vehicles:

The fair value of financial assets forming part of the alternative investments is determined from the Trust's share of the fair value shown on the audited financial statements of the alternative investment vehicles. The financial assets held by the alternative investment vehicles, comprise of real estate, infrastructure, private debt, farmland, and timber assets.

The table below identifies financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(c) Fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2020:				
Investment cash	\$ 39,330,638	\$ –	\$ –	\$ 39,330,638
Stocks and fixed income	835,571,605	–	–	835,571,605
Accrued income	2,369,813	–	–	2,369,813
Stocks (pooled funds)	–	248,326,813	–	248,326,813
Fixed Income (pooled funds)	–	158,480,707	–	158,480,707
Real estate	–	–	154,676,596	154,676,596
Infrastructure	–	–	208,423,234	208,423,234
Private debt	–	–	189,012,292	189,012,292
Farmland and Timberland	–	–	59,496,212	59,496,212
	\$ 877,272,056	\$ 406,807,520	\$ 611,608,334	\$1,895,687,910

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Year ended December 31, 2020

4. Invested assets (continued):

(c) Fair value hierarchy (continued):

	Level 1	Level 2	Level 3	Total
December 31, 2019:				
Investment cash	\$ 46,285,990	\$ –	\$ –	\$ 46,285,990
Stocks and fixed income	864,586,786	–	–	864,586,786
Accrued income	3,426,091	–	–	3,426,091
Stocks (pooled funds)	–	212,013,363	–	212,013,363
Fixed Income (pooled funds)	–	165,523,748	–	165,523,748
Real estate	–	–	157,053,111	157,053,111
Infrastructure	–	–	212,084,479	212,084,479
Private debt	–	–	170,642,556	170,642,556
Farmland and Timberland	–	–	42,139,336	42,139,336
	\$ 914,298,867	\$ 377,537,111	\$ 581,919,482	\$ 1,873,755,460

There were no transfers between Level 1 and Level 2 during the 2020 and 2019 fiscal years.

Alternative investments in real estate, infrastructure, private debt, farmland and timberland are not actively traded and use valuation techniques that require inputs that are both unobservable and significant, and, therefore, are categorized as Level 3 in the fair value hierarchy. The significant inputs used in Level 3 investments include: interest rates, economic growth, foreign exchange rates, commodity prices, occupancy rates, population growth and spread, industrial activity and transportation activity.

The table below reconciles the Trust's estimate of level 3 fair value investments from January 1, 2020 to December 31, 2020.

	Market value
Opening balance January 1, 2020	\$ 581,919,482
Contributions	80,604,962
Return of capital	(67,713,348)
Gains included in change in fair value of financial instruments at fair value through profit or loss:	
Change in estimated unrealized gains	15,067,405
Net realized gain on sales of investments	1,729,833
Closing balance December 31, 2020	\$ 611,608,334

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Notes to Financial Statements, page 7

Year ended December 31, 2020

5. Financial instruments:

(a) Overview:

The Trust is globally diversified across asset classes and strategies and is exposed to a number of market related risks associated with financial instruments such as: credit risk, liquidity risk, currency risk, interest rate risk, and equity risk.

This note presents information about the Trust's exposure to each of the above identified risks and the Trust's objectives, policies and processes for measuring and managing risk.

(b) Risk management framework:

The Board of Trustees has overall responsibility for the oversight of the Trust's risk management framework. A Statement of Investment Policies and Procedures outlines the investment fund structure, the risk and return objectives, and fund constraints. The Board of Trustees reviews and approves this document annually. Management is tasked with ongoing portfolio design and monitoring as well as the development and evaluation of systems to assess and respond to various risk exposures.

(c) Credit risk:

Credit risk is the possibility of loss due to the failure of a counterparty or guarantor to meet payment obligations in accordance with agreed-upon terms. The Trust is exposed to credit risk through fixed income securities and through loans of securities. Credit risk is evaluated through underwriting and credit assessment of fixed income securities and ongoing monitoring of credit exposure and obtaining collateral where appropriate. Investments are recorded at fair value. The carrying amount of financial assets represents the maximum credit exposure. The Trust does not expect material losses from counterparties failing to meet their obligations.

(d) Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Trust's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable financial or non-financial losses.

The Trust establishes budgets and cash flow projections to ensure it has the necessary funds.

The Trust's financial liabilities include accounts payable and accrued liabilities of \$1,498,295 (2019 - \$1,632,002).

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Notes to Financial Statements, page 8

Year ended December 31, 2020

5. Financial instruments (continued):

(e) Currency risk:

The Trust is exposed to currency risk on sales, purchases and borrowings for cash, stocks, fixed income, and alternatives that are denominated in a currency other than the functional currency of the Trust, which is the Canadian dollar.

The following indicates the Canadian dollar equivalent in currencies to which the Trust has significant exposure:

	2020	2019
Euro (EUR)	\$ 229,739,017	\$ 188,842,234
Pound Sterling (GBP)	87,676,353	110,652,767
US Dollar (USD)	768,411,107	815,566,019
Emerging Market Currencies (in CAD)	333,365,173	300,421,438
Developed Market Currencies (in CAD)	128,182,439	92,874,314

Sensitivity analysis:

A strengthening of the Canadian dollar, against the foreign currencies noted above, at December 31, 2020 would have decreased net assets and profit or loss by \$77,368,705 (2019 - \$75,417,839). This analysis is based on foreign currency exchange rate variances of 5% that the Trust considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2019. A weakening of the Canadian dollar against the above currencies at December 31, 2020 would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

(f) Interest rate risk:

The Trust's fixed income investments, which include investment grade securities, non-investment grade securities, and emerging market debt securities, are subject to interest rate risk as a result of fluctuations in interest rates and the degree of volatility of these rates.

The values of the fixed income investments are subject to changes in market interest rates. At December 31, 2020, the bond portfolio had maturity dates between 2021 and 2030 (2019 - between 2020 and 2029) and carried an average effective yield of 4.09% (2019 - 5.33%). At the reporting date, the Trust held interest-bearing financial instruments of \$266,495,319 (2019 - \$269,930,561).

Sensitivity analysis:

A change of 100 basis points in interest rates would have increased or decreased net assets as at the reporting date and investment income for the year by \$11,752,984 (2019 - \$11,209,806).

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Year ended December 31, 2020

5. Financial instruments (continued):

(g) Equity risk:

The Trust's equity investments are globally diversified and are subject to market price fluctuations. For such investments, classified at fair value through profit or loss, a five percent increase or decrease in the valuations of equity securities at the reporting date would have increased or decreased net assets by \$48,794,190 (2019 - \$48,609,667).

6. Net asset management:

The Trust's policy is to maintain an invested asset base that grows with inflation and allows the Trust to continue to make distributions to beneficiary organizations and fund Trust operating costs. The Trust's goal is to produce and distribute income for tax purposes to the beneficiary organizations. The Trust attempts to distribute 4% of the five-year moving average of the market value of the Trust assets. Beneficiary organizations borrow from the Trust when the income distributed is less than this 4% and repay capital loans when the income distributed is greater than the 4%.

The Trust utilizes an investment strategy, asset allocation, and choice of available investment products to meet its objectives of growing the Trust assets with inflation and distributing taxable income to its beneficiaries. There have been no changes to the approach during the year. The Trust invests in alternative investments to balance the types of income being generated by Trust assets. In order for the Trust assets to grow with inflation, the income generated cannot be purely interest and dividends, but must also include gains in market values.

(a) Alternative investment vehicle commitments:

	2020	2019
Canadian Dollar (CAD)	\$ 107,500,000	\$ 107,500,000
US Dollar (USD)	230,832,500	230,832,500
Pound Sterling (GBP)	125,000,000	85,000,000
Euro (EUR)	351,219,000	226,219,000
Australian Dollar (AUD)	50,000,000	50,000,000

(b) Alternative investment vehicle uncalled commitments:

	2020	2019
Canadian Dollar (CAD)	\$ –	\$ –
US Dollar (USD)	58,601,736	75,130,717
Pound Sterling (GBP)	68,611,819	18,065,888
Euro (EUR)	118,932,452	29,787,380
Australian Dollar (AUD)	21,825,600	23,997,542

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Notes to Financial Statements, page 10

Year ended December 31, 2020

6. Net asset management (continued):

(b) Alternative investment vehicle uncalled commitments (continued):

Uncalled commitments at December 31, 2020, total \$400,994,288 CAD (2019 - \$193,694,129 CAD). These commitments are called upon as they are required for the limited partnerships to purchase assets in accordance with their limited partnership agreements.

7. Related parties:

(a) Overview:

Two organizations are the named beneficiaries of the Trust: Nunavut Tunngavik Incorporated and Nunavut Elders' Pension Trust. Pursuant to the deed of trust, net income for tax purposes as defined therein is to be distributed to the beneficiaries annually. The trustees have determined that the maximum sustainable payout rate the Trust can afford, while maintaining its ability to achieve its mandate, is 4% of a 20-quarter moving average of the market value of the Trust portfolio. When a distribution of net income for tax purposes falls short of the 4% amount then the difference is loaned to one or more of the beneficiaries and becomes part of the balance of capital loans to beneficiaries. These loans have been recorded as a reduction in net assets. When a distribution of net income for tax purposes exceeds the 4% amount, the difference is referred to as an excess distribution and is first applied against the capital loans as a repayment and any remaining excess distribution becomes available to be paid to one or more beneficiaries 18 months after the relevant year end.

(b) Capital loans to beneficiaries:

The Trust has capital loans outstanding from beneficiaries which have been advanced from capital as follows:

	2020	2019
Due from Nunavut Tunngavik Incorporated	\$ 1,200,864	\$ –

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Year ended December 31, 2020

7. Related parties (continued):

(c) Reconciliation of distributions to beneficiaries:

Net income for tax purposes is the amount distributed to beneficiaries and differs from the increase in net assets as follows:

	2020	2019
Increase in net assets	\$ 135,494,033	\$ 183,168,481
Remove change in fair value of financial instruments at fair value through profit or loss	(40,537,150)	(70,852,658)
Net taxable realized gains on sales of investments	(28,889,013)	(35,944,790)
Other	723,908	2,345,122
Income before allocations	66,791,778	78,716,155
Allocation of current year income to beneficiaries	(66,791,778)	(78,716,155)
Net income	–	–
Net capital losses of other years applied	–	–
Taxable income	\$ –	\$ –

	2020	2019
Allocation of income to beneficiaries	\$ 66,791,778	\$ 78,716,155
Increase in capital loan	1,200,864	–
Decrease (increase) in excess distribution payable	45,119,378	(17,843,858)
Net distribution to beneficiaries	\$ 113,112,020	\$ 60,872,297

The decrease in excess distribution payable in the year ended December 31, 2020 is comprised of \$17,843,858 related to the 2019 distribution payable and \$27,275,520 related to the 2018 distribution payable.

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Year ended December 31, 2020

7. Related parties (continued):

(d) Key management personnel compensation:

The key management personnel, responsible for planning, directing and controlling the activities of the Trust, include the Chief Executive Officer, the Managing Director of Investments and the members of the Board of Trustees. For the year ended December 31, 2020, key management personnel compensation includes salaries, benefits, and Trustee honoraria of \$951,864 (2019 - \$945,332).

8. Security lending arrangement:

The Trust participates in a security lending program with its custodian, whereby certain investments owned by the Trust are loaned to certain reputable brokers/dealers and financial institutions in return for a fee which is shared between the Trust and its custodian. Security lending revenue is reported as part of interest revenue in the amount of \$118,302 (2019 - \$165,247). At December 31, 2020, securities out on loan had a value of \$100,148,356 (2019 - \$119,059,456). This program exposes the Trust to the risk that the borrower fails to return the borrowed security. To minimize this risk, the borrower is required to provide non-cash collateral, replacement securities, with an aggregate market value never less than the percentage of aggregate market value of the loaned securities which is the highest of: (a) the minimum percentage required by any applicable legislation or regulatory authority having jurisdiction over the Trust; (b) the prevailing market practice; or (c) 105%.

The collateral received is non-cash in nature and is comprised of bonds issued by the Government of Canada, Government of Canada Agencies, the Government of the United States, the governments of other OECD countries, the governments of certain Canadian provinces as well as certain corporate-issued bonds and convertible corporate-issued bonds. Contractual terms agreed with the custodian require that it monitor and calculate the aggregate market value of the loaned securities and of the collateral on a daily basis and pursue the borrowers to replenish collateral should its value fall below the required amount. If at any time the value of the collateral held against the loaned securities falls below the required amount, the custodian shall indemnify the Trust for the shortfall.

The collateral held at December 31, 2020 had a value of \$106,919,992 (2019 - \$126,793,925). Securities out on loan can be recalled at any time and the terms of the agreement with the custodian can be terminated upon one day's notice.

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Year ended December 31, 2020

9. Investment income:

Investment income is comprised of the following:

	2020	2019
Dividends	\$ 15,780,446	\$ 19,621,334
Interest	7,293,581	7,903,156
Distributions from alternative investments	24,444,887	22,673,139
Net realized gain on sales of investments	57,685,083	72,946,310
Change in fair value of financial instruments at fair value through profit or loss	40,537,150	70,852,658
Investment income	\$ 145,741,147	\$ 193,996,597

10. Portfolio management expenses:

Portfolio management expenses are comprised of the following:

	2020	2019
Investment management fees	\$ 6,869,529	\$ 7,311,070
Foreign taxes paid	2,539,094	2,398,196
Transaction costs	239,686	270,592
Portfolio management expenses	\$ 9,648,309	\$ 9,979,858