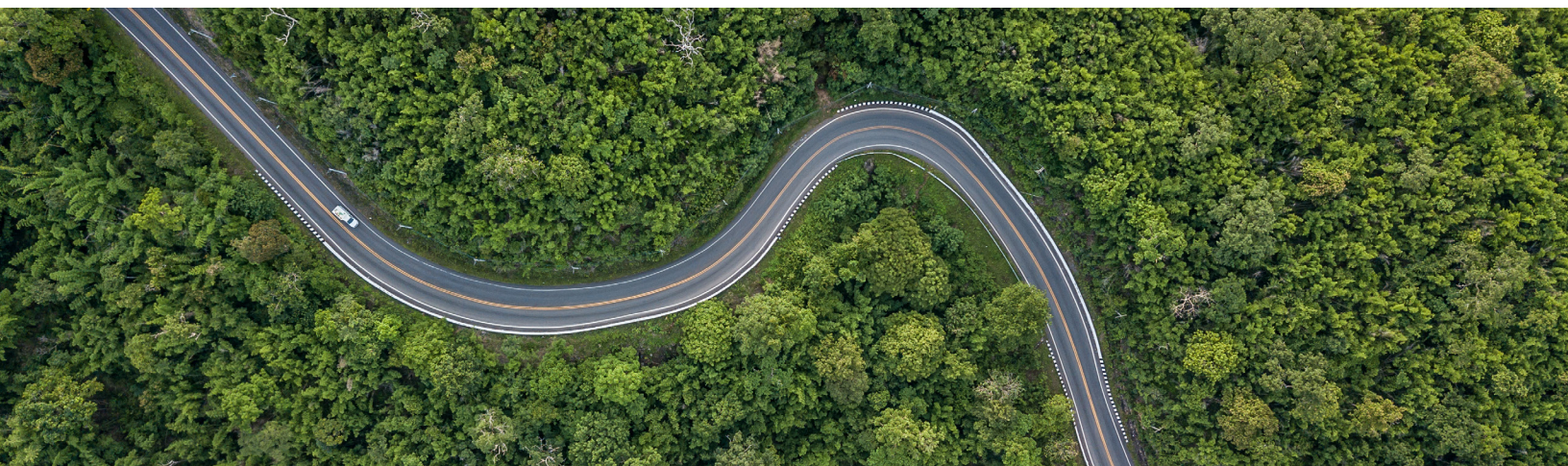


Indigenous trusts: Supporting the community in all market conditions

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For Indigenous trusts that must make annual distributions, the key investment question is not simply how to maximize returns, but how to generate durable, risk-adjusted growth while preserving the trust's ability to support the community in all market conditions.

With over \$23 billion in Indigenous related settlements since 2000, many First Nations have set up trusts to help maintain and build wealth for the long-term. After finally receiving settlement funds, First Nations must then decide how, when and where to invest.

Other key considerations include balancing growth for future generations with safeguarding capital, and structuring income to supplement and eventually replace government transfers. Growth is often the immediate instinctive goal. These trusts are often built from significant settlement proceeds or other community wealth, and there is a strong desire to ensure the funds grow meaningfully over time. However, for trusts that are required to make regular annual distributions, growth is only part of the story.

If a trust must support the community in all market conditions, thoughtful and prudent asset allocation is critical.

This does not mean avoiding growth entirely, nor does it mean investing so conservatively that the trust cannot keep pace with inflation or future needs. The capital still needs to grow, but this also doesn't mean shooting for the highest returns. Rather, it means recognizing that when a trust must pay out money every year, excess volatility can hinder that goal.

For many First Nation trusts, annual distributions are not optional. They are part of the purpose of the trust itself. These payments typically need to fund community priorities such as per capita distributions, housing, education, infrastructure, health initiatives, elder support, cultural programming, loan repayments or economic development.

Where distributions from the trust are retained and reinvested outside of the trust, care must be exercised to maintain the applicability of the First Nations' tax exemptions, under both section 87 of the *Indian Act* and paragraph 149(1)(c) of the *Income Tax Act*. These tax exemptions will generally not apply to income earned off reserve, or that is earned from investments that are made in the general economy.

These annual distributions have a major impact on how a portfolio is managed.

Minimizing the impact of negative market returns

If a portfolio has a bad year, as every portfolio is bound to have, the loss does not just remain on paper if the trust also has to make its annual distribution. Distributing payments while a portfolio value is down means the trust may need to sell investments when they are temporarily depressed simply to meet its obligations. Once that capital is withdrawn, it is no longer there to recover when markets rebound.

This is one reason why down years feel more impactful in a trust structure with ongoing payouts. The loss is not just the market value decline but also the effect of distributing cash during that decline. Over time, that can meaningfully reduce the trust’s long-term value. The ongoing need for distributions is a crucial consideration when building the portfolio.

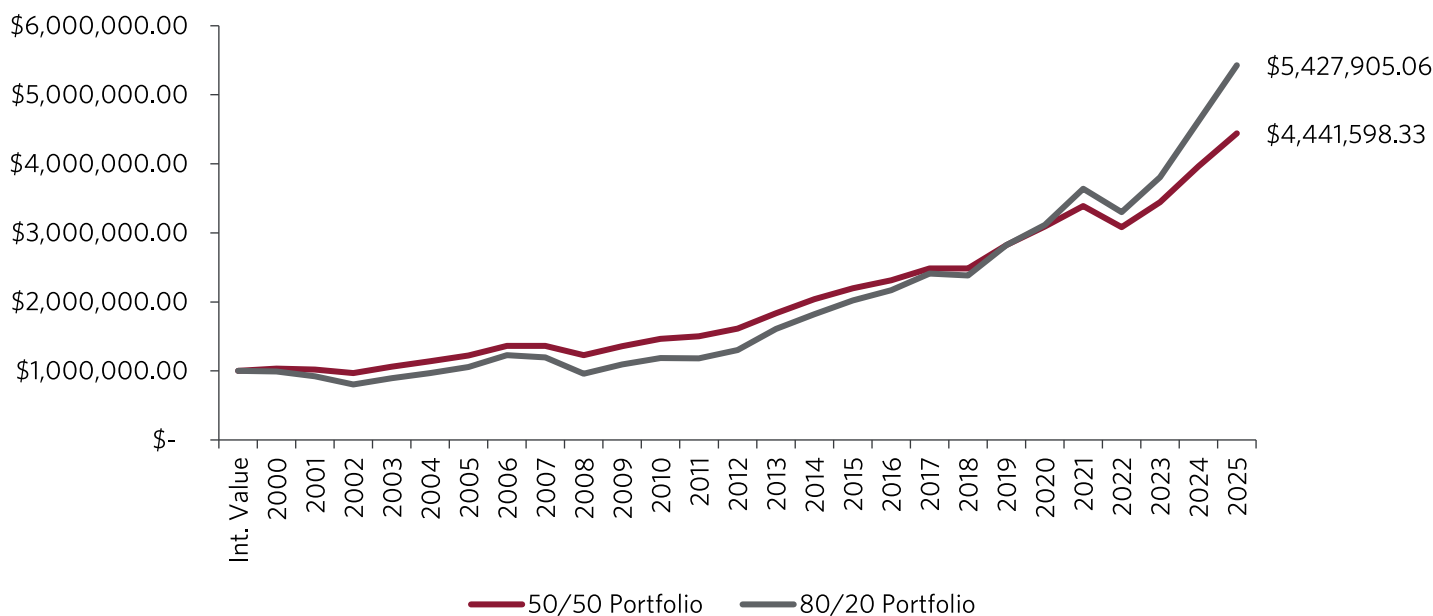
Many investment strategies look strong when viewed without withdrawals and in shorter bull market cycles (i.e. 3 to 5 years). If no money was ever taken out, a portfolio with more risky assets would generally be expected to produce stronger long-term growth. That is the traditional case for a more aggressive approach, as risky assets tend to outperform safer assets over long periods. If an investor can simply leave the money untouched, that higher growth potential can materialize through compounding.

But First Nation trusts are not untouched pools of capital. They are structures designed to serve real needs in real time, and once regular distributions are introduced, the math changes.

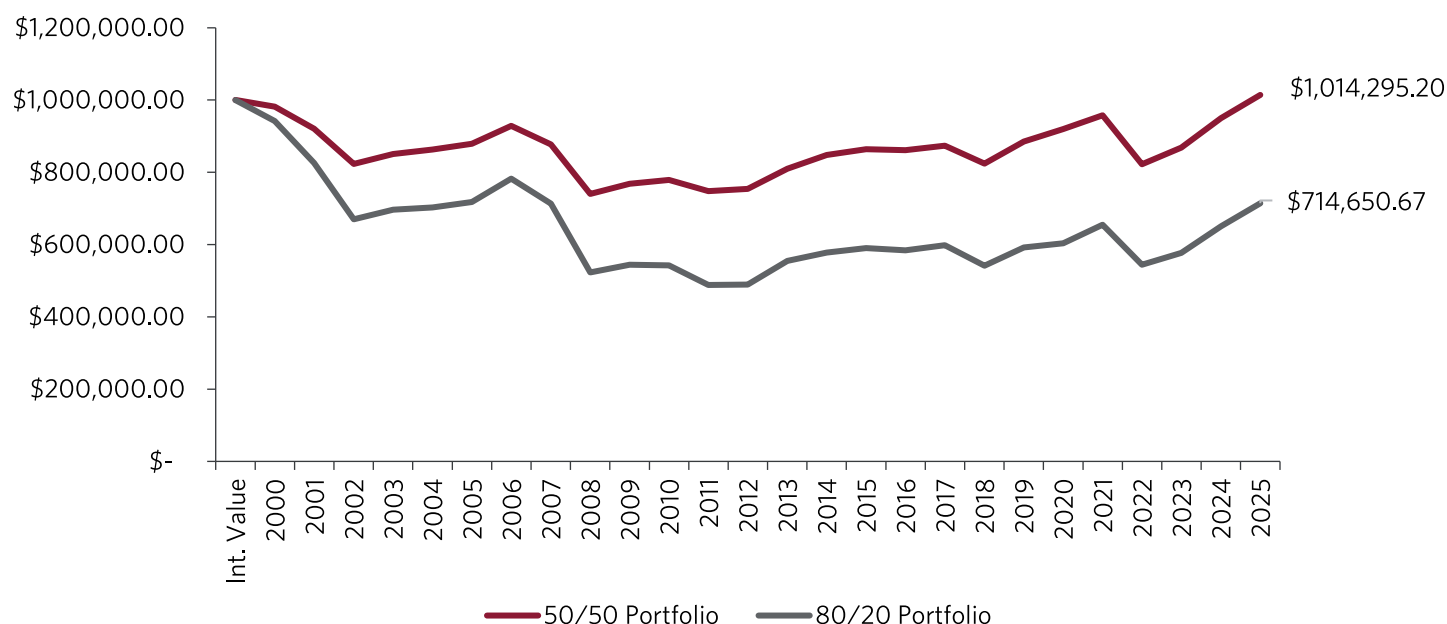
We did an analysis of how a \$1 million trust would have historically performed with an 80/20 stocks-bonds portfolio vs a 50/50 portfolio. Figure 1 shows how these portfolios grew without distributions. Figure 2 shows how they performed after incorporating a 5% annual distribution. Without distributions, from 2000-2025, a more equity-heavy portfolio split of 80% equities and 20% fixed income outperformed a balanced 50/50 portfolio. The 80/20 portfolio averaged about 6.59% per year whereas the 50/50 portfolio averaged approximately 5.77%. This finding aligns with the concept that greater risk is compensated by higher returns over time.

In Figure 2, when annual distributions were layered in, the outcome reversed. The 50/50 portfolio ended with a higher final value and greater overall end portfolio value than the more aggressive 80/20 mix.

Figure 1: 50/50 vs 80/20 portfolios without distributions



Source: CIBC Global Asset Management using the following third-party service providers’ data: Bloomberg As at May 14, 2026. 5050 Portfolio is 20% FTSE Canada Universe Bond Index (CAD), 15% FTSE Canada Short Term Overall Bond Index (CAD), 5% Bloomberg Global Aggregate Bond Index (CAD), 16% S&P/TSX Composite Index, 22% S&P 500 Index (CAD), and 12% MSCI EAFE Index (CAD). 80/20 Portfolio is 13% FTSE Canada Universe Bond Index (CAD), 5% FTSE Canada Short Term Overall Bond Index (CAD), 2% Bloomberg Global Aggregate Bond Index (CAD), 23% S&P/TSX Composite Index, 35% S&P 500 Index (CAD), and 22% MSCI EAFE Index (CAD).

Figure 2: 50/50 vs 80/20 portfolios with distributions

Source: CIBC Global Asset Management using the following third-party service providers' data: Bloomberg As at May 14, 2026.

That result matters because it challenges a common assumption. More risk does not always lead to a better long-term outcome when a trust is making material and regular payments. In fact, when distributions are part of the structure, too much risk can work against the trust's purpose.

Examining the month-by-month numbers shows why the 50/50 portfolio held up better once annual distributions were made. Over the period from January 2000 to April 2026, the 50/50 portfolio had 105 losing months, compared with 113 for the 80/20 portfolio. Its worst month was -6.69%, versus -9.82% for the 80/20 portfolio, and it had only 11 months with losses greater than 3%, compared with 34 months for the higher-equity portfolio. Also, the sequence of returns in this example further erodes the 80/20 portfolio, as the start of distributions coincides with the beginning of an equity bear market. This exemplifies how cashflows in and out of a portfolio can cause actual returns to differ significantly from historical averages.

For First Nations trusts making regular distributions, this is important. When losses are more frequent and more severe, the trust may have to draw cash at the wrong time, putting greater pressure on its long-term ability to support both current and future generations.

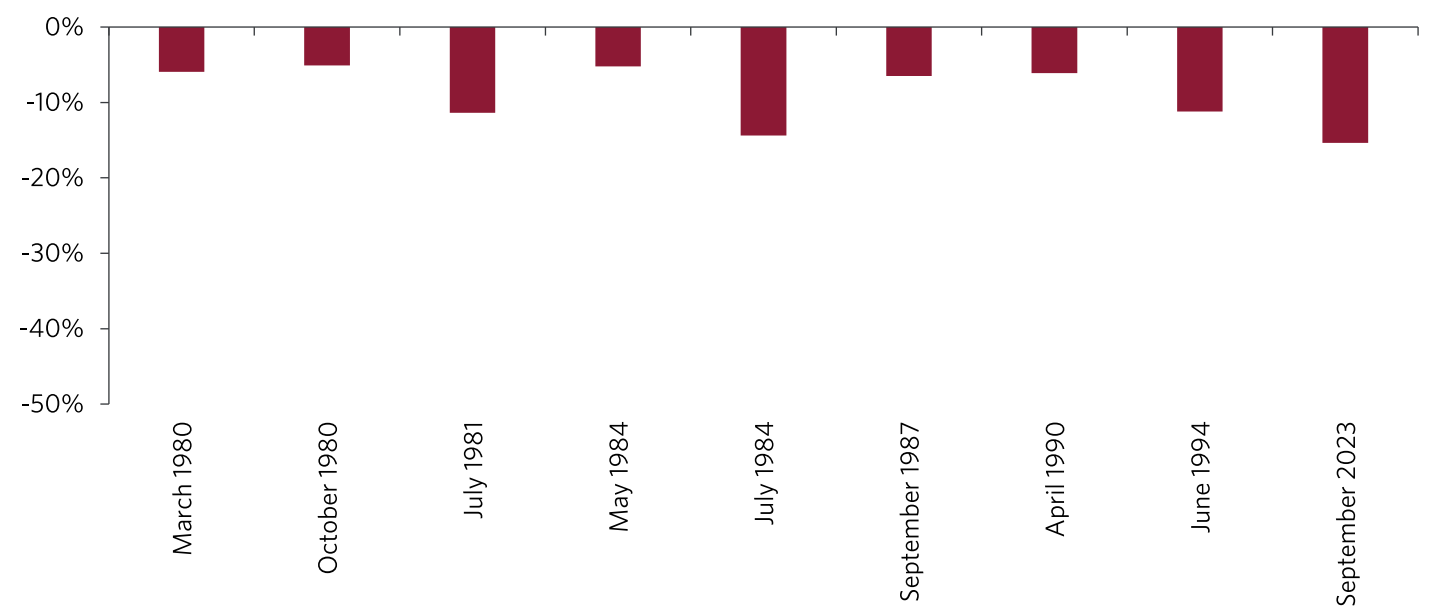
To achieve the goals of preserving wealth, paying out distributions and producing growth, we require an investment structure that can withstand difficult periods without undermining the future.

A safer portfolio does not mean hiding from risk assets. It means building a portfolio that is resilient enough to support distributions without being thrown off course by short-term volatility. It means holding enough stabilizing assets, such as fixed income, to reduce the likelihood that the trust will have to sell growth assets at exactly the wrong time. It means accepting that smoother returns may, in practice, create stronger long-term outcomes than more dramatic highs and lows.

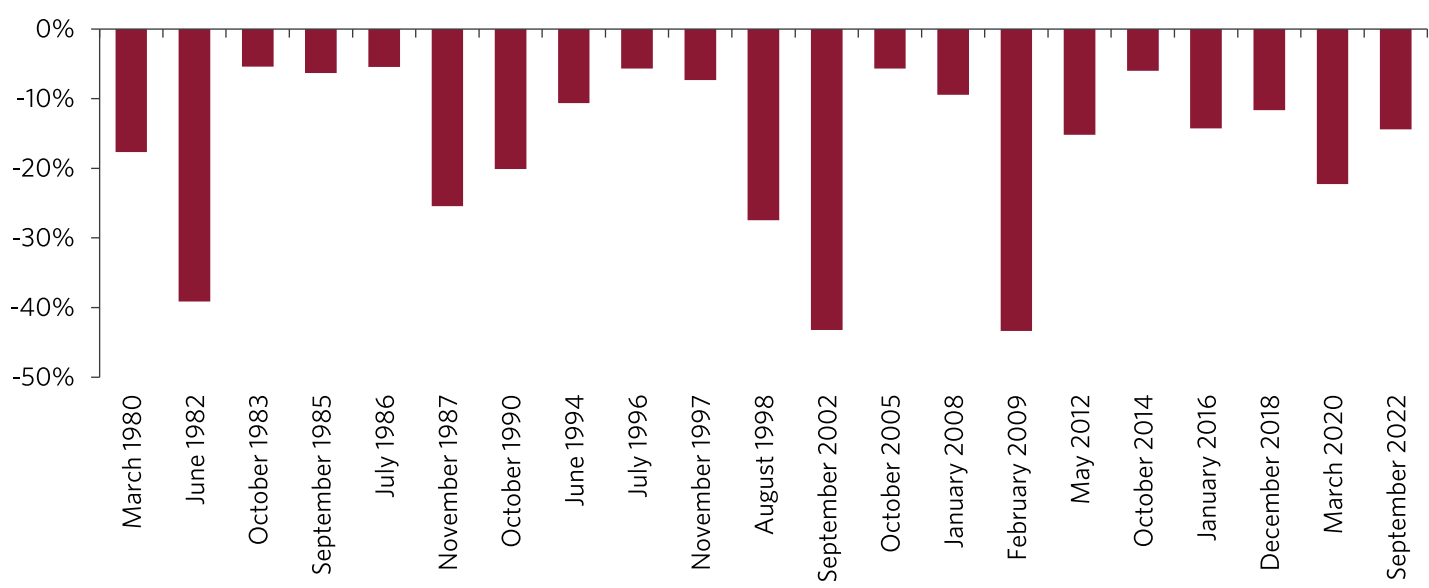
In the below figure, we show the major downturns of 5% or more since 1980 in both the S&P 500 Composite Index and the FTSE Canada Universe Bond Index. As we can see, equities typically see more and bigger downturns than fixed income. What this means is that a higher allocation to fixed income can provide smoother returns and less drastic swings in price. A 50/50 long-term asset allocation at the outset helps to weather the downturn while avoiding reactionary timing. The adage of "time in the market" has proven time and again to outperform "timing the market".

Figure 3: Historical drawdowns greater than 5%

Fixed income declines greater than 5%



Equity market declines greater than 5%



Source: CIBC Global Asset Management using the following third-party service providers' data: Bloomberg As at May 14, 2026.

This is especially important because First Nation trusts are often intergenerational in nature to support future members of the Nation and a stewardship obligation. The investments must be structured not just for growth, but for durability.

There is also an important governance dimension to consider. Communities may feel pressure to pursue higher returns, especially when there are urgent and visible needs today, but chasing returns without accounting for the effect of higher risk coupled with annual distributions can be detrimental.

Trustees and decision makers need to evaluate investment strategy in the context of how the trust actually serves the community's goals. This takes the debate beyond returns, into the realm of suitability and purpose.

If the trust is expected to pay out 5% each year, preserve capital over the long term, and remain a dependable source of support for the community, then the right structure is likely one that emphasizes safety and balance rather than a strictly growth-oriented portfolio.

For First Nation trusts, the objective is not merely to grow wealth but rather to support people, priorities, and long-term self-determination. That requires a disciplined approach to investing that balances both growth opportunity and risk. It requires an understanding that annual distributions magnify the damage of bad years and accepting that, in this context, safety is not a secondary concern. It is central to success.



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