

# TUVALU TRUST FUND



## Annual Report

2016

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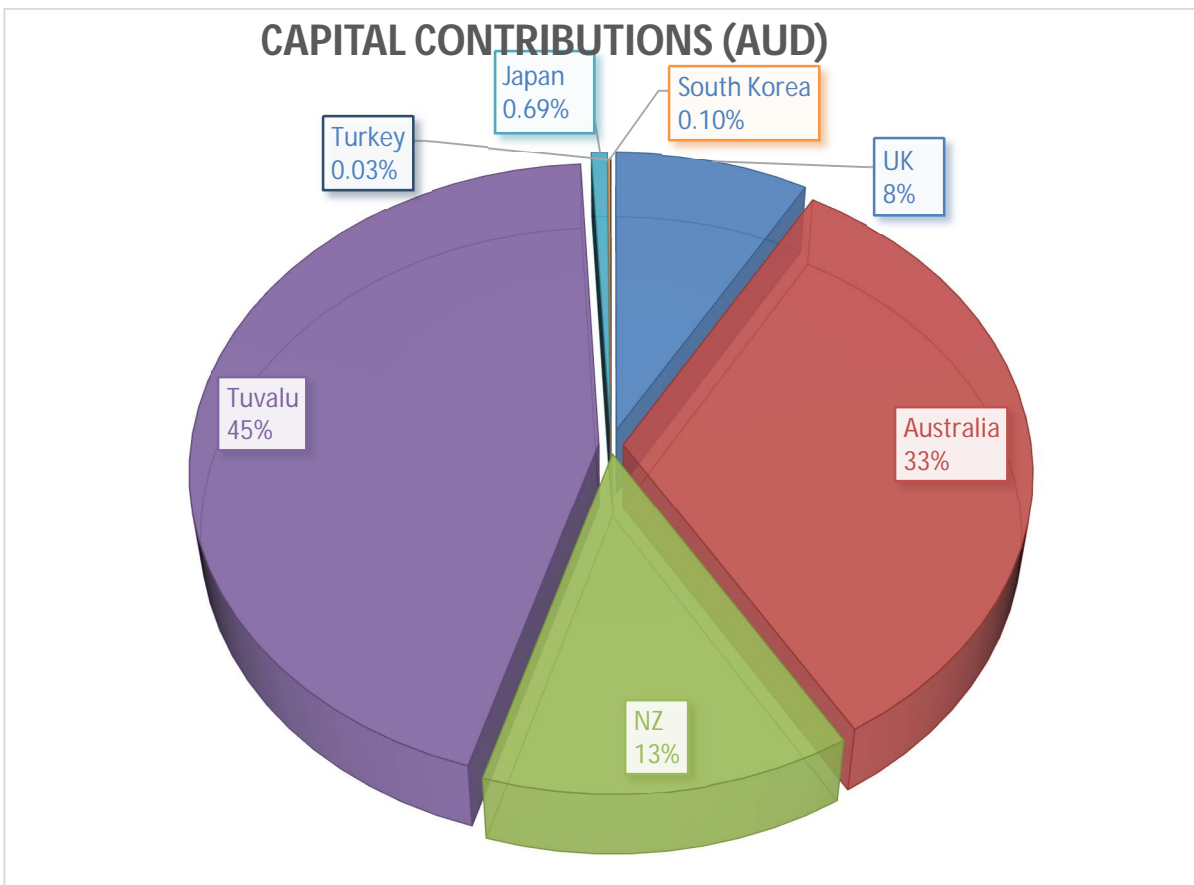
## Abbreviations & Acronyms

A\$	- Australian Dollar
CIF	- Consolidated Investment Fund
EDF	- European Development Fund
EU	- European Union
GoT	- Government of Tuvalu
IC	- Investment Committee
NZ	- New Zealand
TTF	- Tuvalu Trust Fund
TTFAC	- Tuvalu Trust Fund Advisory Committee
UK	- United Kingdom

## Historical Note

The Tuvalu Trust Fund was established in 1987 to provide a source of recurrent revenue to the Government of Tuvalu, which had extremely limited alternative sources of revenue at its disposal when it achieved independence in 1978. Tuvalu started developing a case for a Trust Fund with its donor partners in 1982. After undergoing a series of negotiations with donors and further refinements of the proposed Fund, an agreement (The International Trust Fund Agreement) was signed on 16 June 1987 by Tuvalu, New Zealand, Australia and the United Kingdom as the original parties. The Fund itself was invested on 21 August 1987, with an initial value of A\$27.1 million of which A\$1.6 million was contributed by Tuvalu, A\$8 million by Australia, A\$8.3 million by New Zealand, \$8.5 million by United Kingdom, A\$0.7 million by Japan and A\$31,000 by South Korea. Since inception, the Fund has been receiving additional contributions from the parties to the Fund. Therefore A\$52,811,710 of the Fund was made up by other parties' contributions since inception. The graph (Figure 1) below summarizes contributions by each country up to 30 September 2015 including the initial contributions at the establishment of the Fund.

Figure: 1 Contribution by Country into the Fund



## Purpose of the Fund

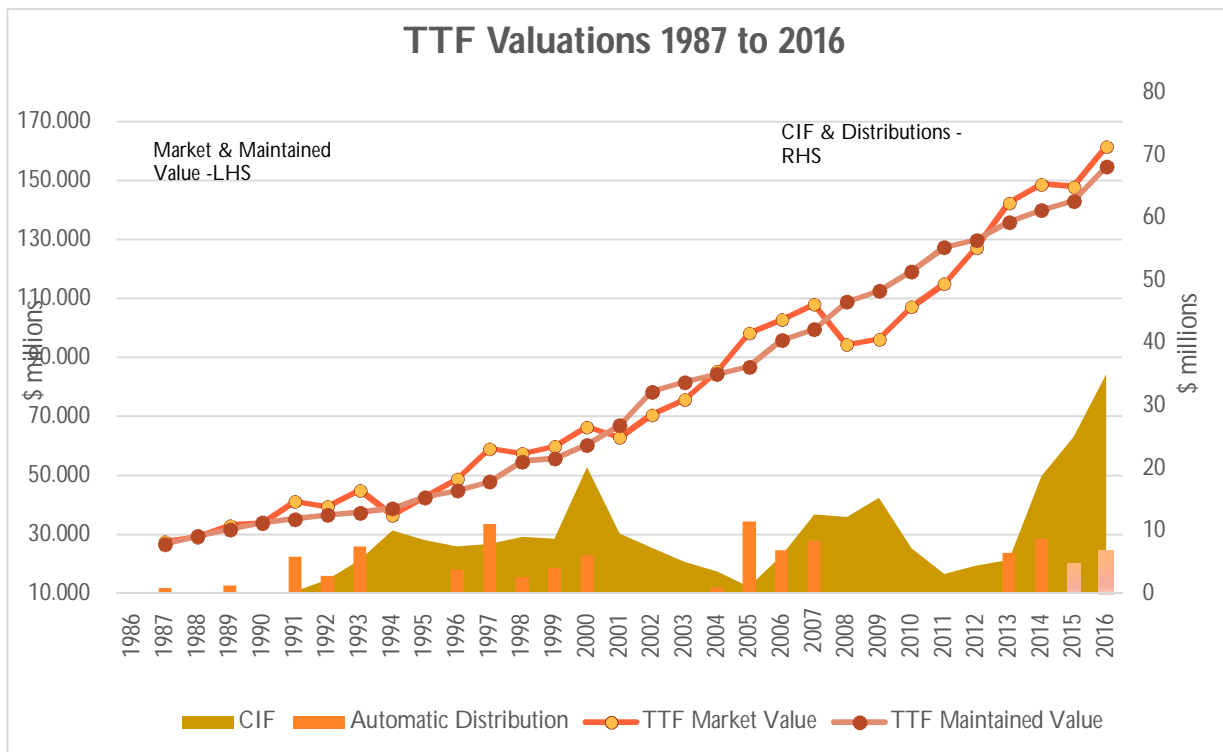
As set out in Part I, Article 2 of the agreement, the Fund has the following specific purposes:

- a) assist the Government to achieve greater financial autonomy in the management of its recurrent budget;
- b) enable the Government to maintain, and if possible, improve existing levels of social infrastructure and services;
- c) enhance the capacity of the Government to receive and effectively utilize external capital development and technical assistance;
- d) enable the Government to meet long-term maintenance and operating costs of social and economic infrastructure and services; and
- e) assist the Government to develop the economy of Tuvalu

## The Growth of the Tuvalu Trust Fund

As at 30 September 2016, the Fund's value in the financial markets stood at A\$161,582,321 compared to A\$148,002,255 at the end of 2015. This included new capital contributions of A\$3,965,725 from all the major partners in the Fund.

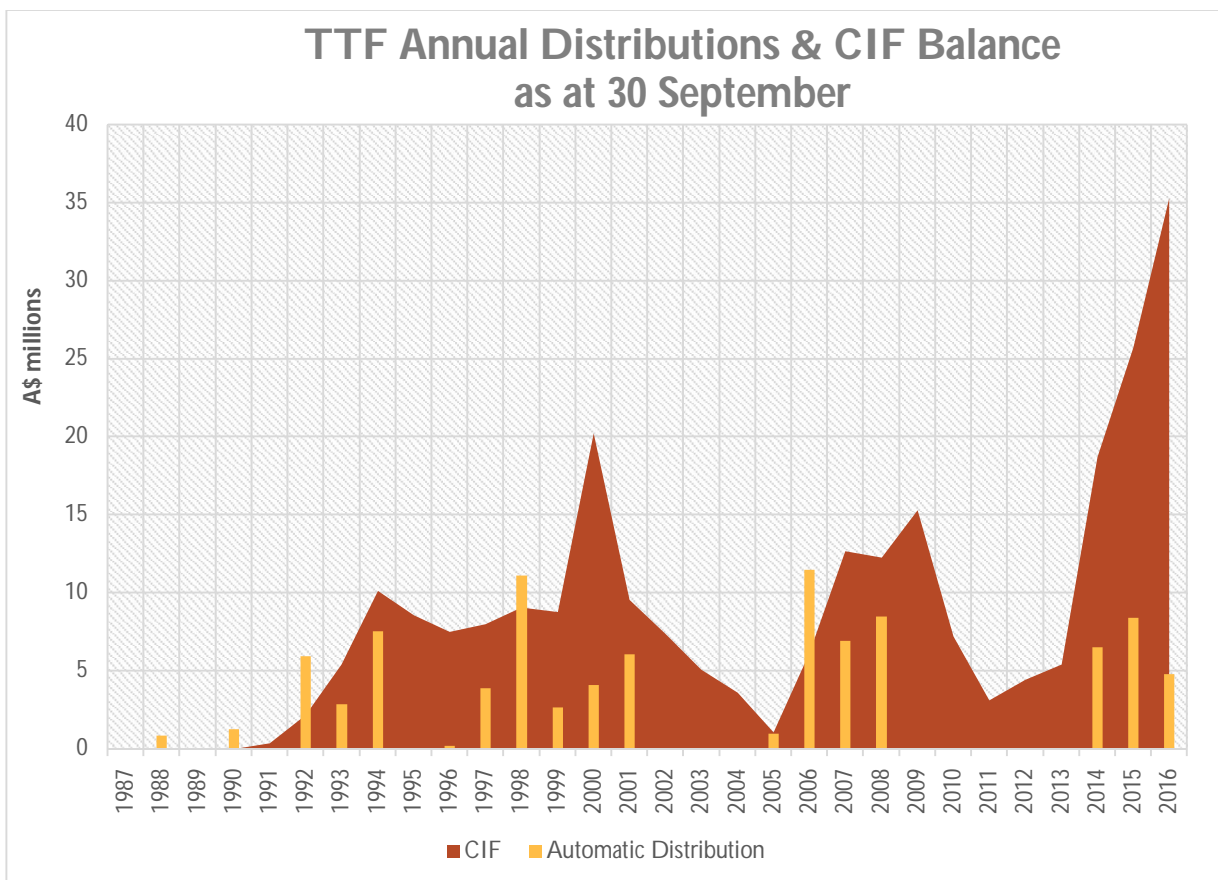
The chart below shows the Fund's Market Value compared to its Maintained Value since inception to 30 September 2016.



### Creation of the Consolidated Investment Account – the Buffer Account

In November 1993, the TTF Board of Directors endorsed the initiative of the Tuvalu government to create a buffer account, the Consolidated Investment Fund (CIF). The CIF was created based upon the need to provide a mechanism for holding distributions from the TTF (the A account) until such time as they were required. The CIF belongs entirely to the Government of Tuvalu as opposed to the TTF which is managed by the Board in trust for the people of Tuvalu and governed by the International Agreement.

The Chart below shows the CIF balance and the annual distributions received from the TTF since inception to 30 September 2015.



### Governance of the Fund

The provisions set out in the International Agreement govern the Fund. The Parties to the Agreement - the Government of Tuvalu, Australia, New Zealand and the United Kingdom – are the members of, and those responsible for, the Tuvalu Trust Fund. Following its regional programme review, the United Kingdom withdrew its membership of the Tuvalu Trust Fund Board and the Advisory Committee in 2004.

## **Board of Directors**

In accordance with Part II, Article 6 of the Agreement, the Fund has a Board of Directors, in which all powers of the Fund are vested in, and exercised by the Board. The Directors of the Fund are:

- a) a Director appointed by the Government of Tuvalu, who is Chairman of the Board;
- b) one Director appointed by each other original Party to the Agreement.

Since the UK's withdrawal, the Board now consists of representatives from Tuvalu (Chair), Australia and New Zealand.

## **Annual Reports**

In accordance with Part VIII, Article 23 of the Agreement, within six months of the end of each financial year, the Board shall publish and submit to each Party, an Annual Report on the activities and management of the Fund, including the annual accounts of the Fund Managers, and the reports of Fund Monitor, Auditor, and Advisory Committee.

## Board Directors



**Hon. Maatia Toafa**  
*Chairman*

Minister of Finance, Economic and Development  
*for the Government of Tuvalu*  
(2013 to present)



**Ms Christina Munzer**  
*Director*

Counselor, Development Cooperation, DFAT  
*for the Government of Australia*  
(2015 to present)



**David Nicholson**  
*Director*

Director for Pacific Development Division  
*for the Government of New Zealand*  
(2015 to present)



## **Service Providers**

### ***Fund Managers***

Schroders Investment Management - Mr Rene Tetterroo - Institutional Business Development Manager

AMP Capital - Mr Matthew Hopkins - Senior Portfolio Manager, Multi Asset Group,

### ***Investment Committee***

Mr. David Hutton - *Chairman*

Ms Nalayini Brito - *Member*

### ***Advisory Committee***

Mr Ricahrd Neeves – Consultant for the Government of Australia

Mr Pete Rodger– Consultant for the Government of New Zealand

Mr Malcolm Ponton – Consultant for the Government of Tuvalu

### ***Fund Monitor***

Mr Jonathan Eriksen – Managing Director, Eriksens & Associates Ltd

### ***Fund Auditor***

Mr Michael-Yee Joy – Partner, KPMG

### ***Secretariat***

Mr Lee FK Moresi – Secretary

Ms Salai Sualo – Acting Secretary (2009 to July 2016)

## Chairman's Report

I am again honored and delighted to present the Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2016. For the current year under report the affairs, activities and management of the Tuvalu Trust Fund have been conducted and carried out in accordance with the International Agreement, (the DEED).

As at the conclusion of the Financial year 2016, the market value of the Fund has increased from \$148 million in 2015 to \$161.58 million. This included additional capital contributions from New Zealand of \$475,725 and \$1.43 million from the Australian Government. The Government of Tuvalu contributed \$3.0 million of additional investment on top of the \$4.782 million that the Board agreed to reinvest back into the Fund. In total these added up to \$8.74 million or 5.9% of capital injection into the Trust Fund. Maintained value over the year grew from \$143.2 million to \$154.85 million as at 30 September 2016. This is the fourth consecutive year that Market Value exceeded Maintained Value for the Fund which translates to a possible distributions for the Government of Tuvalu from the Fund. Needless to say the Government of Tuvalu is very pleased with the performance of the Fund. In addition this is the second year in a row for the Board to agree to re-invest the automatic distribution back into the Fund. At the 2016 annual meeting of the Board, Directors, with guidance from the Government of Tuvalu agreed for \$5.0 million to be reinvested. This further shows the Government's commitment to reach our target of \$200 million maintained value by the year 2020. However, let us not be complacent but bear in mind that the markets may turn against us at any time therefore the challenge now is to ensure our current success is continued to the future and I have every faith that the Fund is well placed to achieve this.

In closing, I wish to acknowledge the continued support and guidance of my fellow Board Directors, the commitment and professional services rendered by Fund Managers, Fund Monitor, Investment Committee, Advisory Committee and the Secretariat.

*Tuvalu mo te Atua.*

## Highlights of the Year

### *Fund Performance*

At the end of the 2016 the Fund invested 50.8% in AMP Capital Extended Multi-Asset Fund and 49.2% with Schroders. The market value of the Fund as at 30 September 2016 was \$161,582,321 compared to a market value of \$148,002,254 as at 30 September 2015. This is an increase of \$13.59 million but \$9.69 million of this was from new capital contributions. Over the Financial year October 2015 to September 2016 capital contributions included \$4.78 million of reinvested distributions, \$3.0million from the Government of Tuvalu, \$1.43million from the Australian Government and \$0.48million from the NZ Government.

### *Market Value*

The closing market value of the TTF, as at 30 September 2015, was A\$148,002,254  
The closing market value of the TTF, as at 30 September 2016, was **A\$161,582,321**, split between the two Fund Managers as follows (in AUD):

Schroders Investment Management	\$79,494,432
AMP Capital	<u>\$82,087,980</u>
	<u>\$161,582,321</u>

### *Maintained Value*

The maintained value as at 30 September 2016 is the sum of the maintained value as at 30 September 2015, plus additional contributions during the year, all adjusted for inflation for the financial year. Using this approach, the maintained value was calculated to be **A\$154,850,365**.

### *Automatic Distribution in 2016*

On the basis of the above Maintained and Market Values as at 30 September 2016, the market value was above the maintained value by **\$6,731,956 million**. The Board in its annual meeting agreed to re-invest \$5million back into the Fund while drawing down the balance of \$1.73million. Of the drawdown \$1.3million will be applied to the Tuvalu Survival Fund, a new Fund set up by the Government of Tuvalu to address Climate Change and Disaster risk issues for the nation. The balance of the drawdown will be applied to meeting the operational costs of the TTF Secretariat and other TTF services.

### *Consolidated Investment Fund*

The closing market value of the CIF, as at 30 September 2016, was **A\$35,276,025**.  
The closing market value of the CIF, as at 30 September 2015, was A\$25,415,214.  
During the financial year 2016, the CIF received budget support contributions of \$7.0 million from the Government of Tuvalu and \$1.5million from the Government of Australia through their budget support program. There were no drawdowns from the CIF over the financial year 2015/2016. All of the CIF is invested in the Schroders Real Return CPI + 3.5% Fund. This is the second financial year for the CIF to be invest in Schroders Real Return CPI + 3.5% Fund and it returned 4.2% post fees for the period.

## *Other Activities of the Fund.*

### *Board meetings:*

As per the usual operations of the Fund, the Board held two meetings during the year with the first meeting held on the 11<sup>th</sup> of May in Suva Fiji. The second meeting which was also the TTF's Annual meeting was held in Auckland, NZ. This is yet another first for the Fund with the Board having always held meetings either in Fiji or in Tuvalu throughout its history.

The meeting in NZ coincided with the International Sovereign Wealth Funds Forum, (ISWF) conference and the launching of the NZIPR's report into Sovereign and Trust Funds in the Pacific. This was a very successful event and also helped lift the profile of the Tuvalu Trust Fund with a new audience.

### *Changes of Directors.*

During the Financial year 2015/2016 the Fund said farewell to Mr. Gareth Smith (NZ) and Ms. Joanne Choi (Australia) while welcoming on board their replacements Mr. David Nicholson, (NZ) and Ms. Christina Munzer (Australia). The Board acknowledges the contributions made by the departing Directors and wished them well.

### *Staff changes*

During the year the former Assistant Secretary in the office of the Secretariat, Ms Salai Sualo, departed after having completed two contracted 3 year terms. The Fund acknowledges her tenure with the Fund and wishes her well in her new position with the Government of Tuvalu.

### *Reviews of the TTF's Governance and Operations*

During the period covered in this report there were two separate reviews undertaken of the Fund.

1. *World Bank Review:* Following a request from the Government of Tuvalu, the World Bank carried out a review of the Trust fund with particular emphasis on its Governance and investment strategies. The report was presented to the Board and received in its May meeting in Suva. While there were a number of recommendations in that report, the Board took the view that while there was also another review of the TTF under way that it would await the outcome of the second report.
2. *NZIPR Review:* The NZIPR carried out a review of several Sovereign Wealth and Trust Funds in the Pacific and it also carried out a more focused review into the Funds operating in Tuvalu with particular emphasis on the TTF. Its findings were reported to the Board in the November 2016 meeting. This study evaluated the TTF against the Santiago principles, considered best practice for managing Sovereign Wealth Funds. As an outcome of this report a suggested matrix with specific recommended actions was presented as a way forward for the TTF. This has now been adopted by the Board and now forms the basis of the Secretariat's work plan.

**TUVALU TRUST FUND**

**Statement of the Directors**

**To the Government of Tuvalu**

In the opinion of the Directors, in accordance with Part VIII, Article of the Trust agreement, the Annual Report has been properly prepared from the financial statements set out in the report, the monitoring statements set out in the report, the advisory statements set out in the report, and is properly drawn up and based on the full and complete reports of the Fund Managers, Fund Monitor, Audit, Advisory Committee and other relevant source material so as to give a true and fair view of the affairs , activities and management of the Fund as at 30 September 2015, and of the transactions and results of the year ended on that date.

The FUND has been conducted in accordance with the constituent agreement of the parties to the Tuvalu Trust Fund.

SIGNED in accordance with resolution from and approval of the Board of Directors of the Tuvalu Trust Fund.

Hon. Maatia Toafa  
*Chairman*

Ms Christina Munzer  
*Director*

May, 2016