

# TUVALU TRUST FUND



## Annual Report

2010

# Tuvalu Trust Fund Annual Report

For the year ending 30 September 2010

## Contents

<b>ABBREVIATIONS &amp; ACRONYMS</b> .....	<b>3</b>
<b>HISTORICAL NOTE</b> .....	<b>4</b>
<b>SERVICE PROVIDERS</b> .....	<b>8</b>
<b>BOARD SECRETARIAT</b> .....	<b>8</b>
<b>TUVALU TRUST FUND ADVISORY COMMITTEE</b> .....	<b>8</b>
<b>TUVALU TRUST FUND INVESTMENT COMMITTEE</b> .....	<b>8</b>
<b>INVESTMENT CONSULTANT</b> .....	<b>8</b>
<b>FUND AUDITOR</b> .....	<b>9</b>
<b>FUND MANAGERS</b> .....	<b>9</b>
<i>Board Meetings</i> .....	12
<i>Fund Managers' Reports</i> .....	13
<i>Investment Consultant's Reports</i> .....	13
<i>Auditor's Report</i> .....	13
<i>Advisory Committee's Reports</i> .....	13
<b>Contribution to the Fund</b> .....	<b>14</b>
<b>STATEMENT OF THE DIRECTORS</b> .....	<b>15</b>

## Annexes

Annex 1:	Statements of TTF Managers
Annex 2:	Statements of the CIF Manager
Annex 3:	Statements of the TTF Monitors
Annex 4:	TTF Audit Statements
Annex 5:	Statements of the TTFAC
Annex 6:	Reports of the IC

## **Abbreviations & Acronyms**

A\$	- Australian Dollar
CIF	- Consolidated Investment Fund
EDF	- European Development Fund
EU	- European Union
EU DSP	- European Union Development Support Programme
IC	- Investment Committee
NZ	- New Zealand
TTF	- Tuvalu Trust Fund
TTFAC	- Tuvalu Trust Fund Advisory Committee
UK	- United Kingdom
US\$	- United States Dollar

## Historical Note

The Tuvalu Trust Fund was established in 1987 to provide a source of recurrent revenue to the Government of Tuvalu which has 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 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 and South Korea. The table below summarizes contributions by each country up to 30 September 2008, including the initial contributions at the establishment of the Fund:

*Contributions into the Fund (A\$000's) up to 30 September 2010*

TUVALU	AUSTRALIA	NZ	UK	JAPAN*	S. KOREA*	TOTAL
30,843	18,319	12,579	8,450	695	69	70,954

### **Purpose of the Fund**

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

- 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

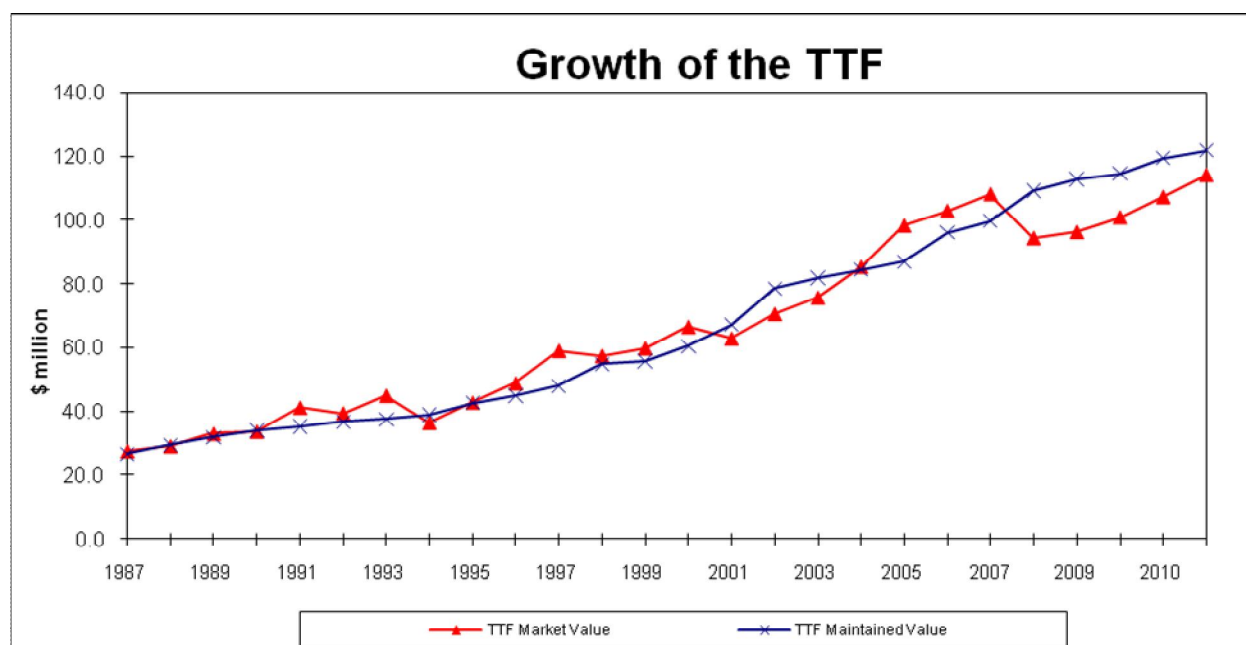
### **The Growth of the Tuvalu Trust Fund**

As at 30 September 2010, the Fund's value on the stock market stood at A\$107,335 million.

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\* not a party to the Agreement

The chart below shows the Funds Market value compared to its maintained value since inception to 30 September 2010.



### **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 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 Agreement.

### **Governance of the Fund**

The Fund is governed by the provisions set out in the International Agreement. 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**

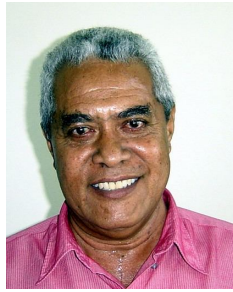
In accordance with Part II, Article 6 of the Agreement, the Fund has a Board of Directors, in which all powers of the Fund are vested in, and exercised by the Board. The Directors of the Fund are:

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

## **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 Advisory Committee and Auditor

## Board Directors



Hon. Lotoala Metia

*Chairman*

Minister of Finance, Economic Planning and Industries  
*for the* Government of Tuvalu  
(2006 to present)



Ms Sarah Goulding

*Director*

Counselor, Development Cooperation, AusAID (Australia High Commission)  
*for the* Government of Australia  
(2010 to present)



Mr. Brian Bell

*Director*

Director, Nimmo-Bell & Co. Ltd  
*for the* Government of New Zealand  
(2002 to present)

## **Service Providers**

### **Board Secretariat**

Mr. Luke Paeniu

Tuvalu Trust Fund Board

*Resigned in July 2010 and acting Ms Salai Sualo (assistant secretary)*

### **Tuvalu Trust Fund Advisory Committee**

Mr. Michael Hyndman

*Michael Hyndman Ltd  
for the Government of Australia*

Mr David Abbott

*Consultant  
for the Government of New Zealand*

Ms. Nicki Wrighton

*Consultant  
for the Government of Tuvalu*

### **Tuvalu Trust Fund Investment Committee**

Mr. Brian Bell

*Chairman*

Mr. Tim Henaghan

*Member*

### **Investment Consultant**

Ms Amy Teh

*Senior Investment Consultant  
Watson Wyatt*

Mr Maroun Younes

*Investment Analyst  
Watson Wyatt*



## **Fund Auditor**

Mr. Sikeli Tuinanuma

*Partner*  
Ernst & Young

## **Fund Managers**

Mr. Rhiannon Sharpe  
*Client Services*  
Deutsche Asset Management (Australia) Ltd

Ms. Amanda Young  
*Client Service Consultant*  
Aberdeen

Mr. Tim Williamson  
BT Financial Group

Ms Susan Miller  
*Associate Director, Institutional Business*  
Barclays Global Investors

Ms Clare Marlow  
*Client Services Manager*  
JF Capital Partners Ltd

Joel Connell  
*Client Services*  
Bell Asset Management

Ms Le Tao  
*Manager, Business Development*  
State Street Global Advisors, Australia Services Limited

Ms Maria Nguyen  
*Client Services*  
Schroder

## **Chairman's Report**

I am honored to present the Annual Report of the Tuvalu Trust Fund for the financial year ending 30 September 2010. I am pleased to report that the affairs, activities and management of the Tuvalu Trust Fund during the 2010 financial year were in accordance with the International Agreement.

This is the third consecutive year in which the Fund's market value has been below its maintained value and resulting in no automatic distribution to the Tuvalu Consolidated Investment Fund. This position was once again largely the consequence of the effects of the lingering effects Global Financial Crisis, triggered by the US sub-prime crisis that started in 2007. Despite suffering a decline in value, the Fund's diversified portfolio paid dividends by helping to avoid the full impact of the downturn in capital markets. These continue to be difficult times and further downturns in capital markets cannot be ruled out, although the Fund did show signs of recovery in its market value during the 2010 financial year.

However the Fund could have been even more badly affected by the world recession, therefore I wish to acknowledge the continued support and guidance of my fellow Board Directors, the commitment and professional services rendered by Fund Managers, Investment Consultant, Investment Committee, TTF Advisory Committee and the Secretariat. I certainly hope and indeed expect your hard working ethics to continue in these testing times.

*Tuvalu mo te Atua.*

## Year in Review

The Australian market started the financial year with weakened economic growth, a continuation from the previous two quarters. The trend took a turn for better in the second quarter with growth starting to pick up. The last two quarters the Australian economy posted very strong growth primarily driven by a surge in business and government investment which came with continued employment growth. The second half of the year was dominated by increased volatility and mixed performance of the US economy as it entered a growth slowdown primarily caused by further weakness in its housing market. Defaults on sub-prime mortgages damaged lender confidence and resulted in billions of dollars losses, triggering dramatic volatility in the share market.

Despite these challenges, the Fund posted a strong 10.2% annual return despite the worsening global markets towards the end of the financial year.

## Fund Performance

Tuvalu Trust Fund

### *Market Value*

The closing market value of the TTF, as at 30 September 2009, was A\$96,390 million.

The closing market value of the TTF, as at 30 September 2010, was A\$107,335 million, and was split between the Fund Managers as follows (in A\$000's):

JFCP Australian Equities	8,633
Schroder Australian Equities	8,541
BlackRock Hedged Int'l Equity Index Fund	15,543
SSgA Wealth Weighted Global Equities NL	14,123
Bridgewater All Weather	4,696
BT Global Return	862
Bridgewater Pure Alpha	7,038
Deutsche/RREEF Global Property Securities	4,550
BlackRock Enhanced Australian Bond	24,683
BlackRock Overseas Bond Index	9,419
Aberdeen Inflation Linked Bond	9,247

### *Maintained Value*

The maintained value as at 30 September 2010 is the sum of the maintained value as at 30 September 2009, 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\$119.256 million.

### *Automatic Distribution in 2010*

There was no automatic distribution from the Tuvalu Trust Fund to the Tuvalu Consolidated Investment Fund as the Tuvalu Trust Fund's market value is below its maintained value.

### *Tuvalu Consolidated Investment Fund*

In December 2009 the CIF balance was A\$15.68 million, by June 2010 the balance had fallen to \$11.01 million; and at 30 September 2010, the CIF stood to \$7.2 million. So far in 2010 the government has therefore drawn approximately A\$8.5 million from the CIF.

### *Board Meetings*

During the financial year ending 30 September 2010, the 50<sup>th</sup> and the 51<sup>st</sup> meetings of the Board of Directors were held, respectively, on 3 December 2007 in Funafuti, Tuvalu and 25 June 2008 in Suva, Fiji.

### *Board Attendance*

50<sup>th</sup> (May 2010) Board meeting:

Hon. Lotoala Metia (Chairman, *Tuvalu*)  
Ms. Sarah Goulding (Director, *Australia*)  
Mr. Brian Bell (Director, *New Zealand*)

51<sup>st</sup> (November 2010) Board meeting:

Hon. Lotoala Metia (Chairman, *Tuvalu*)  
Mr. James Sweeting (Director, *Australia*)  
Mr. Brian Bell (Director, *New Zealand*)

### *Major Board decisions at the 50<sup>th</sup> Board Meeting*

1. The Board endorsed the TTF & FTF marketing profile which completed by the TTFAC.
2. The Board agreed the CIF to be audited by Government Auditor General in future.

### *Major Board decisions at the 51<sup>st</sup> Board Meeting*

1. The Investment Committee and the Investment Consultant advised the Board to terminate RREEF Global Property Securities Fund due to poor performance and inability to improve. Also recommended Vanguard Wholesale Fund to replace. The Board approved the recommendation of the Investment Committee and the Investment Consultant.

### *Fund Managers' Reports*

The TTF Managers provided monthly and quarterly Unit Holder and Transaction statements. The quarterly reports are provided in Annex 1.

Craigs produced Distribution/Tax Statements and Unit Holder Statements to the Fund Monitor on a quarterly basis in respect of the CIF. These reports are provided in Annex 2.

### *Investment Consultant's Reports*

The Investment Consultant, Watson Wyatt Australia Pty Ltd, produced four investment reports on the TTF for the quarters ending 31 December 2009, 31 March 2010, 30 June 2010 and 30 September 2010 (Annex 3).

### *Auditor's Report*

Ernst and Young completed the audit of the TTF 2010 Financial Accounts in June 2009 (see Annex 4).

### *Advisory Committee's Reports*

The TTFAC visited Tuvalu on 20 of April – 11 of May 2010 and produced its 2010 First Half-Yearly Report, which was presented at the 50<sup>th</sup> meeting of the Board. This is an interim report that is not for public distribution.

The Committee's 2010 Annual Report (Annex 5) was prepared during their visit of 7 – 26 October 2010. The attached report does not include policy issues under consideration covered by the Committee in its confidential report submitted to the government and the Board.

### *Investment Committee's Reports*

The IC produced two reports (Annex 6) to the Board during the financial year.

### **Contribution to the Fund**

The following additional contributions were credited into the Fund for the financial year:

South Korea: A\$32,190 (December 2009)

Australia: A\$3,331,659 (June 2010)

#### *Additional Contributions into the CIF*

The CIF received a contribution of A\$0.2 million from New Zealand

**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, 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 2010, 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. Lotoala Metia  
*Chairman*

Mr. Brian Bell  
*Director*

Ms Sarah Goulding  
*Director*

*May 2011*